

**SKYGOLD VENTURES LTD.**

**FINANCIAL STATEMENTS**

**June 30, 2007**

### **NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants<sup>7</sup> for a review of interim statements by an entity's auditors.

**SKYGOLD VENTURES LTD.**  
**Balance Sheets**  
**(Prepared by Management)**

|   | <b>June 30,<br/>2007<br/>(Unaudited)</b> | <b>December 31,<br/>2006<br/>(Audited)</b> |
|---|--|--|
| <b>Assets</b>                               |  |  |
| <b>Current</b>                              |  |  |
| Cash  | \$ 1,529,878                             | \$ 1,130,034                               |
| Term deposits (note 3)                      | 5,714,443                                | 6,501,958                                  |
| Term deposits, restricted (note 3)          | 1,055,130                                | 2,288,280                                  |
| Due from joint venturer (note 4(a))         | 1,302,742                                | 782,142                                    |
| Receivables                                 | 22,506                                   | 213,579                                    |
| Prepaid expenses                            | 23,244                                   | 8,388                                      |
| Security deposit                            | 10,000                                   |  |
|   | 9,657,943                                | 10,924,381                                 |
| <b>Mineral Properties</b> (note 4)          | 9,450,164                                | 7,485,636                                  |
| <b>Equipment</b>                            | 43,137                                   | 22,815                                     |
| <b>Deposit for Reclamation</b>              | 50,000                                   | 23,000                                     |
|   | \$ 19,201,244                            | \$ 18,455,832                              |
| <b>Liabilities</b>                          |  |  |
| <b>Current</b>                              |  |  |
| Accounts payable and accrued liabilities    | \$ 974,089                               | \$ 147,864                                 |
| <b>Future Income Tax Liability</b> (note 6) | 1,152,000                                | 1,152,000                                  |
|   | 2,126,089                                | 1,299,864                                  |
| <b>Shareholders' Equity</b>                 |  |  |
| <b>Capital Stock</b> (note 5)               | 19,939,852                               | 19,792,014                                 |
| <b>Contributed Surplus</b> (note 5(d))      | 2,762,299                                | 2,762,299                                  |
| <b>Deficit</b>                              | (5,626,996)                              | (5,398,345)                                |
|   | 17,075,155                               | 17,155,968                                 |
|   | \$ 19,201,244                            | \$ 18,455,832                              |

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**  
**For the Six Months Ended June 30**  
**(Unaudited – Prepared by Management)**

|   | For the Three Months ended<br>June 30, |              | For the Six Months Ended<br>June 30, |              |
|---|--|--------------|--------------------------------------|--------------|
|   | 2007                                   | 2006         | 2007                                 | 2006         |
| <b>Expenses</b>   |  |              |                                      |              |
| Stock-based compensation                                    | \$ 0                                   | \$ 1,958,495 | \$ 0                                 | \$ 1,958,495 |
| Investor relations  | 54,228                                 | 87,891       | 96,425                               | 128,869      |
| Consulting fees   | 92,143                                 | 62,794       | 180,545                              | 147,625      |
| Contract wages  | 30,000                                 | 37,769       | 60,000                               | 64,550       |
| Legal   | 0                                      | 40,375       | 7,157                                | 58,537       |
| Transfer agent and filing fees                              | 10,061                                 | 41,897       | 22,966                               | 50,884       |
| Rent  | 9,929                                  | 8,574        | 19,934                               | 17,163       |
| Accounting and audit  | 2,125                                  | 1,570        | 2,125                                | 1,570        |
| Office and miscellaneous                                    | 11,851                                 | 13,584       | 19,940                               | 20,081       |
| Management fees   | 4,500                                  | 4,500        | 9,000                                | 9,000        |
| Insurance   | 213                                    | 0            | 11,013                               | 0            |
| Amortization  | 2,499                                  | 844          | 3,796                                | 1,373        |
| Expense recoveries  | 0                                      | 0            | (1,594)                              | 0            |
|   | 217,549                                | 2,258,293    | 431,307                              | 2,458,147    |
| Interest income   | (101,207)                              | (61,625)     | (202,656)                            | (66,494)     |
| <b>Loss for the Period</b>                                  | 116,342                                | 2,196,668    | 228,651                              | 2,391,653    |
| <b>Deficit, Beginning of Period</b>                         | 5,510,654                              | 1,925,837    | 5,398,345                            | 1,730,852    |
| <b>Deficit, End of Period</b>                               | \$ 5,626,996                           | \$ 4,122,505 | \$ 5,626,996                         | \$ 4,122,505 |
| <b>Basic and Diluted Loss Per Share</b>                     | \$ 0.00                                | \$ 0.06      | \$ 0.00                              | \$ 0.06      |
| <b>Weighted Average Number of Common Shares Outstanding</b> | 46,209,143                             | 38,295,002   | 46,209,143                           | 38,295,002   |

**SKYGOLD VENTURES LTD.**  
**Statements of Cash Flows**  
**For the Six Months Ended June 30**  
**(Unaudited – Prepared by Management)**

|  | For the Three Months Ended<br>June 30, |                     | For the Six Months Ended<br>June 30, |                     |
|--|--|---------------------|--------------------------------------|---------------------|
|  | 2007                                   | 2006                | 2007                                 | 2006                |
| <b>Operating Activities</b>                |  |                     |                                      |                     |
| Loss for year                              | \$ (116,342)                           | \$ (2,196,668)      | \$ (228,652)                         | \$ (2,391,653)      |
| Items not involving cash                   |  |                     |                                      |                     |
| Stock-based compensation                   | 0                                      | 1,958,495           | 0                                    | 1,958,495           |
| Amortization                               | 2,499                                  | 844                 | 3,796                                | 1,373               |
|  | (113,843)                              | (237,329)           | (224,856)                            | (431,785)           |
| Changes in non-cash working capital        |  |                     |                                      |                     |
| Due from related party                     | 58,929                                 | 125,847             | 0                                    | 28,810              |
| Due from joint venturer                    | (464,761)                              | 0                   | (520,600)                            | 0                   |
| Receivables                                | 196,630                                | (212,856)           | 191,074                              | (220,664)           |
| Prepaid expenses                           | 2,349                                  | 300                 | (14,856)                             | 0                   |
| Security deposit                           | (10,000)                               | 0                   | (10,000)                             | 0                   |
| Accounts payable and accrued liabilities   | 913,462                                | 126,769             | 826,225                              | 197,066             |
|  | 696,609                                | 40,060              | 471,843                              | 5,212               |
| <b>Cash Used in Operating Activities</b>   | <b>582,766</b>                         | <b>(197,269)</b>    | <b>246,987</b>                       | <b>(426,573)</b>    |
| <b>Financing Activity</b>                  |  |                     |                                      |                     |
| Shares issued for cash, net of issue costs | 0                                      | 13,286,919          | 127,605                              | 13,955,029          |
| <b>Investing Activities</b>                |  |                     |                                      |                     |
| Term deposits                              | 1,562,208                              | (6,010,542)         | 2,020,665                            | (5,913,149)         |
| Mineral property costs                     | (1,546,858)                            | (640,111)           | (1,944,295)                          | (841,148)           |
| Purchase of equipment                      | (24,118)                               | (9,421)             | (24,118)                             | (13,085)            |
| Reclamation bonds                          | (27,000)                               | (8,000)             | (27,000)                             | (8,000)             |
| <b>Cash Used in Investing Activities</b>   | <b>(35,768)</b>                        | <b>(6,668,074)</b>  | <b>25,252</b>                        | <b>(6,775,382)</b>  |
| <b>Increase in Cash</b>                    | <b>546,998</b>                         | <b>6,421,576</b>    | <b>399,844</b>                       | <b>6,753,074</b>    |
| <b>Cash, Beginning of Period</b>           | <b>982,880</b>                         | <b>452,403</b>      | <b>1,130,034</b>                     | <b>120,905</b>      |
| <b>Cash, End of Period</b>                 | <b>\$ 1,529,878</b>                    | <b>\$ 6,873,979</b> | <b>\$ 1,529,878</b>                  | <b>\$ 6,873,979</b> |

|  | 2007       | 2006      |
|--|------------|-----------|
| <b>Supplemental Cash Flow Information</b>  |            |           |
| Interest received  | \$ 202,656 | \$ 66,494 |
| Common shares issued for mineral property interests (2007 – 12,805 common shares; 2006 – 27,633 common shares) | \$ 20,232  | \$ 21,000 |

# SKYGOLD VENTURES LTD.

## Notes to Financial Statements

For the Six Months Ended June 30, 2007

(Unaudited – Prepared by Management)

---

### 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 |

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**For the Six Months Ended June 30, 2007**  
**(Unaudited – Prepared by Management)**

---

**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 June 30, 2007, 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.

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**For the Six Months Ended June 30, 2007**  
**(Unaudited – Prepared by Management)**

---

**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

For the Six Months Ended June 30, 2007

(Unaudited – Prepared by Management)

### 3. TERM DEPOSITS

The Company has term deposits with book values of \$6,769,573 (2006 - \$6,771,391) and accrued interest of \$14,618 (2006 - \$21,252), accrued at the stated rates of interest and included in accounts receivable. The term deposits mature between August 20 and September 7, 2007.

Term deposits in the amount of \$1,055,130 are restricted in use and are to be applied to exploration costs related to flow-through share issuances that were unspent at June 30, 2007 (note 2(i)).

### 4. MINERAL PROPERTIES

Acquisition and exploration expenditures incurred on mineral properties during 2007 and 2006 are as follows:

|                                 | Spanish Mountain | SHG          | Total        |
|---------------------------------|------------------|--------------|--------------|
| 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 |
| Additions during the year       |                  |              |              |
| Acquisition costs               | 357,940          | 0            | 357,940      |
| Deferred exploration costs      |                  |              |              |
| Drilling                        | 700,853          | 0            | 700,853      |
| Geological consulting           | 263,512          | 20,535       | 284,047      |
| Assaying                        | 372,901          | 0            | 372,901      |
| Travel and accommodation        | 114,370          | 0            | 114,370      |
| Camp and field supplies         | 45,897           | 0            | 45,897       |
| Equipment rental                | 6,840            | 0            | 6,840        |
| Recording fees                  | 36,945           | 2,923        | 39,868       |
| Permitting                      | 41,812           | 0            | 41,812       |
|                                 | 1,583,130        | 23,458       | 1,606,588    |
| Total additions during the year | 1,941,070        | 23,458       | 1,964,528    |
| Balance, June 30, 2007          | \$ 7,522,392     | \$ 1,927,772 | \$ 9,450,164 |

# SKYGOLD VENTURES LTD.

## Notes to Financial Statements

For the Six Months Ended June 30, 2007

(Unaudited – Prepared by Management)

---

### 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 (paid) (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, 2007 (issued) 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 \$1,302,742 is the portion of mineral property expenditures incurred by the Company to June 30, 2007, 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.

## **SKYGOLD VENTURES LTD.**

### **Notes to Financial Statements**

**For the Six Months Ended June 30, 2007**

**(Unaudited – Prepared by Management)**

---

#### **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**  
**For the Six Months Ended June 30, 2007**  
**(Unaudited – Prepared by Management)**

**5. CAPITAL STOCK (Continued)**

(b) **Issued**

|   | Number of<br>Common<br>Shares | Amount        |
|---|-------------------------------|---------------|
| <hr/>   |                               |               |
| Balance, December 31, 2005                              |                               |               |
| <hr/>   |                               |               |
| Issued during the year                                  |                               |               |
| 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 interest                               | 552,633                       | 861,000       |
| Income tax effect on flow-through share<br>renouncement | 0                             | (308,479)     |
| Exercise of stock options, stock-based<br>compensation  | 0                             | 170,659       |
|   | <hr/>                         | <hr/>         |
|   | 14,239,590                    | 15,160,986    |
| <hr/>   |                               |               |
| Balance, December 31, 2006                              | 45,945,258                    | \$ 19,792,014 |
| <hr/>   |                               |               |
| Issued during the period                                |                               |               |
| Exercise of warrants                                    | 251,000                       | \$ 127,605    |
| Issued for other consideration                          |                               |               |
| Mineral property interests                              | 12,805                        | 20,233        |
|   | <hr/>                         | <hr/>         |
|   | 263,885                       | 147,838       |
| <hr/>   |                               |               |
| Balance, June 30, 2007                                  | 46,209,143                    | \$ 19,939,852 |

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**For the Six Months Ended June 30, 2007**  
**(Unaudited – Prepared by Management)**

---

**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>  |
|--------------------------------------|--------------|
| Balance, beginning of year           | \$ 455,463   |
| Stock-based compensation             | 2,196,515    |
| Warrants issued for property payment | 280,980      |
| Reallocated to capital stock         | (170,659)    |
| Balance, end of year                 | \$ 2,762,299 |

**(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).

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**For the Six Months Ended June 30, 2007**  
**(Unaudited – Prepared by Management)**

**5. CAPITAL STOCK (Continued)**

**(f) 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 have vested on the date of grant. As at June 30, 2007, 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 June 30, 2007 and changes during the period then ended are as follows:

|                                   | Shares           | Weighted Average Exercise Price |
|-----------------------------------|------------------|---------------------------------|
| Outstanding, December 31, 2006    | 3,600,000        | \$1.22                          |
| Granted                           | 0                | 0                               |
| Exercised                         | 0                | 0                               |
| Cancelled                         | 0                | 0                               |
| <b>Outstanding, June 30, 2007</b> | <b>3,600,000</b> | <b>\$ 1.22</b>                  |

**(g) Share Purchase Warrants**

As at June 30, 2007, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

| Exercise Price  | Expiry Date                            | Outstanding, December 31, 2006 | Issued   | Exercised      | Expired  | Outstanding, June 30, 2007 |
|-----------------|--|--------------------------------|----------|----------------|----------|----------------------------|
| \$ 0.50         | August 9, 2007                         | 1,042,271                      | 0        | (209,772)      | 0        | 832,499                    |
| \$ 0.55         | August 9, 2007                         | 70,500                         | 0        | (41,308)       | 0        | 29,192                     |
| \$ 1.60         | October 18, 2007                       | 4,750,000                      | 0        | 0              | 0        | 4,750,000                  |
| \$ 1.60         | October 18, 2007<br>(Agents' Warrants) | 767,625                        | 0        | 0              | 0        | 767,625                    |
| \$ 1.60/\$ 2.00 | October 4, 2007/2008                   | 525,000                        | 0        | 0              | 0        | 525,000                    |
|                 |  | <b>7,155,396</b>               | <b>0</b> | <b>251,080</b> | <b>0</b> | <b>6,904,316</b>           |

# SKYGOLD VENTURES LTD.

## Notes to Financial Statements

For the Six Months Ended June 30, 2007

(Unaudited – Prepared by Management)

---

### 5. CAPITAL STOCK (Continued)

#### (h) 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 that year and included in contributed surplus. During the period ended June 30, 2007, all stock-based compensation has been previously recognized.

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:

|                                 | 2006             | 2005          |
|---------------------------------|------------------|---------------|
| 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****For the Six Months Ended June 30, 2007****(Unaudited – Prepared by Management)****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:

|  | 2006         | 2005         |
|--|--------------|--------------|
|  | 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:

|  | 2006           | 2005         |
|--|----------------|--------------|
| 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.**

### **Notes to Financial Statements**

**For the Six Months Ended June 30, 2007**

**(Unaudited – Prepared by Management)**

---

#### **7. RELATED PARTY TRANSACTIONS**

- (a) The Company paid or accrued \$111,363 (2006 - \$181,309) for contract wages, administrative and management services and rent, \$2,243,282 (2006 - \$1,005,483) for exploration costs to companies in which a director is a principal. As at June 30, 2007, \$875,166 (2006 - \$209,797) was owed to the companies and is included in accounts payable.
- (b) The Company paid or accrued \$8,322 (2006 - \$nil) to a director for consulting fees.

#### **8. SEGMENTED INFORMATION**

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

#### **9. CONTINGENCY**

As at June 30, 2007, 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**

The Company, in anticipation of the significantly expanded drill program this year, purchased a 34 hectare piece of property within the town of Likely, British Columbia to accommodate extra work crews. The property lies approximately three kilometers from the Spanish Mountain project and will provide an excellent site for the location of offices, camp including complete kitchen services, core handling facilities and storage. Construction is currently underway and progressing on schedule. The camp will house up to 35 workers. The purchase price of the property was \$78,000.

The Company and joint-venture partner, Wildrose Resources Ltd. announced that exploration crews have mobilized to the Spanish Mountain project to prepare for the 60,000 metre 2007 diamond drill program. Four drill rigs have been commissioned to explore the project.