

SPANISH MOUNTAIN GOLD LTD.
(formerly Skygold Ventures Ltd.)
(An Exploration Stage Company)

Consolidated Financial Statements
December 31, 2009 and 2008

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Spanish Mountain Gold Ltd. (formerly Skygold Ventures Ltd.), (An Exploration Stage Company) are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles 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 consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements as at December 31, 2009 and 2008 and for the years then ended 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 consolidated financial statements.

"Brian Groves"

.....
Brian Groves
President and Chief Executive Officer

"Larry Yau"

.....
Larry Yau
Chief Financial Officer

Vancouver, British Columbia
March 16, 2010

AUDITORS' REPORT

**TO THE SHAREHOLDERS OF SPANISH MOUNTAIN GOLD LTD.
(formerly Skygold Ventures Ltd.)
(An Exploration Stage Company)**

We have audited the consolidated balance sheets of Spanish Mountain Gold Ltd. (formerly Skygold Ventures Ltd.) (An Exploration Stage Company) as at December 31, 2009 and 2008 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 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
March 16, 2010

SPANISH MOUNTAIN GOLD LTD.
(formerly Skygold Ventures Ltd.)
(An Exploration Stage Company)
Consolidated Balance Sheets
December 31

	2009	2008
Assets		
Current		
Cash	\$ 2,665,696	\$ 128,718
Term deposits	0	4,039,862
Amounts receivable	119,477	12,868
British Columbia Mining Exploration Tax Credit receivable (note 9)	1,818,568	2,755,995
Prepaid expenses and deposits	38,412	53,652
	4,642,153	6,991,095
Mineral Properties (note 6)	52,455,585	47,233,533
Property and Equipment (note 7)	1,218,992	1,293,177
Reclamation Deposits	112,000	65,000
	\$ 58,428,730	\$ 55,582,805
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10(a))	\$ 404,741	\$ 568,722
Future Income Tax Liability (note 9)	8,541,212	7,234,062
	8,945,953	7,802,784
Shareholders' Equity		
Capital Stock (note 8)	50,431,498	48,381,886
Warrants (note 8(c)(v))	343,200	343,200
Contributed Surplus (note 8(h))	4,484,421	4,223,871
Deficit	(5,776,342)	(5,168,936)
	49,482,777	47,780,021
	\$ 58,428,730	\$ 55,582,805

Nature of operations and basis of presentation (note 1)
Commitments (note 12)
Subsequent events (note 13)

Approved on behalf of the Board:

"Donald Sharp"
..... Director
Donald Sharp

"Brian Groves"
..... Director
Brian Groves

SPANISH MOUNTAIN GOLD LTD.
(formerly Skygold Ventures Ltd.)
(An Exploration Stage Company)
Consolidated Statements of Operations and Deficit
Years Ended December 31

	2009	2008
General and Administrative Expenses		
Contract wages	\$ 369,775	\$ 428,404
Investor relations	288,686	335,912
Stock-based compensation (note 8(g))	277,254	135,915
Consulting fees (note 10(b))	77,012	271,164
Office and miscellaneous	61,650	66,406
Rent	61,414	54,583
Transfer agent and filing fees	41,360	77,920
Legal	37,604	144,884
Insurance	29,193	19,185
Accounting and audit	10,252	76,856
General exploration	95	4,717
Management fees	0	1,500
Amortization of property and equipment	27,665	32,306
Loss Before Other Items and Income Taxes	1,281,960	1,649,752
Other Items		
Interest income	(68,242)	(122,893)
Flow-through financing costs	94,438	0
Loss Before Income Taxes	1,308,156	1,526,859
Future Income Tax Recovery (note 9)	(700,750)	(887,581)
Net Loss and Comprehensive Loss for the Year	607,406	639,278
Deficit, Beginning of Year	5,168,936	4,529,658
Deficit, End of Year	\$ 5,776,342	\$ 5,168,936
Loss Per Share – basic and diluted	\$ 0.01	\$ 0.01
Weighted Average Number of Common Shares Outstanding	91,058,747	66,369,680

SPANISH MOUNTAIN GOLD LTD.
(formerly Skygold Ventures Ltd.)
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
Years Ended December 31

	2009	2008
Operating Activities		
Net loss for year	\$ (607,406)	\$ (639,278)
Items not involving cash		
Stock-based compensation	277,254	135,915
Amortization	27,665	32,306
Future income tax recovery	(700,750)	(887,581)
	(1,003,237)	(1,358,638)
Changes in non-cash working capital		
Due from joint venturer	0	(702,042)
Amounts receivable	(106,609)	49,767
Prepaid expenses and deposits	15,240	(5,858)
Accounts payable and accrued liabilities	86,293	(17,124)
	(5,076)	(675,257)
Cash Used in Operating Activities	(1,008,313)	(2,033,895)
Financing Activities		
Shares issued for cash, net of issue costs	4,040,808	9,465,368
Warrants issued for cash	0	343,200
Cash Provided by Financing Activities	4,040,808	9,808,568
Investing Activities		
Term deposits	4,039,862	(1,480,413)
Direct costs of business combination	0	(404,694)
Cash acquired in business combination	0	669,357
Expenditures on mineral properties	(5,455,564)	(11,707,092)
British Columbia Mining Exploration Tax Credit received	970,360	1,556,710
Purchase of property and equipment	(3,175)	(140,502)
Reclamation deposits	(47,000)	(15,000)
Cash Used in Investing Activities	(495,517)	(11,521,634)
Increase (Decrease) in Cash	2,536,978	(3,746,961)
Cash, Beginning of Year	128,718	3,875,679
Cash, End of Year	\$ 2,665,696	\$ 128,718
Supplemental Cash Flow Information		
Income taxes paid	\$ 0	\$ 0
Interest paid	\$ 6,306	\$ 0
Common shares issued for mineral property interests (2009 - nil; 2008 - 18,103)	\$ 0	\$ 21,000
Common shares issued for acquisition of Wildrose Resources Ltd. (note 3)	\$ 0	18,571,458
Mineral properties included in accounts payable	\$ 168,322	\$ 418,596

SPANISH MOUNTAIN GOLD LTD.
(formerly Skygold Ventures Ltd.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Spanish Mountain Gold Ltd. (formerly Skygold Ventures Ltd.) (the "Company") is a junior resource exploration stage company incorporated under the Alberta *Business Corporations Act* and continued into British Columbia under the *Business Corporations Act* of British Columbia.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As the Company is a junior resource stage company, it does not generate any revenue and relies on equity based financing to fund its operations. While the Company expects to meet its financial obligations for fiscal 2010, it will require additional financing to meet its administrative costs and to continue work on its mineral properties, including required flow-through obligation (note 9). There is no assurance that future funding will be available to sufficiently conduct further exploration of its mineral properties. The Company has working capital of \$4,237,412 (2008 - \$6,422,373) and an accumulated deficit of \$5,776,342 (2008 - \$5,168,936).

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and the issuance of capital stock. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management's plan will be successful given the current difficult conditions.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, are stated in Canadian dollars and reflect the following:

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiary, Wildrose Resources Ltd. ("Wildrose"). All significant intercompany amounts and transactions have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents comprises cash and highly-liquid temporary investments, which mature within ninety days from the original dates of acquisition and which are readily convertible into known amounts of cash.

(c) 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 any recoveries. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. 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. Costs accumulated relating to projects that are abandoned are written-off in the period in which a decision to discontinue the project is made.

SPANISH MOUNTAIN GOLD LTD.
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Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mineral properties (Continued)

All deferred mineral property expenditures are reviewed, on a property-by-property 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.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs will be depleted using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

The Company is still in the exploration stage and commercial production has not yet commenced. Hence, depletion has not been charged in these consolidated financial statements. Commercial production occurs when an asset or property is substantially complete and ready for its intended use.

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 until the payments are made or received. Proceeds received on the sale or option of the Company's property interest are recorded as a reduction of the mineral property cost. When proceeds received in respect of a property exceed its carrying cost, such excess is recognized in the statements of operations.

(d) Property and equipment

Amortization of property and equipment is recorded on the declining-balance basis at the following annual rates:

Building	4%
Computer equipment	30%
Vehicles	30%
Office equipment	20%

Amortization on leasehold improvements is recorded on a straight-line basis over the term of the lease of five years.

Additions during the year are amortized at one-half the annual rates. Amortization on property and equipment used directly on exploration projects is included in mineral properties.

SPANISH MOUNTAIN GOLD LTD.
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Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these consolidated financial statements.

(f) Mining and exploration tax recoveries

The Company recognizes mining and exploration tax recoveries in the period in which the related qualifying resource expenditures are incurred. The amount recoverable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

(g) Non-monetary transactions

Shares issued for consideration other than cash are valued at the fair value of assets received or services rendered or the quoted market price at the date of issuance, whichever is the more reliable measure.

(h) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral properties, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(i) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

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Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, losses carried forward and other tax deductions. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantively enacted. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(k) Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from shares issued under flow-through share financing agreements are credited to capital stock and the tax benefits of the exploration expenditures incurred under these agreements are renounced to the purchaser of the shares. The tax impact to the Company of the renunciation 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.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, due to the recording of a valuation allowance, are recognized as a recovery of future income taxes in the statements of operations.

(l) Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

(m) 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 include the collectability of amounts receivable, recovery of British Columbia Mining Exploration Tax Credit ("BC METC") receivable, balances of accrued liabilities, the fair value of financial instruments, the rates for amortization of property and equipment, the recoverability of mineral property interests, determination of asset retirement and environmental obligations, estimates of future income tax assets and liabilities, valuation allowances for future income tax assets and the determination of the variables used in the calculation of stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

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Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(o) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian generally accepted accounting principles. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on or after January 1, 2011. The effective date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year ended December 31, 2010. The Company has begun the planning and scoping phase of the transition to IFRS and intends to transition to IFRS financial statements during fiscal 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

SPANISH MOUNTAIN GOLD LTD.
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(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Future accounting changes (Continued)

(ii) Business Combinations (Continued)

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these standards.

3. BUSINESS COMBINATION

On June 27, 2008, the Company acquired 100% of the issued and outstanding common shares of Wildrose pursuant to an Arrangement Agreement dated February 29, 2008. The results of Wildrose's operations have been included in the consolidated financial statements since June 27, 2008. Wildrose is a junior resource exploration company and prior to the acquisition was the Company's 30% partner in the Spanish Mountain property (note 6(a)). As set out in the Arrangement Agreement, each outstanding common share of Wildrose was exchanged for 0.82 common share of the Company resulting in the Company issuing 19,145,833 common shares for a total value of \$18,571,458. The value assigned to each common share issued was based on the average closing market price of the Company's common shares for a two-day period before and after the terms of the agreement were agreed to and announced on March 6, 2008.

As part of the acquisition, each issued and outstanding Wildrose stock option and warrant was replaced with options and warrants of the Company entitling the holder to acquire 0.82 of the Company's common shares. As a result, the Company recorded the fair value of the vested stock options and warrants of \$1,134,204 as a cost of the transaction. The fair value of the stock options and warrants were calculated using the Black-Scholes option pricing model.

The acquisition was accounted for using the purchase method of accounting, with the Company being identified as the acquirer and Wildrose as the acquiree with the fair value of the purchase consideration allocated to the underlying assets acquired and liabilities assumed based on their fair values at the date of acquisition. Total consideration of \$20,110,356 was calculated as follows:

Common shares issued	\$ 18,571,458
Direct costs	404,694
Warrants and stock options issued	1,134,204
Total consideration	\$ 20,110,356

SPANISH MOUNTAIN GOLD LTD.
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Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

3. BUSINESS COMBINATION (Continued)

The allocation of the purchase price to assets and liabilities acquired is as follows:

Cash	\$ 669,357
Amounts receivable	36,166
British Columbia Mining Tax Credit receivable	583,030
Mineral properties	26,165,882
Property and equipment	318,908
Accounts payable and accrued liabilities	(1,805,676)
Future income tax liability	(5,857,311)
	<hr/>
	\$ 20,110,356

The excess of the purchase price over the net assets acquired of \$14,734,627 was allocated \$19,911,658 to mineral properties and \$5,177,031 to future income tax liability.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

- Cash and term deposits as held-for-trading
- Amounts receivable (excluding taxes receivable) as loans and receivables
- Reclamation deposits as held-to-maturity
- Accounts payable and accrued liabilities as other financial liabilities.

The carrying values of cash and term deposits, amounts receivable and accounts payable (excluding due to related parties) approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of reclamation deposits approximates fair value since amounts held earn interest at market rates. The fair value of amounts due to related parties included in accounts payable and accrued liabilities have not been disclosed as their fair values cannot be reliably measured since there is no quoted market prices for such instruments.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations and arises principally from the Company's holdings of cash and term deposits. The Company manages credit risk, in respect of cash and term deposits, by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution. In regards to amounts receivable, the Company is not exposed to significant credit risk.

Concentration of credit risk exists with respect to the Company's cash and term deposits, as all amounts are held at a single major Canadian financial institution.

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Years Ended December 31, 2009 and 2008

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient cash at December 31, 2009 in the amount of \$2,665,696 and receivables of \$1,938,045 in order to meet short-term liabilities. At December 31, 2009, the Company had accounts payable and accrued liabilities of \$404,741, which is payable in the first quarter of fiscal 2010. The Company completed a private placement in February 2010 for gross proceeds totalling \$5,000,160 to meet its administrative overhead costs and further exploration activities on its mineral properties in 2010, including required flow-through exploration expenditure obligations.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to interest rate and foreign currency risk as follows:

(i) Interest rate risk

The Company's cash held in bank accounts earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2009.

(ii) Foreign currency risk

The Company's operations are located in Canada with all transactions substantially in Canadian dollars. Accordingly, the Company is not exposed to significant foreign currency risk.

5. CAPITAL MANAGEMENT

The Company's primary source of funds comes from the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

The Company defines its capital as all components of shareholders' equity. Capital requirements are determined by the Company's exploration activities on its mineral property interests and administrative overhead. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet strategic goals.

The Company has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, there can be no assurances that it will continue into the foreseeable future.

SPANISH MOUNTAIN GOLD LTD.
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Notes to Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

6. MINERAL PROPERTIES

Acquisition and exploration expenditures incurred on mineral properties during 2009 and 2008 are as follows:

	Spanish Mountain	SHG	Total
Balance, December 31, 2007	\$ 10,167,562	\$ 2,234,462	\$ 12,402,024
Additions during the year			
Acquisition costs	75,999	0	75,999
Acquired in business combination (note 3)	26,165,882	0	26,165,882
	26,241,881	0	26,241,881
Deferred exploration costs			
Drilling	4,549,028	396,237	4,945,265
Contract wages	0	171,909	171,909
Geological consulting	1,336,314	331,983	1,668,297
Assaying	1,700,332	149,480	1,849,812
Travel and accommodation	156,104	59,094	215,198
Camp materials and supplies	497,158	26,771	523,929
Equipment rental	149,580	1,747	151,327
Environmental assessment	105,412	0	105,412
Land tenure	21,256	97,433	118,689
Road access	50,358	0	50,358
Field supplies	271,458	29,205	300,663
Amortization	45,479	0	45,479
	8,882,479	1,263,859	10,146,338
Total additions during the year	35,124,360	1,263,859	36,388,219
BC METC receivable (note 9)	(1,495,243)	(61,467)	(1,556,710)
Net additions	33,629,117	1,202,392	34,831,509
Balance, December 31, 2008	43,796,679	3,436,854	47,233,533
Additions during the year			
Acquisition costs	51,000	0	51,000
Deferred exploration costs			
Drilling	2,056,106	483,245	2,539,351
Contract wages	0	172,465	172,465
Geological consulting	1,046,633	45,781	1,092,414
Geophysical	0	72,258	72,258
Assaying	468,625	182,207	650,832
Travel and accommodation	103,573	26,152	129,725
Camp materials and supplies	162,401	33,095	195,496
Equipment rental	37,205	30,243	67,448
Land tenure	1,454	14,207	15,661
Environmental assessment	75,346	0	75,346
Field supplies	112,004	31,290	143,294
Amortization	49,695	0	49,695
	4,113,042	1,090,943	5,203,985
Total additions during the year	4,164,042	1,090,943	5,254,985
BC METC receivable (note 9)	(26,017)	(6,916)	(32,933)
Net additions	4,138,025	1,084,027	5,222,052
Balance, December 31, 2009	\$ 47,934,704	\$ 4,520,881	\$ 52,455,585

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6. MINERAL PROPERTIES (Continued)

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

Pursuant to a Joint Operation Agreement (the "Agreement") signed between the original owners, 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 was responsible for all expenses and liabilities of the mining operations in proportion to their interest.

On June 27, 2008, the Company acquired all of the issued and outstanding shares of Wildrose and now owns 100% of the Spanish Mountain property (note 3). As of June 27, 2008, the Joint Operation Agreement between the Company and Wildrose was terminated.

The Company is obligated to make the following payments to the original owners of the Spanish Mountain Property:

- (i) Cash payments
 - \$24,000 on January 20, 2007 (paid);
 - \$15,000 on July 20, 2007 (paid); and
 - \$55,000 on January 20, 2008 (paid).
- (ii) Share or cash issuances
 - \$21,000, which may be satisfied in either cash or shares on each of January 20, 2006 (issued), 2007 (issued) and 2008 (issued); and
 - \$51,000, which may be satisfied in either cash or shares on each of January 20, 2009 (paid) and 2010 (paid – note 13(b)) to January 20, 2012.
- (iii) The vendor retains a 2.5% net smelter return ("NSR"), 1.5% of which may be purchased by the Company for \$500,000.

(b) SHG, Cariboo Mining Division, British Columbia

On July 26, 2006, the Company purchased five mineral properties to the northwest of the Spanish Mountain property in central British Columbia.

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

- (i) A cash payment of \$300,000 (paid);
- (ii) Issuance of 525,000 units of the Company (issued). Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant was exercisable into one common share at \$1.60 per share on or before October 4, 2007 and at \$2.00 per share on or before October 4, 2008. The shares were valued at \$1.60 per share and the warrants were valued at \$280,980 using the Black-Scholes option pricing model; and
- (iii) The Company must incur \$2,000,000 in exploration expenditures by December 31, 2008 (completed). The vendor retains a 2% NSR, 1% of which may be purchased by the Company for \$1,000,000.

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6. 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 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.

(e) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

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7. PROPERTY AND EQUIPMENT

	2009		
	Cost	Accumulated Amortization	Net
Land	\$ 127,441	\$ 0	\$ 127,441
Building	1,110,416	112,015	998,401
Computer equipment	108,188	56,031	52,157
Vehicles	40,846	21,959	18,887
Office equipment	29,577	13,360	16,217
Leasehold improvements	9,815	3,926	5,889
	\$ 1,426,283	\$ 207,291	\$ 1,218,992

	2008		
	Cost	Accumulated Amortization	Net
Land	\$ 127,655	\$ 0	\$ 127,655
Building	1,110,416	70,415	1,040,001
Computer equipment	105,031	34,354	70,677
Vehicles	40,846	13,865	26,981
Office equipment	29,345	9,334	20,011
Leasehold improvements	9,815	1,963	7,852
	\$ 1,423,108	\$ 129,931	\$ 1,293,177

8. CAPITAL STOCK

(a) Authorized

- (i) Unlimited number of common voting shares without 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.

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8. CAPITAL STOCK (Continued)

(b) Issued

	Number of Common Shares	Amount
Balance, December 31, 2007	49,459,579	\$ 21,176,665
Issued for cash		
Private placements, net of issue costs	18,386,000	9,406,570
Issued for other consideration		
Mineral property interests	18,103	21,000
Acquisition of Wildrose (note 3)	19,145,833	18,571,458
Income tax effect of flow-through share renouncement	0	(793,807)
Balance, December 31, 2008	87,009,515	48,381,886
Issued for cash		
Private placements, net of issue costs	19,643,809	4,020,808
Exercise of options	200,000	20,000
Fair value of options exercised	0	16,704
Income tax effect of flow-through share renouncement	0	(2,007,900)
Balance, December 31, 2009	106,853,324	\$ 50,431,498

(c) Private placements

- (i) On December 30, 2009, the Company completed a private placement and issued 6,100,000 flow-through units at a price of \$0.33 per unit for gross proceeds of \$2,013,000. Each flow-through unit consisted of one common share issued on a flow-through basis and one share purchase warrant. Each warrant will entitle the holder to purchase one non-flow-through common share at a price of \$0.33 per share on or before December 30, 2012. A cash payment of \$120,780 in connection with the private placement was paid to a finder. Other cash share issue costs in the amount of \$25,652 were incurred by the Company in connection with this private placement.
- (ii) On September 29, 2009, the Company completed a private placement and issued 13,000,000 units at a price of \$0.17 per unit for gross proceeds of \$2,210,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.23 per share on or before September 28, 2012. A total of 543,809 units were issued to a finder in lieu of cash payment in connection with the private placement. Cash share issue costs in the amount of \$55,760 were incurred by the Company in connection with this private placement.

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8. CAPITAL STOCK (Continued)

(c) Private placements (Continued)

- (iii) On January 14, 2008, pursuant to the Agreement for the Spanish Mountain property (note 6(a)(ii)) the Company issued 18,103 common shares valued at \$1.16 per common share.
- (iv) On June 27, 2008, the Company issued 19,145,833 common shares to the shareholders of Wildrose in exchange for all of the outstanding common shares of Wildrose (note 3). These shares were valued at \$0.97 per share for a gross value of \$18,571,458.
- (v) On July 31, 2008, the Company completed a private placement and issued 13,386,000 flow-through common shares for gross proceeds of \$8,031,600 and 5,000,000 units for gross proceeds of \$3,000,000. Each unit consisted of one non-flow-through common share and one-half of one non-flow-through common share purchase warrant. Each full warrant entitles the holder to acquire an additional non-flow-through common share at \$0.70 on or before July 31, 2010. Of the \$3,000,000 raised, \$2,700,000 was allocated to capital stock based on the market trading price of the Company's common shares at the time the units were priced and the excess of \$300,000 was allocated to warrants. In addition, the Company issued 360,000 stand alone non-flow-through common share purchase warrants for gross proceeds of \$43,200. Each non-flow-through warrant entitles the holder to acquire one non-flow-through common share at \$0.70 on or before July 31, 2010. As part of the finder's fee arrangement, 1,195,090 non-flow-through common share purchase warrants were issued to agents. Each warrant entitles the holder to acquire one non-flow-through common share at \$0.60 on or before July 31, 2009. These agent warrants were valued at \$58,798 and recorded as a share issue cost with a corresponding credit to contributed surplus. Cash share issue costs in the amount of \$1,266,232 were incurred by the Company in connection with this private placement.

(d) Renunciation of exploration expenditures

In February 2009, the Company renounced \$8,031,600 (2008 - \$3,053,102) of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$2,007,900 (2008 - \$793,807), which was deducted from capital stock.

(e) Stock options

The Company has a fixed number stock option plan that reserves a specified number of shares up to a maximum of 20% of the Company's issued shares as at the date of shareholder approval. The exercise price of any option granted shall not be less than the fair market value of the shares at the time of the grant. The expiry date for each option, set by the board of directors at the time of issue, shall not be more than five years after the grant date. Options granted vest 25% on date of grant, 25% six months after grant, 25% twelve months after grant and 25% eighteen months after grant. The shareholders of the Company approved an increase in the maximum number of stock options available for grant on June 15, 2009 to 17,401,903 from 9,413,366.

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8. CAPITAL STOCK (Continued)

(e) Stock options (Continued)

Details of the status of the Company's stock options are as follows:

	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	5,445,300	\$ 1.24	3,900,000	\$ 1.23
Granted	3,500,000	\$ 0.26	0	\$ 0.00
Granted in exchange for stock options of Wildrose (note 3)	0	\$ 0.00	1,775,300	\$ 1.26
Exercised	(200,000)	\$ 0.10	0	\$ 0.00
Forfeited	(780,000)	\$ 1.04	(230,000)	\$ 1.09
Outstanding, end of year	7,965,300	\$ 0.86	5,445,300	\$ 1.24

A summary of the status of the Company's stock options as at December, 2009 and 2008 is as follows:

Expiry Date	Exercise Price	2009		Exercise Price	2008	
		Number of Options	Number of Options Exercisable		Number of Options	Number of Options Exercisable
December 23, 2009	\$ 0.00	0	0	\$ 0.10	200,000	200,000
July 22, 2010	\$ 0.42	750,000	750,000	\$ 0.42	750,000	750,000
January 3, 2011*	\$ 0.59	127,100	127,100	\$ 0.59	127,100	127,100
June 2, 2011	\$ 1.60	1,740,000	1,740,000	\$ 1.60	1,920,000	1,920,000
November 1, 2011	\$ 1.50	200,000	200,000	\$ 1.50	500,000	500,000
January 10, 2012*	\$ 1.22	1,189,000	1,189,000	\$ 1.22	1,189,000	1,189,000
April 17, 2012*	\$ 1.56	82,000	82,000	\$ 1.56	82,000	82,000
May 28, 2012*	\$ 1.49	164,000	164,000	\$ 1.49	164,000	164,000
June 5, 2012*	\$ 1.59	213,200	213,200	\$ 1.59	213,200	213,200
December 11, 2012	\$ 1.25	300,000	300,000	\$ 1.25	300,000	225,000
June 29, 2014	\$ 0.25	2,500,000	1,250,000	\$ 0.00	0	0
October 12, 2014	\$ 0.29	700,000	175,000	\$ 0.00	0	0
		7,965,300	6,190,300		5,445,300	5,370,300

* issued in exchange for stock options of Wildrose (note 3)

** weighted average remaining contractual life for the outstanding options at December 31, 2009 is 2.81 years.

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8. CAPITAL STOCK (Continued)

(f) Share purchase warrants

As at December 31, 2009, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding December 31, 2008	Issued	Exercised	Expired	Outstanding December 31, 2009
\$ 1.59*	January 9, 2009	410,000	0	0	410,000	0
\$ 1.34*	April 30, 2009	820,000	0	0	820,000	0
\$ 0.60	July 31, 2009	1,195,090	0	0	1,195,090	0
\$ 0.70	July 31, 2010	2,860,000	0	0	0	2,860,000
\$ 0.23	September 28, 2012	0	13,543,809	0	0	13,543,809
\$ 0.33	December 30, 2012	0	6,100,000	0	0	6,100,000
		5,285,090	19,643,809	0	2,425,090	22,503,809

* issued in exchange for Wildrose warrants (note 3)

As at December 31, 2008, the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding, December 31, 2007	Issued	Exercised	Expired	Outstanding, December 31, 2008
\$ 2.00	October 4, 2008	525,000	0	0	525,000	0
\$ 1.75	December 28, 2008	1,174,270	0	0	1,174,270	0
\$ 1.35	December 28, 2008	168,400	0	0	168,400	0
\$ 1.75	December 28, 2008	22,103	0	0	22,103	0
\$ 1.59	January 9, 2009	0	410,000	0	0	410,000
\$ 1.34	April 30, 2009	0	820,000	0	0	820,000
\$ 0.60	July 31, 2009	0	1,195,090	0	0	1,195,090
\$ 0.70*	July 31, 2010	0	2,860,000	0	0	2,860,000
		1,889,773	5,285,090	0	1,889,773	5,285,090

* value of \$343,200 has been allocated to warrants (note 8(c)(v))

The fair value of warrants issued in 2008 as finder's fees, in the amount of \$58,798, and included in share issuance costs and the fair value of warrants issued in exchange for Wildrose warrants in the amount of \$92,094, and included in the purchase price of Wildrose (note 3), were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008
Risk-free interest rate	3.09%
Expected dividend yield	0
Expected stock price volatility	52.41%
Expected life in years	0.87

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8. CAPITAL STOCK (Continued)

(g) Stock-based compensation

During the year ended December 31, 2009, the Company granted stock options to employees and officers to acquire up to 3,500,000 common shares. The total fair value of these options was calculated at \$534,730, of which \$220,622 has been recognized in 2009, \$267,365 will be recognized in 2010 and \$46,743 will be recognized in 2011.

The fair value of stock options granted to a director in 2007 that vested during 2009, in the amount of \$56,632 (2008 - \$135,915), has been recorded as an expense in 2009. The fair value of stock options issued in exchange for Wildrose stock options in the amount of \$1,042,110, are included in the purchase price of Wildrose in 2008 (note 3).

The fair value of stock options granted is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Risk-free interest rate	2.56%	3.36%
Expected dividend yield	0	0
Expected stock price volatility	88.94%	94.04%
Expected life in years	5	3.56

The weighted average grant date fair value of stock options granted in 2009 was \$0.15 per share (2008 - \$nil).

(h) Contributed surplus

	2009	2008
Balance, beginning of year	\$ 4,223,871	\$ 2,894,954
Stock-based compensation	277,254	135,915
Issuance of warrants to agents	0	58,798
Value of options exercised	(16,704)	0
Value of Wildrose warrants (note 3)	0	92,094
Value of Wildrose stock options (note 3)	0	1,042,110
Balance, end of year	\$ 4,484,421	\$ 4,223,871

(i) Shares reserved for issuance

Shares reserved for issuance at December 31, 2009 are as follows:

	2009	2008
Stock options (note 8(e))	7,965,300	5,445,300
Warrants (note 8(f))	22,503,809	5,285,090
Shares reserved for issuance, end of year	30,469,109	10,730,390

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9. INCOME TAXES

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately \$6,031,000 that expire in various years to 2029 as follows:

2010	\$	104,000
2014		226,000
2015		782,000
2026		736,000
2027		850,000
2028		1,848,000
2029		1,485,000
	\$	6,031,000

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

	2009	2008
Income tax benefit computed at Canadian statutory rates	\$ (398,988)	\$ (496,229)
Tax effect of expenses that are not deductible (taxable) for income tax purposes		
Temporary differences	(121,233)	(117,942)
Non-taxable items	84,562	44,172
Change in timing differences	(73,317)	(249,923)
Change in income tax rates	(191,774)	(67,659)
Future income tax recovery	\$ (700,750)	\$ (887,581)

Significant components of the Company's future tax liabilities are as follows:

	2009	2008
Future income tax assets (liabilities)		
Property and equipment	\$ 54,701	\$ 36,775
Mineral properties	(10,546,118)	(8,861,363)
Non-refundable mining income tax credit	158,230	0
Share issue costs	284,304	353,645
Non-capital losses carried forward	1,507,671	1,236,881
Future income tax liability, net	\$ (8,541,212)	\$ (7,234,062)

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9. INCOME TAXES (Continued)

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances, which have not been spent and which are allotted for such expenditures. As at December 31, 2009, the amount of the flow-through proceeds remaining to be expended was \$2,006,900 (2008 - \$5,044,514).

The Company qualifies for a British Columbia mining tax credit as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred during the year. At December 31, 2009, the BC METC receivable in the amount of \$1,818,568 consists of receivables for the 2008 and 2009 years.

10. RELATED PARTY TRANSACTIONS

- (a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. For the years ended December 31, 2009 and 2008, the Company paid that contract amounts as follows:

	2009	2008
Exploration costs	\$ 3,753,476	\$ 12,816,574
Office rent	\$ 61,414	\$ 54,583
Property costs and equipment	\$ 3,389	\$ 171,772
Contract wages, and administrative and management services	\$ 369,775	\$ 332,975
Reimbursement of general and administrative expenses	\$ 238,289	\$ 235,554

As at December 31, 2009, there was \$178,844 (2008 - \$405,791) payable to that contractor.

- (b) For the year ended December 31, 2009, consulting fees of \$25,899 (2008 - \$32,971) were charged by a director of the Company.

All advances to and amounts due from (to) related parties have repayment terms similar to the Company's other accounts receivable (payable) and are without interest. All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount agreed to by the related parties.

11. SEGMENTED INFORMATION

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

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12. COMMITMENTS

- (a) During 2007, the Company and others entered into a lease agreement for the rental of office premises for a six-year period, expiring March 31, 2013. The cost of the entire premises is shared primarily between the Company and four other companies related by a common director. The Company's proportionate share of minimum annual rental payments under this arrangement is payable as follows:

2010	\$	25,858
2011		26,597
2012		26,597
2013		6,649
	\$	85,701

- (b) During 2009, the Company entered into an additional lease agreement for the rental of new office premises for a two-year, five-month period expiring May 31, 2012. The Company's minimum annual rental payments under this arrangement are payable as follows:

2010	\$	45,061
2011		45,061
2012		18,775
	\$	108,897

13. SUBSEQUENT EVENTS

The following events occurred after December 31, 2009:

- (a) The Company paid \$51,000 to the original vendors of the Agreement for the Spanish Mountain property (note 6(a)(ii)).
- (b) Between January 5, 2010 and March 8, 2010, the Company granted 2,350,000 stock options to officers and consultants of the Company at a weighted average exercise price of \$0.36 per common share expiring between March 8, 2013 and February 17, 2015.
- (c) On February 25, 2010, the Company completed a private placement and issued 15,152,000 units at a price of \$0.33 per unit for gross proceeds of \$5,000,160 less share issue costs of \$26,592 for net proceeds of \$4,973,568. Each unit consists of one common share and one share purchase warrant of the Company. Each warrant entitles the holder to purchase one common share expiring February 25, 2013 at a price of \$0.42.