

**SKEENA RESOURCES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

## AUDITORS' REPORT

To the Shareholders of  
Skeena Resources Limited

We have audited the consolidated balance sheets of Skeena Resources Limited as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss, deficit, accumulated other comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 28, 2010



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

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 6,332	\$ 48,277
Marketable securities (Note 3)	8,224	7,000
Receivables	11,954	161,941
Prepaid expenses	7,095	25,779
	33,605	242,997
<b>Mineral property interests</b> (Note 4)	381,711	5,757,862
<b>Equipment</b> (Note 5)	25,282	31,726
	\$ 440,598	\$ 6,032,585
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 369,781	\$ 643,114
Loans (Note 6(e))	120,000	-
	489,781	643,114
<b>Future income tax liability</b> (Note 8)	-	448,000
	489,781	1,091,114
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 7)	18,776,262	18,050,265
Contributed surplus (Note 7)	3,025,730	2,727,075
Accumulated other comprehensive loss	(20,183)	(21,407)
Deficit	(21,830,992)	(15,814,462)
	(49,183)	4,941,471
	\$ 440,598	\$ 6,032,585

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

**Commitments** (Note 13)

**Subsequent events** (Note 14)

**On behalf of the Board:**

*"Ronald K. Netolitzky"*

..... Director

Ronald K. Netolitzky

*"Peter Tredger"*

..... Director

Peter Tredger

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

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

	<b>2009</b>	<b>2008</b>
<b>ADMINISTRATIVE EXPENSES</b>		
Amortization	\$ 6,444	\$ 7,661
Consulting	49,500	131,025
Foreign exchange	61,820	(82,613)
Investor relations	5,954	15,812
Office and other	38,745	68,629
Professional fees	76,903	58,724
Rent and administration	7,824	15,756
Shareholder communications	3,240	9,243
Stock-based compensation (Note 7)	95,285	288,606
Transfer agent and listing fees	15,926	20,000
Travel	1,411	1,335
<b>Loss before other items</b>	<b>(363,052)</b>	<b>(534,178)</b>
<b>OTHER ITEMS</b>		
Interest income	213	15,005
Write-off of mineral property interests (Note 4)	(6,077,691)	(5,923,793)
Loan fee (Note 6 (e))	(24,000)	-
Gain on sale of mineral property (Note 4)	-	27,397
	<b>(6,101,478)</b>	<b>(5,881,391)</b>
<b>Loss before income taxes</b>	<b>(6,464,530)</b>	<b>(6,415,569)</b>
<b>Future income tax recovery</b> (Note 8)	<b>448,000</b>	<b>77,733</b>
<b>Loss for the year</b>	<b>(6,016,530)</b>	<b>(6,337,836)</b>
<b>Other comprehensive loss</b>		
Unrealized gain (loss) on marketable securities	1,224	(17,347)
<b>Comprehensive loss for the year</b>	<b>(6,015,306)</b>	<b>(6,355,183)</b>
<b>Loss per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.11)</b>
<b>Weighted average number of common shares outstanding</b>	<b>72,977,210</b>	<b>59,265,216</b>

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

**SKEENA RESOURCES LIMITED**  
CONSOLIDATED STATEMENTS OF DEFICIT  
YEAR ENDED DECEMBER 31

	2009	2008
<b>Deficit, beginning of year</b>	\$ (15,814,462)	\$ (9,476,626)
Loss for the year	(6,016,530)	(6,337,836)
<b>Deficit, end of year</b>	\$ (21,830,992)	\$ (15,814,462)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS  
YEAR ENDED DECEMBER 31

	2009	2008
<b>Accumulated other comprehensive loss, beginning of year</b>	\$ (21,407)	\$ (4,060)
<b>Other comprehensive gain (loss)</b>		
Unrealized loss on marketable securities	1,224	(17,347)
<b>Accumulated other comprehensive loss, end of year</b>	\$ (20,183)	\$ (21,407)

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

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

	2009	2008
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (6,016,530)	\$ (6,337,836)
Items not involving cash:		
Amortization	6,444	7,661
Stock-based compensation	95,285	288,606
Gain on sale of mineral property	-	(27,397)
Loan fee	24,000	-
Write-off of mineral property interests	6,077,691	5,923,793
Future income tax recovery	(448,000)	(77,733)
Changes in non-cash working capital:		
Receivables	149,987	(71,893)
Prepaid expenses	(2,608)	8,520
Accounts payable and accrued liabilities	79,383	96,000
<b>Net cash used in operating activities</b>	<b>(34,348)</b>	<b>(190,279)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of capital stock	539,500	1,031,500
Share issue costs	(17,400)	(60,650)
Loans	120,000	-
<b>Net cash provided by financing activities</b>	<b>642,100</b>	<b>970,850</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral property interests	(649,697)	(2,808,135)
Purchase of equipment	-	(3,583)
<b>Net cash used in investing activities</b>	<b>(649,697)</b>	<b>(2,811,718)</b>
<b>Decrease in cash during the year</b>	<b>(41,945)</b>	<b>(2,031,147)</b>
<b>Cash, beginning of year</b>	<b>48,277</b>	<b>2,079,424</b>
<b>Cash, end of year</b>	<b>\$ 6,332</b>	<b>\$ 48,277</b>
<b>Cash paid for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

Supplemental disclosure with respect to cash flows (Note 9)

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Skeena Resources Limited (the “Company”) operates primarily in the mining industry. The Company is in the exploration stage with respect to its mineral property interests and has not, as yet, achieved any commercial production.

All figures are in Canadian dollars unless otherwise specified.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. The Company has incurred operating losses over the past several years and does not have a current source of revenue or sufficient financial resources to sustain operations in the long term. Subsequent to December 31, 2009, the Company has defaulted on loans of \$120,000 from two directors which matured in January 2010 (Note 6).

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

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

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	<b>2009</b>	2008
Working capital (deficit)	\$ (456,176)	\$ (400,117)
Deficit	<b>(21,830,992)</b>	(15,814,462)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Principles of consolidation**

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

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

**(b) Use of estimates**

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

**(c) Marketable securities**

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

**(d) Mineral property interests**

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

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

**(e) Asset retirement obligations**

Asset retirement obligations are legal obligations associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. Liabilities include those liabilities related to environmental protection and rehabilitation due to environmental law or contracts. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. As at December 31, 2009, the Company did not have any asset retirement obligations.

## **SKEENA RESOURCES LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

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

#### **(f) Equipment**

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

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

#### **(g) Foreign currency translation**

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

#### **(h) Stock-based compensation**

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

#### **(i) Loss per share**

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

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

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

**(j) 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.

**(k) 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.

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

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

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

***Amendment to Financial Instruments - Disclosures***

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

**(l) Financial instruments – recognition and measurement (cont'd...)**

***Amendment to Financial Instruments – Disclosures (cont'd...)***

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

See Note 11 for relevant disclosures.

**(m) Recent accounting pronouncements**

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

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

***International Financial Reporting Standards (“IFRS”)***

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

**3. MARKETABLE SECURITIES**

	2009	2008
Diadem Resources Ltd.	\$ 1,624	\$ 812
Duncastle Gold Corp. (formerly Dundee Mines Ltd.)	<u>6,600</u>	<u>6,188</u>
	<b>\$ 8,224</b>	<b>\$ 7,000</b>



**4. MINERAL PROPERTY INTERESTS**

	British Columbia Claims	Saskatchewan Claims	Ecuador Claims	Mexican Claims	Total
<b>Balance, December 31, 2007</b>	\$ 190,042	\$ -	\$ 5,684,186	\$ 1,728,160	\$ 7,602,388
Analysis	-	-	-	187,418	187,418
Drilling/trenching	-	178,543	20	803,105	981,668
Field and camp support	-	-	9,164	113,641	122,805
Geology/geophysics/geochemical	(106)	7,500	-	625,481	632,875
Local office costs	-	-	13,102	30,947	44,049
Acquisition, assessments and option payments	15,000	-	-	2,026,370	2,041,370
Legal	-	-	4,469	7,963	12,432
Travel and accommodation	-	-	319	48,734	49,053
	<u>14,894</u>	<u>186,043</u>	<u>27,074</u>	<u>3,843,659</u>	<u>4,071,670</u>
	<u>204,936</u>	<u>186,043</u>	<u>5,711,260</u>	<u>5,571,819</u>	<u>11,674,058</u>
Write-off mineral property interests	(212,533)	-	(5,711,260)	-	(5,923,793)
Sale of mineral property	<u>7,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,597</u>
<b>Balance, December 31, 2008</b>	-	186,043	-	5,571,819	5,757,862
Analysis	-	1,726	-	271	1,997
Drilling/trenching	-	2,130	-	-	2,130
Field and camp support	-	263	7,893	39,719	47,875
Geology/geophysics/geochemical	-	7,716	-	27,221	34,937
Acquisition, assessments and option payments	2,775	50,000	-	486,803	539,578
Legal/ other	2,407	-	-	67,217	69,624
Travel and accommodation	-	<u>2,856</u>	-	<u>2,543</u>	<u>5,399</u>
	<u>5,182</u>	<u>64,691</u>	<u>7,893</u>	<u>623,774</u>	<u>701,540</u>
	5,182	250,734	7,893	6,195,593	6,459,402
Write-off mineral property interests	-	<u>(250,734)</u>	<u>(7,893)</u>	<u>(5,819,064)</u>	<u>(6,077,691)</u>
<b>Balance, December 31, 2009</b>	\$ 5,182	\$ -	\$ -	\$ 376,529	\$ 381,711

**4. MINERAL PROPERTY INTERESTS (cont'd...)**

**Title to mineral properties**

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

**Malpica property, Mexico**

In May 2007, the Company entered into an agreement with Reyna Mining & Engineering S.A. de C.V. ("Reyna Mining") to jointly acquire an option from Grupo México S.A. de C.V. ("Grupo México") to earn a combined 100% interest in the Malpica copper-gold-molybdenum property located in the Sinaloa State, Mexico. A Mexican corporation, Skeena Mexico S.A de C.V. ("Skeena Mexico"), holds the option as its sole asset. The Company has the option to acquire 90% of the shares of Skeena Mexico, pursuant to which the Company paid US\$25,000 (CAD\$26,690), issued 1,000,000 common shares of Skeena Resources valued at \$400,000 and granted warrants valued at \$137,172 to acquire 1,000,000 common shares of the Company exercisable at \$0.75 per share which expired unexercised. In addition, the Company paid finders' fees consisting of 150,000 common shares of the Company valued at \$60,000 and warrants valued at \$30,813 to acquire 200,000 common shares of the Company exercisable at \$0.65 per share which also expired unexercised.

Pursuant to an amended agreement negotiated in fiscal 2008, the Company issued 2,000,000 common shares valued at \$500,000 and an additional 2,000,000 common shares in fiscal 2009 valued at \$100,000.

Skeena Mexico paid US\$250,000 to Grupo México, the vendor of the Malpica property, to begin a 12-month due diligence period during which Skeena Mexico conducted a US\$1,500,000 exploration program. In addition to the US\$1,550,000 cash payments to date, Skeena Mexico is required to make additional staged cash payments by January 2011, of US\$9,569,830.

The Company renegotiated the payment schedule to Grupo México which deferred a \$250,000 payment to February 24, 2009 (paid) and \$2,000,000 in payments due in fiscal 2008 to fiscal 2010. A \$1,000,000 payment due January 2010 was deferred for 20 days. The Company missed the deferred payment and was not been able to renegotiate. Consequently, the arrangement with Grupo México was terminated and the Company wrote off \$5,819,064 in mineral property expenditures.

**Tropico property, Mexico**

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

The Company also acquired two other concessions by direct application to the government and acquired a third by lottery. The concessions are subject to an NSR royalty up to a maximum of 2%.

**4. MINERAL PROPERTY INTERESTS (cont'd...)**

**Tropico property, Mexico (cont'd...)**

The Company also entered into an option to purchase a 100% interest in the San Pablo concession contiguous with the Tropico Property, from Minera Cascabel SA de CV ("Minera Cascabel") for cash payments totaling \$500,000 over 4 years (\$85,000 paid), a work commitment of two times the minimum required under Mexican mining law during the period of the agreement and the issuance of 500,000 shares over 4 years of which 100,000 were issued in fiscal 2009 and 100,000 issued in fiscal 2008. The concession is subject to a 2% NSR royalty payable to the Mexican Government. 1<sup>st</sup> and 2<sup>nd</sup> anniversary cash payments were not made.

Subsequent to December 31, 2009, the Company entered into an agreement with Virginia, Almaden and Minera Cascabel to acquire a 100% interest in the Tropico Property in consideration for 8,000,000 common shares of the Company and warrants to acquire an additional 4,000,000 common shares. Each warrant is exercisable at \$0.20 per share for the first two years, then at \$0.50 per share for the next three years. The Company will also pay of US\$40,000 to Minera Cascabel due on June 21, 2010.

**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.

In fiscal 2008, the Blackhorn leases lapsed and capital costs of \$212,533 were written off.

During fiscal 2005, the Company granted an option to acquire the Ronoke property to a private corporation attempting to obtain a public stock exchange listing. Option payments of \$5,500 were received in fiscal 2005 and \$15,000 during fiscal 2007. In fiscal 2008, the optionor exercised the option and issued the Company 82,500 shares of common stock to acquire 100% of the Ronoke property. A gain on sale of the property of \$27,397 was recorded.

**El Corazon property, Ecuador**

On April 17, 2008, the Constitutional Assembly of Ecuador passed a new Mining Mandate. This included an immediate suspension of exploration and development work. Directly afterwards, in light of the unilaterally imposed work suspension, the Company invoked *force majeure* with respect to its Option Agreement with AgroIndustrial El Corazon S.A. to earn a 50% interest in the El Corazon Property in the Province of Imbabura, Ecuador. Given the political uncertainty, the Company wrote off the capitalized acquisition costs and expenditures of \$5,711,260 in fiscal 2008 and continues to write off costs as they occur.

**Anglo Rouyn property, Saskatchewan**

The Company entered into an option agreement with Kristo Gold Inc., to earn a 100% interest in certain claims (exclusive of the mine tailings and on-site tailings gold recovery plant) in the Anglo-Rouyn copper-gold mine property in Saskatchewan pursuant to which the Company is to pay \$45,000 and issue 3,000,000 common shares over a three year period. The Company issued 1,000,000 common shares valued at \$50,000 to acquire the claims and entered into an option agreement to acquire the mine tailings and on-site tailings gold recovery plant for consideration of staged payments of \$680,000 and issue of 4,000,000 common shares over a 2 ½ year period. Subsequent to the year end, the Company returned the property and wrote off \$250,734 in mineral expenditures.

**4. MINERAL PROPERTY INTERESTS (cont'd...)**

**METS and Belle Properties, British Columbia**

The Company entered into an option agreement with two non-arm's length directors of the Company to acquire a 100% interest in the Mets mining lease and Belle Claims in the Toadogone precious metals gold and silver district in north-central BC pursuant to which the Company, subject to regulatory approval, is to issue 1,000,000 common shares. The agreement is subject to a 2% Net Smelter Return, which may be repurchased by the Company.

The Belle claims were subsequently allowed to lapse but no amount has been written off.

There is a 30 day allowance once notice of default is given. No notice has been served.

**5. EQUIPMENT**

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 7,697	\$ 7,002	\$ 695	\$ 7,697	\$ 6,705	\$ 992
Field equipment	20,940	11,062	9,878	20,940	8,592	12,348
Vehicle	21,381	9,065	12,316	21,381	5,987	15,394
Office equipment	<u>5,945</u>	<u>3,552</u>	<u>2,393</u>	<u>5,945</u>	<u>2,953</u>	<u>2,992</u>
	\$ 55,963	\$ 30,681	\$ 25,282	\$ 55,963	\$ 24,237	\$ 31,726

**6. RELATED PARTY TRANSACTIONS**

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.

During the fiscal year, the Company paid or accrued consulting fees of \$49,500 (2008 - \$131,025) to companies controlled by directors or officers.

- (a) The Company entered into a debt settlement agreement with three related parties and issued 1,023,680 common shares to satisfy payables of \$24,686 (Note 9).
- (c) Included in accounts payable at December 31, 2009 is \$119,807 (2008 - \$79,399), which is due to directors or officers or companies with common directors or officers.
- (d) The Company entered into an option agreement with two non-arm's length directors of the Company to acquire a 100% interest in the Mets mining lease and Belle Claims, subject to regulatory approval and review by an Independent Committee of the Board.

**6. RELATED PARTY TRANSACTIONS (cont'd...)**

- (e) The Company arranged a loan from two directors for \$120,000 secured by a non-interest-bearing promissory note and a pledge of the Mets mining lease. The Company issued 480,000 bonus shares to the two directors as loan fees valued at \$24,000. The loans matured in January 2010 and have not been repaid. The lenders have not demanded settlement.

**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, 2007	55,544,838	\$ 16,836,128	\$ 2,173,739
For cash:			
Private placements	4,126,000	770,533	260,967
For mineral property interests	2,350,000	585,750	-
For stock-based compensation	-	-	288,606
Tax benefits renounced to flow through share subscribers	-	(77,733)	-
Share issuance costs	-	(64,413)	3,763
As at December 31, 2008	62,020,838	18,050,265	2,727,075
For cash:			
Private placements	10,790,000	338,808	200,692
For debt settlement (Note 9 (a))	2,876,889	215,767	-
For mineral property interests	3,350,000	167,500	-
For interest expense on directors' loans	480,000	24,000	-
Share issuance costs	-	(20,078)	2,678
For stock-based compensation	-	-	95,285
As at December 31, 2009	79,517,727	\$ 18,776,262	\$ 3,025,730

**Private placements**

During fiscal 2009:

In February and May of 2009, the Company issued 10,790,000 units in two tranches at \$0.05 per unit for gross proceeds of \$539,500. Each unit consisted of one common share and one half of one share purchase warrant. Each full warrant entitles the holder to acquire one additional common share at \$0.10 for a period of 24 months. An estimated value of \$200,692 was allocated to the warrants. The Company paid finders' fees and other issuance costs of \$17,400 and issued 93,800 agents' warrants valued at \$2,678 (included in share issue costs) exercisable at \$0.10 for a period of one year. Total share issue costs were \$20,078.

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

**Private placements (cont'd...)**

During fiscal 2008:

On June 26, 2008, the Company issued 4,126,000 units at \$0.25 per unit for proceeds of \$1,031,500. Each unit consisted of one common share and one share purchase warrant. Each full warrant entitles the holder to acquire one additional common share at \$0.45 for a period of 24 months (since been amended to \$0.25 for 3 years). An estimated value of \$260,967 was allocated to the warrants. The Company paid finders' fees and other issuance costs of \$60,650 and issued 122,500 agents' warrants valued at \$3,763 (included in share issue costs) exercisable at \$0.45 for a period of one year. Total share issue costs were \$64,413.

**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.

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, 2007	5,547,476	\$ 0.75	5,550,000	\$ 0.39
Granted	4,248,500	0.45	1,200,000	0.30
Expired/cancelled	<u>(556,476)</u>	0.75	<u>(1,775,000)</u>	0.44
Outstanding, December 31, 2008	9,239,500	0.61	4,975,000	0.38
Granted	5,488,800	0.10	2,125,000	0.10
Expired/cancelled	<u>(1,322,500)</u>	0.71	<u>-</u>	-
Outstanding, December 31, 2009	13,405,800	0.19	7,100,000	0.29
Number currently exercisable	13,405,800	\$ 0.19	6,850,000	\$ 0.30

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

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

As at December 31, 2009, incentive stock options and share purchase warrants were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	550,000	\$ 0.52	February 18, 2010 <sup>(4)</sup>
	100,000	0.54	April 15, 2010 <sup>(4)</sup>
	300,000	0.25	December 21, 2010
	200,000	0.25	June 28, 2011
	675,000	0.37	September 2, 2011
	280,000	0.33	March 19, 2012
	1,670,000	0.40	September 26, 2012
	1,200,000	0.30	June 26, 2013
	<u>2,125,000</u>	0.10	May 14, 2014
	7,100,000		
<b>Warrants</b>	3,791,000	0.25	June 29, 2010 <sup>(1)</sup>
	4,126,000	0.25	June 26, 2011 <sup>(2)</sup>
	28,000	0.10	February 27, 2010
	65,800	0.10	May 06, 2010
	3,925,000	0.10	February 27, 2011 <sup>(3)</sup>
	<u>1,470,000</u>	0.10	May 06, 2011 <sup>(3)</sup>
	13,405,800		

<sup>(1)</sup> The TSX-V consented to the extension of the warrant term for an additional year to June 29, 2010 and an amendment of the exercise price from \$0.75 to \$0.25 with a forced exercise provision. In the event the closing price of the Company's common shares is at or above \$0.30 per share for a period of ten (10) consecutive trading days, the Company may elect to reduce the remaining exercise period, upon notice to the holders, to thirty (30) days.

<sup>(2)</sup> The TSX-V consented to the extension of the warrant term for an additional year to June 26, 2011 and an amendment of the exercise price from \$0.75 to \$0.25 with a forced exercise provision. In the event the closing price of the Company's common shares is at or above \$1.00 per share for a period of ten (10) consecutive trading days, the Company may elect to reduce the remaining exercise period, upon notice to the holders, to twenty-five (25) days.

<sup>(3)</sup> In the event the closing price of the Company's common shares is at or above \$0.40 per share for a period of ten (10) consecutive trading days, the Company may elect to reduce the remaining exercise period, upon notice to the holders, to twenty-five (25) days.

<sup>(4)</sup> Subsequently expired.

**Stock-based compensation**

During fiscal 2009, the Company granted 2,125,000 (2008 – 1,200,000) options to consultants, officers and directors with a weighted average fair value of \$0.04 (2008 - \$0.12) per option. Total stock-based compensation recognized in the statement of operations during fiscal 2009 was \$95,285 (2008 - \$288,606). This amount was also

recorded as contributed surplus on the balance sheet.

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

**Stock-based compensation (cont'd...)**

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

	2009	2008
Risk-free interest rate	1.49%	3.20%
Expected life	3 years	2.6 years
Annualized volatility	170%	91%
Dividend rate	0.00%	0.00%

**8. INCOME TAXES**

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

	2009	2008
Loss before income taxes	\$ (6,464,530)	\$ (6,415,569)
Expected income tax (recovery)	\$ (1,890,261)	\$ (2,185,168)
Non-deductible items	1,750,531	2,002,783
Stock-based compensation not deductible for income tax purposes	28,586	89,468
Unrecognized benefit of non-capital losses	(336,856)	15,184
Income tax recovery	\$ (448,000)	\$ (77,733)

Amounts of future tax assets and liabilities are as follows:

	2009	2008
Future income tax assets:		
Non-capital losses carry forwards	\$ 411,549	\$ 365,352
Equipment	8,704	7,207
Share issuance costs	36,261	53,283
Exploration and development expenditures	1,802,705	189,225
	2,259,219	615,067
Valuation allowance	(2,259,219)	(1,063,067)
Net future income tax asset (liability)	\$ -	\$ (448,000)



**8. INCOME TAXES (cont'd...)**

The Company has approximately \$1,646,000 in non-capital losses, which may be carried forward and applied against taxable income in future years. These losses, if not utilized, expire through 2029. Subject to certain restrictions, the Company also has resource expenditures available of approximately \$2,623,000 to reduce taxable income in Canada in future years. The benefits of these losses and resource deductions have not been recorded in these financial statements and have been offset by a valuation allowance.

In fiscal 2007, the Company issued 557,222 common shares on a flow-through basis for gross proceeds of \$250,750. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. During fiscal 2008, the Company renounced exploration expenditures of \$250,750, resulting in a future income tax recovery and charge to capital stock of \$77,733.

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

Significant non-cash transactions for fiscal 2009 include the Company:

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

Significant non-cash transactions for fiscal 2008 include the Company:

- a) issuing 2,350,000 common shares valued at \$585,750 pursuant to the acquisition of mineral properties;
- b) granting agents' warrants valued at \$3,763 as finders' fees on a private placement; and
- c) incurring mineral property expenditures in accounts payable of \$506,888.

**10. SEGMENTED INFORMATION**

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

	<b>December 31, 2009</b>	December 31, 2008
Mineral property interests and equipment:		
Canada	\$ 17,630	\$ 201,726
Mexico	<u>389,363</u>	<u>5,587,862</u>
	<b>\$ 406,993</b>	<b>\$ 5,789,588</b>

## **11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### Fair Values

Cash and marketable securities are carried at fair value using a Level 1 fair value measurement. As at December 31, 2009, the carrying values of receivables, accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

### Credit Risk

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

### Currency Risk

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

### Interest Rate Risk

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

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. As at December 31, 2009, the Company had a cash balance of \$6,332 (2008 - \$48,277) to settle current liabilities of \$369,781 (2008 - \$643,114) and loans of \$120,000 (2008 - \$nil). Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

### Price risk

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

**12. CAPITAL MANAGEMENT**

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

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

**13. COMMITMENTS**

- a) The Company entered into a consulting agreement with a director of the Company. The Company agreed to pay the director \$9,000 per month. The agreement can be terminated at any time by the Company by paying one year's compensation.
- b) The Company has also entered into an operating lease agreement for office premises in conjunction with another company. The Company and the co-lessee are jointly responsible for 100% of the obligations under the lease and share the obligations equally. The Company's remaining 50% portion of the annual lease commitment under this lease is \$7,288 for payment in fiscal 2010.

**14. SUBSEQUENT EVENTS**

Subsequent to the year ended December 31, 2009, the Company

- a) arranged a short term loan from a director for \$50,000 secured by a non-interest-bearing promissory note. The Company will issue 200,000 bonus shares to the director as loan fees on regulatory approval.
- b) granted 250,000 options exercisable at \$0.15 per share expiring January 11, 2015.
- c) entered into an agreement to acquire the remaining 10% of Skeena Mexico SA de CV, subject to regulatory approval, in consideration for 500,000 common shares.