

SKEENA RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

AUDITORS' REPORT

To the Shareholders of
Skeena Resources Limited

We have audited the consolidated balance sheets of Skeena Resources Limited as at December 31, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

March 26, 2007

A Member of SC INTERNATIONAL

SKEENA RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2006	2005
ASSETS		
Current		
Cash	\$ 396,593	\$ 272,002
Marketable securities (Note 3)	8,607	23,387
Receivables	64,035	15,700
Prepaid expenses	<u>11,403</u>	<u>3,872</u>
	480,638	314,961
Mineral property interests (Note 4)	5,577,277	4,396,105
Equipment (Note 5)	<u>20,415</u>	<u>17,477</u>
	<u>\$ 6,078,330</u>	<u>\$ 4,728,543</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 35,487</u>	<u>\$ 104,182</u>
Shareholders' equity		
Capital stock (Note 7)	13,431,726	11,164,873
Commitment to issue shares (Note 7)	-	600,000
Contributed surplus (Note 7)	1,265,221	876,206
Deficit	<u>(8,654,104)</u>	<u>(8,016,718)</u>
	<u>6,042,843</u>	<u>4,624,361</u>
	<u>\$ 6,078,330</u>	<u>\$ 4,728,543</u>

Nature and continuance of operations (Note 1)

Commitments (Note 12)

Subsequent event (Note 13)

On behalf of the Board:

"J. Rupert Allan"

J. Rupert Allan

Director

"Ronald K. Netolitzky"

Ronald K. Netolitzky

Director

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

	2006	2005
ADMINISTRATION EXPENSES		
Amortization	\$ 4,589	\$ 3,612
Consulting	107,765	113,205
Financing costs	-	20,000
Foreign exchange	(14,622)	12,062
Investor relations	26,694	21,250
Office and miscellaneous	19,546	12,003
Professional fees	24,615	74,426
Property research	6,530	10,200
Rent and administration	25,825	16,962
Shareholder communications	3,705	7,415
Stock-based compensation (Note 7)	410,006	336,864
Telecommunications	2,027	1,897
Transfer agent and listing fees	16,052	18,320
Travel	<u>6,241</u>	<u>3,616</u>
Loss before other items	<u>(638,973)</u>	<u>(651,832)</u>
OTHER ITEMS		
Interest income	16,367	11,982
Write-off of mineral property interests (Note 4)	-	(411,976)
Write-down of marketable securities (Note 3)	<u>(14,780)</u>	<u>(37,938)</u>
	<u>1,587</u>	<u>(437,932)</u>
Loss for the year	(637,386)	(1,089,764)
Deficit, beginning of year	<u>(8,016,718)</u>	<u>(6,926,954)</u>
Deficit, end of year	<u>\$ (8,654,104)</u>	<u>\$ (8,016,718)</u>
Basic and diluted loss per share	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted average number of common shares outstanding	<u>41,817,024</u>	<u>34,209,883</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

	2006	2005
CASH FROM OPERATING ACTIVITIES		
Loss for the year	\$ (637,386)	\$ (1,089,764)
Items not affecting cash:		
Amortization	4,589	3,612
Write-off of mineral property interests	-	411,976
Write-down of marketable securities	14,780	37,938
Stock-based compensation	410,006	336,864
Changes in non-cash working capital items:		
Changes in receivables	(48,335)	(6,720)
Changes in prepaid expenses	(7,531)	(2,336)
Changes in accounts payable and accrued liabilities	<u>(39,612)</u>	<u>(204,740)</u>
Net cash used in operating activities	<u>(303,489)</u>	<u>(513,170)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of capital stock	1,669,600	2,152,000
Share issuance costs	<u>(65,513)</u>	<u>(85,004)</u>
Net cash provided by financing activities	<u>1,604,087</u>	<u>2,066,996</u>
CASH FROM INVESTING ACTIVITIES		
Expenditures on mineral property interests	(1,168,480)	(1,771,802)
Mineral property option payments	-	5,500
Purchase of equipment	<u>(7,527)</u>	<u>(19,882)</u>
Net cash used in investing activities	<u>(1,176,007)</u>	<u>(1,786,184)</u>
Change in cash during the year	124,591	(232,358)
Cash, beginning of year	<u>272,002</u>	<u>504,360</u>
Cash, end of year	<u>\$ 396,593</u>	<u>\$ 272,002</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 9)

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

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

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.

	2006	2005
Working capital	\$ 445,151	\$ 210,779
Deficit	(8,654,104)	(8,016,718)

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.

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%
Office equipment	20%
Field equipment	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.

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

Stock-based compensation

The Company uses the fair value method 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.

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.

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.

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.

3. MARKETABLE SECURITIES

	2006	2005
Diadem Resources Ltd.	\$ 8,607	\$ 23,387

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

During fiscal 2005, the Company received 32,481 common shares of Diadem Resources Ltd. in exchange for Series B First Preferred shares valued at \$61,325 received as consideration on the sale of a mineral property interest.

At December 31, 2006, marketable securities have an aggregate market value of \$11,368 (December 31, 2005 - \$23,387). During fiscal 2006, the Company recorded an allowance for the decline in value of the securities of \$14,780 (2005 - \$ 37,938).

4. MINERAL PROPERTY INTERESTS

	British Columbia Claims	Ecuador Claims	Total
Balance, December 31, 2004	\$ 433,313	\$ 1,844,415	\$ 2,277,728
Analysis	-	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>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	<u>(411,976)</u>	<u>-</u>	<u>(411,976)</u>
Balance, December 31, 2005	<u>132,378</u>	<u>4,263,727</u>	<u>4,396,105</u>
Analysis	-	52,217	52,217
Drilling/trenching	-	515,499	515,499
Field and camp support	-	145,255	145,255
Geology/geophysics/geochemical	-	146,398	146,398
Local office costs	-	108,526	108,526
Land acquisition, assessment costs and option payments	3,112	60,321	63,433
Legal	-	58,310	58,310
Stock-based compensation	-	41,775	41,775
Travel and accommodation	-	49,759	49,759
	<u>3,112</u>	<u>1,178,060</u>	<u>1,181,172</u>
Balance, December 31, 2006	\$ 135,490	\$ 5,441,787	\$ 5,577,277

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. 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 was required to make additional staged payments of \$25,000 and 400,000 common shares.

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

Pursuant to an agreement with the vendor 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 British Columbia corporation attempting to obtain a public stock exchange listing and has assigned its option rights and obligations to the new company. Option payments of \$5,500 have been received with a further commitment to receive common shares from the company valued at \$20,000 once it is publicly traded. In addition, a deficient option payment due June 30, 2006 will be satisfied by the new company upon its public listing by an undertaking to issue 82,500 shares.

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

El Corazon Property, Ecuador

The Company entered into an agreement with Alpha Oil Inc. (“Alpha”) to acquire Alpha’s option with Compañía 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 by the Company from Alpha in consideration for the reimbursement of certain expenses and the issuance of 5,000,000 common shares of the Company valued at \$1,750,000. To earn its 50% interest, the Company is required to pay \$1,500,000 in cash or common shares, at the election of the Company, on or before December 11, 2008. The Company paid Agroindustrial US\$365,000 in option payments and is required to make additional staged cash payments before December 11, 2008, of US\$4,100,000 and incur a minimum of US\$5,500,000 in exploration expenditures.

The Company’s Agreements with AgroIndustrial and Alpha Oil are as follows:

	CASH PAYMENTS TO AGROINDUSTRIAL US\$	CASH PAYMENTS TO ALPHA OIL INC. CAD\$	EXPENDITURES (EXPLORATION COMMITMENTS) US\$	SHARE ISSUANCES TO ALPHA OIL
December 11, 2004	\$ 315,000 paid	-	-	2,500,000 issued
December 11, 2005	-	-	\$ 500,000 spent	2,500,000 issued
June 11, 2006	\$ 50,000 paid	-	-	-
December 11, 2006	-	-	\$ 1,000,000 spent	-
December 11, 2007	\$ 100,000	-	\$ 1,500,000	-
December 11, 2008	\$ 4,000,000	\$ 1,500,000 *	\$ 2,500,000 **	-
	<u>\$ 4,465,000</u>	<u>\$ 1,500,000</u>	<u>\$ 5,500,000</u>	<u>5,000,000 issued</u>

* cash or shares, at Skeena’s election.

** includes pre-feasibility study

The Company is the operator of the exploration project.

5. EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 7,697	\$ 5,672	\$ 2,025	\$ 7,697	\$ 4,931	\$ 2,766
Computer software	3,000	2,525	475	3,000	1,500	1,500
Field equipment	17,138	2,938	14,200	9,611	961	8,650
Office equipment	<u>5,264</u>	<u>1,549</u>	<u>3,715</u>	<u>5,264</u>	<u>703</u>	<u>4,561</u>
	<u>\$ 33,099</u>	<u>\$ 12,684</u>	<u>\$ 20,415</u>	<u>\$ 25,572</u>	<u>\$ 8,095</u>	<u>\$ 17,477</u>

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) paid or accrued consulting fees of \$107,765 (2005 - \$113,205) to companies controlled by directors or officers.
- b) paid or accrued \$25,825 (2005 – \$16,962) 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, 2006 is \$nil (December 31, 2005 - \$19,724), which is due to directors or officers or companies with common directors or officers.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
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 and obligation	2,700,000	1,232,000	-
For stock-based compensation	-	-	375,790
Share issuance costs	-	(102,595)	-
Agents' warrants	-	-	17,591
As at December 31, 2005	37,098,616	11,164,873	876,206
For cash:			
Private placements	5,048,000	1,262,000	-
Exercise of options	355,000	173,874	(67,374)
Exercise of warrants	604,000	301,814	(714)
For mineral property interests and obligation	2,500,000	600,000	-
For stock-based compensation	-	-	451,781
Share issuance costs	-	(70,835)	5,322
As at December 31, 2006	45,605,616	\$ 13,431,726	\$ 1,265,221

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

Private placements

During fiscal 2006, the Company issued 5,048,000 units at \$0.25 per unit for proceeds of \$1,262,000. Each unit consisted of one common share and one half share of a share purchase warrant. Each full warrant entitles the holder to acquire one additional common share at \$0.40 for a period of 18 months. In the event the closing price of the Company's common shares is at least \$0.60 per share for a period of twenty consecutive trading days, the Company may terminate any unexercised warrants on twenty-five days notice. The Company paid finders' fees and other issuance costs of \$65,513 and issued 236,810 agents' warrants valued at \$5,322 exercisable at \$0.50 for a period of one year.

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 cost of \$85,004 and 288,300 agent's warrants valued at \$17,591 exercisable at \$0.55 for a period of one year.

Commitment to issue shares

During fiscal 2005, in accordance with the agreement with Alpha (Note 4), the Company committed to a final issuance of 2,500,000 common shares on the anniversary date of December 11, 2005, subject to regulatory approval. The commitment to issue the 2,500,000 common shares was provided for at a value of \$0.24 per share for a total of \$600,000. The shares were issued April 21, 2006.

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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (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, 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
Granted	2,760,810	0.41	1,325,000	0.35
Exercised	(604,000)	0.50	(355,000)	0.30
Expired/cancelled	(1,163,300)	0.57	-	-
Outstanding, December 31, 2006	5,969,310	0.62	3,925,000	0.37
Number currently exercisable	5,969,310	\$ 0.62	3,868,750	\$ 0.37

As at December 31, 2006, incentive stock options and share purchase warrants were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	1,250,000	\$ 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
	200,000	0.25	June 28, 2011
	1,125,000	0.37	September 02, 2011
Warrants	1,592,500	0.75	June 25, 2007 ⁽¹⁾
	2,060,000	0.75	July 16, 2007 ⁽¹⁾
	1,600,000	0.40	December 17, 2007 ⁽²⁾
	180,810	0.50	June 16, 2007 ⁽²⁾
	515,000	0.40	December 21, 2007 ⁽²⁾
	21,000	0.50	July 07, 2007 ⁽²⁾

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

- (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.
- (2) In the event the closing price of the Company's common shares is at least \$0.60 per share for a period of twenty consecutive trading days, the Company may terminate any unexercised warrants on twenty-five days notice.

Stock-based compensation

During fiscal 2006, the Company granted 1,325,000 (2005 - 1,350,000) options to consultants, officers and directors with a weighted average fair value of \$0.34 (2005 - \$0.28). The fair value of compensatory options granted is estimated on grant date using the Black-Scholes option pricing model and recorded over the vesting period. The stock options are recognized in the statement of operations and in the capitalized mineral properties as follows:

	2006	2005
Stock-based compensation cost recorded in the year:		
Capitalized – exploration (Note 4)	\$ 41,775	\$ 38,926
Expensed – administration	<u>410,006</u>	<u>336,864</u>
	<u>\$ 451,781</u>	<u>\$ 375,790</u>

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

	2006	2005
Risk-free interest rate	3.96%	3.83%
Expected life	4.3 years	5 years
Annualized volatility	88%	70%
Dividend rate	0.00%	0.00%

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. INCOME TAXES

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

	2006	2005
Loss before income taxes	\$ (637,386)	\$ (1,089,764)
Expected income tax (recovery)	\$ (230,224)	\$ (380,001)
Non-deductible items	8,034	7,515
Stock-based compensation not deductible for income tax purposes	148,094	117,464
Write off of mineral property interests	-	143,656
Unrecognized benefit of non-capital losses	<u>74,096</u>	<u>111,366</u>
Income tax recovery	\$ -	\$ -

Amounts of future tax assets and liabilities are as follows:

	2006	2005
Future income tax assets:		
Non-capital loss carryforwards	\$ 246,079	\$ 372,720
Equipment	3,932	2,429
Share issuance costs	34,167	27,723
Exploration and development expenditures	<u>749,127</u>	<u>64,669</u>
	1,033,305	467,541
Valuation allowance	<u>(1,033,305)</u>	<u>(467,541)</u>
Net future income tax assets	\$ -	\$ -

The Company has approximately \$794,000 in non-capital losses, which may be carried forward and applied against taxable income in future years. These losses, if not utilized, expire through 2026. Subject to certain restrictions, the Company also has resource expenditures available of approximately \$2,552,000 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 fiscal 2006 include the Company:

- a) issuing of 2,500,000 shares at a value of \$600,000 pursuant to the acquiring of a mineral property interest as per commitment made in fiscal 2004.
- b) incurring mineral property expenditures in accounts payable of \$14,042.
- c) granting options valued at \$41,775 in payment of mineral property exploration costs.
- d) granting agents' warrants valued at \$5,322 as finders' fees on the private placement.

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.

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, marketable securities, 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 Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

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11. SEGMENTED INFORMATION

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

	2006	2005
Mineral property interests and equipment:		
Canada	\$ 155,905	\$ 141,205
Ecuador	<u>5,441,787</u>	<u>4,272,377</u>
	<u>\$ 5,597,692</u>	<u>\$ 4,413,582</u>

12. COMMITMENTS

The Company entered into a consulting agreement with a director of the Company. The Company agreed to pay the director \$9,000 per month. The agreement can be terminated at any time by the Company by paying one years compensation currently being paid in the amount of any performance bonus as would reasonably be expected to be paid.

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:

2007	\$ 10,386
2008	10,708
2009	10,933
2010	<u>7,288</u>
	<u>\$ 39,315</u>

13. SUBSEQUENT EVENT

Subsequent to year end, the Company granted 380,000 stock options to employees and consultants of the Company at an exercise price of \$0.33 for a term of five years.