SARGOLD RESOURCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

Form 51-102F1

For the Year Ending
December 31, 2006

Sargold Resource Corporation

General

The following Management's Discussion and Analysis ("MD&A") of Sargold Resource Corporation, (the "Company", "Sargold", "we", "us", "our") should be read in conjunction with the accompanying audited consolidated financial statements ("Consolidated Financial Statements") and notes for the year ended December 31, 2006 and the audited consolidated financial statements and notes for the year ending December 31, 2005 which are available at the SEDAR website at www.sedar.com. This MD&A report is current as at April 30, 2007.

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in Canadian dollars unless otherwise indicated.

Sargold is listed on the TSX Venture Exchange under the symbol SRG and effective September 20, 2006 its common shares were approved for listing on the Frankfurt Stock Exchange and commenced trading under the symbol "DU4".

Restatement

The Company has restated its December 31, 2004 and 2005 balance sheets and its statement of operations and deficit for the years ending 2004 and 2005. On acquisition of 100% of the common shares of Gold Mines of Sardinia in 2004 the Company failed to recognize an asset and future income tax liability for the difference between the carrying value and tax bases of the net assets acquired. Similarly on acquisition in March 2003 of 100% of the common shares of 651030 B.C. Ltd., owner of the Lodestone property, the Company failed to recognize an asset and future income tax liability for the difference between the carrying value and tax bases of the net assets acquired. In 2005 the Consolidated Financial Statements were impacted by a fluctuation in the Euro/Canadian exchange rate and by a reduction in the Canadian tax rate. Refer to the December 31, 2006 Consolidated Financial Statement Notes 2, 7 and 14 for more details.

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance of achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward-looking statements, which speak only as of the date the statements were made, and readers are also advised to consider such forward-looking statements while considering the risks set forth below (see Risks and Uncertainties section).

Description of Business

We are involved in precious and base metal exploration and development and have interests in properties located in Italy and Canada. Our properties are in the exploratory and development stages and while owned by Sargold and through December 31, 2006 have been non-producing and consequently do not generate any operating income or cash flows from operations. In late 2006 and early 2007 the Company refurbished and recommissioned the mill facilities and has commenced modest production of gold from 450,000 tonnes of low grade ore from the heap leach pad. The Company depends on equity capital to finance its activities.

Overview of Performance

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 an indirect 90% interest in Sardinia Gold Mining SpA ("SGM"), with the balance of 10% owned by Progemisa SpA ("Progemisa"), a corporation owned by the Sardinian 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).

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").

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 Pty"). Through purchasing GMS Pty, 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 90% of SGM the current operating company, a 90% interest in the Furtei gold mine project, 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. 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.

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 Pty with all remaining debts and the NSR being fully discharged. 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 an indirect subsidiary of Gold Fields Limited (collectively "Gold Fields"). As a result of a reduction in the amount owing under the amended share purchase agreement, a non-cash gain of $5,737,618 was recognized.

In October 2006 the Company announced it had signed a letter of intent with 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 Monte Ollasteddu property, with the remaining 10% held by Progemisa.

With the completion of these transactions the Company has consolidated all of the known gold properties on the island of Sardinia, Italy.

Furtei property

During the second quarter of 2006, the Company appointed Mr. George Paspalas to the position of Chairman of SGM. Mr. Paspalas has worked in the mining industry for more than 20 years, and brings both operational and executive experience to the Company. Since commencing his responsibilities Mr. Paspalas has focused on determining whether and how the Furtei mine operation could be put back into profitable production. In the fourth quarter of 2006 the Company refurbished the Furtei processing plant which had been decommissioned in 2002. For a marginal cost the refurbished plant was re-commissioned in late December and was fully water tested prior to the end of the year. Management worked to complete the below refurbishments at the plant before successfully obtaining a new cyanide usage permit in January 2007:

- Removing the old stockpile of low grade enargite sulphide ore
- Replacing or repairing mechanical and electrical components to get the mill and leach tanks operational
- Clearing solid slurry from the pipelines of the compressed air system
- Locating lost logistical information to restart the process computer
- Recovering approximately €80,000 of activated carbon from around the carbon-in-leach ("CIL") floor, sumps and spent ore left settled in the tanks – enough to carry the Company through to 2008
- Fully testing the tailing disposal system and water balance systems.
- Coordinating shipment of cyanide from Germany

Also during the fourth quarter, the team identified a potential opportunity to commence near-term gold production while they conducted various studies on the refractory ores at Furtei. The theory was based on upgrading the residual heap leach pad head grade by screening off the oversize material from the 450,000 tonnes of ore remaining on the heap leach pad. The oversize material would subsequently be processed through the CIL circuit after primary crushing and fine grinding.

A trial was conducted in the first quarter of 2007 to determine whether the head grade could be upgraded by screening. The calculated head grade contained in the heap leach pad was 0.52g/t., based on the reconciliation between as-placed grade and total recovered gold. The trial was conducted over an eight-day period, with the resultant screened oversize ore grade indicating a minimum 44% upgrading to 0.75 – 0.80 g/t. The trial was also successful in determining key unit operating costs, such as lime, cyanide and power consumptions. The assessment concluded it was economic to process screened oversize material from the heap leach pad at Furtei.

As part of the trial program, Sargold was pleased to pour its first gold bar at Furtei in early March. While the production from this low grade material is modest, it marks the successful re-start of the Furtei plant, where operational expertise is being re-honed and the future rehabilitation liability of the heap leach pad is being significantly reduced. Most importantly, the Company is beginning to generate cash flow for the first time since its entry into Sardinia, which will form a basis for growth in 2007.

As of December 31, 2006, the Company has deferred $5,501,958 in work program expenditures, related to the Furtei gold mine property. For 2006 the total amount deferred was $300,812. The Company has capitalized a total of $16,207,956 for mineral property costs for the Furtei property. Additionally, $4,730,000 has been capitalized to record the tax-gross up related to the acquisition.

Osilo & Monte Ollasteddu exploration properties.

Sargold sees the potential restart at Furtei as a way to generate cash flow to fund our exploration programs at Furtei, Osilo and Monte Ollasteddu. As we move forward, our priorities continue to be focused around community engagement, in an effort to obtain the required permits to conduct a comprehensive drill program at Osilo and Monte Ollasteddu.

The Osilo property is considered prospective based on prior exploration results. The Osilo property contains a low sulphidation epithermal quartz vein system, which was subject to an "In Situ Resource Audit" report by Steffen, Robertson & Kirsten (UK) Ltd. in April 2003. The report estimates the property contains a "Historical" Indicated Mineral Resource of 0.80 million tonnes ("MT") grading 6.5 grams of gold per tonne ("g/Au/T") and 38.2 grams of silver per tonne ("g/Ag/T") and an Inferred Mineral Resource of 0.86 MT grading 7.5 g/Au/T and 21.8 g/Ag/T. The Company has not completed the work necessary to verify the classification of the resource and is not treating the resource figures as National Instrument 43-101 defined resource verified by a Qualified Person and therefore the resource figures should not be relied upon by investors. The historical resources have been calculated from 5 vein systems. More than 20 vein systems have been identified.

In 2006, the Company had submitted to the Sardinian Regional Authorities permit applications to commence a drill program on the Osilo property. 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.

The Monte Ollasteddu property is a large mineralized system lying within a 50 kilometer geological belt in the Eastern Paleozoic Belt. Monte Ollasteddu has excellent potential for discovery of a gold resource, with more than 20 gold prospects identified in the region. A portion of the Monte Ollasteddu property is in close proximity to an Italian military base. The Company continues to negotiate with the Italian military on gaining access to the property for drilling purposes. Sargold is also looking into developing alternative drill programs for other areas of the property lying further away from the military base.

Following the two transactions related to Ricerche which were completed in 2006 the Company has capitalized a total of $1,909,815 for mineral property costs for Monte Ollasteddu.

Additionally, $1,074,352 has been capitalized to record the tax gross-up related to the acquisitions.

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 near Princeton, British Columbia. We purchased the Lodestone Mountain property by purchasing 100% of the shares of 651030 B.C. Ltd ("651030"). The terms of the acquisition include 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, 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% NSR on all other minerals produced.

We completed a 15 hole diamond drill program aggregating 1,069 meters of core in early 2004. All holes encountered the magnetite rich hornblende clinopyroxenite unit. A revised resource calculation based on the results from the drill program defined a measured resource of 2 million tonnes grading 24.33% magnetite, as reported by Nils von Fersen P. Geo. in his report dated May 4, 2004.

The Company is researching the market for magnetite to determine the economic viability of placing the property into production.

As of December 31, 2006, the Company had deferred $175,409 in expenditures related to the property and $688,666 for mineral property costs. Additionally, $270,370 has been capitalized to record the tax gross-up related to the acquisition.

Serbian Properties

The Company continues to research several 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.

Mineral properties and deferred costs are comprised of:

	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

	2006	2005
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.

The Company regularly reviews the carrying values of its mineral properties and deferred development expenditures with a view to assessing whether there has been any impairment in value. As at December 31, 2006 this review concluded that no impairment in carrying value was warranted.

Results of Operations

Comparison of the year ending December 31, 2006 and restated 2005

	December 31, 2006	December 31, 2005	Change
EXPENSES			
Foreign exchange loss (gain)	$ 2,158,717	$ (3,298,895)	$ (5,457,612)
Salaries and benefits	1,532,968	1,584,963	51,995
Consulting and communication	481,908	663,164	181,256
Office and sundry	304,624	349,755	45,131
Amortization	223,504	2,749	(220,755)
Raw materials and consumables	170,976	208,005	37,029
Accounting and audit	133,030	118,325	(14,705)
Stock based compensation	122,417	431,919	309,502
Rent	121,213	118,598	(2,615)
Travel	74,889	48,003	(26,886)
Filing and regulatory	55,090	44,451	(10,639)
Administration	17,500	30,000	12,500
Investor relations	16,710	31,002	14,292
Legal fees	6,390	19,938	13,548
Capital projects	(229,803)	(198,188)	31,615
Loss from operations	(5,190,133)	(153,789)	(5,036,344)
Interest and other income	287,864	201,460	86,404
Gain from disposition of marketable securities	636,686	130,507	506,179
Gain on the repayment of debt	5,725,118	-	5,725,118
Write-off of debt	-	(60,417)	60,417
Interest and finance charges	(792,038)	(897,507)	105,469
Pre-tax earnings (loss)	667,497	(779,746)	1,447,243
Income tax recovery	33,540	17,283	16,257
NET EARNINGS (LOSS)	$ 701,037	$ (762,463)	$ 1,463,500

For the year ended December 31, 2006, the Company incurred a loss from operations of $5,190,133. This is $5,036,344 more than the loss of $153,789 during the year ended December 31, 2005. This increase is due to the recognition of an exchange loss of $2,158,717 compared with an exchange gain of $3,298,895 in the prior year. At the initial acquisition date of the Sardinian assets in October 2004 the Canadian dollar/Euro exchange was 1.5594, at the 2004 year end the Euro had strengthened to 1.6292 C$/€. During 2005 the Euro weakened and by December 31 it had dropped by 15% to 1.3805 C$/€. This strengthening of the Canadian dollar gave rise to the significant exchange gain as the net monetary liability was reduced. During 2006, however, the Euro strengthened 11% to close the year at 1.538 C$/€, this reversal in Euro value had the impact of increasing the net monetary liability amounts creating an unrealized exchange loss.
The more significant variances in other operating costs include:

- A decrease in salaries and benefits as the decline in salaries incurred in Sardinia was only partially offset by the increase in salaries in Vancouver. The Italian salaries at $1,019,000 were $74,000 lower as personnel at the Furtei operation were kept to a minimum level sufficient to secure and maintain the facilities as well as participate in the various restart studies that occurred in 2006. The salaries and benefits for the employees in Vancouver totaled $479,000, up from 2005, and salaries in Australia were $35,000, which was comparable to 2005.

- A reduction in consulting and communication costs of $181,256. This decline reflects a decrease in amount of engineering and other consulting costs incurred by SGM as efforts related to the restart became more focused. Also, the number of Vancouver based employees increased in 2006 performing work previously done by consultants.
- The $170,976 incurred in raw material and consumables are a direct cost of maintaining the Sardinian operations during the year ended December 31, 2006, this compares with $208,005 in 2005.
- Stock based compensation was $122,417, a reduction of $309,502 from the prior year. The decline reflects the immediate vesting of the majority of options issued in 2005, which resulted in the expensing of the fair value of the options compared with 2006 where the majority of the options granted vest over either a 2 or 3 year period.
- The cost recovery of $229,803 relates to direct costs incurred on capital programs undertaken at Furtei, primarily related to work on the mill facilities that was required to enable the heap leach processing initiative to proceed. In 2005 this capital recovery amounted to $198,188.

Net earnings for the year were $701,037, an increase of $1,463,500 compared with the loss of $762,763 in the prior period. Non-operating items improved $6,483,587 including the recognition of a $5,725,118 gain on debt reduction following the 2006 re-negotiation of the GMS Pty acquisition from Medoro as well as an increase of $506,179 in the gain on the sale of marketable securities and a $105,469 reduction in interest and financing charges.

As initially structured, consideration for the acquisition of the Sardinian mining assets 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. 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.

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 Pty with all remaining debts and the NSR being fully discharged. After completion of the definitive agreement and required regulatory approvals the transaction closed on August 22, 2006. 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.

Interest and other income during the year ended December 31, 2006 was $287,864 an increase of $86,404 over the prior year. Included in other income is $134,000 related to revenue received for third party reclamation work and $75,000 for capital grant reversal.

Gains from the sale of marketable securities totaled $636,686 for 2006, an increase from the $130,507 in the prior year. During the current year the Company disposed of the remainder of its Medoro and Augusta Resource Corporation (“Augusta”) shares. The gain relates to the sale of the

Augusta shares which was partially offset by a $3,382 loss of the sale of the Medoro shares. In 2005 the gain related to the sale of the GMS PLC shares.

Interest and finance charges have decreased to $792,038 from $897,507 in the prior year. This $105,469 decease reflects the reduction in amounts due to Medoro as a result of the re-negotiation of the purchase agreement partially offset by interest accruals for past due accounts payable owed by SGM.

<u>Comparison of the twelve months ending December 31, 2005 and 2004 (both restated)</u>

	December 31, 2005	December 31, 2004	Change
EXPENSES			
Foreign exchange loss (gain)	$ (3,298,895)	$ 384,636	$ 3,683,531
Salaries and benefits	1,584,963	878,711	(706,252)
Consulting and communication	663,164	95,404	(567,760)
Office and sundry	349,755	284,430	(65,325)
Amortization	2,749	3,265	516
Raw materials and consumables	208,005	146,035	(61,970)
Accounting and audit	118,325	34,105	(84,220)
Stock based compensation	431,919	127,950	(303,969)
Rent	118,598	69,926	(48,672)
Travel	48,003	87,655	39,652
Filing and regulatory	44,451	53,998	9,547
Administration	30,000	30,000	-
Investor relations	31,002	16,364	(14,638)
Legal fees	19,938	3,538	(16,400)
Property invesitigations	-	63,141	63,141
Capital projects	(198,188)	(386,664)	(188,476)
Loss from operations	(153,789)	(1,892,494)	1,738,705
Interest and other income	201,460	11,510	189,950
Gain from disposition of marketable securities	130,507	2,077	128,430
Write-off of debt	(60,417)	-	(60,417)
Write-down of marketable securities	-	(655,874)	655,874
Write-off of properties	-	(420,617)	420,617
Interest and finance charges	(897,507)	(174,245)	(723,262)
Pre-tax earnings (loss)	(779,746)	(3,129,643)	2,349,897
Income tax recovery	17,283	-	17,283
NET EARNINGS (LOSS)	$ (762,463)	$ (3,129,643)	$ 2,367,180

For the year ended December 31, 2005, the Company incurred a loss from operations of $153,789 compared with an operating loss of $1,892,494 in 2004. This variance reflects a significant foreign exchange gain in 2005 offset by the impact of a full years losses from the newly acquired Sardinian assets which were acquired in October 2004. During 2005 the Euro weakened and by December 31 it had dropped by 15% to 1.3805 C$/€. This strengthening of the Canadian dollar gave rise to the significant exchange gain as the net monetary liability was reduced.

The more significant variances in other operating costs relate primarily to the full year ownership of the Sardinian assets for 2005 and include:

- An increase in salaries and benefits, the $1,584,963 of salaries and benefits in 2005 includes $1,093,000 in Italy with the majority of the remainder in Canada.
- An increase in consulting and communication as efforts were directed at developing a viable business plan for the Sardinian properties including the completion of various mining operations based studies.
- An increase in stock based compensation reflecting a pro-rata portion of the fair value of the stock options granted in 2005 and 2004. In 2005, 2,975,000 stock options were granted compared with the 345,000 stock options in 2004. The pro-rata expense in 2005 was $431,919 compared with $127,950 in 2004.
- The cost recovery for capital projects of $198,188 in 2005 was less than 2004 as the focus of expenditures at the Furtei property was not directed as much at capital improvements.
- Other variances including office and sundry, raw materials and consumables, accounting and audit, rent, investor relations and legal are all higher reflecting the full year inclusion of the Sardinian acquisition.

The net loss for 2005 was $762,463 a reduction of $2,332,614 from the $3,129,643 loss in 2004. In addition to the variances noted above:

- Interest and other income was higher at $201,460 compared with $11,510 in 2004 reflecting higher cash balances throughout 2005 as well as the sale of previously mined gold and gold concentrate that was in inventory at the time of acquisition.
- The gain on disposal of marketable securities of $130,507 reflects the gain realized on the sale of the GMS PLC shares in 2005.
- In 2005, the Company wrote-off $60,417 of receivable which was considered uncollectible. In 2004, a write-down to market of $655,874 on marketable securities was recorded as was a write-down of mining properties of $420,617.

Selected Annual Information (as restated)

	2006	2005	2004
Total revenue	$ nil	$ nil	$ nil
Total net earnings (loss)	701,037	(762,463)	(3,129,643)
Basic and diluted earnings (loss) per share	0.01	(0.02)	(0.12)
Total assets	35,718,300	32,836,420	35,319,060
Total financial long-term liabilities	22,421,561	24,897,302	23,331,506
Cash dividends declared per share	nil	nil	nil

Summary of Quarterly Results

Selected financial information for each of the eight most recently completed quarters are as follows (fourth quarter of 2005 restated):

	Revenue		Net earnings (loss)		Net earning (loss) per share basic & diluted
Dec 2006	Nil	$	(2,823,203)	$	(0.05)
Sep 2006	Nil	$	5,531,806	$	0.11 (1)
Jun 2006	Nil	$	(799,598)	$	(0.02)
Mar 2006	Nil	$	(1,207,968)	$	(0.03)
Dec 2005	Nil	$	1,721,139	$	0.04
Sep 2005	Nil	$	(195,187)	$	-
Jun 2005	Nil	$	(780,485)	$	(0.02)
Mar 2005	Nil	$	(1,507,930)	$	(0.04)

(1) September 30, 2006 the net earnings per share diluted was $0.10.

Liquidity

Sargold's mineral exploration and development activities have provided the Company with no sources of income, a history of losses, limited capital resources and an accumulated deficit of $7,909,167 as at December 31, 2006. 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 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. The Company will also be required to make payments to the Sardinian Regional Financial Institute as the initial advance plus accrued interest totalling $823,408 (€530,448) related to a Sardinian government grant must be repaid. At this time the repayment schedule has not been finalized. SGM will continue to handle 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 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 total €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.

As at December 31, 2006, the Company had cash of $468,724 and a working capital deficit of $2,436,891 in comparison to cash at December 31, 2005 of $1,215,348 and a working capital deficit of $1,837,168. This decrease in cash of $746,624 combined with issuance of common shares for cash of $4,355,000, through private placements, and net proceeds received from the sale of marketable securities of $741,896 was used to fund operations totaling $2,468,640 (including the change in working capital), repay notes of $1,432,326 and acquire $1,440,235 of mineral properties, $264,398 for deferred operational costs and $211,452 for the acquisition of plant and equipment.

The current working capital deficit of $2,436,891 at December 31, 2006 may, if the Company is successful, be addressed in the current fiscal year through the Company raising additional cash through equity placements or by negotiating deferred payment arrangements.

The Company has $18,551,515 in long-term liabilities as at December 31, 2006, compared with $20,917,258 at December 31, 2005. The liabilities include long-term notes to Progemisa for $8,079,867 and to Gold Fields for $127,007, capital lease obligations of $289,633, asset retirement obligations totaling $980,305, long-term employee entitlements of $826,298, deferred government grant amounts of $1,960,326 and other long-term liabilities of $402,042 as well as future income tax liabilities. The Company's long-term liabilities are denominated in Euros except the obligation to Gold Fields which is in Canadian dollars. In addition the majority of the current liabilities are denominated in Euros. Fluctuations in the Euro/Canadian dollar exchange rate can materially affect the recorded net monetary liabilities recorded and ultimately the amount paid in Canadian dollars.

The following table lists as of December 31, 2006 information with respect to the Company's known contractual obligations.

	Payments due by period				
		Less than 1 year	*1-3*	*3 – 5*	*More than 5 years*
Contractual Obligations	*Total*		*years*	*years*	
Current liabilities	$ 3,870,046	$ 3,870,046	$ -	$ -	$ -
Long-term debt obligations	8,208,768	-	128,901	-	8,079,867
Capital Lease obligations	170,877	-	170,877	-	-
Other long-term liabilities	4,168,971	-	-	-	4,168,971
Total	$ 16,418,662	$ 3,870,046	$ 299,778	$ -	$ 12,248,838

<u>Capital Resources</u>

The Company's primary assets are mineral properties and mining facilities, which are discussed in detail in the Overview of Performance section of this MD&A. We will require additional capital to fund our business plans for the Sardinian mining assets which includes funds for mining facilities improvements/expansion, development of open pit and underground ore bodies and exploration at the Furtei property and the advanced gold exploration properties at Osilo and Monte Ollasteddu. At this time the Company has not determined the full costs related to these activities.

The Company does not expect to expend significant funds on exploration or development to further our Serbian properties or the Lodestone Mountain property during 2006.

In addition to generating cash from the production of gold from the heap leach material, once the business plan related to the medium and long-term production is finalized, the Company will be seeking financing from the equity and potentially debt markets, potential joint ventures partners and any other available sources. These operating plans have not been finalized and, at this time, it is not known whether an economically viable business plan will be developed.

During 2006 we raised the following equity funding:

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 Gold Fields. The Company also issued to Gold Fields 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.

On April 30, 2007 the Company announced a private placement for up to 5,000,000 units at a price of $0.20 per unit. The units are comprised of 1 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 2 years. This placement replaces the one previously announced on March 28, 2007 and is subject to regulatory approval.

The Company historically has relied upon equity subscriptions to satisfy its capital requirements. The Company will continue to depend upon equity capital to finance its activities. There are no assurances that the Company's capital requirements will be met by this or any other means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. Management continues with its efforts to secure additional financing arrangements for the Company and the support of its creditors.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Transactions with Related Parties

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.

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.

Proposed Transactions

There are no transactions that will materially affect the performance of the Company.

Changes in Accounting Policies including Initial Adoption

There have been no new accounting policies or changes to existing accounting policies.

Restatement

Refer to Notes 2, 7 and 14 of the 2006 Consolidated Financial Statements.

Financial Instruments and Other 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.

Share Capital Information

As at the date of this report the Company had an unlimited number of common shares authorized for issuance, with 63,439,772 issued and outstanding. The Company had 6,285,665 outstanding stock options with 3,704,415 vested and available for exercise. The Company also had 9,275,000 in outstanding warrants available to be exercised. From December 31, 2006 to the date of this report 650,000 warrants expired unexercised on February 23, 2007. On April 30, 2007 the Company announced a private placement for up to 5,000,000 units at a price of $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 2 years. This placement replaces the one previously announced on March 28, 2007 and is subject to regulatory approval.

Risks and Uncertainties

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described below and the other information filed with the Canadian securities regulators before investing in the Company's common shares. The risks described below are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of the following risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose all of their investment.

We have a history of losses and anticipate that we will continue to incur losses for the foreseeable future.

We have historically incurred losses as evidenced by the accumulated deficit of $7,909,167 and the operating losses of $5,190,133, $153,789 and $1,892,494 for the years ended December 31, 2006, 2005 and 2004.

Our efforts to date are focused on determining whether an economically viable restart plan could be put in place for the moth-balled Furtei gold mine processing facilities as well as acquiring, exploring and advancing other mineral properties to a development decision. Other than the Furtei mine facilities all of our other properties are in the exploration stage and none of the exploration properties have known mineral reserves. We do not anticipate that we will earn any revenue from our exploration properties until these properties are placed into production, which is not expected to be for several years, if at all.

We will require additional capital to fund our business plans.

As of December 31, 2006, we had a working capital deficit of $2,336,891. Through the 2006 year end we had no revenues from operations. Our planned activities for 2007 anticipate expenditures significantly in excess of our current cash reserves. We will require additional capital to fund our business activities, including development and exploration expenditures. Management's plan, including the continued development of the Furtei property has not been finalized but if development were to proceed would require significant additional funding in 2007. Such funding may not be available on commercially acceptable terms or at all. The failure to meet our ongoing obligations on a timely basis or raise additional funds that may be required could result in a delay or indefinite postponement of further development or exploration activities on our properties or the loss or substantial dilution of our property interests.

We have historically depended on distributions of our securities to fund our working capital and funding requirements.

Historically, the principal source of funds available to us has been through the sale of common shares. During the years ended December 31, 2006 and 2005 we raised a net $4,355,000 and $1,839,125, respectively, by issuing equity securities. Additional equity financing will cause ownership dilution of our existing shareholders.

In addition, as at December 31, 2006, we had outstanding 6,285,665 common share purchase options at an average exercise price of $0.19 and 9,275,000 purchase warrants at an average outstanding exercise price of slightly less than $0.30 per warrant. As a consequence of the passage of time since the date of their original sale and issuance, none of the Company's shares remain subject to any hold period restrictions in Canada as of December 31, 2006. The unrestricted resale of outstanding shares from the exercise of dilutive securities may have a depressing effect on the market for our common shares.

We have no proven or probable reserves and we may never discover sufficient mineral deposits to justify commercialization of any of our properties.

We have no probable or proven reserves on any of our properties, and we have not completed a feasibility study on any of our properties. Therefore, we cannot be certain that minerals will be discovered in sufficient quantities and grade on any of our properties to justify commercial operations. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, labour, wages, mine safety and environmental protection. If we are unable to upgrade our mineralized material to proven and probable reserves in sufficient quantities to justify commercial operations, we will be unable to develop mines and our financial condition and results of operations could be adversely affected.

We have no history of production and may never place any of our exploration properties into production.

None of our properties are in commercial production, and while the Company has held the Sardinian mining assets we have not recorded significant mining revenues. We expect to incur losses unless and until such time as our properties enter into commercial production and generate sufficient revenues to fund our continuing operations. The development of mining operations on any of our properties will require the commitment of substantial resources for operating expenses and capital expenditures, which may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of our properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, our acquisition of additional properties, and other factors, many of which are beyond our control. We may not generate any revenues or achieve profitability.

Our exploration activities may not be commercially successful.

Mineral exploration is highly speculative in nature, involves many risks and is frequently nonproductive. Unusual or unexpected geologic formations, and the inability to obtain suitable or adequate machinery, equipment or labor are risks involved in the conduct of exploration programs. The success of mineral exploration is determined in part by the following factors:

- the identification of potential mineralization;
- availability of exploration permits;
- the quality of our management and our geological and technical expertise; and
- the capital available for exploration.

Substantial expenditures are required to establish proven and probable reserves through drilling and analysis, to develop metallurgical processes to extract metal, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Whether a mineral deposit will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which fluctuate widely; and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. We cannot assure you that any reserves or mineralized material acquired or discovered will be in sufficient quantities to justify commercial operations.

Exploration, development and mining involve a high degree of risk.

Our operations will be subject to all the hazards and risks normally encountered in the exploration, development and production of gold and other base or precious metals, including, without limitation, seismic activity, rock bursts, pit-wall failures, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and legal liability. Milling operations are subject to various hazards, including, without limitation, equipment failure and failure of retaining dams around tailings disposal areas, which may result in environmental pollution and legal liability.

We may be adversely affected by fluctuations in gold, silver, copper and other metal prices.

The value and price of our common shares, our financial results, and our exploration, development and mining, if any, activities may be significantly adversely affected by declines in the price of gold, silver, copper and other metals. Mineral prices fluctuate widely and are affected by numerous factors beyond our control such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of mineral producing countries throughout the world. The price for metals fluctuates in response to many factors beyond anyone's ability to predict. The percentage change in the price of a metal cannot be directly related to the estimated resource quantities, which are affected by a number of additional factors. For example, a 10 percent change in price may have little impact on the estimated resource quantities and affect only the resultant positive cash flow, or it may result in a significant change in the amount of resources. Because mining occurs over a number of years, it may be prudent to continue mining for some periods during which cash flows are temporarily negative for a variety of reasons including a belief that the low price is temporary and/or the greater expense incurred in closing a property permanently.

Mineralized material calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of our investments in mining properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting our future mineralized material estimates, if any, and financial condition, declining metal prices can impact operations by requiring a reassessment of the commercial feasibility of a particular project. Such a reassessment may be the result of a management decision related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays in development or may interrupt operations, if any, until the reassessment can be completed.

Title to our properties may be subject to other claims.

Although we believe we have exercised the commercially reasonable due diligence with respect to determining title to properties we own, control or have the right to acquire by option, there is no guarantee that title to such properties will not be challenged or impugned. Our mineral property interests may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of our properties which, if successful, could impair development and/or operations. This may be exacerbated due to the large number of title transfers historically involved with some of the properties.

Government regulation may adversely affect our business and planned operations.

We believe our exploration and development projects currently comply with existing environmental and mining laws and regulations affecting their operations. Our mining, processing, development and mineral exploration activities, if any, are subject to various laws governing prospecting, mining, development, production, taxes, labor standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. We cannot assure you that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on our business and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Our operations are subject to environmental risks.

All phases of our operations, if any, will be subject to federal, regional and local environmental regulation in the various jurisdictions in which we operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. We cannot be certain that future changes in environmental regulation, if any, will not adversely affect our operations, if any. Environmental hazards may exist on the properties on which we hold and will hold interests which are unknown to us at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Production, if any, at our mines will involve the use of hazardous materials. Should these materials leak or otherwise be discharged from their containment systems then we may become subject to liability for hazards that it may not be insured against or for clean up work that may not be insured.

Our stock price is subject to volatility

During the year ended December 31, 2006, our share price ranged from $0.16 to $0.38 per share on the TSX Venture Exchange. The market price of a publicly traded stock, especially a junior resource issuer, is affected by many variables not directly related to our exploration success, including the market for junior resource stocks, the strength of the economy generally, commodity prices, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of the common shares on the stock exchanges on which the Company trade, suggest the Company's shares will continue to be volatile.

We do not insure against all risks.

Our insurance will not cover all the potential risks associated with a mining company's operations. We may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to us or to other companies in the mining industry on acceptable terms. We might also become subject to liability for pollution or other hazards which may not be insured against or which we may elect not to insure against because of premium costs or other reasons. Losses from these events may cause us to incur significant costs that could have a material adverse effect upon our financial condition and results of operations.

We compete with larger, better capitalized competitors in the mining industry.

The mining industry is competitive in all of its phases. We face strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, base and precious metals. Many of these companies have greater financial resources, operational experience and technical capabilities than us. As a result of this competition, we may be unable to maintain or acquire attractive mining properties on terms it considers acceptable or at all. Consequently, our revenues, operations and financial condition could be materially adversely affected.

We are dependent on our key personnel.

Our success depends on our key executives: George Paspalas, President and Chief Operating Officer; Mike Clarke, VP Exploration; and Richard Warke, CEO and Chairman. The loss of the services of one or more of such key management personnel could have an adverse effect on the Company. Our ability to manage exploration and development activities, and hence our success, will depend in large part on the efforts of these individuals. We face intense competition for qualified personnel, and we cannot be certain that we will be able to attract and retain such personnel.

Our officers and directors may have potential conflicts of interest

Our directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which we are also participating, such directors and officers may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The laws of Canada require the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders. However, in conflict of interest situations, our directors and officers may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions. There is no assurance that our needs will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger programs; (ii) acquire an interest in a greater number of programs; and (iii) reduce their financial exposure with respect to any one program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or not we will participate in a particular program and the interest therein to be acquired by it, it is expected that our directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

We provide indemnity and protection to our directors and officers.

Section 7 of our By-Law No.1 states in part that:

> "The Company shall indemnify a director or officer, a former director or officer, or a person who acts or acted at the Company's request as a director or officer of a body corporate of which the Company is or was a shareholder or creditor... against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment . . ."

Thus, we may be required to pay amounts to settle any such claims that may arise. The impact of any such possible future indemnity protection cannot be determined at this time.

In the event that your investment in our shares is for the purpose of deriving dividend income or in expectation of an increase in market price of our shares from the declaration and payment of dividends, your investment will be compromised because we do not intend to pay dividends.

We have never paid a dividend to our shareholders, and we intend to retain our cash for the continued development of our business. We do not intend to pay cash dividends on our common stock in the foreseeable future. As a result, your return on investment will be solely determined by your ability to sell your shares in a secondary market.

Critical Accounting Policies

The Company's Consolidated Financial Statements have been prepared assuming the Company will continue on a going-concern basis. The Company has historically incurred losses, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. The Company has financed its capital requirements by issuing common stock and notes payable. There is no certainty that the Company will be able to raise the funds sufficient to support its business plan.

The preparation of financial statements in conformity with Canadian GAAP requires management to make additional estimates and assumptions that affect the 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 areas requiring the use of management estimates and measurement uncertainty include the assessment of valuation impairment of the mineral properties and deferred development expenditures, the determination of the fair value allocation between common stock and contributed surplus for the shares issued during the year and the determination of the fair value of the stock based compensation charged to operations.

The Company follows the practice of capitalizing all costs related to acquisition, exploration and development of mineral properties and mineral property projects until such time as mineral properties are put into commercial production, sold or abandoned. If commercial production commences, these capitalized costs will be amortized on a unit-of-production basis. If the mineral properties or projects are abandoned, the related capitalized costs are written-off. On an ongoing basis, the Company evaluates each property and project on results to date to determine the nature of exploration, other assessment and development work that is warranted in the future. If there is little prospect of future work on a property or project being carried out within a five year period from completion of previous activities, the deferred costs related to that property or project are written down to the estimated amount recoverable unless there is persuasive evidence that an impairment allowance is not required. The amounts shown for mineral properties and for deferred development expenditures represent costs incurred to date less write-downs, and are not intended to reflect present or future values.

The Company followed the fair value approach in determining the allocation between common stock and contributed surplus for the shares issued during the year. For stock based compensation (including stock options) and for the valuation of warrants issued by the Company, the Black-Scholes option pricing model is used to determine the fair value of the particular instrument. This model is subject to various assumptions including the expected life of the option and the volatility of the Company's share price. The Company relies on historical information as the basis for these assumptions.

The Company's functional and reporting currency is the Canadian dollar. Translations undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transaction 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 operation and deficit. The effect of fluctuations in exchange rates between the dates of transactions and of settlements are reflected in the statement of operation and deficit and depending on the magnitude of the fluctuation may be material. Based on the net monetary liability position at year end a 10% strengthening of the Euro would adversely impact earnings by approximately $1.6 million.

Disclosure Controls and Procedures

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the Company conducted an evaluation of the disclosure controls and procedures as required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that at December 31, 2006 the Company's disclosure controls and procedures were effective in providing reasonable assurance that material information regarding this annual report and other disclosures was made known to them on a timely basis. In reaching this conclusion, the Company recognizes that two factors must be and are present:

i) the Company is dependant upon its advisors and consultants (primarily legal counsel) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements and
ii) an active Board and Management with open lines of communication.

It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls over Financial Reporting

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During 2006 the Company realized that with the increasing complexity of our business that additional financial personnel were needed. As a result the Company hired a new Controller on August 7 and a new CFO on September 1. In addition to establishing new internal controls and commencing a broader review of internal controls over financial reporting a project was initiated to replace the existing head office accounting system which had become outdated. The lack of functionality of the existing system as well as a cessation of support on the part of the software manufacturer contributed to material weaknesses related to segregation of duties and continuity of processing. A cross-over to the new system commenced January 1, 2007 with all Canadian invoices now being processed with the new software. With the new accounting system, management is confident that material weaknesses related to segregation of duties issues at head office can be mitigated. The mining operations in Sardinia have been idled since 2002 with no source of cash flow other than ongoing contributions from Sargold. These limited financial resources have reduced the number of employees resulting in segregation of duties weaknesses. Internal controls which are in place have focused on review of disbursements by senior management in Italy, limited cheque signing authority and provision of funds from Sargold on an as needed basis. Management and the Board of Directors work to mitigate the risk of a material misstatement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.