

SKEENA RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

Management report

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. Management in accordance with generally accepted accounting principles in Canada has prepared these consolidated financial statements. Management is responsible for the information and representations in the financial statements, including the estimates and judgements required for their preparation.

Management is also responsible for establishing and maintaining internal controls and procedures over the financial reporting process designed to provide reasonable assurance that assets are safeguarded and reliable financial records are maintained.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and consists of non-management directors. The Audit Committee meets with management and the independent auditors to review any significant accounting, internal control and auditing matters, and to review and finalize the annual financial statements of the Company along with the independent auditors' report prior to the submission of the financial statements to the Board of Directors for final approval.

Davidson & Company, Chartered Accountants, having been appointed by the shareholders to serve as the Company's external auditors, have examined the consolidated financial statements of the Company and their report follows.

"J. Rupert Allan"

Rupert Allan
President and CEO

Vancouver, British Columbia
April 21, 2006

"Robert V. Matthews"

Robert V. Matthews
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
Skeena Resources Limited

We have audited the consolidated balance sheets of Skeena Resources Limited as at December 31, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 21, 2006

A Member of SC INTERNATIONAL

SKEENA RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2005	2004
ASSETS		
Current		
Cash	\$ 272,002	\$ 504,360
Marketable securities (Note 3)	23,387	-
Receivables	15,700	8,980
Prepaid expenses	<u>3,872</u>	<u>1,536</u>
	314,961	514,876
Long-term investments (Note 4)	-	61,325
Mineral property interests (Note 5)	4,396,105	2,277,728
Equipment (Note 6)	<u>17,477</u>	<u>1,207</u>
	<u>\$ 4,728,543</u>	<u>\$ 2,855,136</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 104,182</u>	<u>\$ 265,797</u>
Shareholders' equity		
Capital stock (Note 8)	11,164,873	7,743,083
Commitment to issue shares (Note 8)	600,000	1,150,000
Contributed surplus (Note 8)	876,206	623,210
Deficit	<u>(8,016,718)</u>	<u>(6,926,954)</u>
	<u>4,624,361</u>	<u>2,589,339</u>
	<u>\$ 4,728,543</u>	<u>\$ 2,855,136</u>

Nature and continuance of operations (Note 1)

Commitments (Note 13)

On behalf of the Board:

"J. Rupert Allan"

Director

J. Rupert Allan

"Ronald K. Netolitzky"

Director

Ronald K. Netolitzky

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

SKEENA RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2005	2004
ADMINISTRATION EXPENSES		
Amortization	\$ 3,612	\$ 239
Consulting	113,205	76,988
Financing costs	20,000	30,000
Foreign exchange	12,062	-
Investor relations	21,250	-
Office and miscellaneous	12,003	3,763
Professional fees	74,426	49,579
Property research	10,200	-
Rent and administration	16,962	10,421
Shareholder communications	7,415	4,299
Stock-based compensation (Note 8)	336,864	-
Telecommunications	1,897	1,650
Transfer agent and listing fees	18,320	18,448
Travel	<u>3,616</u>	<u>2,784</u>
Loss before other items	<u>(651,832)</u>	<u>(198,171)</u>
OTHER ITEMS		
Interest income	11,982	2,203
Write-off of mineral property interests (Note 5)	(411,976)	(26,282)
Write-down of marketable securities (Note 3)	<u>(37,938)</u>	<u>(401)</u>
	<u>(437,932)</u>	<u>(24,480)</u>
Loss for the year	(1,089,764)	(222,651)
Deficit, beginning of year	<u>(6,926,954)</u>	<u>(6,704,303)</u>
Deficit, end of year	<u>\$ (8,016,718)</u>	<u>\$ (6,926,954)</u>
Basic and diluted loss per share	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding	<u>34,209,883</u>	<u>25,152,699</u>

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

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

	2005	2004
CASH FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,089,764)	\$ (222,651)
Items not affecting cash:		
Amortization	3,612	239
Write-off of mineral property interests	411,976	26,282
Write-down of marketable securities	37,938	401
Interest accrued on convertible debenture	-	20,000
Stock-based compensation	336,864	-
Changes in non-cash working capital items:		
Increase in receivables	(6,720)	(2,620)
Increase in prepaid expenses	(2,336)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>(204,740)</u>	<u>9,487</u>
Net cash used in operating activities	<u>(513,170)</u>	<u>(168,862)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of capital stock	2,152,000	345,000
Proceeds on convertible debentures	-	400,000
Share issuance costs	<u>(85,004)</u>	<u>-</u>
Net cash provided by financing activities	<u>2,066,996</u>	<u>745,000</u>
CASH FROM INVESTING ACTIVITIES		
Expenditures on mineral property interests	(1,771,802)	(427,363)
Mineral property option payments	5,500	-
Purchase of equipment	<u>(19,882)</u>	<u>(975)</u>
Net cash used in investing activities	<u>(1,786,184)</u>	<u>(428,338)</u>
Change in cash during the year	(232,358)	147,800
Cash, beginning of year	<u>504,360</u>	<u>356,560</u>
Cash, end of year	<u>\$ 272,002</u>	<u>\$ 504,360</u>
Cash paid for interest during the year	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes during the year	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 10)

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

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

1. NATURE AND CONTINUANCE OF OPERATIONS

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.

These financial statements are 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 business rather than through a process of forced liquidation. The 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. The recoverability of the amounts shown for mineral property interests is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development of the properties, the timing of legislative or regulatory developments relating to environmental protection, and upon future profitable operations or proceeds from the disposition thereof.

	2005	2004
Working capital	\$ 210,779	\$ 249,079
Deficit	(8,016,718)	(6,926,954)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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 period. Actual results could differ from these estimates.

Marketable securities

Marketable securities are recorded at the lower of cost or market value.

Realized gains or losses on sale of marketable securities are determined based on the specific cost basis.

Long-term investments

Long-term investments are carried at cost. If it is determined that the value of the investment is permanently impaired, it is written down to estimated net realizable value.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'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.

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.

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%
Telephone equipment	20%
Field equipment	20%
Furniture	20%
Computer software	100%

Foreign currency translation

The Company's subsidiary is an integrated foreign operation and is 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.

Stock-based compensation

The Company uses the fair value method whereby the Company recognizes compensation costs 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.

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

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

Income taxes

Future 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.

Flow-through common 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.

Effective March 19, 2004, the Company adopted EIC 146 "Flow-Through Shares" that dictates the accounting treatment on renunciation of the tax deductibility of the qualifying expenditures that give rise to taxable temporary differences. The change in accounting policy was applied prospectively. 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 income taxes in the statement of operations.

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.

3. MARKETABLE SECURITIES

	2005	2004
Diadem Resources Ltd.	\$ 23,387	\$ -

During fiscal 2005, the Company received 32,481 common shares of Diadem Resources Ltd. in exchange for 61,325 Series B First Preferred Shares (Note 4) of Diadem Explorations Inc.

At December 31, 2005, marketable securities have an aggregate market value of \$23,387 (2004 - \$NIL). During fiscal 2005, the Company recorded an allowance for the decline in value of the securities of \$37,938.

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

4. LONG-TERM INVESTMENTS

	2005	2004
Diadem Explorations Inc. – 61,325 Series B First Preferred Shares	\$ -	\$ 61,325

The Series B First Preferred Shares were exchanged for 32,481 common shares of Diadem Resources Ltd. (Note 3). The initial shares were provided as consideration on the sale of the Company's interest in the Otish Mountain Claims, Quebec during fiscal 2004 (Note 5).

5. MINERAL PROPERTY INTERESTS

	British Columbia Claims	Quebec Claims	Ecuador Claims	Total
Balance, December 31, 2003	<u>\$ 367,253</u>	<u>\$ 87,607</u>	<u>\$ 89,906</u>	<u>\$ 544,766</u>
Additions:				
Local office costs	-	-	18,849	18,849
Land acquisition and assessment costs	66,060	-	1,717,768	1,783,828
Legal	-	-	310	310
Travel and accommodation	-	-	17,582	17,582
	<u>66,060</u>	<u>-</u>	<u>1,754,509</u>	<u>1,820,569</u>
	433,313	87,607	1,844,415	2,365,335
Recovery during the year	-	(61,325)	-	(61,325)
Written-off during the year	-	(26,282)	-	(26,282)
Balance, December 31, 2004	<u>433,313</u>	<u>-</u>	<u>1,844,415</u>	<u>2,277,728</u>
Analyses	-	-	57,576	57,576
Drilling/trenching	-	-	716,452	716,452
Field and camp support	-	-	468,560	468,560
Geology/geophysics/geochemical	-	-	261,480	261,480
Local office costs	-	-	61,150	61,150
Land acquisition, assessment costs and option payments	116,541	-	593,457	709,998
Legal	-	-	143,646	143,646
Stock-based compensation	-	-	38,926	38,926
Travel and accommodation	-	-	78,065	78,065
	<u>116,541</u>	<u>-</u>	<u>2,419,312</u>	<u>2,535,853</u>
	549,854	-	4,263,727	4,813,581
Recovery during the year	(5,500)	-	-	(5,500)
Written-off during the year	(411,976)	-	-	(411,976)
Balance, December 31, 2005	<u>\$ 132,378</u>	<u>\$ -</u>	<u>\$ 4,263,727</u>	<u>\$ 4,396,105</u>

5. 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. 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.

British Columbia Claims

Ice Claims Project, Elk Valley, British Columbia

The Company entered into an option agreement to earn a 75% interest in the Ice Claims Project located in Elk Valley, British Columbia pursuant to which the Company paid \$50,000 and issued 100,000 common shares at a value of \$8,000. The Company also issued 25,000 common shares at a value of \$2,000 for finder's fees and paid \$30,000 and issued 200,000 common shares at a value of \$40,000 pursuant to extension and amending agreements.

During fiscal 2005, the Company returned the claims to the vendor and wrote off \$411,976 of capitalized costs attributed to this project.

Ronoke and Blackhorn Claims, British Columbia

The Company entered into an option agreement to earn a 100% interest in certain claims in the Clinton and Nelson mining districts of British Columbia pursuant to which the Company paid \$5,000 and issued 150,000 common shares at a value of \$27,000. To earn its interest, the Company must make additional staged payments of \$25,000 and 400,000 common shares.

The claims are subject to a 2% net smelter returns ("NSR") royalty which the Company may purchase for a payment of \$500,000.

Early in fiscal 2005, a title dispute arose on certain of the Blackhorn claims between the underlying owner and a third party. The title dispute was resolved in favour of the Company's vendor. Pursuant to an agreement to remove the NSR and acquire 100% of the interest in both the Blackhorn and Ronoke claims, the Company paid \$10,000 and issued 200,000 common shares at a value of \$82,000 in lieu of the staged payments of \$25,000 and 400,000 common shares and the work commitments.

The Ronoke property is under option to a private corporation attempting to obtain a public stock exchange listing. Option payments of \$5,500 were received with a further commitment to receive common shares from the private company valued at \$20,000 once it is publicly traded. The July 1, 2005 issue date was missed and has been extended to July 1, 2006 with a penalty payment due of \$5,000.

SKEENA RESOURCES LIMITED
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5. MINERAL PROPERTY INTERESTS (cont'd...)

Quebec Claims

Otish Mountain Claims, Quebec

The Company entered into an option agreement to acquire a 70% interest in certain mineral claims located in the Otish Mountain region of Quebec pursuant to which the Company paid \$37,607 and issued 500,000 common shares at a value of \$50,000.

The Company subsequently disposed of the claims in exchange for 61,325 Series B First Preferred Shares of Diadem Explorations Inc. at a value of \$61,325. The remaining costs of \$26,282 were written off to operations in fiscal 2004.

Ecuador Claims

El Corazon Property, Ecuador

The Company entered into an agreement with Alpha Oil Inc. ("Alpha") to acquire Alpha's option with Compania Agroindustrial El Corazon S.A. ("Agroindustrial") to earn a 50% interest in the El Corazon property located in the Province of Imbabura, Ecuador. A private Ecuador company (ALPHEC Alpha Ecuador S.A.), holding the option as its sole asset, was acquired from Alpha in consideration for the reimbursement of certain expenses and the commitment to issue 2,500,000 common shares valued at \$1,150,000. To earn its interest, the Company is required to issue Alpha an additional 2,500,000 common shares of the Company on or before December 11, 2005 (upon acceptance of the TSX-Venture Exchange of a National Instrument 43-101 technical report, subsequently written and submitted (Note 8)) and a payment of \$1,500,000 in cash or common shares, at the election of the Company, on or before December 11, 2008. The Company also paid Agroindustrial US\$315,000 and is required to make additional staged cash payments before December 11, 2008, of US\$4,150,000 and incur a minimum of US\$5,000,000 in exploration expenditures.

6. EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$7,697	\$4,931	\$2,766	\$4,715	\$4,385	\$330
Computer software	3,000	1,500	1,500	-	-	-
Field equipment	9,611	961	8,650	-	-	-
Furniture	3,374	338	3,036	-	-	-
Telephone equipment	<u>1,890</u>	<u>365</u>	<u>1,525</u>	<u>975</u>	<u>98</u>	<u>877</u>
	<u>\$25,572</u>	<u>\$8,095</u>	<u>\$17,477</u>	<u>\$5,690</u>	<u>\$4,483</u>	<u>\$1,207</u>

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) paid or accrued consulting fees of \$113,205 (2004 - \$76,988) to companies controlled by directors or officers.
- b) paid \$14,280 (2004 – \$Nil) in fiscal 2005 for office and related costs to a company with a common officer.

These 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.

Included in accounts payable at December 31, 2005 is \$19,724 (2004 - \$8,297), which is due to directors or officers or companies with common directors or officers.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
Issued			
As at December 31, 2003	24,856,116	\$ 7,020,189	\$ 559,104
For cash:			
Exercise of warrants	1,500,000	300,000	-
Exercise of options	200,000	45,000	-
For mineral property interests	100,000	22,000	-
Warrant and option conversion	-	72,320	(72,320)
Conversion of debentures	<u>875,000</u>	<u>283,574</u>	<u>136,426</u>
As at December 31, 2004	27,531,116	7,743,083	623,210
For cash:			
Exercise of warrants	2,640,000	621,884	(93,884)
Exercise of options	415,000	145,501	(46,501)
Private placements	3,812,500	1,525,000	-
For mineral property interests	2,700,000	1,232,000	-
For stock-based compensation	-	-	375,790
Share issuance costs	-	(102,595)	-
Agents' warrants	<u>-</u>	<u>-</u>	<u>17,591</u>
As at December 31, 2005	<u>37,098,616</u>	<u>\$ 11,164,873</u>	<u>\$ 876,206</u>

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Private placements

During fiscal 2005, the Company issued 3,812,500 units at \$0.40 per unit for proceeds of \$1,525,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.75 for a period of two years. In the event the closing price of the Company's common shares is at least \$1.00 per share for a period of ten consecutive trading days, the Company may terminate any unexercised warrants on thirty days notice. The Company paid finders' fees and other issuance costs of \$85,004 and 288,300 agent's warrants valued at \$17,591 exercisable at \$0.55 for a period of one year.

During fiscal 2004, the Company issued convertible debentures with a face value of \$400,000 bearing interest at 10% per annum, maturing in December, 2004. The debentures were convertible at the option of the holder into units at a price determined by a three day market interval once a press release announcing the underground sampling results on the El Corazon gold project in Ecuador was announced. Each unit consists of one common share and one warrant allowing the holder to acquire one additional common share. The Company paid a finders fee of \$10,000 on the issuance of the convertible debentures. At maturity in December, 2004, the debenture holders elected to convert principal and accrued interest totalling \$420,000 at a price of \$0.48 per unit and consequently, the Company issued 875,000 units. Each unit consisted of one common share and one share purchase warrant to acquire one additional common share at \$0.53 to December 13, 2005 and then at \$0.58 to December 13, 2006. The relative fair value of the warrants of \$136,426 was allocated to contributed surplus.

Commitment to issue shares

During fiscal 2004, the Company entered into an agreement with Alpha related to the El Corazon Property (Note 5). At the closing of the option agreement with AgroIndustrial, the Company was committed to issue Alpha 2,500,000 shares at a value of \$0.46 per share for a total of \$1,150,000. The shares were issued March 31, 2005.

During fiscal 2005, in accordance with the agreement with Alpha, the Company is committed to a further issuance of 2,500,000 common shares on the anniversary date of December 11, 2005, subject to regulatory approval. The request for approval from the TSX-Venture Exchange is conditional upon the receipt of a 43-101 technical report on the El Corazon Property which was submitted early April 2006. The commitment to issue the 2,500,000 common shares has been provided for at a value of \$0.24 per share for a total of \$600,000.

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, less applicable discount, as calculated 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.

SKEENA RESOURCES LIMITED
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8. 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, 2003	4,140,000	\$ 0.20	2,220,000	\$ 0.28
Granted	875,000	0.53	-	-
Exercised	(1,500,000)	0.20	(200,000)	0.23
Expired/cancelled	-	-	-	-
Outstanding, December 31, 2004	3,515,000	0.28	2,020,000	0.29
Granted	4,100,800	0.74	1,350,000	0.46
Exercised	(2,640,000)	0.20	(415,000)	0.24
Expired/cancelled	-	-	-	-
Outstanding, December 31, 2005	4,975,800	\$ 0.71	2,955,000	\$ 0.37
Number currently exercisable	4,975,800	\$ 0.71	2,905,000	\$ 0.37

As at December 31, 2005, incentive stock options and share purchase warrants were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	1,605,000	\$ 0.30	November 21, 2008
	950,000	0.52	February 18, 2010
	100,000	0.54	April 15, 2010
	300,000	0.25	December 21, 2010
Warrants	875,000	0.58	December 13, 2006
	1,592,500	0.75	June 25, 2007 ⁽¹⁾
	157,800	0.55	June 25, 2006 ⁽¹⁾
	2,220,000	0.75	July 16, 2007 ⁽¹⁾
	130,500	0.55	July 16, 2006 ⁽¹⁾

⁽¹⁾ In the event the closing price of the Company's common shares is at least \$1.00 per share for a period of ten consecutive trading days, the Company may terminate any unexercised warrants on thirty days notice.

SKEENA RESOURCES LIMITED
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8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock-based compensation

During fiscal 2005, the Company granted 1,350,000 options to consultants, officers and directors. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value in the statement of operations and in the capitalized mineral properties as follows:

	2005	2004
Stock-based compensation cost:		
Capitalized – exploration (Note 5)	\$ 38,926	\$ -
Expensed – administration	<u>336,864</u>	<u>-</u>
	<u>\$ 375,790</u>	<u>\$ -</u>

There were no options granted in fiscal 2004.

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

	2005	2004
Risk-free interest rate	3.83%	3.06%
Expected life	5 years	2 years
Annualized volatility	70%	81%
Dividend rate	0.00%	0.00%

9. INCOME TAXES

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

	2005	2004
Loss before income taxes	\$ (1,089,764)	\$ (222,651)
Expected income tax (recovery)	\$ (380,001)	\$ (79,263)
Non-deductible items	7,515	1,333
Stock-based compensation not deductible for income tax purposes	117,464	-
Write off of mineral property interests	143,656	9,499
Unrecognized benefit of non-capital losses	<u>111,366</u>	<u>68,431</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

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9. INCOME TAXES (cont'd...)

Amounts of future tax assets and liabilities are as follows:

	2005	2004
Future income tax assets:		
Non-capital loss carryforwards	\$ 372,720	\$ 287,796
Capital loss carryforwards	82,121	42,842
Equipment	2,429	1,596
Exploration and development expenditures	<u>64,669</u>	<u>(12,255)</u>
	521,939	319,979
Valuation allowance	<u>(521,939)</u>	<u>(319,979)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$1,092,000 in non-capital losses, which may be carried forward and applied against taxable income in future years. These losses, if not utilized, expire through 2015. Subject to certain restrictions, the Company also has resource expenditures available of approximately \$2,792,000 to reduce taxable income in future years.

In addition, the Company has capital losses of approximately \$240,000, which may be applied against taxable capital gains in the future. These capital losses may be carried forward indefinitely.

The benefits of these losses and resource deductions have not been recorded in these financial statements and have been offset by a valuation allowance.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for fiscal 2005 include the Company:

- a) issuing 2,500,000 shares at a value of \$1,150,000 pursuant to the acquisition of a mineral property interest as per commitment made in fiscal 2004.
- b) issuing 200,000 shares at a value of \$82,000 pursuant to the acquisition of mineral property interests.
- c) exchanging a long term investment valued at \$61,325 for marketable securities.
- d) committing to issue 2,500,000 common shares at a value of \$600,000 pursuant to the acquisition of mineral property interests.
- e) granting options valued at \$38,926 in payment of mineral property exploration costs.
- f) incurring mineral property expenditures in accounts payable of \$43,125.
- g) granting agents' warrants valued at \$17,591 as finders' fees on private placements

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10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)

Significant non-cash transactions for fiscal 2004 include the Company:

- a) issuing 100,000 common shares at a value of \$22,000 pursuant to payments on mineral property interests.
- b) issuing 875,000 units valued at \$283,574 to capital stock and \$136,426 to contributed surplus on conversion of debentures with a principal and accrued interest balance totalling \$420,000.
- c) committing to issue 2,500,000 shares at a value of \$1,150,000 pursuant to the acquisition of a mineral property interest.
- d) disposing of an interest in a mineral property in exchange for a long-term investment valued at \$61,325.

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, marketable securities, long-term investments, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

12. SEGMENTED INFORMATION

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

	2005	2004
Mineral property interests and equipment:		
Canada	\$ 141,205	\$ 434,520
Ecuador	<u>4,272,377</u>	<u>1,844,415</u>
	<u>\$ 4,413,582</u>	<u>\$ 2,278,935</u>

13. COMMITMENTS

The Company entered into a management agreement with a director of the Company. The Company agreed to pay the director \$7,000 per month. The agreement can be terminated at any time by the Company by paying one years compensation currently being paid and the amount of any performance bonus as would reasonably be expected to be paid.

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13.COMMITMENTS (cont'd...)

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 50% portion of the annual lease commitment under this lease is as follows:

2006	\$	10,386
2007		10,386
2008		10,705
2009		10,933
2010		<u>7,288</u>
	\$	<u>49,698</u>