

**SKEENA RESOURCES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Skeena Resources Limited

We have audited the accompanying consolidated financial statements of Skeena Resources Limited (the "Company") which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Skeena Resources Limited as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has an accumulated deficit of \$22,587,910 and a working capital deficiency of \$17,718. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

April 20, 2011



**SKEENA RESOURCES LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**AT DECEMBER 31**

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 137,317	\$ 6,332
Marketable securities (Note 3)	5,775	8,224
Receivables	88,620	11,954
Prepaid expenses	20,689	7,095
	252,401	33,605
<b>Mineral property interests</b> (Note 4)	1,267,345	381,711
<b>Equipment</b> (Note 5)	24,008	25,282
	\$ 1,543,754	\$ 440,598
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 100,119	\$ 369,781
Loans (Note 6(d)(e))	170,000	120,000
	270,119	489,781
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 7)	20,240,785	18,776,262
Contributed surplus (Note 7)	3,620,760	3,025,730
Accumulated other comprehensive loss	-	(20,183)
Deficit	(22,587,910)	(21,830,992)
	1,273,635	(49,183)
	\$ 1,543,754	\$ 440,598

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 13)

**Subsequent events** (Note 14)

**On behalf of the Board:**

*"Ronald K. Netolitzky"*

..... Director

Ronald K. Netolitzky

*"Peter Tredger"*

..... Director

Peter Tredger

The accompanying notes are an integral part of these consolidated financial statements.

**SKEENA RESOURCES LIMITED**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
YEAR ENDED DECEMBER 31

	2010	2009
<b>ADMINISTRATIVE EXPENSES</b>		
Amortization	\$ 5,806	\$ 6,444
Consulting	77,800	49,500
Foreign exchange	(677)	61,820
Investor relations	62,887	5,954
Office and administration	37,355	38,745
Professional fees	60,115	76,903
Property research	12,755	-
Rent	7,824	7,824
Shareholder communications	2,953	3,240
Stock-based compensation (Note 7)	338,311	95,285
Transfer agent and listing fees	31,510	15,926
Travel	6,522	1,411
<b>Loss before other items and income taxes</b>	<b>(643,161)</b>	<b>(363,052)</b>
<b>OTHER ITEMS</b>		
Interest income	1,611	213
Write-off of mineral property interests (Note 4)	(85,185)	(6,077,691)
Loan fee (Note 6 (d))	(10,000)	(24,000)
Loss on sale of marketable securities	(11,331)	-
Write down of marketable securities	(8,852)	-
	(113,757)	(6,101,478)
<b>Loss before income taxes</b>	<b>(756,918)</b>	<b>(6,464,530)</b>
<b>Future income tax recovery</b> (Note 8)	<b>-</b>	<b>448,000</b>
<b>Loss for the year</b>	<b>(756,918)</b>	<b>(6,016,530)</b>
<b>Other comprehensive loss</b>		
Reversal of previously unrealized losses	11,331	-
Unrealized gain on marketable securities	-	1,224
Write down of marketable securities recognized in loss for the year	8,852	-
<b>Comprehensive loss for the year</b>	<b>\$ (736,735)</b>	<b>\$ (6,015,306)</b>
<b>Loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.08)</b>
<b>Weighted average number of common shares outstanding</b>	<b>95,778,596</b>	<b>72,977,210</b>

The accompanying notes are an integral part of these consolidated financial statements.

**SKEENA RESOURCES LIMITED**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)**  
**YEAR ENDED DECEMBER 31**

	Capital Stock		Deficit	Contributed Surplus	Accumulated Other Comprehensive Loss	Total Shareholders' Equity (Deficiency)
	Shares	Amount				
Balance at December 31, 2008	62,020,838	18,050,265	(15,814,462)	2,727,075	(21,407)	4,941,471
Net loss for the year	-	-	(6,016,530)	-	-	(6,016,530)
Other comprehensive income for the year						
Unrealized gain on marketable securities	-	-	-	-	1,224	1,224
Shares issued for cash:						
Private placements	10,790,000	338,808	-	200,692	-	539,500
Share issue costs	-	(20,078)	-	2,678	-	(17,400)
Shares issued for mineral property interests	3,350,000	167,500	-	-	-	167,500
Shares issued for debt settlement	2,876,889	215,767	-	-	-	215,767
Stock-based compensation	-	-	-	95,285	-	95,285
Shares issued for interest expense on directors' loans	480,000	24,000	-	-	-	24,000
Balance at December 31, 2009	79,517,727	18,776,262	(21,830,992)	3,025,730	(20,183)	(49,183)
Net loss for the year	-	-	(756,918)	-	-	(756,918)
Other comprehensive income for the year						
Reversal of previously unrealized losses	-	-	-	-	11,331	11,331
Impairment of marketable securities	-	-	-	-	8,852	8,852
Shares issued for cash:						
Private placements	21,350,000	1,067,500	-	-	-	1,067,500
Share issue costs	-	(40,556)	-	5,231	-	(35,325)
Shares issued for interest expense on director's loan	200,000	10,000	-	-	-	10,000
Shares issued for debt settlement (note 9(c))	2,665,722	133,286	-	-	-	133,286
Shares issued for mineral property interests	9,500,000	475,000	-	70,781	-	545,781
Shares cancelled for mineral property interests	(1,000,000)	(180,707)	-	180,707	-	-
Stock-based compensation	-	-	-	338,311	-	338,311
Balance at December 31, 2010	112,233,449	\$ 20,240,785	\$(22,587,910)	\$ 3,620,760	\$ -	\$ 1,273,635

The accompanying notes are an integral part of these consolidated financial statements.

**SKEENA RESOURCES LIMITED**  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (756,918)	\$ (6,016,530)
Items not involving cash:		
Amortization	5,806	6,444
Stock-based compensation	338,311	95,285
Loan fee	10,000	24,000
Write-off of mineral property interests	85,185	6,077,691
Loss on sale of marketable securities	11,331	-
Future income tax recovery	-	(448,000)
Write down of marketable securities	8,852	-
Changes in non-cash working capital:		
Receivables	(49,966)	149,987
Prepaid expenses	(13,594)	(2,608)
Accounts payable and accrued liabilities	(36,988)	79,383
<b>Net cash used in operating activities</b>	<b>(397,981)</b>	<b>(34,348)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of capital stock	1,067,500	539,500
Share issue costs	(35,325)	(17,400)
Loans	50,000	120,000
<b>Net cash provided by financing activities</b>	<b>1,082,175</b>	<b>642,100</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral property interests	(569,704)	(649,697)
Recoveries on mineral property interests	18,853	-
Proceeds from sale of security	2,174	-
Purchase of equipment	(4,532)	-
<b>Net cash used in investing activities</b>	<b>(553,209)</b>	<b>(649,697)</b>
<b>Change in cash during the year</b>	<b>130,985</b>	<b>(41,945)</b>
<b>Cash, beginning of year</b>	<b>6,332</b>	<b>48,277</b>
<b>Cash, end of year</b>	<b>\$ 137,317</b>	<b>\$ 6,332</b>
<b>Cash paid for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

**Supplemental disclosure with respect to cash flows (Note 9)**

The accompanying notes are an integral part of these consolidated financial statements.

**SKEENA RESOURCES LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Skeena Resources Limited (the "Company") operates primarily in the mining industry. The Company is in the exploration stage with respect to its mineral property interests and has not, as yet, achieved any commercial production. All figures are in Canadian dollars unless otherwise specified.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. The Company has incurred operating losses over the past several years and does not have a current source of revenue or sufficient financial resources to sustain operations in the long term.

The Company continues to be dependent upon its ability to finance its operations and exploration programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration projects, and ultimately, the Company's ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the development of the properties, and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

While the Company has been successful in obtaining its required financing in the past, through additional equity and non-arms length loans, there is no assurance that such financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

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	<b>2010</b>	2009
Working capital (deficiency)	\$ (17,718)	\$ (456,176)
Deficit	<b>(22,587,910)</b>	(21,830,992)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant inter-company transactions and balances have been eliminated on consolidation.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**(b) Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Significant accounts that require estimates relate to the impairment of mineral property interests, estimated useful lives of equipment, valuation allowances for future income tax assets, stock-based compensation and valuation of warrants in private placements and shares and warrants issued in acquisition of mineral property interests.

**(c) Marketable securities**

Marketable securities are classified as available for sale and are measured at fair market value.

**(d) Mineral property interests**

All costs related to the acquisition, exploration and development of mineral property interests are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**(e) Asset retirement obligations**

Asset retirement obligations are legal obligations associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. Liabilities include those liabilities related to environmental protection and rehabilitation due to environmental law or contracts. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. As at December 31, 2010, the Company did not have any asset retirement obligations.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**(f) Equipment**

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

Computer equipment	30%
Office equipment	20%
Field equipment	20%
Vehicle	20%

**(g) Foreign currency translation**

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transactions. Translation gains and losses are reflected in the statement of operations for the year.

**(h) Stock-based compensation**

The Company uses the fair value method for measuring compensation costs whereby the Company recognizes compensation costs over the vesting period for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**(i) Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

**(j) Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**(k) Income taxes**

Income taxes are recorded using the asset and liability method whereby 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 bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**(l) Flow-through shares**

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefits transferred to shareholders. When the Company renounces flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of future income taxes in the statement of operations.

**(m) Financial instruments – recognition and measurement**

Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The Company has implemented the following classifications for its financial instruments:

- i. Cash has been classified as held-for-trading.
- ii. Marketable securities are classified as available-for-sale.
- iii. Receivables have been classified as loans and receivables and measured at amortized cost.
- iv. Accounts payable and accrued liabilities and loans have been classified as other financial liabilities and are measured at amortized cost.

Disclosures are provided about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;  
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and  
Level 3 – Inputs that are not based on observable market data.

See Note 11 for relevant disclosures.

2. **SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

(n) **Comprehensive income**

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

(o) **Recent accounting pronouncements**

*Business Combinations, Non-controlling Interests and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

*International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010 may require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company has begun assessing the adoption of IFRS for 2011, and is considering the accounting policy choices under IFRS.

3. **MARKETABLE SECURITIES**

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	2010	2009
	\$ 5,775	\$ 8,224

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**SKEENA RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**3. MARKETABLE SECURITIES (cont'd...)**

During 2010, the Company recorded a write down of \$8,852 (2009 - \$Nil) on the value of the marketable securities and reclassified the balance from Other Comprehensive loss.

**4. MINERAL PROPERTY INTERESTS**

	British Columbia Claims	Yukon Claims	Saskatchewan Claims	Ecuador Claims	Mexican Claims	Total
<b>Balance, December 31, 2008</b>	\$ -	\$ -	\$ 186,043	\$ -	\$ 5,571,819	\$ 5,757,862
Analysis	-	-	1,726	-	271	1,997
Drilling/trenching	-	-	2,130	-	-	2,130
Field and camp support	-	-	263	7,893	39,719	47,875
Geology/geophysics/geochemical	-	-	7,716	-	27,221	34,937
Acquisition, assessments and option payments	2,775	-	50,000	-	486,803	539,578
Legal/ other	2,407	-	-	-	67,217	69,624
Travel and accommodation	-	-	2,856	-	2,543	5,399
	<u>5,182</u>	<u>-</u>	<u>64,691</u>	<u>7,893</u>	<u>623,774</u>	<u>701,540</u>
	5,182	-	250,734	7,893	6,195,593	6,459,402
Write-off mineral property interests	<u>-</u>	<u>-</u>	<u>(250,734)</u>	<u>(7,893)</u>	<u>(5,819,064)</u>	<u>(6,077,691)</u>
<b>Balance, December 31, 2009</b>	5,182	-	-	-	376,529	381,711
Analysis	-	-	-	-	539	539
Community relations	-	-	-	-	25,190	25,190
Drilling/trenching	-	-	3,230	-	9,304	12,534
Field and camp support	-	14,515	-	-	252,307	266,822
Geology/geophysics/geochemical	-	24,583	215	-	38,751	63,549
Acquisition, option payments, grants	2,000	61,977	-	-	569,086	633,063
Travel and accommodation	-	-	-	-	14,675	14,675
	<u>2,000</u>	<u>101,075</u>	<u>3,445</u>	<u>-</u>	<u>909,852</u>	<u>1,016,372</u>
	7,182	101,075	3,445	-	1,286,381	1,398,083
Recoveries on Quit Claim Agreement	-	(26,700)	-	-	-	(26,700)
Government grants received	-	(18,853)	-	-	-	(18,853)
Write-off mineral property interests	<u>(7,182)</u>	<u>(55,522)</u>	<u>(3,445)</u>	<u>-</u>	<u>(19,036)</u>	<u>(85,185)</u>
	(7,182)	(101,075)	(3,445)	-	(19,036)	(130,738)
<b>Balance, December 31, 2010</b>	\$ -	\$ -	\$ -	\$ -	\$ 1,267,345	\$ 1,267,345

**SKEENA RESOURCES LIMITED**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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**4. MINERAL PROPERTY INTERESTS (cont'd...)****Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history, characteristic of many mineral properties and political uncertainty. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

**Malpica property, Mexico**

In May 2007, the Company entered into an agreement with Reyna Mining & Engineering S.A. de C.V. ("Reyna Mining") to jointly acquire an option from Grupo México S.A. de C.V. ("Grupo México") to earn a combined 100% interest in the Malpica copper-gold-molybdenum property located in Sinaloa State, Mexico. A Mexican corporation, Skeena Mexico S.A de C.V. ("Skeena Mexico") held the option as its sole asset. The Company had the option to acquire 90% of the shares of Skeena Mexico. The arrangement with Grupo México was terminated and the Company wrote off \$5,819,064 in property expenditures in 2009. The Company continues to write off expenditures as they occur.

**Tropico property, Mexico**

The Company entered into an agreement with Virginia Energy Resources Inc., (formerly Santoy Resources Ltd.) ("Virginia") (60%) and Almaden Minerals Corp. ("Almaden") (40%) to earn up to a 60% interest in the Tropico Property, a copper-platinum-palladium-gold project in Sinaloa State, Mexico, by incurring a work commitment of \$3,000,000 over 5 years (\$100,000 in year one - completed) and issuing 1,250,000 common shares of the Company over 5 years of which 250,000 were issued in fiscal 2009 and 250,000 issued in fiscal 2008. Virginia and the Company have a director and an officer in common. The property is subject to a 2% NSR with half of that interest purchasable for fair market value at the time of presentation of a feasibility study. Work commitments for completion in March 2010 were not met. The Company also acquired two other concessions by direct application to the government and acquired a third by lottery. The concessions are subject to an NSR royalty up to a maximum of 2% payable to the government.

The Company entered into an option to purchase a 100% interest in the San Pablo concession contiguous with the Tropico Property, from Minera Cascabel SA de CV ("Minera Cascabel") for cash payments totaling \$500,000 over 4 years (\$85,000 paid), a work commitment of two times the minimum required under Mexican mining law during the period of the agreement and the issuance of 500,000 shares over 4 years of which 100,000 were issued in fiscal 2008 and 100,000 issued in fiscal 2009. The concession is subject to a 2% NSR royalty payable to the Mexican Government.

**SKEENA RESOURCES LIMITED**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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**4. MINERAL PROPERTY INTERESTS (cont'd...)****Tropico property, Mexico (cont'd...)**

In April 2010, the Company acquired the remaining 10% shares of Skeena Mexico by issuing 500,000 shares valued at \$25,000 to Reyna Mining to obtain 100% of Skeena Mexico. In September 2010, the Company entered into an agreement with Virginia, Almaden and Minera Cascabel, superseding all previous agreements, to acquire a 100% interest in and clear title to the Tropico Property to be held in Skeena Mexico in consideration for 8,000,000 common shares of the Company, valued at \$400,000 and 5 year warrants to acquire an additional 4,000,000 common shares valued at \$70,781 using the Black-Scholes option pricing model with a volatility of 125%, risk free rate of 1.26%, expected term of 2 years and a dividend rate of 0%. Each warrant is exercisable at \$0.20 per share for the first two years, and \$0.50 per share for the last three years. The Company paid US\$17,550 to Minera Cascabel for past due obligations.

**Tahte Property, Yukon**

The Company entered into an option agreement on June 15<sup>th</sup>, 2010 with Cathro Resources Corp. ("Cathro") to acquire a 100% undivided equity interest over four years in a copper porphyry prospect situated 40 kilometres south of Carmacks, Yukon pursuant to which the Company paid \$10,000 and issued 1,000,000 common shares valued at \$50,000.

Effective December 31, 2010, a Quit Claim Agreement returned the Tahte property to Cathro for payment of \$26,700 by Cathro and a cancellation of the 1,000,000 issued common shares. The Company retains no interest in the Tahte Property and wrote off \$55,522 in mineral property costs.

**Anglo Rouyn property, Saskatchewan**

The Company entered into an option agreement with Kristo Gold Inc., to earn a 100% interest in certain claims in the Anglo-Rouyn copper-gold mine property in Saskatchewan. During fiscal 2010, the Company returned the property and wrote off \$250,734 in mineral property expenditures in 2009 and \$3,445 in fiscal 2010.

**METS and Belle Properties, British Columbia**

The Company entered into an option agreement with two non-arm's length directors of the Company to acquire a 100% interest in the Mets mining lease and Belle Claims in the Toodoggone precious metals gold and silver district in north-central BC.

The Belle claims lapsed during fiscal 2010 and the Company agreed to cancel the option agreement. The Company returned the Mets mining lease to the vendors and wrote off costs of \$7,182.

**SKEENA RESOURCES LIMITED**  
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**5. EQUIPMENT**

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 12,229	\$ 7,891	\$ 4,338	\$ 7,697	\$ 7,002	\$ 695
Field equipment	20,940	13,037	7,903	20,940	11,062	9,878
Vehicle	21,381	11,529	9,852	21,381	9,065	12,316
Office equipment	<u>5,945</u>	<u>4,030</u>	<u>1,915</u>	<u>5,945</u>	<u>3,552</u>	<u>2,393</u>
	<b>\$ 60,495</b>	<b>\$ 36,487</b>	<b>\$ 24,008</b>	<b>\$ 55,963</b>	<b>\$ 30,681</b>	<b>\$ 25,282</b>

**6. RELATED PARTY TRANSACTIONS**

These related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (a) The Company paid or accrued consulting fees of \$77,800 (2009 - \$49,500) to companies controlled by directors or officers.
- (b) The Company paid or accrued office and administrative fees to \$19,000 (2009 - \$14,500) to a Company with a common director.
- (c) Included in accounts payable at December 31, 2010 is \$8,129 (2009 - \$119,807), which is due to directors or officers or companies with common directors or officers.
- (d) The Company arranged a loan from a director for \$50,000 (from directors in 2009 - \$120,000) secured by a non-interest-bearing promissory note. The Company issued 200,000 bonus shares to a director (2009 - 480,000 to directors) as loan fees valued at \$10,000 (2009 - \$24,000).
- (e) Loans for \$170,000 from two directors matured in January 2010 and repayment terms were extended to June 30, 2011 (subsequently paid – see Note 14).

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**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

Authorized:

Unlimited number of voting common shares without par value

**Private placements**

During fiscal 2010:

In June of 2010, the Company issued 21,350,000 units in two tranches at \$0.05 per unit for gross proceeds of \$1,067,500. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at \$0.10 for a period of 24 months. The Company paid finders' fees and other issuance costs of \$35,325 and issued 567,000 agents' warrants valued at \$5,231 (included in share issue costs) exercisable at \$0.20 for a period of one year. The agents' warrants were valued using the Black-Scholes option pricing model with a volatility of 143%, a risk free rate of 1.72%, an expected term of 1 year and a dividend rate of 0%. Total share issue costs were \$40,556.

During fiscal 2009:

In February and May of 2009, the Company issued 10,790,000 units in two tranches at \$0.05 per unit for gross proceeds of \$539,500. Each unit consisted of one common share and one half of one share purchase warrant. Each full warrant entitles the holder to acquire one additional common share at \$0.10 for a period of 24 months. An estimated value of \$200,692 was allocated to the warrants. The Company paid finders' fees and other issuance costs of \$17,400 and issued 93,800 agents' warrants valued at \$2,678 (included in share issue costs) exercisable at \$0.10 for a period of one year. The agents' warrants were valued using the Black-Scholes option pricing model with a volatility of 176% and 190% respectively, a risk free rate of 1.15% and 1.03% respectively, an expected term of 1 year and a dividend rate of 0%. Total share issue costs were \$20,078.

**Stock options and warrants**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the Board of Directors.

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**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options and warrants (cont'd...)**

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2008	9,239,500	\$ 0.61	4,975,000	\$ 0.38
Granted	5,488,800	0.10	2,125,000	0.10
Expired/cancelled	(1,322,500)	0.71	-	-
Outstanding, December 31, 2009	13,405,800	0.19	7,100,000	0.29
Granted	28,582,722	0.12	4,775,000	0.10
Expired/cancelled	(3,884,800)	0.25	(1,450,000)	0.39
Outstanding, December 31, 2010	38,103,722	0.13	10,425,000	0.19
Number currently exercisable	38,103,722	\$ 0.13	9,856,250	\$ 0.20

As at December 31, 2010, incentive stock options and share purchase warrants were outstanding as follows:

	Number	Exercise Price	Expiry Date
<b>Options</b>	200,000	0.25	June 28, 2011
	600,000	0.37	September 2, 2011
	280,000	0.33	March 19, 2012
	1,420,000	0.40	September 26, 2012
	1,200,000	0.30	June 26, 2013
	1,950,000	0.10	May 14, 2014
	250,000	0.15	January 11, 2015
	4,525,000	0.10	September 22, 2015
	<u>10,425,000</u>		
<b>Warrants</b>	3,925,000	0.10	February 27, 2011 <sup>(2)</sup>
	4,126,000	0.25	June 26, 2011 <sup>(1)</sup>
	1,470,000	0.10	May 06, 2011 <sup>(2)</sup>
	567,000	0.10	June 17, 2011
	21,350,000	0.10	until June 17, 2011 and \$0.20 until June 17, 2012 <sup>(2)</sup>
	2,665,722	0.10	until July 5, 2011 and \$0.20 until July 5, 2012 <sup>(2)</sup>
	4,000,000	0.20	until September 1, 2012 and \$0.50 until September 1, 2015
	<u>38,103,722</u>		

**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options and warrants (cont'd...)**

<sup>(1)</sup> The TSX-V consented to the extension of the warrant term for an additional year to June 26, 2011 and an amendment of the exercise price from \$0.45 to \$0.25 with a forced exercise provision. In the event the closing price of the Company's common shares is at or above \$1.00 per share for a period of ten (10) consecutive trading days, the Company may elect to reduce the remaining exercise period, upon notice to the holders, to twenty-five (25) days.

<sup>(2)</sup> In the event the closing price of the Company's common shares is at or above \$0.40 per share for a period of ten (10) consecutive trading days, the Company may elect to reduce the remaining exercise period, upon notice to the holders, to twenty-five (25) days.

**Stock-based compensation**

In January 2010, the Company granted 250,000 options with a weighted average fair value of \$0.11 per option. Total stock-based compensation recognized in the statement of operations is \$23,377. This amount was also recorded as contributed surplus on the balance sheet.

In September 2010, the Company granted 4,525,000 options with a weighted average fair value of \$0.08 per option. Total stock-based compensation recognized in the statement of operations is \$314,934. This amount was also recorded as contributed surplus on the balance sheet.

During fiscal 2009, the Company granted 2,125,000 options to consultants, officers and directors with a weighted average fair value of \$0.04 per option. Total stock-based compensation recognized in the statement of operations during fiscal 2009 was \$95,285. This amount was also recorded as contributed surplus on the balance sheet.

The following weighted average assumptions were used for the valuation of stock options and compensatory share purchase warrants:

	<b>2010</b>	2009
Risk-free interest rate	<b>2.17%</b>	1.49%
Expected life	<b>5 years</b>	3 years
Annualized volatility	<b>125%</b>	170%
Dividend rate	<b>0.00%</b>	0.00%

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**8. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes (recovery) is as follows:

	2010	2009
Loss before income taxes	\$ (756,918)	\$ (6,464,530)
Expected income tax (recovery)	\$ (215,725)	\$ (1,890,261)
Non-deductible items	1,549	1,750,531
Stock-based compensation not deductible for income tax purposes	96,419	28,586
Unrecognized benefit of non-capital losses	<u>117,757</u>	<u>(336,856)</u>
Income tax recovery	\$ -	\$ (448,000)

Amounts of future tax assets and liabilities are as follows:

	2010	2009
Future income tax assets:		
Non-capital losses carry forwards	\$ 485,971	\$ 411,549
Equipment	10,299	8,704
Share issuance costs	16,569	36,261
Exploration and development expenditures	<u>1,755,569</u>	<u>1,802,705</u>
	2,268,408	2,259,219
Valuation allowance	<u>(2,268,408)</u>	<u>(2,259,219)</u>
Net future income tax asset (liability)	\$ -	\$ -

The Company has approximately \$1,944,000 in non-capital losses, which may be carried forward and applied against taxable income in future years. These losses, if not utilized, expire through 2030. Subject to certain restrictions, the Company also has resource expenditures available of approximately \$2,623,000 to reduce taxable income in Canada in future years. The benefits of these losses and resource deductions have not been recorded in these financial statements and have been offset by a valuation allowance.

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the year ending December 31, 2010 include the Company:

- a) issuing 200,000 shares to a director as loan fees valued at \$10,000;
- b) incurring mineral property expenditures in accounts payable of \$55,059;
- c) issuing 2,665,722 common shares pursuant to a shares for debt settlement to extinguish \$133,286 of payables;
- d) issuing 9,500,000 common shares valued at \$475,000 and 4,000,000 warrants valued at \$70,781 pursuant to the acquisition of mineral properties;
- e) granting agents' warrants valued at \$5,231 as finders' fees on a private placement;
- f) cancelling 1,000,000 common shares valued at \$180,707 offset to contributed surplus, pursuant to a Quit Claim on a mineral property; and
- g) accruing mineral property receivables of \$26,700 through receivables.

Significant non-cash transactions for the year ending December 31, 2009 include the Company:

- a) issuing 2,876,889 common shares valued at \$215,767 pursuant to shares for debt settlement to extinguish payables;
- b) issuing 3,350,000 common shares valued at \$167,500 pursuant to mineral property anniversary commitments;
- c) granting agents' warrants valued at \$2,678 as finders' fees on a private placement;
- d) incurring mineral property expenditures in accounts payable of \$154,172; and
- e) issuing 480,000 shares to two directors as loan fees valued at \$24,000.

**10. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the acquisition and exploration of mineral properties. Geographic information is as follows

	2010	2009
Mineral property interests and equipment:		
Canada	\$ 13,740	\$ 17,630
Mexico	<u>1,277,613</u>	<u>389,363</u>
	<u>\$ 1,291,353</u>	<u>\$ 406,993</u>

**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Fair Values

Cash and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments.

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**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

Fair Values (cont'd...)

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and receivables. The Company deposits cash with high quality financial institutions. The Company holds minimal balances in banks in Mexico. Receivables mainly consist of costs to be received pursuant to a Quit Claim Agreement and sales tax refunds from the Federal Governments of Canada and Mexico. Management believes that the credit risk concentration with respect to receivables is minimal.

Currency Risk

The Company's functional currency is the Canadian dollar. The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in foreign currencies. A portion of the Company's cash, receivables and accounts payable and accruals are denominated in U.S. dollars and Mexican pesos and are therefore subject to fluctuation in exchange rates. Management believes the foreign exchange risk derived from currency conversions and relative exchange rate between Canadian dollars and the foreign currencies is negligible and therefore does not hedge its foreign exchange risk.

Interest Rate Risk

The Company maintains cash balances with financial institutions. The interest rate risk on these balances is not considered material.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

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**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors gold and other commodity prices to determine the appropriate course of action to be taken by the Company.

**12. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and marketable securities.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**13. COMMITMENTS**

- a) The Company entered into a consulting agreement with a director of the Company. The Company agreed to pay the director \$9,000 per month. Actual payments to the director have been \$2,500 to \$5,000 per month. The agreement can be terminated at any time by the Company by paying one year's compensation.
- b) The Company has also entered into an operating lease agreement for office premises in conjunction with another company. The Company and the co-lessee are jointly responsible for 100% of the obligations under the lease and share the obligations equally. The Company's remaining 50% portion of the annual lease commitment under this lease is \$60,214 for payment in fiscal 2011.

**14. SUBSEQUENT EVENTS**

Subsequent to December 31, 2010, the Company:

- a) paid two directors a total of \$170,000 to repay loans made to the Company;
- b) issued 7,550,000 common shares for exercised warrants for proceeds of \$755,000;
- c) cancelled 25,000 warrants on February 27, 2011.