

# **Stikine**

**Gold Corporation**

*(An Exploration Stage Company)*

**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2007 AND 2006**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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### To the Shareholders of Stikine Gold Corporation:

The accompanying financial statements of Stikine Gold Corporation. (the "Company") were prepared by management in accordance with accounting principles generally accepted in Canada, and within the framework of the summary of significant accounting policies noted in these financial statements. Management is responsible for all information in the annual report. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and, where possible, segregation of responsibilities.

The Board of Directors discharges its responsibilities for the financial statements primarily through activities of its Audit Committee composed of three directors. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the quarterly unaudited and annual audited financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss the scope and the results of their audit and audit report prior to submitting the financial statements to the Board of Directors for approval.

The financial statements have been audited on behalf of the shareholders by the Company's independent auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

***"David Skerlec"***

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David J. Skerlec  
Chief Financial Officer and Secretary

***"Scott Broughton"***

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Scott E. Broughton  
President and Chief Executive Officer

## AUDITORS' REPORT

### To the Shareholders of Stikine Gold Corporation

We have audited the balance sheet of Stikine Gold Corporation as at February 28, 2007 and the statements of loss and deficit and cash flows for the year 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the company as at February 28, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at February 28, 2006, and for the year then ended, were audited by predecessor auditors who expressed an opinion without reservation on those statements in their report dated May 19, 2006.

*"Signed PricewaterhouseCoopers LLP"*

**Chartered Accountants**  
Vancouver, British Columbia  
June 26, 2007

**Balance Sheets**

As at February 28

Canadian Funds

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>Current</b>		
Cash and cash equivalents	\$ 504,446	\$ 218,024
Receivables	55,395	6,174
B.C. Exploration Tax Credit receivable	186,853	-
Prepaid expenses	14,836	13,289
	<u>761,530</u>	<u>237,487</u>
<b>Resource Property Costs - Schedule (Note 5)</b>	<b>766,171</b>	<b>2,700,741</b>
<b>Reclamation Bonds</b>	<b>6,000</b>	<b>2,500</b>
<b>Property, Plant and Equipment (Note 6)</b>	<b>4,039</b>	<b>6,489</b>
	<u>\$ 1,537,740</u>	<u>\$ 2,947,217</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 303,927	\$ 13,092
Due to related parties (Note 8g)	13,772	10,686
	<u>317,699</u>	<u>23,778</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 7)</b>	<b>6,405,913</b>	<b>5,011,697</b>
<b>Contributed Surplus (Note 7i)</b>	<b>938,563</b>	<b>552,078</b>
<b>Deficit - Statement 2</b>	<b>(6,124,435)</b>	<b>(2,640,336)</b>
	<u>1,220,041</u>	<u>2,923,439</u>
	<u>\$ 1,537,740</u>	<u>\$ 2,947,217</u>

ON BEHALF OF THE BOARD:

**"Scott Broughton"**

Scott E. Broughton, Director

**"David Skerlec"**

David J. Skerlec, Director

**Statements of Loss and Deficit**

For the Years Ended February 28

Canadian Funds

	2007	2006
<b>General and Administrative Expenses</b>		
Consulting and management fees	\$ 56,656	\$ 73,250
Advertising, promotion and shareholder relations	66,958	36,833
Audit, accounting and legal fees	43,883	27,521
Rent, office and sundry	28,718	15,265
Listing and filing fees	20,233	16,920
Travel	16,485	12,553
Amortization	2,450	4,241
Bank charges and interest	1,045	553
Stock-based compensation	170,439	278,912
<b>Loss before the Undernoted</b>	<b>406,867</b>	466,048
Resource costs written-off (Note 5a)	3,652,595	358,226
Tax credit on abandoned property	-	(24,400)
Future income tax recoveries (Note 9b)	(562,980)	-
Interest income	(12,383)	(13,055)
<b>Loss for the Year</b>	<b>3,484,099</b>	786,819
Deficit – Beginning of year	2,640,336	1,853,517
<b>Deficit – End of Year</b>	<b>\$ 6,124,435</b>	\$ 2,640,336
<b>Loss per Share - Basic and Diluted</b>	<b>\$ (0.12)</b>	\$ (0.03)

**Statements of Cash Flows**

For the Years Ended February 28

Canadian Funds

<b>Cash Resources Provided By (Used In)</b>	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Loss for the year	\$ (3,484,099)	\$ (786,819)
Items not affecting cash		
Resource costs written-off	3,652,595	358,226
Future income tax recoveries	(562,980)	-
Stock-based compensation	170,439	278,912
Amortization	2,450	4,241
	<u>(221,595)</u>	<u>(145,440)</u>
Changes in non-cash working capital		
Receivables	(49,221)	48,128
B.C. Exploration Tax Credit receivable	(186,853)	-
Prepaid expenses	(1,547)	(1,445)
Accounts payable and accrued liabilities	17,463	2,298
Due to related parties	3,086	(11,559)
	<u>(438,667)</u>	<u>(108,018)</u>
<b>Investing Activities</b>		
Purchase of property, plant and equipment	-	-
Reclamation bonds	(3,500)	-
Resource property costs	(951,070)	(1,199,697)
Recovery of resource property costs	-	391,653
	<u>(954,570)</u>	<u>(808,044)</u>
<b>Financing Activities</b>		
Shares issued for cash	1,754,400	1,030,375
Share issuance costs	(74,741)	(62,858)
	<u>1,679,659</u>	<u>967,517</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>286,422</b>	<b>51,455</b>
Cash and cash equivalents – Beginning of year	218,024	166,569
<b>Cash and cash equivalents – End of Year</b>	<b>\$ 504,446</b>	<b>\$ 218,024</b>

**Supplemental Schedule of Non-Cash Investing and Financing Transactions**

Stock-based compensation recorded in resource costs	\$ 52,583	\$ -
Exploration expenditures included in accounts payable	\$ 281,797	\$ 8,425
Fair value of agent warrants issued – August 2006	\$ 7,259	\$ -
Fair value of agent warrants issued – December 2006	\$ 3,500	\$ -
Fair value of warrant amended during the year	\$ 32,104	\$ -
Shares issued for property	\$ 441,000	\$ -

**Schedule of Resource Property Costs**

For the Years Ended February 28

Canadian Funds

	2007	2006
<b>Sullivan Deeps Project, BC, Canada</b>		
<b>Acquisition Costs</b>		
Staking and land costs	\$ 12,266	\$ 16,811
<b>Deferred Exploration Costs</b>		
Drilling costs	891,055	641,026
Materials, equipment and road	145,993	217,722
Geological and project management	79,719	62,544
Stock-based compensation	22,140	-
Insurance	7,813	7,188
Assays	2,855	48
Travel and field transportation	2,691	5,144
Wages and labour costs	2,488	5,323
Communication	307	732
Accommodation and meals	-	1,179
Maps and reports	-	549
Exploration tax credits	(186,853)	(391,653)
	<b>980,474</b>	<b>566,613</b>
<b>Huskie Uranium Project, SK, Canada</b>		
<b>Acquisition Costs</b>		
Acquisition costs – shares	441,000	-
Staking, land and claim costs	40,176	-
<b>Deferred Exploration Costs</b>		
Stock-based compensation	15,221	-
Geological, Project Management	4,276	-
Travel and Accommodation	1,332	-
Communication	23	-
	<b>502,028</b>	<b>-</b>
<b>Balance forward</b>	<b>\$ 1,482,502</b>	<b>\$ 566,613</b>

**Schedule of Resource Property Costs**

For the Years Ended February 28

Canadian Funds

	2007	2006
<b>Balance forward</b>	<b>\$ 1,482,502</b>	<b>\$ 566,613</b>
<b>Catalan Copper Project, BC, Canada</b>		
<b>Acquisition Costs</b>		
Option payment – cash	25,000	25,000
Staking and land costs	9,886	120
<b>Deferred Exploration Costs</b>		
Drilling costs	139,149	-
Geological and project management	19,199	3,500
Stock-based compensation	15,222	-
Materials and equipment and road	10,650	-
Accommodation and meals	9,432	-
Travel and field transportation	3,781	-
Maps and reports	1,316	-
Wages and labour costs	1,080	-
Communication	808	-
	<b>235,523</b>	<b>28,620</b>
<b>General Exploration - Latin America</b>		
<b>Deferred Exploration Costs</b>		
Materials	-	-
Geological and project management	-	1,377
Consulting	-	964
Travel, accommodation and meals	-	-
Communication	-	-
	-	<b>2,341</b>
<b>Total Costs for the Year</b>	<b>1,718,025</b>	<b>597,574</b>
Balance - Beginning of year	<b>2,700,741</b>	<b>2,461,393</b>
Resource costs written-off	<b>(3,652,595)</b>	<b>(358,226)</b>
<b>Balance - End of Year</b>	<b>\$ 766,171</b>	<b>\$ 2,700,741</b>

## **Notes to Financial Statements**

**February 28, 2007 and 2006**  
*Canadian Funds*

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### **1. Going Concern**

The Company has not yet determined whether any of its properties contain mineral deposits that are economically recoverable. The recoverability of any amounts shown for mineral properties is dependent upon the existence of economically recoverable mineral deposits, the ability of the company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of its properties.

While these financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, there are conditions and events that cast significant doubt on the validity of this assumption.

As is typical for an exploration company, the Company has a history of recurring losses. For the year ended February 28, 2007, the Company reported a loss of \$3,484,099 and an accumulated deficit of \$6,124,435 at that date. Working capital at February 28, 2007 amounted to \$443,831.

The Company's ability to continue operations and exploration activities as a going concern is dependent upon its ability to obtain additional funding from equity or other sources of financing. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption to be inappropriate, and these adjustments could be material.

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### **2. Nature of Operations**

The Company was incorporated July 10, 2000 as Withit Capital Corp. and changed its name to Stikine Gold Corporation June 18, 2002. The Company was inactive until it commenced operations in the 2003 fiscal year.

The Company is an exploration stage company that engages principally in the acquisition, exploration and development of resource properties. The recovery of the Company's investment in its resource properties is dependent upon the discovery, development and sale of ore reserves and the ability to raise sufficient capital to finance these operations. The ultimate outcome of these operations cannot presently be determined because they are contingent on future matters.

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### **3. Significant Accounting Policies**

#### **a) Cash and Cash Equivalents**

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash equivalents with institutions of high-credit worthiness.

## **Notes to Financial Statements**

**February 28, 2007 and 2006**  
Canadian Funds

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### **3. Significant Accounting Policies - Continued**

#### **b) Resource Properties and Deferred Exploration Expenditures**

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Resource exploration and development costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

The recoverability of the amount capitalized for the undeveloped resource properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Title to resource 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 resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

#### **c) Option Agreements**

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

#### **d) Asset Retirement Obligations**

The Company recognizes the legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost are recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

#### **e) Amortization**

The Company provides for amortization on its property, plant and equipment at an annual rate of 30% for computer and automobile equipment and 20% for office equipment on the declining balance method. One-half of the above rates are taken in the year of acquisition.

#### **f) Income Taxes**

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

**Stikine Gold Corporation**

*(An Exploration Stage Company)*

**Notes to Financial Statements**

**February 28, 2007 and 2006**

*Canadian Funds*

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**3. Significant Accounting Policies - Continued**

**g) Share Capital**

i) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

ii) The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on relative fair values as follows: the fair value of common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model

**h) Stock-Based Compensation**

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method.

**i) Loss per Share**

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

**j) Management's Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

**k) Flow-Through Shares**

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If a company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

**l) Mineral Exploration Tax Credits ("METC")**

The Company recognizes METC amounts when the Company's METC application is approved by Canada Revenue Agency auditors or when the amount to be received can be reasonably estimated and collection is reasonably assured.

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## Notes to Financial Statements

February 28, 2007 and 2006  
Canadian Funds

### 4. Fair Value of Financial Instruments

The Company's financial instruments consist of cash, receivables, B.C. Exploration Tax Credit receivable, reclamation bonds and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

### 5. Resource Property Costs

Details are as follows:

	Acquisition	Deferred Exploration	Write-off	Total February 28 2007
British Columbia, Canada				
Sullivan Deeps Project	\$ 115,892	\$ 3,536,703	\$ 3,652,595	\$ -
Catalan Copper Project	60,006	204,137	-	<b>264,143</b>
Saskatchewan, Canada				
Huskie Uranium Project	481,176	20,852	-	<b>502,028</b>
	<b>\$ 657,074</b>	<b>\$ 3,761,692</b>	<b>\$ 3,652,595</b>	<b>\$ 766,171</b>
	Acquisition	Deferred Exploration	Write-off	Total February 28 2006
British Columbia, Canada				
Sullivan Deeps Project	\$ 103,627	\$ 2,568,494	\$ -	\$ <b>2,672,121</b>
Catalan Copper Project	25,120	3,500	-	<b>28,620</b>
Saskatchewan, Canada				
Huskie Uranium Project	-	-	-	-
	<b>\$ 128,747</b>	<b>\$ 2,571,994</b>	<b>\$ -</b>	<b>\$ 2,700,741</b>

- a) By an assignment agreement dated October 2, 2003, the Company acquired the right to earn, from Teck Cominco Metals Ltd. ("Teck Cominco", a subsidiary of Teck Cominco Limited), a 50% interest in certain properties located near Kimberley, British Columbia, known as the Sullivan Deeps Project. As consideration for the assignment of the option, in a prior year, the Company reimbursed Mariner Ventures Corporation, a related company, for \$53,394 in costs and was later credited with a refund \$2,251, for net acquisition costs of \$51,143. To earn its 50% interest in the property, the Company, at its option, must issue 100,000 shares to Teck Cominco (issued) and incur \$1.5 million in exploration expenditures on or before January 31, 2005 (incurred) and \$4,000,000 in cumulative exploration expenditures on or before August 1, 2007. (See Note 11)

## Notes to Financial Statements

February 28, 2007 and 2006

Canadian Funds

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### 5. Resource Property Costs – Continued

Subsequent to the year ended February 28, 2007, the Company concluded that the Sullivan Deeps Project had been adequately tested and that no further exploration would be conducted at the project. At February 28, 2007, acquisition and deferred exploration costs totalling \$3,652,595 have been written-off.

- b) By agreement dated February 15, 2006, the Company acquired an option to earn a 100% interest in the Catalan Copper Property for \$160,000 in staged payments ending on or before February 15, 2007. The Catalan claims lie adjacent to the Gibraltar Copper Molybdenum Mine near Williams Lake, in south-central British Columbia. By amending agreements signed in February and May of 2007, the deadline for the final option payment was extended to May 15, 2007 and the final payment was reduced to \$10,000 from \$100,000. There was no additional consideration required for these amendments.

Pursuant to these amendments, in order to earn its 100% interest in Catalan Copper, Stikine must now pay a total of \$60,000 to the vendor as summarized below:

	<u>Cash Payment</u>
Upon signing (paid)	\$ 25,000
On or before August 15, 2006 (paid)	25,000
On or before May 15, 2007 (paid subsequently)	<u>10,000</u>
	<u>\$ 60,000</u>

In addition, the Company must, at its option, complete a diamond drilling program of at least 500 metres before May 15, 2007 which condition has now been satisfied. The Catalan Copper Property is subject to a 1% net smelter return held by the vendor upon commencement of commercial production.

- c) On May 16, 2006, the Company completed the purchase of a 100% interest in the "Huskie Uranium Property", in Northern Saskatchewan. In order to acquire the 100% interest, the Company issued 1,225,000 common shares with a fair value of \$441,000 to the vendor. The property is subject to a 2.5 percent net smelter return held by the vendor upon commencement of commercial production that is reducible to 1 percent by paying \$3-million at any time before or after the commencement of commercial production.
- d) The Company grubstaked a prospector to search for, and to acquire certain mineral properties of interest that meet the Company's criteria in Latin America. Acquisition and deferred exploration costs totalling \$358,226 were written-off during the fiscal year ended February 28, 2006, in accordance with the Company's significant accounting policies.
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## Notes to Financial Statements

February 28, 2007 and 2006  
Canadian Funds

### 6. Property, Plant and Equipment

Details are as follows:

	Cost	Accumulated Amortization	<b>February 28 2007 Net Book Value</b>	February 28 2006 Net Book Value
Computer/Office equipment	\$ 17,336	\$ 13,297	\$ 4,039	\$ 6,489

### 7. Share Capital

a) Details are as follows:

	Number	Amount
Authorized:		
100,000,000 common shares without par value		
<b>Balance as at February 28, 2005</b>	23,899,417	\$ 4,044,180
Issued and fully paid		
Private Placement – April 2005	2,000,000	900,000
Exercise of Warrants at \$0.25	416,000	104,000
Exercise of Agent Warrants at \$0.25	105,500	26,375
Share issuance costs	-	(62,858)
<b>Balance as at February 28, 2006</b>	26,420,917	5,011,697
Issued and fully paid		
Private Placement – August 2006	3,500,000	944,714
Private Placement – December 2006	2,000,000	563,537
Exercise of Warrants at \$0.20	522,000	104,400
Issued for Huskie Project (Note 5c)	1,225,000	441,000
Fair value of warrants amended	-	(32,104)
Fair value of warrants exercised	-	21,149
Share issuance costs	-	(85,500)
Flow-through share renunciation-tax effect (Note 9b)	-	(562,980)
<b>Balance as at February 28, 2007</b>	33,667,917	\$ 6,405,913

b) In August 2006, the Company closed a \$1,050,000 private placement. A total of 3.5 million flow-through shares and 1.75 million warrants were issued, each warrant entitling the holder to acquire one additional non-flow-through common share until Aug. 22, 2007, at price of \$0.45. Cash finders' fees totalling \$41,712 were paid, and 90,466 warrants were issued in connection with this offering, the warrants having the same terms as those issued to the private placees.

The prorated fair value of the unit warrants issued was calculated to be \$105,286 on the grant date and is accounted for as a reduction to proceeds from the common shares (to \$944,714) with the offsetting entry to contributed surplus. The total fair value of the Agent warrants issued was calculated to be \$7,259 on the grant date. The offsetting entry is to contributed surplus. The total fair value of warrants and Agent warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

## Notes to Financial Statements

February 28, 2007 and 2006  
Canadian Funds

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### 7. Share Capital - Continued

Average risk-free interest rate	4.09%
Expected dividend yield	Nil
Expected stock price volatility	73.09%
Average expected option life	1 year

- c) In December, 2006, the Company closed a \$600,000 private placement. A total of 2 million flow-through shares and 1 million warrants were issued, each warrant entitling the holder to acquire one additional non-flow-through common share until December 29, 2007, at price of \$0.45. Cash finders' fees totalling \$27,047 were paid, and 112,694 warrants were issued in connection with this offering, the warrants having the same terms as those issued to the private placees.

The prorated fair value of the unit warrants issued was calculated to be \$36,463 on the grant date and is accounted for as a reduction to proceeds from the common shares (to \$563,537) with the offsetting entry to contributed surplus. The total fair value of the Agent warrants issued was calculated to be \$3,500 on the grant date and is accounted for as share issuance costs. The offsetting entry is to contributed surplus. The total fair value of warrants and Agent warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	4.02%
Expected dividend yield	Nil
Expected stock price volatility	77.75%
Average expected option life	1 year

- d) In May 2006, the Company purchased a 100% interest in the "Huskie Uranium Property", in Northern Saskatchewan. In order to acquire the 100% interest, the Company issued 1,225,000 common shares with a fair value of \$441,000 to the vendor on May 16, 2006.
- e) During current year, 1,000,000 warrants previously set to expire on April 20, 2006, were extended until April 20, 2007. Of the 1,000,000 warrants, 522,000 had the exercise price reduced to \$0.20 per share from \$0.55 per share. The amended warrants contained a "forced exercise" provision, such that if the closing price of the common shares exceeds \$0.25 for a period of 10 trading days, then after a seven day period, the holders of the amended warrants were given 30 days to exercise their warrants, or the warrants would expire. All 522,000 warrants exercisable at \$0.20 were exercised during the year for gross proceeds of \$104,400. The remaining 478,000 warrants held by directors of the Company remained unexercised at year end. The total fair value of extended warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	4.05%
Expected dividend yield	Nil
Expected stock price volatility	170.33%
Average expected option life	0.5-1 year

## Notes to Financial Statements

February 28, 2007 and 2006  
Canadian Funds

### 7. Share Capital - Continued

- f) As at February 28, 2007, the following share purchase warrants are outstanding:

	Number	Price per Share	Expiry Date
Warrants*	478,000	\$ 0.55	April 20, 2007
Warrants	1,750,000	\$ 0.45	August 22, 2007
Warrants	1,000,000	\$ 0.45	December 29, 2007
Agent Warrants	90,466	\$ 0.45	August 22, 2007
Agent Warrants	112,694	\$ 0.45	December 29, 2007

\*Subsequent to February 28, 2007, 478,000 warrants expired unexercised.

- g) The company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. The maximum number of shares issuable under the stock option plan shall not exceed 10% of the issued and outstanding shares. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant date. Options vest on the grant date unless determined otherwise by the board of directors.
- h) A summary of the company's options at February 28, 2007 and changes for the period are as follows:

Number at February 28, 2006	Granted	Exercised	Cancelled	Expired	Number at February 28, 2007	Exercise Price Per Share	Expiry
630,000	-	-	-	-	630,000	\$0.55	Mar. 4, 2010
835,000	-	-	-	-	835,000	\$0.10 <sup>(1)</sup>	July 31, 2008
840,000	-	-	-	-	840,000	\$0.10 <sup>(1)</sup>	Feb 2, 2009
-	200,000	-	-	-	200,000	\$0.20	Mar 13, 2011
-	100,000	-	-	-	100,000	\$0.30	June 1, 2011
-	750,000	-	-	-	750,000	\$0.30	Feb. 20, 2011
<u>2,305,000</u>	<u>1,050,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,355,000</u>		

Note 1: During the prior fiscal year, all outstanding stock options granted prior to March 2005, were repriced from \$0.35 and \$0.25 per share to \$0.10 per share. Subsequent to the year ended February 28, 2007, directors exercised a total of 1,125,000 options at \$0.10 for proceeds of \$112,500.

On March 13, 2006, the Company granted 200,000 incentive stock options to an investor relations consultant to the Company to purchase up to 200,000 common shares of the Company at a price of \$0.20 per share for a period of five years, to vest over a 12 month period. The total fair value of the options granted was calculated to be \$40,405 of which \$39,028 was expensed during the year ended February 28, 2007, with the balance of \$1,377 to be expensed in the following fiscal year. The offsetting entries are to contributed surplus.

## Notes to Financial Statements

February 28, 2007 and 2006  
Canadian Funds

### 7. Share Capital - Continued

In June of 2006, the Company granted 100,000 incentive stock options to a consultant. The stock options are exercisable at a price of \$0.30 per share for a period of five years and vested immediately. The total fair value of the options granted was calculated to be \$28,761 on the grant date, which amount was expensed during the year ended February 28, 2007. The offsetting entry is to contributed surplus.

In February of 2007, the Company granted 750,000 incentive stock options to directors and consultants of the Company of which 700,000 vested immediately and 50,000 options are to vest over a period of one year. All stock options are exercisable at a price of \$0.30 per share for a period of five years. The total fair value of the options granted was calculated to be \$166,052 on the grant date, of which \$102,650 was expensed and \$52,583 was capitalized to resource costs during the year ended February 28, 2007. The balance of \$10,819 in stock based compensation is to be expensed in the following fiscal year. The offsetting entries are to contributed surplus.

The fair value of the stock options granted during the year used to calculate compensation expense was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	4.00-4.23%
Expected dividend yield	Nil
Expected stock price volatility	118-130%
Average expected option life in years	5 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

#### i) Contributed Surplus

Details are as follows:

	Feb. 28, 2007	Feb. 28, 2006
Balance – Beginning of Year	\$ 552,078	\$ 273,167
Fair Value of warrants issued in August 2006	105,286	-
Fair Value of warrants issued in December 2006	36,463	-
Fair value of Agent warrants issued (Note 6b,6c)	10,759	-
Fair value of warrants amended during the year	32,104	-
Fair value of warrants exercised	(21,149)	-
Fair value of stock-based compensation (Note 6h)	223,022	278,911
Balance – End of Year	\$ 938,563	\$ 552,078

## Notes to Financial Statements

February 28, 2007 and 2006

Canadian Funds

### 8. Related Party Transactions

Except as noted elsewhere in these financial statements, related party transactions are as follows:

- a) During the year, consulting fees of \$25,800 (2006 - \$26,200) were paid or accrued to the Company's President and Chief Executive Officer. Services provided include general corporate, exploration and acquisition strategy, planning and management work, contract negotiations, and investment presentations.
- b) During the year, consulting fees of \$30,856 (2006 - \$31,675) were paid or accrued to the Company's Secretary and Chief Financial Officer. Services provided include corporate finance initiatives, fund raising, contract negotiations, accounting, office and general management.
- c) During the year, contract fees of \$9,800 (2006 - \$20,231) were paid or accrued to a company controlled by a director. These amounts were included in resource property costs.
- d) During the year, consulting fees of \$NIL (2006 - \$350) were paid or accrued to a director. These amounts were included in resource property costs.
- e) During the year, rent costs of \$500 (2006 - \$6,000) were paid or accrued to a company with a former director of the Company in common.
- f) During the year, rent costs of \$15,827 (2006 - \$NIL) were paid or accrued to a company with directors of the Company in common.
- g) As at February 28, 2007, accounts payable include \$13,772 (2006 - \$10,868) payable to related parties. These amounts were incurred in the ordinary course of business, are non-interest bearing, and without specific repayment terms.

### 9. Income Taxes

- a) The Company has accumulated non-capital losses for income tax purposes of approximately \$1,244,245 that may be used to reduce future taxable income. If not utilized, these losses will expire as follows:

2010	\$	42,940
2011		335,570
2015		332,157
2016		206,730
2017		326,848
	\$	<u>1,244,245</u>

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates are as follows:

Future income tax assets	2007	2006
Statutory tax rate	34%	35%
Unamortized share issue costs	\$ 63,367	\$ 75,538
Non-capital losses	424,536	318,042
Equipment	5,915	3,796
Exploration and development expenditures	1,465,165	321,426
Future income tax assets	1,958,983	718,622
Less: Valuation allowance	(1,958,983)	(718,622)
	<u>\$ -</u>	<u>\$ -</u>

## Notes to Financial Statements

February 28, 2007 and 2006  
Canadian Funds

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### 9. Income Taxes – Continued

- b) Flow-through securities are securities issued by a company that incurs certain resource expenditures and renounces them for tax purposes thereby allowing the expenditures to flow through to the subscriber who purchased the securities. Subscribers may in turn claim the expenditure as a deduction on their personal or corporate tax returns.

The total amount of funds raised through the sale of the Flow-through common shares must be spent on qualified mineral exploration. The proceeds from the Flow-through common shares are restricted in use for certain qualifying Canadian Exploration Expenditures ("CEE") under Canadian Tax Legislation.

Funds raised by the Company through the sale of the flow-through common shares must be spent on qualified mineral exploration. During the year ended February 28, 2007, the Company raised a total of \$1,650,000 through the issuance of flow-through securities, which funds have been expended on qualifying expenditures. The entire amount was renounced, for income tax purposes, to the flow-through investors with an effective date of renunciation of December 31, 2006.

For the amount that was renounced in current year, the future tax liability amounted to \$562,980. The Company's tax pool balances exceed this estimated liability. Therefore, the Company has reduced its share capital account and recorded future income tax recovery of \$562,980.

The Company has incurred approximately \$4,294,153 of resource related expenditures that may be carried forward indefinitely and used to reduce prescribed taxable income in future years.

The potential future tax benefits of these income tax losses, net capital losses and resource related expenditures have not been recognized in the accounts of the Company due to uncertainty surrounding realization of such benefits

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### 10. Segmented Information

- a) Details on a geographic basis as at February 28, 2007 are as follows:

	Latin America	Canada	Total
Assets	\$ -	\$ 1,537,740	\$ 1,537,740
Resource property costs	\$ -	\$ 766,171	\$ 766,171
Loss for the year	\$ -	\$ 3,484,099	\$ 3,484,099

- b) Details on a geographic basis as at February 28, 2006 are as follows:

	Latin America	Canada	Total
Assets	\$ -	\$ 2,947,217	\$ 2,947,217
Resource property costs	\$ -	\$ 2,700,741	\$ 2,700,741
Loss for the year	\$ 358,226	\$ 428,593	\$ 786,819

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**Stikine Gold Corporation**  
*(An Exploration Stage Company)*

## **Notes to Financial Statements**

**February 28, 2007 and 2006**  
*Canadian Funds*

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### **11. Subsequent Events**

Subsequent to the year ended February 28, 2007, the Company concluded that the Sullivan Deeps Project has been adequately tested. The Company will not conduct any future exploration at the project, and at February 28, 2007, acquisition and deferred exploration costs totalling \$3,652,980 have been written-off.

Also subsequent to year-end, directors of the Company exercised a total of 1,125,000 options at an exercise price of \$0.10 per share for proceeds of \$112,500. 478,000 warrants all held by directors, exercisable at \$0.55 per share, expired unexercised.

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