SARGOLD RESOURCE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006, 2005 and 2004

ERNST & YOUNG

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Chartered Accountants

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Auditors' Report

To the Directors of Sargold Resource Corporation

We have audited the consolidated balance sheets of Sargold Resource Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

As described in Notes 2, 7 and 14, the consolidated financial statements of the Company as at December 31, 2005 and for the year then ended have been restated. We therefore withdraw our previous auditors' report dated April 28, 2006.

The consolidated financial statements for the year ended December 31, 2004, prior to adjustments for items as described in Note 2, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 19, 2005. We have audited the adjustments to the 2004 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

ERNST & YOUNG LLP

Vancouver, Canada
April 9, 2007

Chartered Accountants

(except for Notes 2, 7 and 14, which are as of April 24, 2007
and Note 16 which is as of September 18, 2007)

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Auditors' Report

To the Directors of Sargold Resource Corporation

We have audited the consolidated statements of loss and deficit and cash flows of Sargold Resource Corporation for the year ended December 31, 2004, prior to the adjustments described in Note 2 to the consolidated financial statements. 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 of 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, prior to the adjustments described in Note 2 to the consolidated financial statements, present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
May 19, 2005

SARGOLD RESOURCE CORPORATION
CONSOLIDATED BALANCE SHEETS
As at December 31, 2006 and 2005

(See Note 1 - Going Concern Uncertainty)	Notes	December 31 2006	December 31 2005 (restated, note 2)
ASSETS			
CURRENT			
Cash and cash equivalents		$ 468,723	$ 1,215,348
Accounts receivable	(11)	470,584	424,787
Marketable securities	(4)	-	105,211
Inventories	(5)	371,619	277,093
Prepaids and other		122,229	120,437
		1,433,155	2,142,876
PLANT AND EQUIPMENT	(6)	3,690,107	3,408,039
MINERAL PROPERTIES AND DEFERRED COSTS	(7)	30,595,038	27,285,505
		$ 35,718,300	$ 32,836,420
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	(11)	$ 2,784,848	$ 2,327,546
Current portion of long-term liabilities	(8)	1,085,198	1,652,498
		3,870,046	3,980,044
LONG-TERM			
Long-term liabilities	(8)	8,379,645	12,723,338
Asset retirement obligations and other liabilities	(9)	4,168,971	3,775,833
Future income taxes	(14)	6,002,899	4,418,087
		22,421,561	24,897,302
SHAREHOLDERS' EQUITY			
Share capital	(10)	18,288,918	15,014,098
Contributed surplus	(10)	3,013,316	1,631,552
Cumulative translation adjustment		(96,328)	(96,328)
Deficit		(7,909,167)	(8,610,204)
		13,296,739	7,939,118
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 35,718,300	$ 32,836,420
COMMITMENTS AND CONTINGENCIES	(13)		

On Behalf of the Board of Directors,

/S/ Richard W. Warke *Richard W. Warke - Director*

/S/ Donald B. Clark *Donald B. Clark – Director*

See accompanying Notes to the Consolidated Financial Statements

SARGOLD RESOURCE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
For the Year Ended December 31, 2006, 2005 and 2004

(See Note 1 - Going Concern Uncertainty)	Notes	Year Ended December 31, 2006	2005 (restated, note 2)	2004 (restated, note 2)
EXPENSES				
Foreign exchange loss (gain)		$ 2,158,717	$ (3,298,895)	$ 384,636
Salaries and benefits		1,532,968	1,584,963	878,711
Consulting and communication		481,908	663,164	95,404
Office and sundry		304,624	349,755	284,430
Amortization		223,504	2,749	3,265
Raw materials and consumables		170,976	208,005	146,035
Accounting and audit		133,030	118,325	34,105
Stock based compensation	(10 (d))	122,417	431,919	127,950
Rent		121,213	118,598	69,926
Travel		74,889	48,003	87,655
Filing and regulatory		55,090	44,451	53,998
Administration	(11)	17,500	30,000	30,000
Investor relations		16,710	31,002	16,364
Legal fees		6,390	19,938	3,538
Property invesitigations		-	-	63,141
Capital projects		(229,803)	(198,188)	(386,664)
Loss from operations		(5,190,133)	(153,789)	(1,892,494)
Interest and other income		287,864	201,460	11,510
Gain from disposition of marketable securities	(4)	636,686	130,507	2,077
Gain on the repayment of debt	(8)	5,725,118	-	-
Write-off of debt		-	(60,417)	-
Write-down of marketable securities		-	-	(655,874)
Write-off of properties		-	-	(420,617)
Interest and finance charges	(8)	(792,038)	(897,507)	(174,245)
Pre-tax earnings (loss)		667,497	(779,746)	(3,129,643)
Income tax recovery	(14)	33,540	17,283	
NET EARNINGS (LOSS)		701,037	(762,463)	(3,129,643)
Deficit beginning of period as previously reported		(8,610,204)	(7,808,366)	(3,719,278)
Prior period adjustment	(2)	-	-	(676,567)
Deficit - as restated		(8,610,204)	(7,808,366)	(4,395,845)
Share issue costs		-	(39,375)	(282,878)
DEFICIT, END OF PERIOD		$ (7,909,167)	$ (8,610,204)	$ (7,808,366)
BASIC & DILUTED EARNINGS (LOSS) PER SHARE		$ 0.01	$ (0.02)	$ (0.12)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		47,648,083	38,436,829	27,157,790

See accompanying Notes to the Consolidated Financial Statements

SARGOLD RESOURCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2006, 2005 and 2004

	Notes	December 31 2006	2005 (restated, note 2)	2004 (restated, note 2)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING:				
OPERATING				
Net earnings (loss) for the period		$ 701,037	$ (762,463)	$ (3,129,643)
Items not affecting cash:				
Amortization		223,504	2,749	3,265
Unrealized foreign exchange (gain) loss		1,657,413	(3,273,696)	202,379
Discount interest on debt and capital lease	(8)	506,937	805,787	143,805
Stock based compensation	(10(d))	122,417	431,919	127,950
Gain on disposition of marketable securities	(4)	(636,686)	(130,507)	(2,077)
Gain on repayment of debt	(8)	(5,725,118)	-	-
Write-off mining assets		-	-	420,617
Write-down marketable securities		-	-	655,874
Other		(33,540)	43,134	(13,408)
		(3,184,036)	(2,883,077)	(1,591,238)
Net changes in non-cash working capital items:				
Accounts receivable		(45,797)	1,705,669	1,013,953
Accounts payable and accrued liabilities		464,373	(2,503,898)	(78,522)
Prepaids and deposits		(96,318)	(190,089)	(191,389)
Asset retirement obligation and other liabilities	(9)	393,138	1,303,227	-
Net cash flows used in operating activities		(2,468,640)	(2,568,168)	(847,196)
FINANCING				
Issuance of common shares	(10)	4,355,000	1,878,500	3,985,888
Repayment of notes and advances	(8)	(1,432,326)	(365,775)	-
Repayment of obligations under capital leases	(8)	(26,471)	-	-
Proceeds from long term notes		-	-	236,539
Share issue costs		-	(39,375)	(282,878)
Net cash flows from financing activities		2,896,203	1,473,350	3,939,549
INVESTING				
Acquisition of mining assets	(7)	(1,440,235)	(11,958)	-
Deferred exploration expenses	(7)	(264,398)	(420,094)	(3,045,896)
Acquisition of plant and equipment		(211,452)	(229,839)	(2,821)
Proceeds from disposition of assets	(4)	741,897	740,602	1,271,864
Acquisition of Gold Mines of Sardinia Pty, Ltd, net of cash acquired		-	-	(372,769)
Investment in assets		-	(69,530)	(320,629)
Net cash flows from (used in) investing activities		(1,174,188)	9,181	(2,470,251)
NET CASH OUTFLOW		(746,625)	(1,085,637)	622,102
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,215,348	2,300,985	1,678,883
CASH AND CASH EQUIVALENTS, END OF PERIOD		$ 468,723	$ 1,215,348	$ 2,300,985
SUPPLEMENTAL INFORMATION				
Interest Paid		$ -	$ -	$ -
Interest Received		$ 9,945	$ 201,460	$ -
Non cash transactions:				
Acquisition of Ricerche	(7)	$ 473,619	$ -	$ -
Acquisition of Gold Mines of Sardinia Pty, Ltd.		$ -	$ -	$ 6,630,788

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

1. NATURE OF BUSINESS, BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY

Sargold Resource Corporation (the "Company", "Sargold", "its") was incorporated under the Canada Business Corporations Act. The Company has interests in gold mining assets on the island of Sardinia, Italy that include, through its indirect ownership of Sardinia Gold Mining SpA ("SGM") a 90% interest in a mine, processing facilities and resource and exploration properties at Furtei and exploration properties at Osilo. Also, through its subsidiary SGM Ricerche SpA ("Ricerche") the Company has a 90% interest in the Monte Ollasteddu exploration properties. The Furtei mining facilities were operated from 1996 to 2002, and produced approximately 135,000 ounces of gold, when they were then shut down due to uneconomic conditions. Sargold completed the acquisition of its 90% interest in SGM in August 2006. Through December 31, 2006 and into the first quarter of 2007 the Company has been assessing whether and how the Furtei operations could be profitably restarted. The Company is considered to be a development stage enterprise as, through the 2006 year end, and while owned by Sargold, SGM had yet to generate revenue from operations.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going concern basis which presumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company recorded net earnings of $701,037 for the year ended December 31, 2006 (2005 – a $762,463 loss, 2004 – a $3,129,643 loss) and has an accumulated deficit of $7,909,167 as at December 31, 2006. The accumulated losses have been funded primarily by the issuance of equity. The Company has a working capital deficit of $2,436,891 as at December 31, 2006 (2005 - $1,837,168). The Company's ability to continue as a going concern is uncertain and dependent on its ability to achieve profitable operations, on its ability to obtain additional capital and on the continued support of its shareholders and creditors (see Notes 8 and 13). Management plans to raise additional capital to finance the Furtei gold operations and island exploration programs. A positive financial outcome and continued operation for these mining and exploration properties cannot be predicted at this time. The continuation of the Company's exploration activities, the commencement of the operations and the realization of the Company's investment in these mineral assets is dependent upon various factors including the existence of economically recoverable mineral reserves and the Company's ability to successfully complete its exploration and development programs and finance its cash requirements through a combination of equity and debt financing, or, alternatively, upon disposal of the investment on profitable basis.

These consolidated financial statements do not include any adjustment to the amounts and classifications of assets and liabilities, which might be necessary should the Company be unable to continue in business.

2. RESTATEMENT

a) The Company has restated its consolidated financial statements as at and for the year ended December 31, 2005 with the following effects:

Consolidated balance sheet	Previously Reported $	As Restated $	Change $
Mineral properties and deferred costs *[i]*	22,285,135	27,285,505	5,000,370
Total assets	27,836,050	32,836,420	5,000,370
Future income tax *[ii]* and *[iii]*	-	(4,418,087)	(4,418,087)
Total liabilities	(20,479,215)	(24,897,302)	(4,418,087)
Prior period adjustments	(116,401)	(346,401)	(230,000)
Deficit *[ii]* and *[iii]*	9,192,487	8,610,204	(582,283)
Shareholders' equity, end of year	(7,356,835)	(7,939,118)	(582,283)

Consolidated statement of operations and deficit	Previously Reported $	As Restated $	Change $
Foreign exchange gain *[iii]*	2,503,895	3,298,895	795,000
Income tax reovery	-	17,283	17,283
Net loss	(1,574,746)	(762,463)	812,283
Loss per share - basic and diluted	(0.04)	(0.02)	0.02

[i] The Company revised the purchase price equation for the 100% acquisition of 90% of the outstanding common shares of Gold Mines of Sardinia effective October 20, 2004. The effect was to increase the value of the mineral properties acquired by $4,730,000 and to recognize a future tax liability in the amount of $4,730,000 arising from the timing difference between the accounting and tax bases. The Company also revised the purchase price equation for the acquisition of 100% of the shares of 651030 B.C. Ltd., owner of the Lodestone property effective March 2003. The effect was to increase the value of the mineral properties acquired by $270,370 to recognize a future tax liability in the amount of $270,370.

[ii] The Company has adjusted the future income tax liability and deficit on the balance sheet by $230,000 to reflect the foreign exchange loss incurred from the fluctuation between the Euro and Canadian dollar exchange rates as at December 31, 2004.

[iii] The Company has adjusted the future income tax liability on the balance sheet and foreign exchange by $795,000 to reflect the fluctuation between the Euro and Canadian dollar exchange rates as at December 31, 2005 as well as by $17,283 to reflect a decrease in the Canadian tax rate.

b) Additionally amounts previously reported for the year ended December 31, 2004 have been restated in these financial statements to reflect $143,805 of interest expense and a foreign exchange loss of $236,853 related to the year ended December 31, 2004 which were not previously recorded. In addition, amortization expense previously reported for the year ended December 31, 2004 of $264,257 has been restated to $Nil in these financial statements as the assets were not in use during the year ended December 31, 2004. Including the effect of the restatement of $230,000 noted in (ii) above the impact of these adjustments on the opening 2005 balance sheet was to increase plant and equipment by $264,257, increase long term notes by $380,658 and to increase the deficit by $346,401.

2. RESTATEMENT (continued)

c) Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", which requires fair value accounting for all stock options issued during the year. Compensation expense for options granted is determined based on the estimated fair values of the stock options at the time of grant, the cost of which is recognized over the vesting periods of the respective options. This change in accounting policy was applied retroactively without restatement of prior periods. On January 1, 2004, the Company increased the deficit by $676,567 and increased contributed surplus by $ 676,567 as a result of the retroactive adoption of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Canadian GAAP.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the following:

The Company's wholly owned subsidiary Gold Mines of Sardinia Pty. Ltd. ("GMS"), a company which through its 100% owned subsidiaries, Euro Mining Pty. Ltd. and Mediterranean Gold Mines Pty. Ltd., owns a 90% interest in SGM.

The Company's 90% owned subsidiary Ricerche.

The Company's wholly-owned subsidiary, 651030 B.C. Ltd., a company that holds the Lodestone Mountain Property.

Inter-company transactions and balances have been eliminated.

(c) Cash and cash equivalents

Cash consists of deposits in banks and guaranteed investment certificates with a maturity of three months or less.

(d) Marketable securities

Marketable securities are valued at the lower of cost and market value.

(e) Inventories

Inventories are recorded at the lower of cost and realizable value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Plant and equipment,

Plant and equipment are stated at cost, net of accumulated depreciation.

Amortization is calculated using the declining balance method, based on the estimated useful lives of the assets as follows:

Furniture and fixtures	20% declining balance
Computer hardware	30% declining balance
Mining plant and equipment	20% straight line, upon commencing production

(g) Mineral properties and deferred costs

Mineral properties and deferred costs are comprised of owned properties, undivided interests in properties, and deferred development costs on properties in the development (or re-start) stage and deferred exploration costs on properties in the exploration stage. They are recorded at acquisition cost or at the attributed value in the case of a devaluation caused by a permanent impairment of value. Mineral properties, related deferred costs and options to acquire undivided interests in mineral properties are amortized only as these properties are put into production or written down if they are abandoned or determined to be impaired.

During the normal course of its business, the Company enters into agreements to acquire undivided interests in mineral properties, which are normally acquired in exchange for exploration and development expenses to be incurred according to different schedules, issuance of shares and payments subject to feasibility studies. In addition, royalties may be paid on commercial operations of certain mineral properties.

The Company is in the process of exploring and developing its various properties. The Company reviews the carrying values of deferred mineral property acquisition and deferred exploration and development costs regularly, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, with a view to assessing whether there has been any impairment in value. In the event that the estimated undiscounted cash flows expected from its use or eventual disposition is determined to be insufficient to recover the carrying value of any property, the carrying value will be written down to the estimated fair value.

(h) Share issue costs

Share issue costs are recorded as a charge to the deficit in the year in which they are incurred.

(i) Net earnings (loss) per share

Basic net earnings (loss) per share are computed using the weighted average number of common share equivalents outstanding during the year. The Company uses the treasury stock method for the calculation of diluted net earnings (loss) per share.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Foreign currencies

The Company's functional and reporting currency is the Canadian dollar. Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated into equivalent Canadian dollars at the exchange rates in effect at the balance sheet date with any resulting gain or loss being recognized in the consolidated statement of operations. The effects of fluctuations in exchange rates between the dates of transactions and of settlements are reflected in the statement of operations.

The consolidated financial statements of GMS are translated into Canadian dollars using the temporal method for integrated operations, as follows:

- monetary assets and liabilities using the exchange rate in effect at the balance sheet date;
- non-monetary assets and liabilities are translated at historical exchange rates, unless the item is carried at fair market value, in which case the item will be translated at the exchange rate in effect at the balance sheet date;
- revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred;
- depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate;
- translation gains and losses on monetary items or non-monetary items carried at market are included in the current year statement of operations.

The temporal method was adopted effective January 1, 2005 as the foreign operations had become dependant upon the Company for their operating capital. At December 31, 2004 the foreign operations were translated into Canadian dollars using the current rate method for self-sustaining operations. This change will effect the translation rate method prospectively only. The value of all non-monetary assets of GMS at December 31, 2004 became the historical cost of the assets as at January 1, 2005.

(k) Income taxes

Future income taxes are provided for in accordance with the liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities and are measured using the substantively enacted rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(l) Stock-based compensation plans

The fair value method of accounting is used for stock-based awards. Under this method, the compensation cost of options and warrants are estimated at fair value at the grant date and charged to earnings over the vesting period, with the offsetting credit recorded as an increase in contributed surplus. If the stock options or warrants are exercised, the proceeds are credited to share capital and the fair value at the date of grant is reclassified from contributed surplus to share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Reclamation and closure costs

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of plant and equipment and rehabilitation of mineral properties when those obligations result from the acquisition, construction, development or normal operations of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of that asset and is amortized as an expense over the economic life of the related asset. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation. The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations by regulatory authorities, which affects the ultimate cost of remediation and reclamation.

The Company initially recorded an asset retirement obligation as a part of the acquisition of GMS on October 20, 2004. The Company recorded the liability at the estimated fair value of the liability on the date of acquisition and periodically assesses whether a fair value adjustment is required.

(n) Interest costs

All interest, accrued or paid on long term notes is expensed during the period incurred.

(o) Measurement uncertainty and use of estimates

These consolidated financial statements have been prepared in accordance with Canadian GAAP which requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates where management's judgment is applied include asset valuations, determination of long-term debt amounts, contingent liabilities and stock based compensation. Actual results may differ from those estimates.

(p) Comparative figures

Certain comparative figures have been reclassified to conform to the basis of presentation adopted in the current period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Recent accounting pronouncements

In 2006, the CICA issued EIC 160 – Accounting for Deferred Stripping Costs in the Mining Industry. The abstract requires that overburden stripping costs incurred in the production phase of a mining operation be accounted for as variable production costs and be included in the costs of inventory produced during the period that the stripping costs are incurred. However, overburden stripping costs should be capitalized if the stripping activity can be shown to represent a betterment to the mineral property. Capitalized overburden stripping costs should be amortized in a rational and systematic manner over the reserves that directly benefit from the specific stripping activity. This abstract should be applied to overburden stripping costs incurred in fiscal years beginning on or after July 1, 2006, and may be applied retroactively. As at December 31, 2006, the Company's financial statements do not include any deferred stripping costs.

Commencing with the Company's 2007 fiscal year, the Company will adopt the new CICA Handbook Section 1530 – Accounting for comprehensive income. The concept of other comprehensive income for purposes of Canadian GAAP will be to include changes in shareholders' equity arising primarily from unrealized changes in the values of financial instruments or assets.

Commencing with the 2007 fiscal year, the Company will also adopt the new CICA Handbook Sections of Equity, Section 3251, Financial Instruments - Recognition and Measurement, Section 3855, Financial Instruments – Disclosures, Section 3862, Financial Instruments – Presentation, Section 3863, Hedges, Section 3865 and Capital Disclosures, Section 1535. The Company does not believe that these sections will have any material affect on the Company's financial statements, but has determined that financial statement note disclosure will be increased.

4. MARKETABLE SECURITIES

During the year, the Company sold marketable securities with a book value of $105,211 (2005 - $219,486, 2004 - Nil) for total proceeds of $741,897 (2005 - $341,243, 2004 - Nil), with a resulting gain of $636,686 (2005 - $121,757, 2004 - Nil).

The market value of all securities as at December 31, 2006 was $NIL. As of December 31, 2005, the market value was $556,506.

5. INVENTORIES

	December 31 2006	December 31 2005
Raw materials and consumables	$ 250,090	$ 203,781
Work in process	121,529	73,312
	$ 371,619	$ 277,093

6. PLANT AND EQUIPMENT

	December 31, 2006			December 31, 2005
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and fixtures	$ 2,858	$ 1,517	$ 1,341	$ 1,676
Computer hardware	19,545	9,138	10,407	5,438
Plant and equipment [(1)]	3,898,873	220,514	3,678,359	3,400,925
	$ 3,921,276	$ 231,169	$ 3,690,107	$ 3,408,039

(1) Plant and equipment includes a jumbo drill purchased in late 2006 by way of a lease agreement. The drill has a cost of $289,633 (€200,000) and has not yet been put into service.

7. MINERAL PROPERTIES AND DEFERRED COSTS

	Mineral Properties - Cost [(1)]		Deferred Costs	
	December 31 2006	December 31 2005	December 31 2006	December 31 2005
Furtei property	$ 20,937,956	$ 20,937,956	$ 5,501,958	$ 5,201,146
Monte Ollasteddu property	2,984,167	-	-	-
Lodestone Mountain property	959,036	959,036	175,409	175,409
Serbian properties	36,512	11,958	-	-
	$ 24,917,671	$ 21,908,950	$ 5,677,367	$ 5,376,555

Mineral properties - cost:		
Balance, beginning of period	$ 21,908,950	$ 21,896,992
Additional acquisition costs	3,008,721	11,958
Balance, December 31, 2006 and December 31, 2005	24,917,671	21,908,950
Deferred costs:		
Balance, beginning of period	5,376,555	4,956,461
Work program expenditures [(2)]	300,812	420,094
Balance, December 31, 2006 and December 31, 2005	5,677,367	5,376,555
Total Mineral properties and deferred costs	$ 30,595,038	$ 27,285,505

(1) The mineral properties cost for the Furtei property and Lodestone property have been restated, (see note 2).

(2) Includes geological, engineering and environmental work programs designed to advance the development of the mineral properties.

7. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Sardinia, Italy

In March 2003, the Company entered into an agreement with Gold Mines of Sardinia ("GMS PLC") to joint venture the Furtei gold mine property on the island of Sardinia, Italy. GMS PLC held a 90% interest in SGM, with the balance of 10% owned by Progemisa SpA ("Progemisa"), a corporation owned by the Sardinia Government. This initial agreement provided the Company with an option to spend €15 million over an 8 year period to earn 50% of GMS PLC's working interest (equivalent to a 45% direct interest). The minimum work expenditure of €1 million required during the initial year was a firm commitment. Also, the Company agreed to subscribe for a ₤1 million placement for 11,111,111 units of GMS PLC at a cost of $2,265,135, which were issued in May 2003. Each unit consisted of one common share of GMS PLC and one common share purchase warrant, and the investment was recorded at cost. Each warrant entitled the Company to acquire one common share of GMS PLC at ₤0.11 for a period of two years. None of the warrants were exercised and they have now expired. The Company sold 125,000 of the GMS PLC shares for proceeds of $27,356 in 2003, 6,227,500 GMS PLC shares for proceeds of $1,263,379 in 2004, and the balance of 4,758,611 GMS PLC shares in 2005 for proceeds of $341,242.

In February 2004, a wholly owned subsidiary of GMS PLC, into which substantially all of GMS PLC's' assets had been transferred, merged with Full Riches Investments Ltd., with the surviving entity being named Medoro Resources Ltd. ("Medoro"). As part of the transaction, the shares of Medoro received by GMS PLC were distributed to GMS PLC shareholders on the basis of one Medoro share for every seven GMS PLC shares held. The Company received 671,701 Medoro shares. Additionally, the Company was provided with 1,568,401 Medoro common share purchase warrants to augment/replace, in part, the GMS PLC warrants. None of the warrants were exercised and they have now expired. During 2006, the Medoro common shares were sold for proceeds of $90,658.

On September 8, 2004, the Company reached an agreement with Medoro whereby the Company would purchase all the shares of Medoro's wholly owned subsidiary, Gold Mines of Sardinia Pty. Ltd. ("GMS"). Through purchasing GMS, the Company acquired all Medoro's Sardinian mining assets except for the Monte Ollasteddu and Miniere di Pestarena concessions. The acquired mining assets include, through the purchase of SGM the current operating company, a 90% interest in the Furtei gold mine project and the advanced gold property at Osilo and other Sardinian concessions.

Consideration for the acquisition was: €6 million cash payable over 5 years (net present value of $6,867,609), $1 million common shares of the Company payable on August 30, 2009 (net present value of $547,878) and a net smelter return royalty ("NSR") of 2% on all production. The future payments had been discounted using a rate of 13.75%. During September 2004, the Company paid €500,000 (C$784,699) into escrow as a deposit to cover the initial payment of the share purchase agreement, which subsequently closed on October 20, 2004. The first repayment installment of €500,000 was due August 30, 2005. Prior to the due date the Company negotiated a reduction in the installment to €250,000, which was paid. The remaining €250,000 was deferred until August 30, 2006 accruing interest of 6% per annum.

7. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Sardinia, Italy (continued)

Effective October 20, 2004, the Company acquired 100% of the outstanding common shares of GMS. As of the purchase date, the purchase price allocation of the assets acquired and liabilities assumed was as follows:

Purchase price (as restated):		
€6,000,000 (cash)	$	6,867,609
$1,000,000 (common shares of the Company)		547,878
	$	7,415,487
Net assets acquired:		
Cash	$	411,930
Accounts receivable		2,826,755
Plant and equipment		3,139,770
Mineral properties and deferred costs		20,937,956
Accounts payable and accrued liabilities		(3,847,426)
Future income taxes		(4,730,000)
Non-current loans		(11,323,498)
	$	7,415,487

The purchase price has been established based on the fair value of the consideration provided and was allocated to cash, accounts receivable, plant and equipment and mineral properties based on their fair values partially offset by the fair value of the accounts payable and accrued liabilities (primarily the asset retirement obligation) and the non-current loans. These estimates take into account all available information at the time of acquisition.

In May 2006, the Company and Medoro announced their intention to amend the existing share purchase agreement. Under the amended terms as set out in a letter of intent, Sargold would, on payment of €1.0 million, complete the purchase of the shares of GMS with all remaining debts and the NSR being eliminated. The letter of intent also included Sargold's acquisition from Medoro for €1.0 million, its 75% share ownership of Ricerche, the Italian company that holds the interests to the Monte Ollasteddu gold property. After completion of the definitive agreement and required regulatory approvals the transaction closed on August 22, 2006. Ricerche's interest in the Monte Ollasteddu property is subject to an option agreement with a subsidiary of Gold Fields Limited. As a result of a reduction in the amount owing under the amended share purchase agreement, a non-cash gain of $5,725,118 was recognized in the third quarter of 2006.

At December 31, 2006 total deferred costs on the Furtei property were $5,501,958 including $300,812 in 2006. These expenditures would have been on geological, engineering and environmental work programs designed to advance the development of the mineral property.

7. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Sardinia, Italy (continued)

In October 2006, the Company announced it had signed a letter of intent with an indirect subsidiary of Gold Fields Limited (collectively "Gold Fields"), whereby the Company would acquire Gold Field's 15% interest in the Monte Ollasteddu property. In consideration for the purchase, the Company will issue to Gold Fields, common shares with a value of $500,000 in three installments: one third on signing a formal agreement, based on a share price of $0.20 per share (833,333 shares), and one third on each of the first and second anniversaries of the closing date, based on a share price equal to the greater of: (a) the weighted average trading price of the shares in the preceding 30 trading days and (b) $0.17 per share. Gold Fields will retain a right to acquire an undivided 60% interest in the property, which could at their discretion be triggered when exploration work programs undertaken by Sargold on Monte Ollasteddu have defined a minimum National Instrument 43-101 compliant, measured and indicated resource estimate of 3.5 million ounces of gold. The new agreement supersedes the existing joint venture agreement, which was assumed when Sargold acquired the 75% interest in Ricerche from Medoro as announced on August 22, 2006. Following approvals by Gold Fields' Executive Committee, Sargold's Board of Directors and regulatory bodies, the definitive purchase agreement was completed on December 22, 2006. With the completion of this agreement, the Company holds a 90% interest in the Property, with the remaining 10% held by Progemisa.

The total amount capitalized of $2,984,167 for Monte Ollasteddu is comprised of: $1,432,326 for the acquisition of the 75% interest; $477,489 for the acquisition of the 15% interest and $1,074,352 for the tax gross-up. As a result of the difference between the accounting carrying value and tax bases a gross-up adjustment is required.

In February 2007, the Osilo Commune passed a resolution opposing Sargold's application to drill at the Company's Osilo exploration property. All communes in Sardinia must make development decisions conforming to an Urban Communal Plan (UCP), which is a document that defines urban development and consists of a balance of industry representatives to ensure diversification. The Osilo Commune did not reference their decision opposing a drill program at Osilo to their UCP. As a result, Sargold is now entering into an appeal process with the Administrative Regional Tribunal (TRA), calling for substantive reasons why the Company should not be permitted to commence drilling. In the event that the Commune is successful the Company will maintain ownership of the property and continue to work with the local community to secure support for the exploration of this property.

Lodestone Mountain Property, British Columbia, Canada

In March 2003, the Company reached an agreement to purchase a 100% working interest in the Lodestone Mountain property. The Company purchased the Lodestone Mountain property by purchasing 100% of the shares of 651030 B.C. Ltd ("651030"). The terms of the acquisition included the issuance of 3,166,666 common shares (issued September 2, 2003, for total consideration of $468,666, of which 1,971,859 shares are subject to certain escrow provisions) and 3,000,000 share purchase warrants exercisable into common shares at a price of $0.20 per share (subject to certain vesting provisions) at a deemed value of $120,000 (determined using the Black-Scholes valuation model assuming volatility factors of 86%, a risk free interest rate of

7. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

2.34% and an expected life of 2.08 years) expiring September 1, 2006, cash payments of $100,000 with the vendor retaining a 5% gross overriding royalty on all ferrous metals produced, and a 2% net smelter return on all other minerals produced. The vendor of 651030 is not arms length to the Company and, therefore, the acquisition was subject to disinterested shareholder and regulatory approvals, which were received.

The purchase method was used to account for this transaction and the entire purchase consideration was allocated to the mining property acquired. Details of total consideration are as follows:

3,166,666 shares at $0.148	$ 468,666
Cash payments	100,000
3,000,000 warrants	120,000
Total consideration	$ 688,666

As there is a difference between the accounting carrying value and the tax bases of the assets, an additional $270,370 in mineral properties was recorded with a corresponding increase in future income taxes. At December 31, 2006, the Company has $175,409 in deferred costs related to the property.

Serbian properties

The Company continues to research several potential properties in Serbia. Currently the Company has expended $36,512 securing sites. No formal agreements have been entered into regarding the sites in Serbia nor have negotiations been finalized.

8. LONG TERM LIABILITIES

As a result of the acquisition by Sargold of the Sardinian properties and subsequent re-negotiation of the share purchase agreement, the long-term liabilities outstanding as at December 31, 2006 and December 31, 2005, are as follows:

	December 31 2006	December 31 2005
Long term note to Progemisa	$ 8,079,867	$ 7,295,625
Long term note to Sardinian Region Financing Institute	823,408	649,453
Obligation under Capital Leases	289,633	-
Long term obligation to Gold Fields Limited	271,935	-
Long term note to Medoro (cash)	-	5,773,747
Long term note to Medoro (shares)	-	657,011
	9,464,843	14,375,836
Less: current portion	(1,085,198)	(1,652,498)
	$ 8,379,645	$ 12,723,338

Long term note to Progemisa

The $8,079,867 (€5,254,512) note payable to Progemisa represents the amount that is payable, if and only when surplus cash flow is achieved from operations in Furtei. Progemisa is a 10% equity partner in SGM.

8. LONG TERM LIABILITIES (continued)

Long term note to Sardinian Region Financing Institute

The note payable of $823,408 (€530,448) to the Sardinian Region Financing Institute ("SRFI") represents a loan received by SGM plus accrued interest. The loan was provided in advance to SGM in lieu of the entitlement SGM may have received under a Sardinian Region Grant ("SRG") of €1,560,000 for work it was to undertake developing the Su Coru underground gold deposit. Through December 31, 2006 as the majority of the advanced funds had not been spent on developing the Su Coru ore body, SRFI has requested a repayment of the advanced funds plus accrued interest. The Company is in negotiation with SFRI as to a repayment schedule, which would permit the continued operation of the Furtei mine.

Obligation under Capital Leases

In October 2006 SGM entered into a capital lease for the purchase of a jumbo drill with a lease term of two years and a fair market value of €200,000. Future minimum lease payments are as follows:

Future Minimum Lease Payments:		
	2007	$ 147,619
	2008	185,385
		333,004
Less: Imputed Interest		(43,372)
Net Obligation under Capital Leases		$ 289,633

Long term obligation to Gold Fields Limited

The amount due to Gold Fields of $271,935 relates to the commitment to issue shares on the first and second anniversaries of the closing date of the agreement, December 22, 2007 and 2008 (see Note 7, acquisition of Ricerche).

Long term note to Medoro

The initial October 2004 share purchase agreement between the Company and Medoro for the Sardinian assets required cash payments over a 5 year period totaling €6,000,000 and $1,000,000 in common shares of the Company payable on August 30, 2009. The future payments had been discounted using a rate of 13.75%. An initial installment payment was made in 2004 in the amount of €500,000. The first repayment installment of €500,000 was due August 30, 2005. Prior to the due date the Company negotiated a reduction in the installment to €250,000, which was paid. The remaining €250,000 was deferred until August 30, 2006 accruing interest of 6% per annum.

With the finalization, in August 2006, of the amended share purchase agreement with Medoro, the cash and share obligations were completely discharged with a payment of €1,000,000 ($1,432,326). As the accrued obligations at the time of the final payment totaled $7,169,944, a gain of $5,737,618 was recognized on their discharge.

9. ASSET RETIREMENT OBLIGATIONS AND OTHER LIABILITIES

SGM has provided for costs to rehabilitate the properties in Sardinia. The environmental monitoring plan in place aims to ensure that the mining, processing and rehabilitation work are all carried out in a manner which conforms to legal requirements, and further to ensure that environmental impacts of the project are minimized. This activity includes the backfilling, contouring, covering with topsoil and replanting trees and shrubs to land previously disturbed by exploration and operations. The amount accrued attributable to mine rehabilitation is $980,305. (2005 - $914,970) This amount is the estimated fair value at year end.

Other liabilities provided for include deferred government grants of $1,960,326 (2005 – $1,831,012), employee entitlements of $826,298 (2005- $668,911) and other items totaling $402,042 (2005 – $360,940). The Company has certain commitments and contingent liabilities, see Note 13.

10. SHARE CAPITAL

(a) Authorized

Unlimited number of Class “A” common voting shares without par value
Unlimited number of Class “B” common non-voting shares without par value
Unlimited number of non-voting preferred shares without par value

(b) Issued

Changes in the Company’s share capital were as follows:

	Number of Shares	Amount
Common shares, Balance at December 31, 2003	23,246,547	$ 9,390,461
Issued for cash	10,978,999	3,943,700
Issued for exercise of warrants	168,750	42,188
Common shares, Balance at December 31, 2004	34,394,296	$ 13,376,349
Issued for cash	5,882,143	1,557,226
Issued for options exercised	80,000	80,523
Common shares, Balance at December 31, 2005	40,356,439	$ 15,014,098
Issued for cash	22,250,000	4,355,000
Issued for Ricerche acquisition (1)	833,333	179,167
Fair value of warrants	-	(1,259,347)
Common shares, Balance at December 31, 2006	63,439,772	$ 18,288,918

(1) see note 7, acquisition of Ricerche

(c) Private Placements

The proceeds from the following private placements were allocated to share capital and contributed surplus based on the relative fair value of the common shares and the warrants at the date of issuance.

10. SHARE CAPITAL (continued)

(c) Private Placements (continued)

On July 28, 2006 the Company closed a non-brokered private placement of 17,250,000 units of the Company at a price of $0.18 per unit for gross proceeds of $3,105,000. Each unit consists of one common share and one half of one common share purchase warrant. One whole share purchase warrant entitles the holder to acquire one common share at a price of $0.30 for a period of two years expiring on July 28, 2008. Fair value of the warrants is $1,259,347 and was calculated using the Black-Scholes option pricing model for warrant valuation, assuming an average volatility of 113% on the underlying shares, a risk free interest rate of 4.13%, a two year term to expiry and no annual dividends. The common shares and warrants issued in connection with this private placement are subject to a four-month hold period expiring on November 29, 2006.

On December 22, 2006 the Company completed a private placement of 5,000,000 shares at a price of $0.25 per share for proceeds of $1,250,000 to a subsidiary of Gold Fields Limited. The Company also issued to the Gold Fields' subsidiary 833,333 common shares as partial payment for the acquisition of Gold Fields' interest in Ricerche. In accordance with the purchase agreement the Company is obligated to compensate Gold Fields with the payment of shares with a value of $500,000 in three installments: 833,333 Shares after signing the agreement, based on a share price of $0.20 per share, and shares equal to one third of the consideration on each of the first and second anniversaries of the agreement, based on a share price equal to the greater of: (a) the weighted average trading price of the Shares in the preceding 30 trading days and (b) $0.17 per Share.

(d) Stock Options

As at December 31, 2006, 6,285,665 stock options granted to the directors, officers and employees of the Company are outstanding.

The number of authorized but unissued common shares that may be issued upon the exercise of options granted under the Company stock option plan at any time plus the number of common shares reserved for issuance under outstanding incentive stock options otherwise granted by the Company shall not exceed 10% of the issued and outstanding common shares. The option period is determined by the Board of Directors ("Board") but may not exceed five years. Individual grants are limited to 5% of the issued and outstanding common shares, except in the case of consultants or those performing investor relation activities, whom are limited to 2% of the issued and outstanding common shares. The Board may set vesting limitations but is not required to under the stock option plan. The Board must set the exercise price of the options at least equal to the last share closing price for the common shares (market value) before the date of grant, less any applicable discount under the TSX Venture Exchange policy. All stock options grants are evidenced through stock option agreements and ceasing to be a director, officer, employee or consultant terminates the stock options within 90 days.

10. SHARE CAPITAL (continued)

(d) Stock Options (continued)

The following table summarizes the status of the Company's stock option plans as at December 31.

	2006			2005		
	Number of Shares	Average Exercise Price		Number of Shares	Average Exercise Price	
Outstanding at beginning of year	3,610,665	$	0.20	1,560,665	$	0.35
Granted	2,775,000	$	0.18	2,975,000	$	0.15
Exercised	-	$	-	(80,000)	$	0.45
Cancelled	(100,000)	$	0.33	(845,000)	$	0.29
Outstanding at end of period	6,285,665	$	0.19	3,610,665	$	0.20
Options exercisable at end of year	3,704,415	$	0.19	3,425,665	$	0.19

The following table summarizes the Company's stock option plans as at December 31, 2006.

Options Outstanding and Exercisable

Exercise Prices		Number Outstanding at December 31, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices		Number Exercisable at December 31, 2006	Weighted Average Exercise Prices	
$	0.17	750,000	5.0 Years	$	0.17	-	$	0.17
$	0.21	1,525,000	4.8 Years	$	0.21	100,000	$	0.21
$	0.13	500,000	4.3 Years	$	0.13	125,000	$	0.13
$	0.13	2,300,000	3.8 Years	$	0.13	2,300,000	$	0.13
$	0.40	50,000	3.3 Years	$	0.40	50,000	$	0.40
$	0.37	20,000	2.8 Years	$	0.37	20,000	$	0.37
$	0.24	125,000	2.6 Years	$	0.24	93,750	$	0.24
$	0.45	575,000	1.8 Years	$	0.45	575,000	$	0.45
$	0.15	440,665	1.3 Years	$	0.15	440,665	$	0.15
		6,285,665		$	0.19	3,704,415	$	0.19

The fair value of stock compensation was determined using the Black-Scholes option-pricing model. Under this method the expected term assumption takes into consideration assumed rates of employee turnover as well as expectations of when options would be exercised and represents the estimated average length of time stock options remain outstanding before they are exercised or forfeited. The expected volatility assumptions have been developed taking the historical Canadian dollar share price. The risk-free rate is based on the Bank of Canada rate for zero interest bonds in effect at the time of the grant that corresponds to the expected term of the option.

10. SHARE CAPITAL (continued)

(d) Stock Options (continued)

	2006	2005	2004
Valuation assumptions			
Expected term (years)	3.5	5	5
Expected volatility	108 -113%	107 - 145%	78 - 86%
Weighted average volatility	112%	120%	83%
Expected dividend yield	-	-	-
Risk-free interest rate	3.95 - 4.22%	3.42 - 4.21%	3.26 - 3.94%
Weighted average risk-free rate	4.02%	4.11%	3.71%

(e) Warrants

As at December 31, 2006, the total warrants outstanding were 9,275,000. Each warrant is exercisable into one common share.

Currency	Exercise Price	Expiry Dates	Outstanding at December 31, 2005	Issued	Exercised	Expired	Outstanding at December 31, 2006
CDN	$ 0.20	September 2, 2006	3,000,000	-	-	3,000,000	-
CDN	$ 0.36	October 19, 2006	8,812,333	-	-	8,812,333	-
CDN	$ 0.45	March 15, 2006	1,428,572	-	-	1,428,572	-
CDN	$ 0.40	April 25, 2006	1,187,500	-	-	1,187,500	-
CDN	$ 0.265	February 23, 2007	650,000	-	-	-	650,000
CDN	$ 0.30	July 28, 2008	-	8,625,000	-	-	8,625,000
			15,078,405	8,625,000	-	14,428,405	9,275,000

(f) Contributed Surplus

Changes in contributed surplus were as follows:

	2006	2005
Balance - Beginning of period	$ 1,631,552	$ 958,882
Stock-based compensation expense for the year	122,417	431,919
Fair value of warrants issued on private placements	1,259,347	285,274
Transfer to share capital upon exercise of options	-	(44,523)
Balance - End of period	$ 3,013,316	$ 1,631,552

11. RELATED PARTY TRANSACTIONS

During the year ending December 31, 2006, the Company incurred expenses of $17,500 (2005 - $30,000, 2004 - $30,000) for administrative services provided by a company in which a director of the Company has a 25% interest.

Also during the year the Company disposed of the remainder of its Augusta Resource Corporation ("Augusta") shares for a gain of $640,068. Augusta has certain officers and directors in common with the Company.

At December 31, 2006, $191,581 included in accounts receivable (2005 - $17,675) was due from related companies, which share office space and certain common officers and directors with the Company. Also included in accounts receivable at December 31, 2006 is an amount of $7,980 (2005 - $2,500 of accounts payable and accrued liabilities) due from (to) related companies with common directors.

At December 31, 2006 included in accounts payable and accrued liabilities is an amount of $20,000 (2005 - $90,207) due to a director of the Company for accrued salaries.

In mid November 2006, prior to receipt of funds from Gold Fields, certain officers and directors of the Company advanced approximately $130,000 to Sargold to fund ongoing expenditures at the Furtei mine operations in Sardinia. These advances were all repaid in late 2006 except for approximately $28,000, which was repaid in early 2007. Given higher expenditures related to restart activities, Sargold encountered a funding shortfall in mid February 2007, again necessitating funding by certain officers of the Company. A total of approximately $165,000 was advanced which to the end of March 2007 is still outstanding. Interest is payable at a rate of 7.5% on these advances.

12. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, marketable securities, long-term investments, accounts payable and accrued liabilities and long term notes as reflected in the balance sheet approximate their fair values. The Company has no significant concentrations of credit risk.

13. COMMITMENTS AND CONTINGENCIES

Through December 31, 2006 the Company has not generated revenue from metal sales from its Sardinian assets acquired in September 2004. The mining facilities and equipment have been idled since 2002 when the previous owners ceased operations due to uneconomic conditions. Funding of the continued maintenance of the idled mining assets and more recent restart activities, has been solely through equity issued by Sargold. As a result of a reduced ability to fund activities in Sardinia, SGM has been selective in paying creditors. Of the 1.2 million euros of trade payables recorded by SGM at December 31, 2006 approximately 85 % is more than six months old. SGM has a number of key suppliers on repayment programs for the older payables which facilitates the delivery of current goods or services. Several of SGM's creditors have, however, sought legal remedies and have been successful in obtaining court orders enforcing payment. To date these orders total 150,000 euros (exclusive of related legal fees and interest) and SGM has either paid the full amount owing or has negotiated a repayment schedule requiring payment over several months. While the exact amounts are not known by the Company it is likely that other creditors are and will seek redress through the courts. SGM will continue to handle

13. COMMITMENTS AND CONTINGENCIES (continued)

successful court orders as they arise and to manage its trade payables as it executes its restart strategy.

With the cessation of mining activity and the laying off of a significant portion of the work force, at the end of 2004 the Company applied for participation in an unemployment benefit program with the Italian federal government. This was initially just for 2005 but was later extended to 2006 and 2007. The formal process mandates the submission of a plan and includes certain reemployment requirements, which must formally be accepted and acknowledged in writing by the government. As the Company has received verbal assurance of acceptance in the program the amount of the expected benefit for each of the 2005 and 2006 years has been offset against social security contributions due in each of those years. The amounts offset over the 2 year period totals €524,586 ($806,656). While the Company has received indications that it has qualified for the program there is a remote chance that the application will be denied.

14. INCOME TAXES

The provision for income taxes reported differs from the amount computed by applying the cumulative Canadian Federal and Provincial Income tax rates to the loss before the tax provision due to the following:

	2006	2005 (restated, note 2)	2004 (restated, note 2)
Statutory tax rate	34.1%	34.9%	35.6%
Income tax expense (recovery) computed at statutory rates	$ 227,000	$ (272,000)	$ (1,114,153)
Tax rate changes and differences	(48,000)	(4,000)	25,000
Tax losses (recognized), not recognized	(1,138,000)	882,000	-
Unrecognized benefit related to assets	(194,000)	-	-
Permanent differences	853,000	(1,229,000)	249,153
Other, primarily change in valuation allowance	266,460	605,717	840,000
Income tax recovery	$ (33,540)	$ (17,283)	$ -

As of December 31, 2006, the Company's best estimate of its loss carry forwards are as follows: Canada $311,000 (2005 - $4,451,000), Italy €11,824,000, $18.1 million (2005 - €15,679,000, $21.6 million), and Australia AUS$5,323,000, $4.9 million (2005 – AUS$5,236,000, $4.5 million). These losses are available to reduce future years' respective income for tax purposes. The tax loss carry forwards expire at various times between 2007 and 2026. By year the losses are (in millions):

	C$
Tax years	
2007	$ 8.5
2008	4.6
2009	3.4
2010	0.8
2011	0.9
Thereafter	5.1
Total	$ 23.3

14. INCOME TAXES (continued)

Future income taxes result primarily from temporary differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. Significant components of the Company's future tax assets and liabilities as at December 31, 2006 and 2005 are as follows:

	2006	2005 (restated, note 2)
Future income tax assets:		
Non-capital losses		
Italy	$ 6,773,000	$ 8,066,000
Australia	1,467,000	1,337,000
Canada	39,000	1,519,000
Asset retirement obligations and other liabilities	1,553,000	1,423,000
Other	65,000	108,000
	9,897,000	12,453,000
Valuation allowance for future income tax assets	(9,897,000)	(12,453,000)
Net future income tax assets	-	-
Future income tax liabilities:		
Future income tax liabilties, mineral properties and deferred development	(6,002,899)	(4,418,087)
Future income tax liabilities, net	$ (6,002,899)	$ (4,418,087)

Due to the uncertainty surrounding realization of the future income tax assets in future income tax returns, the Company has recognized a valuation allowance against its tax loss carry forwards and certain other future deductions. The Company has $6,002,899 due in future income tax liability.

15. SEGMENTED INFORMATION

The Company operates in one industry. As at December 31, 2006, the Company's long lived assets were in Canada $1,146,193 (2005 - $1,141,559) and in Europe $33,138,952 (2005 - $29,551,985).

16. SUBSEQUENT EVENTS

On April 30, 2007 the Company announced it has arranged a non-brokered private placement of up to 5,000,000 units at $0.20 per unit. Each unit is comprised of one common share and one common share purchase warrant, which entitles the holder to acquire one common share at a price of $0.25 for a period of two years.

On June 13, 2007 the Company announced it has closed a non-brokered private placement of 14,000,000 units at a price of $0.20 per unit for gross proceeds of $2,800,000. Each unit is comprised of one common share and one common share purchase warrant, which entitles the holder to acquire one common share at a price of $0.25 for a period of two years expiring between June 4, 2009 and June 12, 2009. The Company paid a finders' fee of $27,750 in connection with the placements.

16. SUBSEQUENT EVENTS (continued)

Proceeds from the private placements will be used for mine operations and specifically to conduct a trial for leaching sulphide ore from the Sa Perrima open pit as the next step in the re-start of the Furtei facility, in addition to general working capital.

On September 10, 2007 the Company and Buffalo Gold Ltd ("Buffalo") announced that their respective Board of Directors have ratified and approved a definitive arrangement agreement ("the Agreement") with respect to the previously announced merger between Buffalo and Sargold. The Agreement was effective as of August 31, 2007 among Sargold, Buffalo and 6833268 Canada Ltd., a wholly-owned subsidiary of Buffalo.

The Agreement contemplates that the merger will be implemented by way of a court-approved plan of arrangement ("Arrangement") pursuant to the Canada Business Corporations Act whereby all outstanding securities of the Company will be exchanged for common shares, common share purchase warrants and options of Buffalo.

Under the terms of the Arrangement, security holders of the Company will receive one common share, common share purchase warrant or option of Buffalo in exchange for each 3.5 Sargold common shares, common share purchase warrants or options which they hold immediately prior to the effective date of the Arrangement.

The Agreement includes a commitment by the Company not to solicit alternate transactions to the Arrangement. In addition, the Company has granted a right to Buffalo to match an unsolicited competing offer. Both Buffalo and the Company have agreed to pay the other a break fee of $1,000,000 in certain circumstances if the Arrangement is not completed.

In order to consider the Arrangement and make recommendations to the Board of Directors of Sargold, an independent special committee of Sargold's Board of Directors was constituted. The special committee has received a fairness opinion from Evans & Evans, Inc. with respect to the fairness of the Arrangement, from a financial point of view, to the shareholders of the Company. The Board of Directors of the Company has recommended approval of the Arrangement by the Company shareholders.

The parties anticipate closing the Arrangement prior to October 31, 2007. Completion of the Arrangement is conditional upon, among other customary closing conditions, the approval by the Company's shareholders, the approval of the TSX Venture Exchange, as well as approval of the British Columbia Supreme Court. The parties will apply to the British Columbia Supreme Court for an interim order calling a special meeting of the Company's shareholders to be held in October 2007. There can be no assurance that the Arrangement will be completed as proposed or at all.