

Sage Gold Inc.

Consolidated Financial Statements

For the years ended September 30, 2006 and 2005

Auditors' Report

To the Shareholders of
Sage Gold Inc.

We have audited the consolidated balance sheets of Sage Gold Inc. as at September 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years respectively then ended. These consolidated financial statements are the responsibility of the Corporation'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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the two years respectively then ended in accordance with Canadian generally accepted accounting principles.

(signed) BDO Dunwoody LLP

Chartered Accountants

Toronto, Ontario
December 4, 2006

Sage Gold Inc.
Consolidated Balance Sheets

September 30 **2006** **2005**

Assets

Current

Cash and cash equivalents	\$ 210,802	\$ 620,704
Short term investment (note 2)	502,723	-
GST receivable	25,819	110,062
Prepaid expenses and sundry assets	87,064	4,335
	826,408	735,101
Mineral properties	2,993,110	1,070,123
Equipment, net of accumulated amortization (Note 4)	6,956	11,095
	\$ 3,826,474	\$ 1,816,319

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities	\$ 285,657	\$ 133,871
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Shareholders' equity

Share capital (Note 5(b))	4,995,755	2,895,770
Warrants (Note 6)	515,755	99,767
Contributed surplus (Note 7)	1,054,542	517,951
Deficit	(3,025,235)	(1,831,040)
	3,540,817	1,682,448
	\$ 3,826,474	\$ 1,816,319

(Going Concern - Note 1)

Approved on behalf of the Board:

(signed) Patrick J. Mars Director

(signed) C.Nigel Lees Director

Sage Gold Inc.

Consolidated Statements of Operations and Deficit

For the years ended September 30	2006	2005	Cumulative from inception of project September 15, 2003
Expenses			
General and administrative (Note 16)	\$ 1,664,714	\$ 954,215	\$ 3,377,562
Amortization	2,131	3,436	7,434
Write-off of mineral properties	91,474	-	91,474
Write-off of deferred costs	-	51,657	51,657
	1,758,319	1,009,308	3,528,127
Other income			
Interest received	10,183	2,186	17,952
Net loss before the following	(1,748,136)	(1,007,122)	(3,510,175)
Income tax recovery (Note 5(c)(vii))	553,941	-	553,941
Net loss for the year	(1,194,195)	(1,007,122)	(2,956,234)
Deficit, beginning of year	(1,831,040)	(823,918)	(69,001)
Deficit, end of year	\$ (3,025,235)	\$ (1,831,040)	\$ (3,025,235)
Loss per common share (Note 10)	\$ 0.021	\$ 0.050	

The accompanying notes are an integral part of the financial statements.

Sage Gold Inc.
Consolidated Statements of Cash Flows

For the years ended September 30	2006	2005	Cumulative from inception of project September 15, 2003
Cash flows provided by (used in)			
Operating activities			
Net loss for the year	\$ (1,194,195)	\$ (1,007,122)	\$ (2,956,234)
Adjustments to reconcile net loss to net cash provided by operating activities			
Amortization	2,131	3,436	7,434
Income tax recovery	(553,941)	-	(553,941)
Stock-based compensation (Note 7)	480,535	139,232	888,767
Write-off of deferred costs	-	51,657	51,657
Write-off of mineral properties	91,474	-	91,474
Changes in non-cash working capital balances			
Change in GST receivable, prepaid expenses and sundry assets	1,514	(68,063)	(107,693)
Change in accounts payable and accrued liabilities	152,693	56,848	5,550
	(1,019,789)	(824,012)	(2,572,986)
Investing activities			
Short term investment	(502,723)	-	(502,723)
Deferred costs	-	(29,433)	(36,657)
Additions to mineral properties	(1,941,683)	(784,834)	(2,815,990)
Additions to equipment	-	(2,052)	(16,397)
Proceeds from sale of computer equipment	1,100	-	1,100
	(2,443,306)	(816,319)	(3,370,667)
Financing activities			
Issuance of shares, net of costs	3,053,193	1,269,948	6,117,679
Net increase (decrease) in cash during the year			
	(409,902)	(370,383)	174,026
Cash and cash equivalents,			
beginning of the year	620,704	991,087	36,776
Cash and cash equivalents, end of the year	\$ 210,802	\$ 620,704	\$ 210,802

The accompanying notes are an integral part of the financial statements.

Sage Gold Inc.
Consolidated Statements of Mining Properties Expenditures

For the years ended September 30	2006	2005	Cumulative from inception of project September 15, 2003
Kerrs Property, Canada			
Opening balance	\$ 566,255	\$ 181,598	\$ -
Property acquisition costs	35,000	47,237	209,112
Claim management and other property maintenance costs	36,277	-	58,335
Geological consulting and services	99,898	22,432	149,438
Geochemistry	14,500	20,053	34,553
Geophysics	-	28,853	28,853
Consulting	25,333	37,011	62,344
Assays and analyses	25,433	26,923	52,356
Travel and accommodation	56,431	20,594	77,025
Drilling	691,499	178,920	870,419
Equipment	-	2,634	2,634
Miscellaneous	-	-	5,557
Activity during the period	984,371	384,657	1,550,626
Closing balance	\$ 1,550,626	\$ 566,255	\$ 1,550,626
Malartic, Canada			
Opening balance	\$ 11,359	\$ -	\$ -
Property acquisition costs	-	1,778	1,778
Claim management and taxes	4,064	-	4,064
Geological consulting and services	19,058	-	19,058
Geophysics	-	9,581	9,581
Activity during the period	23,122	11,359	34,481
Closing balance	\$ 34,481	\$ 11,359	\$ 34,481
Lincoln Gold Property, Canada			
Opening balance	\$ -	\$ -	\$ -
Property acquisition costs	25,015	-	25,015
Written off	(25,015)	-	(25,015)
Activity during the period	-	-	-
Closing balance	\$ -	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Sage Gold Inc.
Consolidated Statements of Mining Properties Expenditures

For the years ended September 30	2006	2005	Cumulative from inception of project September 15, 2003
Onaman Property, Canada			
Opening balance	\$ -	\$ -	\$ -
Property acquisition costs	59,526	-	59,526
Claim management	902	-	902
Geological consulting and services	305,963	-	305,963
Geophysics	5,117	-	5,117
Consulting	14,150	-	14,150
Assays and analyses	25,044	-	25,044
Travel and accommodation	47,075	-	47,075
Drilling and linecutting	31,343	-	31,343
Equipment rental	24,912	-	24,912
Other	38,095	-	38,095
Activity during the period	552,127	-	552,127
Closing balance	\$ 552,127	\$ -	\$ 552,127
Jacobus Property, Canada			
Opening balance	\$ -	\$ -	\$ -
Property acquisition costs	31,274	-	31,274
Geological consulting and services	18,174	-	18,174
Activity during the period	49,448	-	49,448
Closing balance	\$ 49,448	\$ -	\$ 49,448
Other, Canada			
Opening balance	\$ 4,765	\$ 4,752	\$ -
Miscellaneous	-	13	4,765
Written off	(4,765)	-	(4,765)
Activity during the period	-	13	-
Closing balance	\$ -	\$ 4,765	\$ -
Total Mining Properties in Canada	\$ 2,186,682	\$ 582,379	\$ 2,186,682

The accompanying notes are an integral part of the financial statements.

Sage Gold Inc.

Consolidated Statements of Mining Properties Expenditures

For the years ended September 30	2006	2005	Cumulative from inception of project September 15, 2003
Triple Junction and Dixie Fork, United States			
Opening balance	\$ 39,910	\$ 18,123	\$ -
Property acquisition costs	-	-	633
Claim management and taxes	-	-	1,200
Claims staking	10,710	-	10,710
Geophysics	20,000	-	20,000
Consulting	10,185	17,424	31,840
Travel and accommodation	3,767	3,755	19,581
Miscellaneous	-	608	608
Activity during the period	44,662	21,787	84,572
Closing balance	\$ 84,572	\$ 39,910	\$ 84,572
Pony Spur, Dike, Corridors and Sugarloaf Properties, United States			
Opening balance	\$ 447,834	\$ -	\$ -
Property acquisition costs	146,875	194,576	341,451
Advances	-	3,488	3,488
Geological consulting and services	6,117	771	6,888
Geochemistry	10,836	20,601	31,437
Geophysics	74,483	61,766	136,249
Consulting	52,634	143,041	195,675
Assays and analyses	-	998	998
Travel and accommodation	3,081	17,184	20,265
Renewal fees	30,593	-	30,593
Miscellaneous	553	5,409	5,962
Written off Sugarloaf	(61,694)	-	(61,694)
Activity during the period	263,478	447,834	711,312
Closing balance	\$ 711,312	\$ 447,834	\$ 711,312

The accompanying notes are an integral part of the financial statements.

Sage Gold Inc.

Consolidated Statements of Mining Properties Expenditures

For the years ended September 30	2006	2005	Cumulative from inception of project September 15, 2003
Big Bend Gold Property, United States			
Opening balance	\$ -	\$ -	\$ -
Activity during the period			
Property acquisition costs	4,927	-	4,927
Geological consulting and services	5,617	-	5,617
Activity during the period			
	10,544	-	10,544
Closing balance	\$ 10,544	\$ -	\$ 10,544
Total Mining Properties in United States	\$ 806,428	\$ 487,744	\$ 806,428
TOTAL	\$ 2,993,110	\$ 1,070,123	\$ 2,993,110

The accompanying notes are an integral part of the financial statements.

Sage Gold Inc.

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

1. The Corporation and its History

Incorporation, Name Change and Stock Consolidation

Sage Gold Inc. ("Sage" or the "Company") is a public corporation. Since its inception, the business of the Company has consisted of the acquisition, exploration and development of mineral properties. The Company was formed on October 1, 1997 pursuant to the Business Corporations Act (Ontario) by way of Articles of Amalgamation upon the amalgamation of Sahelian Goldfields Ltd. and Sahelian Goldfields Inc. The Company consolidated its shares on a 1:25 basis on March 3, 2005 and changed its name to Sage Gold Inc. The stock consolidation has been reflected in these consolidated financial statements and all applicable references as to the number of shares and per share information has been restated.

Basis of Presentation

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and obtaining sufficient financing to meet its liabilities, its obligations with respect to operating expenditures and expenditures required on its mineral properties.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared by management in accordance with accounting principles and industry practices generally accepted in Canada.

Consolidation

The consolidated financial statements include those of the Company and its wholly-owned U.S. subsidiary Sage Mining Inc. All material intercompany transactions between the Company and its subsidiary have been eliminated in these consolidated financial statements.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less.

Short term investment

The short term investment consists of a Guaranteed Investment Certificate bearing interest at 3.75% maturing August 9, 2007.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

2. Summary of Significant Accounting Policies (Continued)

Mineral properties

All direct costs associated with exploration properties are capitalized as incurred. If the property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The amounts capitalized at any time represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

The recoverability of amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the property and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

Equipment and related amortization

Office equipment is recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at an annual rate of 20%.

Computer equipment is recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at an annual rate of 30%.

Stock-based compensation

The Company has a stock option plan that is described in Note 7. The fair value of any stock options granted to directors, officers, consultants and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 7. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

Loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

Financial instruments

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair values of its financial instruments approximate their carrying values, unless otherwise noted. Included in accounts payable is \$39,098 (2005 - \$291) denominated in U.S. dollars.

Sage Gold Inc.

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

2. Summary of Significant Accounting Policies (Continued)

Flow-Through Shares

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

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

Foreign currency translation

Assets and liabilities of integrated foreign subsidiary operations and foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. The revenues and expenses, except amortization, are converted at the average exchange rates for the year. Amortization is converted at the same rate as the related assets. Gains or losses on translation are expensed.

3. Mineral Properties

CANADA:

(i) Newmont Agreement Property

Pursuant to an agreement entered into on April 28, 2003 between the Company and Newmont Canada Limited ("Newmont"), the Company issued 400,000 (10,000,000 pre-consolidation) common shares to acquire the Newmont mineral properties, as described below:

- (A) Kerrs Lease - 100% interest in 12 claims located in Kerrs Township, Ontario.
- (B) Barlow 1 Claims - 62.5% interest in 15 claims located in Barlow Township, Quebec
- (C) Fancamp 2 Claims - 100% interest in 4 claims located in Fancamp Township, Quebec
- (D) Fort Chimo Gold 1 - 75% interest in 15 claims located in map reference Lac St. Pierre, Quebec (all 15 of which have now expired)
- (E) Fort Chimo Gold 2 - 75% interest in 19 claims located in map reference Rougement, Quebec
- (F) Fort Chimo Gold 3 - 75% interest in 15 claims located in map reference Chute de la Pyrite, Quebec
- (G) La Dauversiere 1 - 100% interest in 9 claims located in La Dauversiere Township, Quebec (all 9 of which have now expired)
- (H) Malartic 1-96 - 100% interest in 32 claims located in Cadillac and Malartic Townships, Quebec (18 of which have now expired, leaving 14 active claims)

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

3. Mineral Properties (Continued)

(i) Newmont Agreement Property (Continued)

The agreement also provides for a one time cash payment to Newmont in the amount of US\$1,000,000 payable within ten business days of a decision by the Company to construct a commercial mining operation on any of the properties forming part of the agreement. In addition, Newmont is entitled to a Net Smelter Return Royalty ("NSR") of 1% if the gold price is less than or equal to US\$350 per ounce; 1.5% if the gold price is greater than US\$350 but less than or equal to US\$400 and 2% if the gold price is greater than US\$400 per ounce.

Five additional un-surveyed claims adjoining the leases and claims were staked in October and November 2003. On November 7, 2003 an option agreement was signed, resulting in the acquisition of one unsurveyed claim adjacent to the northern portion of the Kerrs lease. Sage has earned a 100% interest, subject to a NSR of 1.5%, by completing a 3 year exploration program involving expenditures of \$15,000 in year 1, \$50,000 in year 2 and \$100,000 in year 3. In addition cash payments were made to the holder of the claim of \$5,000 in year 1, \$10,000 in year 2 and \$20,000 in year 3 resulting in 100% interest in the claims. The NSR can be purchased for \$500,000.

An additional 60,000 (1,500,000 pre-consolidation) common shares were issued to a director as a finders fee in connection with the acquisition of the Kerrs Property.

On September 6, 2005, the Company signed an option agreement with certain individuals ("the Vendors") to acquire a 100% interest in a mining claim ("the Property") contiguous to the Company's Kerrs Property, in Kerrs Township, called Larder Lake Mining Division, Ontario, on the following terms: on signing, the Company shall issue 67,000 Common Shares (issued - valued at \$5,000), and pay \$5,000 in cash to the Vendors (paid). During the first year (late 2005 and 2006), the Company shall expend \$15,000 on the property (\$949,371 expended by September 30, 2006). On the first anniversary, the Company shall issue the equivalent of \$5,000 in Sage Common Shares (issued 42,373 Common Shares), and pay \$10,000 in cash to the Vendors (paid). To keep this option in good standing, the Company is required to expend \$35,000 on the property during the second year. On the second anniversary, the Company shall issue the equivalent of \$10,000 in Sage Common Shares, and pay \$15,000 in cash to the Vendors. During the third year, the Company will expend \$70,000 on the property.

The Vendors will retain a NSR of 1.5% on gold and a 1.5% gross overriding royalty on diamonds. Both royalties can be purchased by the Company for \$300,000 each in cash.

The Kerrs Property consists of the Campbell Claim and the Kidston/Dyment Claim. As of September 30, 2006, the Company now owns 100% of the mining claims on the Campbell Claim property due to a final payment of \$20,000 to the vendor of the Campbell Claim as of December 21, 2005. The royalty of 1.5% on the Campbell Claim can be purchased for \$500,000.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

3. Mineral Properties (Continued)

(ii) Lincoln Gold Property

On May 16, 2006, the Company signed an option agreement with N.W.T. Copper Mines Limited to earn a 100% interest in the Lincoln Gold Property located near Beardmore, Ontario. The option agreement includes total cash payments of \$75,000 (\$25,000 paid) and work commitments of \$325,000 over a three year term to earn into a 100% interest in the property. The vendors retain a 3% NSR on precious metals and 2% on base metals. The Company can repurchase 1 percentage point of the royalty for \$1,000,000.

As of September 30, 2006, the Company determined that no further expenditures were planned on the property during fiscal 2007, and accordingly the property was written off.

(iii) Onaman Property

On May 3, 2006, the Company signed an option agreement with two unrelated individuals to earn a 100% interest in the Onaman property located 50km east of Beardmore, Ontario. This option agreement includes total cash payments of \$75,000 (\$25,000 paid) by the Company to the vendors, the issuance of 200,000 Sage shares (100,000 issued; value assigned - \$13,000) and total work commitments by the Company of \$325,000 over a three year term (\$492,601 incurred in fiscal 2006) to earn into a 100% interest in the property. The vendors retain a 2% NSR on base metals and 3% NSR on precious metals. The Company can repurchase 1 percentage point of the royalty interest for \$1,000,000.

(iv) Jacobus Property

On May 16, 2006, the Company signed an option agreement with N.W.T. Copper Mines Limited to earn a 100% interest in the Jacobus Property located near Beardmore, Ontario. The option agreement includes total cash payments of \$75,000 (\$25,000 paid) and a total work commitment of \$325,000 over a three year term (\$18,174 incurred in fiscal 2006) to earn into a 100% interest in the property. The vendor retains a 2% NSR on base metals and 3% for precious metals. The Company can repurchase 1 percentage point of the royalty interest for \$1,000,000.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

3. Mineral Properties (Continued)

UNITED STATES:

(v) Triple Junction and Dixie Fork

On September 9, 2004, the Company executed an option agreement with Atna Resources Ltd. and Atna Resources Inc. ("Atna") to acquire up to a 70% undivided interest in the Triple Junction and Dixie Fork claims in the Rain District at the south end of the Carlin Trend in Elko County, Nevada. Triple Junction comprises 36 lode claims for 720 acres and Dixie Fork comprises 31 lode claims for 620 acres.

Under the agreement, if the Company completed 15,000 feet of drilling by November 26, 2006, it could elect to either, immediately form a joint venture, with the Company holding a 55% interest and Atna holding 45% or elect to fund and carry out sufficient work to complete a bankable feasibility study to earn a 70% interest. The properties are subject to a royalty of 3% which can be purchased for US \$1,000,000 per percentage point. The Company has the right to terminate the agreement at any time without penalty up to October 8, 2008.

On October 15, 2005, the Company and Atna agreed to amend the original option agreement. For the consideration of issuing 500,000 common shares of the Company, valued at \$20,000, Atna agreed to extend the length of the option by one year to November 30, 2007, and to reduce the Company's total drilling commitment on the properties from 15,000 feet to 10,000 feet.

(vi) Pony Spur, Dike, Corridors and Sugarloaf

On October 13, 2004, the Company closed the first tranche of payments to earn 100% interest in four properties: Pony Spur, Dike, Corridors and Sugarloaf. The properties are located in the Carlin-Rain Trend and Midas Trend, Nevada. The Company will earn its interests through increasing annual payments of cash and shares over a five year period, which commenced with a US \$40,000 cash payment and the issuance of 304,000 (7,600,000 pre-consolidation) common shares valued at US \$60,000 (\$75,816 Canadian). On July 31, 2006, the Company amended and restated the option agreements. The remaining options payments until October 8, 2007 are US \$75,000 and common shares valued at US \$127,500. However, should the Company expend US \$1,000,000 on any of the properties during the option period, it will not be required to make any further cash or share option payments due after that time and will have earned its 100% interest in that particular property. The Company can terminate the agreements at any time without penalty. Upon exercise of the option, the vendor will retain a 3% NSR on each property. The NSR can be purchased for US \$1,000,000 per percentage point.

As at September 30, 2006, Sugarloaf property has been written down as the value of the property has been impaired.

During the year ended September 30, 2006, the Company issued 329,112 common shares valued at \$34,778 as part of its obligation to acquire the Pony Spur, Dike, Corridors and Sugarloaf Properties.

(vii) Big Bend Gold Property

On March 23, 2006, the Company obtained an exploration permit on 160 acres on the Big Bend Gold Property ("Big Bend") that is located in Yavapai County, Arizona. Big Bend is approximately 100 miles northwest of Phoenix, Arizona, west of Highway 93.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

4. Equipment

	Cost		Accumulated Amortization		Net Carrying Amount	
	2006	2005	2006	2005	2006	2005
Office equipment	\$ 7,752	\$ 2,991	\$ 4,761	\$ 5,951		
Computer equipment	4,642	2,447	2,195	5,144		
	\$ 12,394	\$ 5,438	\$ 6,956	\$ 11,095		

5. Share Capital and Capital Deficiency

(a) Authorized
 Unlimited number of common shares

(b) Issued

Common shares	Number of Shares	Amount
Balance, September 30, 2004	411,775,215	\$ 1,654,490
Property acquisition (Note 3(vi))	7,600,000	75,816
Consolidation on 1:25 basis (Note 1)	(402,600,540)	-
Private placement - Flow-Through common shares (c)(i)	2,135,000	160,125
Private placement - Common shares (d)(i)	2,229,507	167,205
Warrant valuation (d)(i)	-	(25,640)
Private placement - Flow-Through common shares (c)(ii)	2,000,000	150,000
Private placement - Common shares (d)(ii)	4,983,000	373,725
Warrant valuation (d)(ii)	-	(42,356)
Private placement - Flow-Through common shares (c)(iii)	4,000,000	300,000
Private placement - Flow-Through common shares (c)(iv)	866,667	65,000
Private placement - Common shares (d)(iii)	580,000	43,500
Warrant valuation (d)(iii)	-	(2,030)
Private placement - Common shares (d)(iv)	2,203,000	165,225
Warrant valuation (d)(iv)	-	(29,741)
Property acquisition (Note 3(i))	67,000	5,000
Cost of issue - Cash	-	(154,831)
Cost of issue - Compensation options	-	(9,718)
Balance, September 30, 2005	35,838,849	\$ 2,895,770

Sage Gold Inc.

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

5. Share Capital and Capital Deficiency (Continued)

(b) Issued (Continued)

Common shares	Number of Shares	Amount
Balance, September 30, 2005	35,838,849	\$ 2,895,770
Private placement - Common shares (d)(v)	1,800,000	135,000
Warrant valuation (d)(v)	-	(27,000)
Private placement - Flow-Through common shares (c)(v)	7,905,000	790,500
Cost of issue - Compensation options (c)(v)	-	(25,800)
Private placement - Flow-Through common shares (c)(vi)	1,000,000	140,000
Mineral property acquisitions (Note 3(i)(iii)(v)(vi))	971,485	72,778
Exercise of warrants	318,920	31,892
Warrant valuation	-	7,335
Exercise of compensation options	4,000	400
Valuation of compensation options	-	200
Private placement - Common shares (d)(vi)	10,990,000	1,099,000
Warrant valuation (d)(vi)	-	(197,820)
Private placement - Common shares (d)(vii)	11,027,990	1,102,799
Warrant valuation (d)(vii)	-	(198,504)
Cost of issue - Compensation options (d)(viii)	-	(30,456)
Cost of issue - Flow-Through renunciation (c)(vii)	-	(553,941)
Cost of issue - Cash	-	(246,398)
Balance, September 30, 2006	69,856,244	\$ 4,995,755

(c) Flow-Through Issuances

(i) On June 10, 2005, the Company completed the first tranche of a flow-through private placement financing with the issuance of 2,135,000 flow-through common shares at Cdn 7.5 cents per share for proceeds of \$160,125. The Company renounced the exploration expenditures generated by the financing subsequent to December 31, 2005. The renunciation created a future income tax liability of approximately \$60,850 which was allocated as a cost of issuing the flow-through shares.

(ii) On July 22, 2005, the Company completed the second tranche of a flow-through private placement financing with the issuance of 2,000,000 flow-through common shares at Cdn 7.5 cents per share for proceeds of \$150,000. The Company renounced the exploration expenditures generated by the financing subsequent to December 31, 2005. The renunciation created a future income tax liability of approximately \$57,000 which was allocated as a cost of issuing the flow-through shares.

(iii) On July 26, 2005, the Company completed the third tranche of a flow-through private placement financing with the issuance of 4,000,000 flow-through common shares at Cdn 7.5 cents per share for proceeds of \$300,000. The Company renounced the exploration expenditures generated by the financing subsequent to December 31, 2005. The renunciation created a future income tax liability of approximately \$114,000 which was allocated as a cost of issuing the flow-through shares.

(iv) On September 6, 2005, the Company completed the fourth tranche of a flow-through private placement financing with the issuance of 866,667 flow-through common shares at Cdn 7.5 cents per share for proceeds of \$65,000. The Company renounced the exploration expenditures generated by the financing subsequent to December 31, 2005. The renunciation created a future income tax liability of approximately \$24,700 which was allocated as a cost of issuing the flow-through shares.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

5. Share Capital and Capital Deficiency (Continued)

(c) Flow-Through Issuances (Continued)

(v) On December 29, 2005, the Company closed a non-brokered private placement of 7,905,000 flow-through common shares at Cdn \$0.10 per share for gross proceeds of \$790,500. The Company paid \$52,000 in finders' fees and granted to certain finders compensation options to acquire 516,000 common shares of the Company, with each option entitling the holder to purchase one common share at \$0.10 per common share up to December 29, 2007. The fair value of the 516,000 compensation options was estimated at \$25,800 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 85.71%; risk-free interest rate - 3.61%; and an expected average life of 2 years.

(vi) On December 30, 2005, the Company closed a non-brokered private placement of 1,000,000 flow-through common shares at Cdn \$0.14 per share for gross proceeds of \$140,000. There were no finders' fees paid or compensation options granted in relation to the offering.

(vii) The issuance of 8,905,000 flow-through common shares in (c)(v) and (c)(vi) above created a future income tax recovery of approximately \$321,023 which was allocated as a cost of issuing the flow-through shares at the time of renunciation subsequent to December 31, 2005. The Company also issued 9,001,667 flow-through common shares in the previous fiscal year. The renunciation created a future income tax recovery of approximately \$232,918 which was allocated as a cost of issuing the flow-through shares.

The total future income tax recovery for the year ended September 30, 2006 amounted to \$553,941 (2005 - \$nil).

(d) Non Flow-Through Private Placements

(i) On June 10, 2005, the Company completed the first tranche of its private placement unit financing with the issuance of 2,229,507 units for gross proceeds of \$167,205. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per common share at any time until June 10, 2007. The value attributed to the warrants was \$25,640 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 95%; risk-free interest rate - 4.0%; and an expected life of 2 years.

(ii) On July 22, 2005, the Company completed the second tranche of its private placement unit financing with the issuance of 4,983,000 units for gross proceeds of \$373,725. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per common share at any time until July 22, 2007. The value attributed to the warrants was \$42,356 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 75%; risk-free interest rate - 4.0%; and an expected life of 2 years. The Company issued an additional 160,000 compensation options as part of this private placement.

The value attributed to the compensation options was \$2,720 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 75%; risk-free interest rate - 4.0%; and an expected average life of 2 years.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

5. Share Capital and Capital Deficiency (Continued)

(d) Non Flow-Through Private Placements (Continued)

(iii) On September 6, 2005, the Company completed the third tranche of its private placement unit financing with the issuance of 580,000 units for gross proceeds of \$43,500. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per common share at any time until September 6, 2007. The value attributed to the warrants was \$2,030 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 75%; risk-free interest rate - 4.0%; and an expected life of 2 years. The Company issued an additional 320,000 compensation options as part of this private placement. The value attributed to the compensation options was \$2,240 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 75%; risk-free interest rate - 4.0%; and an expected average life of 2 years.

(iv) On September 22, 2005, the Company completed the fourth tranche of its private placement unit financing with the issuance of 2,203,000 units for gross proceeds of \$165,225. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per common share at any time until September 26, 2007. The value attributed to the warrants was \$29,741 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 85.71%; risk-free interest rate - 4.0%; and an expected life of 2 years. The Company issued an additional 176,240 compensation options as part of this private placement. The value attributed to the compensation options was \$4,758 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 85.71%; risk-free interest rate - 4.0%; and an expected average life of 2 years

(v) On November 2, 2005, the Company closed a private placement unit financing by the issuance of 1,333,333 units at \$0.075 per share for gross proceeds of \$100,000. The Company also sold an additional 466,667 units on the same terms for aggregate proceeds of \$35,000. Each unit consisted of one common share of the Company and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at \$0.10 per common share at anytime until November 2, 2007. The fair value of the 900,000 warrants was estimated at \$27,000 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 85.71%; risk-free interest rate - 3.61%; and an expected average life of 2 years

(vi) On April 13, 2006, the Company closed a non-brokered private placement of 10,990,000 units at Cdn \$0.10 per unit for gross proceeds of \$1,099,000. Each unit consisted of one common share of Sage and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.15 for the first year following the closing date and \$0.20 for the second year following the closing date. The fair value of the 5,495,000 common share purchase warrants was estimated at \$197,820 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 84.8%; risk-free interest rate - 4.0%; and an expected life of 2 years.

(vii) On April 25, 2006, the Company closed a non-brokered private placement of 11,027,990 units at Cdn \$0.10 per unit for gross proceeds of \$1,102,799. Each unit consisted of one common share of Sage and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.15 for the first year following the closing date and \$0.20 for the second year following the closing date. The fair value of the 5,513,995 warrants was estimated at \$198,504 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 84.8%; risk-free interest rate - 4.0%; and an expected life of 2 years.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

5. Share Capital and Capital Deficiency (Continued)

(d) Non Flow-Through Private Placements (Continued)

(viii) In connection with the offerings in (d)(vi) and (d)(vii) above, the Company has also agreed to pay \$116,880 in finders' fees and granted to certain finders compensation options to acquire 648,000 common shares with each option entitling the holder to purchase one unit at the issue price any time that is 24 months from the date of closing. The fair value of the 648,000 compensation options was estimated at \$30,456 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 84.8%; risk-free interest rate - 4.0%; and an expected life of 2 years.

(e) Escrow Shares

On December 2, 2005, in connection with the Company's application to list on the TSX Venture Exchange, the directors and senior officers entered into an escrow agreement whereby 2,551,679 shares were transferred to an escrow agent. Under the terms of the agreement, 25% of the total number of escrowed shares are to be released to the beneficiary shareholders on December 13, 2005, June 13, 2006, December 13, 2006 and June 13, 2007. As at September 30, 2006, 1,275,839 remain in escrow.

6. Warrants

The following table shows the continuity of warrants for the years ended September 30, 2005 and 2006.

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2004	200,000,000	\$ 0.05
Consolidation of exercise price on 1:25 basis (1)	-	1.25
Granted (Note 5 (d)(i))	1,114,754	0.10
Granted (Note 5 (d)(ii))	2,491,500	0.10
Granted (Note 5 (d)(iii))	290,000	0.10
Granted (Note 5 (d)(iv))	1,101,500	0.10
Balance, September 30, 2005	204,997,754	0.81
Granted (Note 5 (d)(v))	900,000	0.10
Granted (Note 5 (d)(vi))	5,495,000	0.15
Granted (Note 5 (d)(vii))	5,513,995	0.15
Exercised	(318,920)	0.10
Balance, September 30, 2006	216,587,829	\$ 0.50

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

6. Warrants (Continued)

The following are the warrants outstanding at September 30, 2006.

	Number of Warrants	Black Scholes Value	Exercise Price	Expiry Date
(1)	200,000,000	\$ -	\$ 1.25	March 19, 2009
	795,834	18,304	0.10	June 10, 2007
	2,491,500	42,356	0.10	July 22, 2007
	290,000	2,030	0.10	September 6, 2007
	1,101,500	29,741	0.10	September 26, 2007
	900,000	27,000	0.10	November 2, 2007
	5,495,000	197,820	0.15	April 18, 2008
	5,513,995	198,504	0.15	April 25, 2008
	216,587,829	\$ 515,755		

(1) Of the total warrants outstanding as at September 30, 2006, 200,000,000 entitle the holder to acquire 1 common share for every 25 warrants, at \$1.25 per share.

7. Stock Options and Contributed Surplus

The Company has a Stock Option Plan (the "Plan") to provide incentive for the directors, officers, employees, consultants and service providers of the Company (and its subsidiary). The maximum number of shares which may be set aside for issuance under the Plan is 10% of the outstanding common shares (6,985,624 maximum common shares as at September 30, 2006) (2005 - 3,583,885 maximum common shares)

The following table shows the continuity of options for the years ended September 30, 2005 and 2006.

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2004	66,000,000	\$ 0.01
Cancelled	(11,800,000)	0.01
Consolidation on 1:25 basis (Note 1)	(52,032,000)	0.25
Granted (i)	1,815,000	0.075
Broker options granted (Note 5 (d)(ii))	160,000	0.075
Broker options granted (Note 5 (d)(iii))	320,000	0.075
Broker options granted (Note 5 (d)(iv))	176,240	0.075
Balance, September 30, 2005	4,639,240	0.16
Expired	(800,000)	0.25
Granted (ii)	3,865,000	0.15
Cancelled	(140,000)	0.17
Compensation options exercised	(4,000)	0.10
Compensation options granted (Note 5(c)(v)(d)(viii))	1,164,000	0.10
Balance, September 30, 2006	8,724,240	\$ 0.14

Sage Gold Inc.

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

7. Stock Options and Contributed Surplus (Continued)

(i) During the year ended September 30, 2005, 1,815,000 stock options to acquire 1,815,000 common shares of the Company at an exercise price of \$0.10 per share were issued to directors, officers, employees and consultants of the Company. The options may be exercised for a period of five years from the date of grant. The Black-Scholes option pricing model was used to value these options. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 100%; risk-free interest rate - 4.0%; and an expected average life of 5 years. These options were valued at \$99,000 and were expensed in the statement of operations and deficit as they vested. The vesting terms are: one-third of the total shares under the option may be exercised at the date of the grant, one-third of the remaining total shares under the option may be exercised six months following the date of the grant and one-third of the remainder of the total shares under the option may be exercised twelve months following the date of the grant. As of September 30, 2006, \$58,767 has been charged to the statement of operations and deficit and contributed surplus.

(ii) On October 26, 2005, the Company granted 140,000 stock options to a consulting geologist and 120,000 stock options to a financial consultant at \$0.075 per share until October 26, 2010. These options were subsequently re-priced to \$0.10 at the request of the TSX Venture Exchange. The fair value of these stock options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield - 0%; expected volatility - 100%; risk-free interest rate - 3.61%; and an expected average life of 5 years. The 140,000 options were valued at \$11,200 and were charged to the statement of operations and deficit and credited to contributed surplus. The 120,000 options have not fully vested. The fair value of these options was determined to be \$9,600. The vesting terms for the 120,000 options are: twenty-five percent of the 120,000 options may be exercised three months from the date of the grant, twenty-five percent of the options issued may be exercised six months following the date of the grant, twenty-five percent of the options issued may be exercised nine months following the date of the grant and the remainder of the total options issued may be exercised twelve months following the date of the grant. As of September 30, 2006, \$7,200 was allocated to the statement of operations and deficit and credited to contributed surplus for the vested portion of the 120,000 options.

On January 27, 2006, the Company granted 1,290,000 options to acquire 1,290,000 common shares of the Company at an exercise price of \$0.17 per share to members of management, the board of directors, its employees and consultants of the Company. The options may be exercisable for a period of five years from the date of grant. The fair value of these stock options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield - 0%; expected volatility - 100%; risk-free interest rate - 3.61%; and an expected average life of 5 years. Accordingly, a fair value of \$167,700 was allocated to these options and was charged to the statement of operations and deficit and credited to contributed surplus.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

7. Stock Options and Contributed Surplus (Continued)

On May 29, 2006, the Company granted 2,315,000 options to acquire 2,315,000 common shares of the Company at an exercise price of \$0.14 per common share to members of management, the board of directors, its employees and consultants of Sage. The options may be exercisable for a period of five years from the date of grant. The fair value of these stock options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield - 0%; expected volatility - 100%; risk-free interest rate - 4.01%; and an expected average life of 5 years. Accordingly, a fair value of \$247,705 was allocated to these options. 2,165,000 of these options vest immediately and \$231,655 was charged to the statement of operations and deficit and credited to contributed surplus. 150,000 of these options have not fully vested. The fair value of these options was determined to be \$16,050. The vesting terms for the 150,000 options are: twenty-five percent of the 150,000 options may be exercised three months from the date of the grant, twenty-five percent of the options issued may be exercised six months following the date of the grant, twenty-five percent of the options issued may be exercised nine months following the date of the grant and the remainder of the total options issued may be exercised twelve months following the date of the grant. As of September 30, 2006, \$4,013 was allocated to the statement of operations and deficit and credited to contributed surplus for the vested portion of the 150,000 options.

The following table shows the options outstanding at September 30, 2006

	Number of Options	Black Scholes Value	Exercise Price	Expiry Date
Directors & Officers	1,228,000	\$ 246,523	\$ 0.25	April 26, 2009
Directors & Officers	140,000	28,640	0.25	May 28, 2009
Directors, Officers, Consultants & Employees (i)	1,815,000	99,000	0.075	August 10, 2010
Consultants (i)	260,000	20,800	0.10	October 26, 2010
Management, Directors, Employees & Consultants	1,150,000	149,500	0.17	January 27, 2011
Directors, Officers, Consultants & Employees	2,315,000	247,705	0.14	May 29, 2011
Subtotal	6,908,000	792,168		
Broker Options	160,000	2,720	0.075	July 22, 2007
Broker Options	320,000	2,240	0.075	July 1, 2007
Broker Options	176,240	4,758	0.075	September 22, 2007
Compensation Options	512,000	25,600	0.10	December 29, 2007
Compensation Options (ii)	384,000	18,048	0.10	April 13, 2008
Compensation Options (iii)	264,000	12,408	0.10	April 25, 2008
	8,724,240	\$ 857,942		

Sage Gold Inc.

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

7. Stock Options and Contributed Surplus (Continued)

(i) As a condition of listing on the TSX Venture Exchange, the directors, officers, consultants, and employees options that were issued at \$0.075 were re-priced to \$0.10.

(ii) Upon exercise of the 384,000 compensation options, 384,000 common shares and 192,000 warrants will be issued. The warrants have the same terms as disclosed in Note 5(d)(vi).

(iii) Upon exercise of the 264,000 compensation options, 264,000 common shares and 132,000 warrants will be issued. The warrants have the same terms as disclosed in in Note 5(d)(vii).

The following table shows the continuity of contributed surplus for the years ended September 30, 2005 and 2006.

	Contributed Surplus
Balance, September 30, 2004	369,000
Stock options vested (April 26, May 28, 2004)	99,000
Stock options vested (August 16, 2005)	40,233
Broker options granted	9,718
<hr/>	
Balance, September 30, 2005	\$ 517,951
Compensation options granted (Note 5(c)(v)(d)(viii))	56,256
Compensation options exercised	(200)
Stock options granted	480,535
<hr/>	
Balance, September 30, 2006	\$ 1,054,542

8. Related Party Transactions

The Company had the following related party transactions:

	For the Years Ended September 30	
	2006	2005
Administrative and general expenses		
Management fees to current and former directors and officers	\$ 253,500	\$ 241,500
Consulting fees to a company owned by an officer of the Company	\$ 19,833	\$ -
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Mineral properties		
Consulting fees to officers	\$ 37,225	\$ 11,325
<hr/>		
Directors fees	\$ 33,750	\$ -
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Legal fees to a legal firm whose partner was a former director		
General legal services	-	98,470
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These transactions were recorded at the exchange amount.		
Included in accounts payable are the following amounts due to related parties:		
To directors and officers	\$ 63,965	\$ 22,813
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To the legal firm whose partner was a former director	\$ -	\$ 9,237

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

9. Income Taxes

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the statements of operations:

	2006	2005
Net loss reflected in the statements of operations	<u>\$ (1,748,136)</u>	<u>\$ 1,007,122</u>
Expected income tax recovery at statutory rate	631,427	363,772
Permanent differences	(174,797)	11,645
Tax rate change	(60,166)	(769)
Other	42,746	-
Valuation allowance	<u>114,731</u>	<u>(374,648)</u>
Income tax recovery reflected in the statement of operations	<u>\$ 553,941</u>	<u>\$ -</u>

The following table reflects the future income tax assets at September 30, 2006 and 2005.

	2006	2005
Future income tax assets		
Non-capital losses	\$ 1,051,273	\$ 588,583
Capital assets	32,243	103,856
Share issue costs	<u>180,657</u>	<u>149,674</u>
	1,264,173	842,113
Future income tax liability		
Mineral properties	<u>(536,791)</u>	<u>-</u>
	727,382	842,113
Less unrecognized amount	<u>(727,382)</u>	<u>(842,113)</u>
	<u>\$ -</u>	<u>\$ -</u>

At September 30, 2006, the Company had unclaimed exploration and development expenditures and undepreciated capital costs of \$695,766 unamortized common share issue costs of \$523,643 and non-capital losses of \$3,047,169 available to reduce future taxable income. These losses expire as follows:

2010	\$ 69,001
2011	572,143
2015	994,269
2026	<u>1,411,756</u>
	<u>\$ 3,047,169</u>

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

10. Loss Per Share

The following table sets out the computation for basic and diluted loss per share:

	2006	2005
Numerator		
Loss for the period	\$ (1,194,195)	\$ (1,007,122)
Denominator		
Average number of common shares outstanding	55,634,409	20,296,828
Basic and diluted loss per share	\$ (0.021)	\$ (0.050)

The effect of common share purchase options and warrants on the net loss in 2006 and 2005 is not reflected as to do so would be anti-dilutive.

The loss per share amounts have been restated to reflect the twenty-five for one share consolidation which occurred during the prior year.

11. Supplemental Cash Flow Information

	2006	2005
Non-cash financing activities		
Shares issued	\$ (72,778)	\$ (80,816)
Agents' compensation for private placement	30,456	9,718
Non-cash investing activities		
Additions to mineral properties	\$ (72,778)	\$ 80,816

12. Commitments

The Company leases its office space under a lease agreement which expires in February 2011. Annual lease payments under the agreement are as follows:

2007	42,000
2008	44,333
2009	46,000
2010	48,333
2011	<u>20,833</u>
	<u>\$ 201,499</u>

13. Contingent Liability

In 1997, the Company bought an exclusive option (the "Option Agreement") in a mining license, an exploration license and related assets forming part of the Poura gold mine (collectively, the "Poura Mine Assets") situated in Burkina Faso, West Africa. The Poura Mine Assets were owned by the Government of Burkina Faso and Soremib, a state mining corporation (hereinafter collectively referred to as the "Government"). In late August 1999, the Government failed to meet its obligations under the Option Agreement which resulted in the Company's insolvency. The Company has reserved all of its rights and recourses against the Government, having a claim against it in damages for an amount equal to its liabilities prior to the Proposal (as hereinafter defined).

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

13. Contingent Liability (Continued)

Given the failure of the Government to meet its obligations under the Option Agreement and the Company's resulting insolvency, on July 20, 2001, the Company, acting through its trustee, KPMG Inc., Toronto, filed a proposal (the "Proposal") to its creditors under the Bankruptcy and Insolvency Act (Canada) (the "BIA"). The Proposal, the Trustee's report and overview of the Proposal describing the financial circumstances of the Company's financial difficulties were sent to the Company's creditors in accordance with BIA provisions. As of the date of filing of the Proposal, the Company's creditors were stayed from taking action against the Company. The Company was never placed into receivership nor into bankruptcy.

The Proposal provided inter alia that all creditors were to receive common shares in the share capital of the Company at a price of \$0.02 per share, in a number based on \$0.10 for each Canadian dollar in proved claims. Proved claims were converted to Canadian dollars based on the foreign exchange rate in effect on July 20, 2001.

The Proposal also required the approval of the Company's creditors, the Ontario Superior Court of Justice in Bankruptcy (the "Ontario Court"), the approval of the Company's shareholders and the relevant regulatory authorities.

On August 8, 2001, the Proposal was approved by the majority of the Company's creditors at a meeting duly convened and held for such purpose.

On September 6, 2001, the Ontario Court issued an Order approving the Proposal unconditionally.

On May 21, 2002 the majority of the Company's shareholders approved the Proposal and the issuance of shares therein provided, at a Special Meeting of shareholders duly convened and held for such purpose.

On August 23, 2002, the Trustee distributed the shares to the creditors in accordance with the terms of the Proposal and in conformity with the regulatory authorities.

On September 5, 2002, the Trustee issued in favour of the Company, a Certificate of Full Performance of Proposal in accordance with the provisions of the BIA confirming that the terms of the Proposal were duly satisfied. As a result, the Company was released from the BIA, the Trustee discharged from its obligations and all of the creditors' claims were fully settled.

All creditors who did not file a claim with the corporation will be bound by the proposal referred to above. The Company, acting through its Trustee, has carried out all practical enquiries and other procedures to ensure that all creditors were included in the Proposal. Pursuant to the Proposal, creditors who have not filed a proof of claim will receive Common Shares in the Company at a price of \$0.02 per pre-consolidation share, in a number equal to \$0.10 for each Canadian dollar in proved claims.

14. Comparative Figures

Comparative figures have been reclassified to conform with current year presentation.

15. Segmented Financial Information

The Company has been engaged in 2006, directly or indirectly, in the exploration of mineral properties in Canada and through its U.S. subsidiary in the United States.

The Company's operating segments have been identified based on geographic area in 2006. There are no revenues in the United States and assets are disclosed in the consolidated statements of mining properties expenditures.

Sage Gold Inc.
Notes to Consolidated Financial Statements
September 30, 2006 and 2005

16. General and Administrative Detail

For the years ended September 30	2006	2005	Cumulative from inception of project September 15, 2003
Accounting and corporate services	\$ 40,314	\$ 26,258	\$ 77,272
Advertising and promotion	90,623	50,060	149,659
Bank service charges	2,862	1,606	5,158
Finance charges	2,000	-	2,000
Foreign exchange gain (loss)	(1,202)	15,604	14,402
Insurance	26,801	17,019	44,492
Investor relations and corporate development	72,759	10,867	83,626
Listing and filing fees	51,317	17,578	92,910
Loss on sale of computer equipment	908	-	908
Management fees	253,500	200,735	454,235
Office supplies	89,152	87,265	225,172
Professional fees	206,775	208,608	715,879
Salary costs and benefits	120,786	83,618	245,130
Shareholder information	25,652	6,306	34,095
Stock-based compensation (Note 7)	480,535	139,233	888,768
Telephone	14,879	11,234	30,672
Transfer agent fees	26,230	19,935	56,077
Travel and entertainment	127,073	58,289	223,357
Directors fees	33,750	-	33,750
	\$ 1,664,714	\$ 954,215	\$ 3,377,562

17. Subsequent Events

On October 10, 2006, the Company issued 270,288 common shares valued at \$67,572 (US \$60,000) as part of its obligation to acquire the Pony Spur, Dike, Corridors and Sugarloaf Properties.

On November 24, 2006, the Company closed a non-brokered private placement of 8,750,427 flow-through shares at Cdn \$0.14 per share for gross proceeds of \$1,225,060.

The Company paid up to an 8% finders' fee and issued finders' options up to 6% of the shares sold pursuant to the offering. Each option entitles the holder to acquire one common share of the Company at any time within 24 months following the date of issuance at an exercise price of \$0.14 per share.

In accordance with requisite securities laws and the rules of the TSX Venture Exchange, the flow-through shares and the finders' options will each be subject to a hold period that will expire on March 23, 2007.

The proceeds of the offering will be used by the Company for exploration on its properties in Ontario.