SKEENA RESOURCES LIMITED

(an exploration stage enterprise)

Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SKEENA RESOURCES LIMITED

We have audited the accompanying consolidated financial statements of Skeena Resources Limited, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Skeena Resources Limited as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 29, 2014

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SKEENA RESOURCES LIMITED
(an exploration stage enterprise)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at December 31
(expressed in Canadian dollars)

	Note		2013		2012
ASSETS					
Current					
Cash		$	24,690	$	32,216
Marketable securities	5		-		413
Receivables			7,724		8,404
Prepaid expenses			9,828		8,352
			42,242		49,385
Mineral property interests	6		686,784		686,784
Equipment	7		11,559		14,715
		$	740,585	$	750,884
LIABILITIES					
Current					
Accounts payable and accrued liabilities	8(c)	$	76,169	$	37,105
Loan	8(d)		342,000		200,000
			418,169		237,105
SHAREHOLDERS' EQUITY					
Capital stock	9		21,574,497		21,574,497
Reserves	9		3,633,238		3,633,238
Deficit			(24,885,319)		(24,693,956)
			322,416		513,779
		$	740,585	$	750,884

Approved 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
(an exploration stage enterprise)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
for the years ended December 31
(expressed in Canadian dollars)

	Note		**2013**		2012
ADMINISTRATIVE EXPENSES					
Exploration and evaluation	6	**$**	**109,128**	$	91,485
Amortization			**3,156**		4,057
Consulting	8 (a)		**8,655**		12,375
Foreign exchange loss (gain)			**(511)**		5,888
Investor relations			**-**		1,750
Office and administration	8 (b)		**17,920**		14,946
Professional fees			**24,651**		40,330
Rent and administration			**8,961**		9,309
Shareholder communications			**769**		3,680
Transfer agent and listing fees			**18,319**		16,223
Travel			**186**		518
			(191,234)		(200,561)
Loan fees	8 (e)		**-**		(35,000)
Interest income			**144**		295
Loss on sale of marketable securities			**(273)**		-
Impairment of marketable securities	5		**-**		(1,237)
Net loss and comprehensive loss for the year		**$**	**(191,363)**	$	(236,503)
Loss per share		**$**	**(0.01)**	$	(0.01)
Weighted average number of common shares outstanding			**25,551,762**		25,293,565

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

SKEENA RESOURCES LIMITED
(an exploration stage enterprise)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(expressed in Canadian dollars)

	Capital Stock		Reserves				Total Shareholders' Equity (Deficiency)
	Shares (Note 1)	Amount	Options	Warrants	Total Reserves	Deficit	
Balance at December 31, 2011	25,051,790	$ 21,543,335	$ 2,310,023	$ 1,323,215	$ 3,633,238	$ (24,457,453)	$ 719,120
Small lot cancellations	(28)	-	-	-	-	-	-
Shares issued for loan fee	500,000	35,000	-	-	-	-	35,000
Share issue costs		(3,838)					(3,838)
Loss for the year	-	-	-	-	-	(236,503)	(236,503)
Balance at December 31, 2012	25,551,762	21,574,497	2,310,023	1,323,215	3,633,238	(24,693,956)	513,779
Loss for the year	-	-	-	-	-	(191,363)	(191,363)
Balance at December 31, 2013	25,551,762	$ 21,574,497	$ 2,310,023	$ 1,323,215	$ 3,633,238	$ (24,885,319)	$ 322,416

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

SKEENA RESOURCES LIMITED
(an exploration stage enterprise)
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31
(expressed in Canadian dollars)

		2013		2012
OPERATING ACTIVITIES				
Loss for the year	**$**	(191,363)	$	(236,503)
Items not effecting cash				
Amortization		3,156		4,057
Loan fee		-		35,000
Impairment of marketable securities		-		1,237
Loss on sale of marketable securities		273		-
Changes in non-cash working capital				
Receivables		680		(1,104)
Prepaid expenses		(1,476)		(1,113)
Accounts payable and accrued liabilities		39,064		(20,830)
Net cash used in operating activities		(149,666)		(219,256)
FINANCING ACTIVITIES				
Share issuance costs		-		(3,838)
Proceeds from loans		142,000		200,000
Net cash provided by financing activities		142,000		196,162
INVESTING ACTIVITIES				
Proceeds from sale of marketable securities		140		-
Change in cash during the year		(7,526)		(23,094)
Cash, beginning of the year		32,216		55,310
Cash, end of the year	**$**	24,690	$	32,216

Supplemental Disclosure with Respect to Cash Flows (Note 12)

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

(expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Skeena Resources Limited (the "Company") is incorporated under the laws of the province of British Columbia, Canada, and its principal business activity is the exploration of mineral properties. The Company's corporate office is located at Suite 611, 675 West Hastings Street, Vancouver, British Columbia V6B 1N2. The Company is in the exploration stage with respect to its mineral property interests and has not, as yet, achieved any commercial production.

On June 1, 2012, the Company consolidated its capital stock on a 5:1 basis. All share and per share amounts have been adjusted retroactively to reflect the share consolidation unless otherwise noted.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 significant 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.

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 exploration and 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-arm's length loans, there is no assurance that such financing will be available on favourable terms. An inability to raise additional financing will adversely 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. These matters indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

		December 31 2013		December 31 2012
Working capital deficiency	**$**	**(375,927)**	$	(187,720)
Deficit	**$**	**(24,885,319)**	$	(24,693,956)

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board. These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale ("AFS"), which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PRESENTATION (Continued)

Principles of consolidation

The Board of Directors has approved and authorized the issuance of these consolidated financial statements on April 29, 2014.

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiary, Skeena Mexico S.A. de C.V. ("Skeena Mexico"), a Mexican corporation. All significant intercompany balances and transactions have been eliminated.

Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the consolidated statement of financial position date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include, but are not limited to, the following:

- Recovery of deferred tax assets

  The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

2. BASIS OF PRESENTATION (Continued)

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

- Recoverability of mineral property interests

  Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's property and equipment and mineral properties.

  In respect of costs incurred for its mineral property interests, management has determined that acquisition costs that have been capitalized are not economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, economics assessment/studies, accessible facilities, existing permits and ability to continue development.

3. SIGNIFICANT ACCOUNTING POLICIES

Mineral property interests

Mineral property interests include the purchase price of mineral properties and any costs incurred for mineral properties not classified as exploration and evaluation expenses.

Exploration and evaluation expenses are comprised of costs that are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

All exploration and evaluation expenditures are expensed until properties are determined to contain economically viable reserves. When economically viable reserves have been determined, technical feasibility has been determined and the decision to proceed with development has been approved, the capitalized mineral property interest for that project, and subsequent costs incurred for the development of that project, are capitalized as mining properties, a component of property, plant and equipment.

Development expenditures are net of the proceeds of the sale of ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral property interests (continued)

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as mineral interest.

Impairment of long-lived asset

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Foreign currencies

The Company, and its subsidiary, has determined the Canadian dollar to be its functional and reporting currency. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the consolidated statement of financial position date and non-monetary assets and liabilities are translated at the exchange rates in effect at the transaction date. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. All exchange gains and losses are included in profit or loss.

Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: held-to-maturity, fair value through profit or loss ("FVTPL"), loans and receivables, and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

(i) Financial assets (continued)

Fair value through profit or loss

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future; it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is included in this category of financial assets.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate method.

Held-to-maturity

Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method. The Company has no assets classified as held-to-maturity.

Available-for-sale

AFS financial assets are non-derivatives that are either designated as AFS or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. The Company has no assets that are classified as AFS.

(ii) Financial liabilities

The Company classifies its financial liabilities in the following category:

Borrowings and other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the consolidated statement of loss and comprehensive loss over the period to maturity using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

(ii) Financial liabilities (continued)

Borrowings and other financial liabilities (continued)

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities and the loan payable.

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for assets or liabilities that are not based on observable market data.

Provision for closure and reclamation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The increase in the provision due to the passage of time is recognized as interest expense.

Equipment

Equipment is recorded at cost less accumulated depreciation, with depreciation calculated on a declining-balance basis at an annual rate of 30% for computer equipment and 20% for office furniture, field equipment and vehicle.

Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the statements of loss and comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (continued)

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred 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 deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is not recognized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share-based transactions

The Company has a stock option plan that is described in Note 9. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to option reserve. Consideration received on the exercise of stock options is recorded as capital stock and the related option reserve is transferred to capital stock.

Capital stock

The Company records proceeds from share issuances, net of issue costs. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded.

Loss per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

New standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards are not yet effective as of December 31, 2013 and have not been applied in preparing these consolidated financial statements. The Company is assessing the impact of these standards on its financial statements:

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

IFRS 9 Financial Instruments (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New standards, amendments and interpretations not yet effective (continued)

IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (2013)

A revised version of IFRS 9 which:

- Introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss.
- Removes the mandatory effective date of IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard remains available for application.

This standard has no stated effective date.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- The meaning of “currently has a legally enforceable right of set-off”
- The application of simultaneous realization and settlement
- The offsetting of collateral amounts
- The unit of account for applying the offsetting requirements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (continued)

Applicable to the Company’s annual period beginning on January 1, 2014

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Applicable to the Company’s annual period beginning on January 1, 2014.

(expressed in Canadian dollars)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as FVTPL; accounts payable and accrued liabilities and loan payable, as other financial liabilities. The carrying values of these instruments approximate their fair value due to their short term to maturity.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is exposed to credit risk. The Company manages credit risk, in respect of cash, by placing its cash with major Canadian financial institutions. Management believes that credit risk with respect to receivables is minimal.

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 cash to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

At December 31, 2013, the Company had cash in the amount of $24,690 (2012 - $32,216), accounts payable and accrued liabilities of $76,169 (2012 – $37,105) and loan payable of $342,000 (2012 - $200,000). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of December 31, 2013. The loan payable is due December 31, 2014.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks consist of interest rate risk, foreign currency risk and other price risk. As at December 31, 2013, the Company is not exposed to significant market risk.

5. MARKETABLE SECURITIES

The Company holds the following publicly-traded marketable securities:

	December 31, 2013		December 31, 2012	
	Number of Common Shares	Value	Number of Common Shares	Value
Duncastle Gold Corp.	-	$ -	8,250	$ 413

Management assessed the fair value of its marketable securities classified as AFS at each reporting date and any change in fair value was recognized in the consolidated statement of loss and comprehensive loss. During 2012, the Company recorded an impairment of $1,237 due to an indication of prolonged impairment. The remaining securities were sold during the year ended December 31, 2013 for $140 cash and a loss of $273.

(expressed in Canadian dollars)

6. MINERAL PROPERTY INTERESTS

Tropico Property, Mexico

In September 2010, the Company acquired a 100% interest in, and clear title to, the Tropico property, in consideration for 800,000 common shares of the Company (issued), valued at $400,000 and five-year warrants (issued), which can be exercised to acquire an additional 800,000 common shares, from Anthem Resources Incorporated, Almaden Minerals Corp. and Minera Cascabel S.A. de C.V, superseding all previous agreements. The total acquisition costs for the Tropico property amounted to $686,784. There were no mining concession fees owing at December 31, 2013. Mining concession fees due January 31, 2014 remain outstanding.

Exploration and evaluation expenses

Claim renewals	$	87,625
Field and camp support		3,741
Assays and analysis		7,496
Site travel		6,925
Maps and reports		766
Community relations		2,575
Total exploration and evaluation expenses during 2013	$	109,128
Claim renewals	$	53,172
Analysis		35,713
Geology/geophysics/geochemical		238
Field and camp support		2,362
Total exploration and evaluation expenses during 2012	$	91,485

(expressed in Canadian dollars)

7. EQUIPMENT

Cost	Computer Equipment	Field Equipment	Vehicle	Office Equipment	Total
Balance, December 31, 2011	$ 12,229	$ 20,940	$ 21,381	$ 5,945	$ 60,495
Additions	-	-	-	-	-
Balance, December 31, 2012	12,229	20,940	21,381	5,945	60,495
Additions	-	-	-	-	-
Balance, December 31, 2013	$ 12,229	$ 20,940	$ 21,381	$ 5,945	$ 60,495
Accumulated Amortization					
Balance, December 31, 2011	$ 9,192	$ 14,618	$ 13,499	$ 4,414	$ 41,723
Additions	911	1,264	1,576	306	4,057
Balance, December 31, 2012	10,103	15,882	15,075	4,720	45,780
Additions	638	1,012	1,261	245	3,156
Balance, December 31, 2013	$ 10,741	$ 16,894	$ 16,336	$ 4,965	$ 48,936
Carrying Value					
Balance, December 31, 2012	$ 2,126	$ 5,058	$ 6,306	$ 1,225	$ 14,715
Balance, December 31, 2013	$ 1,488	$ 4,046	$ 5,045	$ 980	$ 11,559

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties in addition to those discussed elsewhere in the consolidated financial statements:

(a) The Company paid or accrued consulting fees of $8,655 during the year ended December 31, 2013 (2012 - $12,375) to companies controlled by directors or officers.

(b) The Company paid or accrued office and administration fees on a cost recovery basis of $12,543 during the year ended December 31, 2013 (2012 - $7,762) to a private company with a common director.

(c) Included in accounts payable and accrued liabilities at December 31, 2013 is $25,492 (2012 - $682) due to directors or officers or companies with common directors or officers.

(d) During the year ended December 31, 2013, the Company obtained a loan from a private company held by a director of the Company for $142,000. The loan is non-interest-bearing and due on demand.

(e) During the year ended December 31, 2012, the Company arranged a loan totalling $200,000 from a private company held by a director of the Company. The loan is secured by a non-interest-bearing promissory note for consideration of 500,000 shares for a loan fee fair valued at $35,000.

(expressed in Canadian dollars)

9. CAPITAL STOCK AND RESERVES

Authorized - unlimited number of voting common shares without par value.

There were no share issuances for cash during 2013.

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, on the date of grant. The options can be granted for a maximum term of five 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	Number		Weighted Average Exercise
Outstanding, December 31, 2011	4,003,144	$	0.93	1,735,000	$	0.85
Expired/cancelled	(3,203,144)	$	(0.92)	(280,000)	$	(1.93)
Outstanding, December 31, 2012	800,000	$	2.50	1,455,000	$	0.65
Expired/cancelled	-		-	(250,000)	$	(1.46)
Outstanding and exercisable, December 31, 2013	800,000	$	2.50	1,205,000	$	0.51

As at December 31, 2013 incentive stock options and share purchase warrants were outstanding as follows:

	Number		Exercise Price	Expiry Date
Options	360,000	$	0.50	May 14, 2014
	50,000	$	0.75	January 11, 2015
	795,000	$	0.50	September 22, 2015
	1,205,000			
Warrants	800,000	$	2.50	September 1, 2015

(expressed in Canadian dollars)

9. CAPITAL STOCK AND RESERVES (Continued)

As at December 31, 2012, incentive stock options and share purchase warrants were outstanding as follows:

	Number		Exercise Price	Expiry Date
Options	240,000	$	1.50	June 26, 2013
	360,000	$	0.50	May 14, 2014
	50,000	$	0.75	January 11, 2015
	805,000	$	0.50	September 22, 2015
	1,455,000			
Warrants	800,000	$	2.50	September 1, 2015

Share-based transactions

No incentive options were granted to officers, employees or directors during the years ended December 31, 2013 and 2012.

10. CAPITAL RISK 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 as shareholders' equity. The Company is not exposed to any capital requirements.

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. There were no changes to the Company's capital risk management approach in the year ended December 31, 2013.

11. SEGMENTED INFORMATION

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

		2013		2012
Mineral Property Interest and Equipment:				
Canada	**$**	**6,302**	$	8,144
Mexico		**692,041**		693,355
	$	**698,343**	$	701,499

(expressed in Canadian dollars)

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no non-cash transactions for the year ended December 31, 2013.

Significant non-cash transactions for the year ended December 31, 2012 include the issuance of 500,000 common shares as a loan fee expense with a fair value of $35,000.

13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.75% (2012 - 25.00%) to income before income taxes. The reasons for the differences are as follows:

		2013		2012
Loss for the year	$	(191,363)	$	(236,503)
Statutory income tax rate		25.75%		25.00%
Expected income tax benefit		(49,276)		(59,126)
Items not deductible for income tax purposes		88		45
Difference between Canadian and foreign tax rates		(3,727)		(3,726)
Changes in timing differences		(1,882)		(23,183)
Effect of change in tax rate		(74,478)		(780)
Impact of foreign exchange on tax assets and liabilities		(23,534)		23,896
Unrecognized benefit of deferred tax assets		152,809		62,874
Income tax expense (recovery)	$	-	$	-

Effective April 1, 2013, the British Columbia corporate tax rate increased from 10.00% to 11.00%, and the Canadian federal corporate tax remained unchanged at 15.00%. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25.00% to 25.75%.

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2013 and 2012 are presented below:

		2013		2012
Deferred tax assets				
Non-capital losses carried forward	$	-	$	52
Deferred tax liabilities				
Carrying value of marketable securities over tax value		-		(52)
Net deferred tax assets	$	-	$	-

(expressed in Canadian dollars)

13. INCOME TAXES (Continued)

The Company recognizes tax benefits on losses or other deductible amounts generated in countries should the Company have sufficient future taxable income. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2013	2012
Equipment	$ 37,492	$ 33,908
Share issuance costs	30,369	48,680
Mineral property interests	3,669,992	2,932,675
Capital losses	120,879	120,879
Cumulative eligible capital	6,000	6,000
Non-capital losses carried forward	4,847,792	4,452,796
Unrecognized deductible temporary differences	$ 8,712,524	$ 7,594,938

The Company's unrecognized unused non-capital tax losses have the following expiry dates:

	Canada	Mexico	Ecuador
2014	$ 118,000	$ -	$ -
2015	168,000	-	7,000
2018	-	2,189,000	-
2020	-	16,000	-
2021	-	53,000	-
2026	217,000	-	-
2027	435,000	-	-
2028	337,000	-	-
2029	286,000	-	-
2030	373,000	-	-
2031	301,000	-	-
2032	150,000	-	-
2033	119,000	-	-
	$ 2,504,000	$ 2,258,000	$ 7,000

14. SUBSEQUENT EVENTS

(a) Subsequent to year-end, the Company amended the terms of a $200,000 loan with a company controlled by a director of the Company, to mature December 31, 2014.

(b) On April 28, 2014, the Company announced that it had entered into a conditional asset purchase agreement (the "Acquisition") with two private British Columbia corporations, Eilat Exploration Ltd. ("Eilat") and Keewatin Consultants (2002) Inc., a company owned by a director, with respect to the acquisition of a 100% interest in the Spectrum Gold Property ('Spectrum") for total consideration of 80 million common shares and an interest-free note payable of $700,000 due September 30, 2015. The Company will also pay up to $50,000 as a non-refundable deposit to cover certain near term operating expenses incurred by Eilat.

14. SUBSEQUENT EVENTS

(b) Spectrum is located in the Golden Triangle of the Stikine Arch in northwest British Columbia. The property is situated west of Imperial Metals' Red Chris mine and west-northwest of the NGEx/Teck GJ deposit.

The Acquisition is subject to shareholder and TSX Venture Exchange acceptance. The closing of the Acquisition is also subject to the Company completing a financing for net proceeds of at least $2 million. In the event that management of Skeena decides not to proceed with the Acquisition, after shareholder approval has been obtained, Eilat would be entitled to a $700,000 termination fee.