

SKEENA RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

SKEENA RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2006

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"Rupert Allan"

Rupert Allan
President and CEO

Vancouver, British Columbia
November 29, 2006

"Robert V. Matthews"

Robert V. Matthews
Chief Financial Officer

SKEENA RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30

| | September 30 2006 | December 31 2005 |
|--|----------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 789,973 | \$ 272,002 |
| Marketable securities (Note 3) | 8,607 | 23,387 |
| Receivables | 9,622 | 15,700 |
| Prepaid expenses | <u>15,114</u> | <u>3,872</u> |
| | 823,316 | 314,961 |
| Mineral property interests (Note 4) | 5,071,537 | 4,396,105 |
| Equipment (Note 5) | <u>21,487</u> | <u>17,477</u> |
| | <u>\$ 5,916,340</u> | <u>\$ 4,728,543</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| Current | | |
| Accounts payable and accrued liabilities | <u>\$ 136,066</u> | <u>\$ 104,182</u> |
| Shareholders' equity | | |
| Capital stock (Note 7) | 13,099,360 | 11,164,873 |
| Commitment to issue shares (Note 7) | - | 600,000 |
| Contributed surplus (Note 7) | 1,279,988 | 876,206 |
| Deficit | <u>(8,599,074)</u> | <u>(8,016,718)</u> |
| | <u>5,780,274</u> | <u>4,624,361</u> |
| | <u>\$ 5,916,340</u> | <u>\$ 4,728,543</u> |

Nature and continuance of operations (Note 1)

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
(Unaudited – Prepared by Management)

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|--|-----------------------|---|-----------------------|
| | 2006 | 2005 | 2006 | 2005 |
| ADMINISTRATION EXPENSES | | | | |
| Amortization | \$ 1,173 | \$ 2,412 | \$ 3,516 | \$ 2,791 |
| Consulting | 24,875 | 30,477 | 79,165 | 88,545 |
| Foreign exchange | 1,998 | - | (701) | - |
| Financing costs | - | - | - | 20,000 |
| Investor relations | 2,939 | 7,500 | 15,547 | 13,750 |
| Office and miscellaneous | 3,230 | 4,227 | 11,490 | 11,170 |
| Professional fees | 4,156 | - | 9,615 | 54,948 |
| Property assessment | 6,286 | - | 6,530 | - |
| Rent and administration | 6,525 | 5,700 | 19,300 | 10,746 |
| Shareholder communications | 2,031 | - | 3,705 | 5,784 |
| Stock-based compensation (Note 7) | 410,006 | - | 410,006 | 394,429 |
| Transfer agent and listing fees | 6,642 | 8,423 | 13,542 | 32,293 |
| Travel | 1,140 | - | 4,061 | 2,876 |
| Loss before other items | (471,001) | (58,739) | (575,776) | (637,332) |
| OTHER ITEMS | | | | |
| Interest income | 5,891 | 5,645 | 8,200 | 8,859 |
| Write-down of marketable securities | (2,761) | - | (14,780) | - |
| Write-down of mineral property interest | - | (411,976) | - | (411,976) |
| Write-down of long term investment | - | (5,197) | - | (37,938) |
| | 3,130 | (411,528) | (6,580) | (441,055) |
| Loss for the period | (467,871) | (470,267) | (582,356) | (1,078,387) |
| Deficit, beginning of period | (8,131,203) | (7,535,074) | (8,016,718) | (6,926,954) |
| Deficit, end of period | \$ (8,599,074) | \$ (8,005,341) | \$ (8,599,074) | \$ (8,005,341) |
| Basic and diluted loss per share | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ (0.03) |
| Weighted average number of common shares outstanding | 44,578,029 | 36,695,100 | 39,617,405 | 31,729,935 |

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

SKEENA RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|--|-------------------|---|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| CASH FROM (USED IN) OPERATING ACTIVITIES | | | | |
| Loss for the period | \$ (467,871) | \$ (470,267) | \$ (582,356) | \$ (1,078,387) |
| Items not affecting cash: | | | | |
| Amortization | 1,173 | 2,412 | 3,516 | 2,791 |
| Write-down of long term investments | - | 5,197 | - | 37,938 |
| Write-down of marketable securities | 2,761 | - | 14,780 | - |
| Stock-based compensation | 410,006 | - | 410,006 | 394,429 |
| Write-down of mineral property interest | - | 411,976 | - | 411,976 |
| Changes in non-cash working capital items: | | | | |
| Accounts receivables | 2,690 | (1,875) | 6,078 | (9,516) |
| Prepaid expenses | (2,940) | 904 | (11,241) | (51,816) |
| Accounts payable | 75,989 | 118,254 | 31,884 | (48,047) |
| Net cash from (used in) operating activities | <u>21,808</u> | <u>66,601</u> | <u>(127,333)</u> | <u>(340,632)</u> |
| CASH FROM (USED IN) FINANCING ACTIVITIES | | | | |
| Proceeds on issuance of capital stock | 347,500 | 867,200 | 1,352,000 | 2,075,119 |
| Share issue costs | (6,038) | - | (65,513) | - |
| Proceeds from optioning mineral interest | - | 5,000 | - | 5,000 |
| Net cash from (used in) financing activities | <u>341,462</u> | <u>872,200</u> | <u>1,286,487</u> | <u>2,080,119</u> |
| CASH FROM (USED IN) INVESTING ACTIVITIES | | | | |
| Expenditures on mineral property interests | (384,279) | (610,556) | (633,657) | (1,263,350) |
| Purchase of equipment | (7,526) | (16,140) | (7,526) | (20,980) |
| Net cash from (used in) investing activities | <u>(391,805)</u> | <u>(626,696)</u> | <u>(641,183)</u> | <u>(1,284,330)</u> |
| Change in cash during the period | (28,535) | 312,105 | 517,971 | 445,157 |
| Cash, beginning of period | 818,508 | 647,412 | 272,002 | 504,360 |
| Cash, end of period | \$ 789,973 | \$ 959,517 | \$ 789,973 | \$ 959,517 |

Supplemental disclosure with respect to cash flows (Note 8)

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

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 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.

| | September 30 2006 | December 31 2005 |
|-----------------|----------------------|---------------------|
| Working capital | \$ 687,250 | \$ 210,779 |
| Deficit | (8,599,074) | (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% |
| 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
SEPTEMBER 30, 2006

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

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

| | September 30 2006 | December 31 2005 |
|--|----------------------|---------------------|
| Diadem Resources Ltd. (market value - \$8,607) | \$ 8,607 | \$ 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 September 30, 2006, marketable securities have an aggregate market value of \$8,607 (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 - \$ nil).

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

4. MINERAL PROPERTY INTERESTS

| | British Columbia Claims | Ecuador Claims | Total |
|--|-------------------------------|-------------------|------------------|
| Balance, December 31, 2004 | <u>433,313</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 | <u>-</u> | <u>78,065</u> | <u>78,065</u> |
| | <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 | \$ 132,378 | \$ 4,263,727 | \$ 4,396,105 |
| Analyses | - | 34,945 | 34,945 |
| Drilling/trenching | - | 206,738 | 206,738 |
| Field and camp support | - | 81,915 | 81,915 |
| Geology/geophysics/geochemical | - | 94,205 | 94,205 |
| Local office costs | - | 73,853 | 73,853 |
| Land acquisition, assessment costs and option payments | 3,112 | 57,852 | 60,964 |
| Legal | - | 45,806 | 45,806 |
| Stock-based compensation | - | 41,775 | 41,775 |
| Travel and accommodation | <u>-</u> | <u>35,231</u> | <u>35,231</u> |
| | <u>3,112</u> | <u>672,320</u> | <u>675,432</u> |
| | 135,490 | 4,936,047 | 5,071,537 |
| Recovery during the year | - | - | - |
| Written-off during the year | <u>-</u> | <u>-</u> | <u>-</u> |
| Balance, September 30, 2006 | \$ 135,490 | \$ 4,936,047 | \$ 5,071,537 |

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.

The title dispute was resolved in favour of the Company's vendor. 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 paid with a further commitment to receive common shares from the public 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 at a deemed value of \$0.10 per share.

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

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 from Alpha in consideration for the reimbursement of certain expenses and the issuance of 5 million common shares valued at \$1,750,000. To earn its interest, the Company is required to advance 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 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\$5,000,000 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 ** | |
| | \$ 4,465,000 | \$ 1,500,000 | \$ 5,500,000 | \$ 5,000,000 issued |

* cash or shares, at Skeena's election.

** includes pre-feasibility study

The Company is the operator of the exploration project.

5. EQUIPMENT

| | September 30 2006 | | | December 31 2005 | | |
|---------------------|----------------------|-----------------------------|-------------------|---------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | \$ 7,697 | \$ 5,508 | \$ 2,189 | \$ 7,697 | \$ 4,931 | \$ 2,766 |
| Computer software | 3,000 | 2,367 | 633 | 3,000 | 1,500 | 1,500 |
| Field equipment | 17,136 | 2,381 | 14,755 | 9,611 | 961 | 8,650 |
| Furniture | 3,374 | 771 | 2,603 | 3,374 | 338 | 3,036 |
| Telephone equipment | 1,890 | 583 | 1,307 | 1,890 | 365 | 1,525 |
| | \$ 33,097 | \$ 11,610 | \$ 21,487 | \$ 25,572 | \$ 8,095 | \$ 17,477 |

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) paid or accrued consulting fees of \$79,165 (2005 - \$88,545) to companies controlled by directors or officers.
- b) paid or accrued \$19,300 (2005 - \$10,746) 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 September 30, 2006 is \$13,233 (June 30, 2006 - \$6,966), 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 | | | | | |
| 100,000,000 common shares without par value | | | | | |
| 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 | - | | - | | 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 | 300,000 | | 138,000 | | (48,000) |
| For mineral property interests | 2,500,000 | | 600,000 | | - |
| For stock compensation | - | | - | | 451,781 |
| Share issuance costs | - | | (65,513) | | - |
| As at September 30, 2006 | 44,946,616 | \$ | 13,099,360 | \$ | 1,279,987 |

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

Private placements

On June 16 and July 7, 2006, the Company closed 2 tranches respectively, of a non-brokered private placement and 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 \$59,202 and issued 236,810 agents' warrants 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, 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 | <u>4,975,800</u> | \$ 0.74 | <u>2,955,000</u> | \$ 0.37 |
| Granted | 2,760,810 | 0.41 | 1,325,000 | 0.35 |
| Exercised | - | - | (300,000) | - |
| Expired cancelled | (288,300) | 0.55 | - | 0.30 |
| Outstanding, September 30, 2006 | <u>7,448,310</u> | 0.60 | <u>3,980,000</u> | 0.37 |
| Number currently exercisable | <u>7,448,310</u> | \$ 0.60 | <u>3,980,000</u> | \$ 0.37 |

SKEENA RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)

As at September 30, 2006, incentive stock options and share purchase warrants were outstanding as follows:

| | Number of Shares | Exercise Price | Expiry Date |
|-----------------|---------------------|-------------------|----------------------------------|
| Options | 1,305,000 | \$ 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 | 0.57 | September 02, 2011 |
| Warrants | 875,000 | 0.58 | December 13, 2006 |
| | 1,592,500 | 0.75 | June 25, 2007 ⁽¹⁾ |
| | 2,220,000 | 0.75 | July 16, 2007 ⁽¹⁾ |
| | 2,009,000 | 0.40 | December 16, 2007 ⁽²⁾ |
| | 215,810 | 0.50 | June 16, 2007 ⁽²⁾ |
| | 515,000 | 0.40 | January 07, 2008 ⁽²⁾ |
| | 21,000 | 0.50 | July 07, 2007 ⁽²⁾ |

⁽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. 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:

| | September 30 2006 | December 31 2005 |
|---|----------------------|---------------------|
| Stock-based compensation cost recorded in the period: | | |
| Capitalized – exploration (Note 4) | \$ 41,775 | \$ 38,926 |
| Expensed – administration | <u>410,006</u> | <u>336,864</u> |
| | \$ 451,781 | \$ 375,790 |

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

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

| | September 30 2006 | December 31 2005 |
|-------------------------|----------------------|---------------------|
| Risk-free interest rate | 3.96% | 3.83% |
| Expected life | 5 years | 5 years |
| Annualized volatility | 88.27% | 70% |
| Dividend rate | 0.00% | 0.00% |

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for fiscal 2006 include:

- a) issuance 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.

9. 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.

10. SEGMENTED INFORMATION

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

| | September 30 2006 | December 31 2005 |
|---|----------------------|---------------------|
| Mineral property interests and equipment: | | |
| Canada | \$ 139,839 | \$ 141,205 |
| Ecuador | <u>4,953,185</u> | <u>4,272,377</u> |
| | <u>\$ 5,093,024</u> | <u>\$ 4,413,582</u> |

11. SUBSEQUENT EVENTS

Subsequent to the quarter ended September 30, 2006:

- a) the Company issued 2,500,000 shares. On October 12, 2006, there were 55,000 options exercised for proceeds of \$16,500.
- b) 604,000 warrants were exercised for shares of the Company for proceeds of \$301,100.