

SAGE GOLD INC. - MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL YEAR 2006 – YEAR ENDED SEPTEMBER 30, 2006

This management discussion and analysis (“MD&A”) of results of operations and financial condition of Sage Gold Inc. (“Sage” or “the Corporation”) describes the operating and financial results of the Corporation for the year ended September 30, 2006 (“fiscal year 2006”). The MD&A supplements, but does not form part of, the financial statements of the Corporation and should be read in conjunction with Sage’s audited consolidated financial statements and related notes for fiscal 2006 and the audited statements for fiscal 2005. The Corporation prepares and files its financial statements in accordance with Canadian generally accepted accounting principles.

DATE OF MD&A

This MD&A was prepared on January 18, 2007.

OVERALL PERFORMANCE

Overview of Operations

Sage is a precious and base metals exploration and development corporation with properties in North America. The Corporation’s main focus is the exploration of existing properties as well as the acquisition of advanced exploration development and production properties, primarily in the Americas.

1) Mineral Properties

<i>Mineral Property</i>	<i>Location</i>	<i>Sage interest</i>	<i>Acres</i>
	Ontario		
Kerrs Properties			
Kerrs Lease	Kerrs Township (Chesney Bay)	100%, 1 lease (12 claims)	459
Kerrs Property	Kerrs, Chesney Bay and Rayner Lake, Galna	100%, 42 claims	18,480
Kerrs – Kidston /Dyment Option	Kerrs Township	Option 100%, 1 claim	160
Onaman	Coughlan & Castlewood Lakes	2 leases (21 claims) 100%, 12 claims Option 100%, 9 claims	6,200
	Castlewood Lake	100%, 2 claims	1,280
Jacobus	Kaby and Tyrol Lakes	100%, 15 claims	8,640
	Elmhirst Township	Option 100%, 9 claims	560

	Quebec		Acres
Chibougamau Barlow	Barlow Township	100%, 15 claims	593
Chibougamau Fancamp	Fancamp Township	100%, 4 claims	158
Fort Chimo Gold	Rougemont Township	75%, 19 claims	751
Fort Chimo Gold	Chute de la Pyrite Township	75%, 15 claims	593
Malartic 1-96	Cadillac and Malartic Townships	100%, 14 claims	1,438
	USA		
Nevada Properties			
Triple Junction	Elko County, Nevada	Option 55 or 70%, 36 lode claims	708
Dixie Fork	Elko County, Nevada	Option 55 or 70%, 31 lode claims	634
Pony Spur	Elko County, Nevada	Option 100%, 48 lode claims	960
Dike	Elko County, Nevada	Option 100%, 62 lode claims	1,240
Corridors	Elko County, Nevada	Option 100%, 62 lode claims	1,240
Arizona Property			
Big Bend	Yavapai County, Arizona	Exploration permit	160

2) Acquisitions

a) On March 23, 2006, Sage obtained an exploration permit on 160 acres on the Big Bend Gold property in Yavapai County, Arizona, approximately 100 miles northwest of Phoenix, Arizona. Gerber Minerals had explored the property in 1985 and identified gold mineralization within Precambrian granites and granodiorites. The Company is in the process of evaluating the property, with plans to drill in 2007 dependant upon initial results.

b) On May 3, 2006, Sage signed an option agreement 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 and the issuance of 200,000 Sage shares to the vendors and total work commitments by Sage of \$325,000 over a three year term to earn a 100% interest in the property. The vendors retain a 2% net smelter return royalty (NSR) on base metals and 3% NSR on precious metals. Sage has an option to reduce the rate of the NSR's to 1% on base metals and 2% on precious metals by payment of \$1,000,000. The Company has commenced a drilling program on the property, and plans to expand this program throughout 2007. Total work expenditures on the property, net of property acquisition costs, totaled \$492,601, for the year, thereby fulfilling the work commitments on the claims.

c) On May 16, 2006, Sage signed an option agreement to earn a 100% interest in the Jacobus property, located near Beardmore, Ontario. The option agreement includes total cash payments of \$75,000 and a total work commitment of \$325,000 over a three year term to earn a 100% interest in the property. The vendors retain a 3% NSR on precious metals and 2% NSR on base metals. Sage has an option to reduce the rate of the NSR's to 1% on base metals and 2% on precious metals by payment of \$1,000,000. A drilling program has been initiated for 2007 on the property.

d) On May 16, 2006, Sage signed an option agreement to earn a 100% interest in the Lincoln gold property, located near Beardmore, Ontario. The option agreement includes total cash payments of \$75,000 and a total work commitment of \$325,000 over a three year term to earn a 100% interest in the property. The vendors retain a 3% NSR on precious metals and 2% NSR on base metals. Sage has an option to reduce the rate of the NSR's to 1% on base metals and 2% on precious metals by payment of \$1,000,000. After initial exploratory work on the property, the Company determined that no further expenditures were planned on the property during fiscal 2007; accordingly the property was written off.

3) Exploration Activities

a) Kerrs Drill Program: On November 8, 2005, the Company reported results from its drill program at the Kerrs Gold Property. The program consisted of 7 holes totalling 3,000 metres following up on the Jam Lake Trend in the vicinity of the Noranda drill holes 87-16 and 88-20, as well as targeting specific MMI (Mobile Metal Ion) soil gas and resistivity anomalies.

On March 7, 2006, the Company reported partial results from the 5,000 metre drill program, designed to test the strike and dip extensions of the mafic replacement zone and the green carbonate quartz breccia zone that were outlined in the 3,000 metre program conducted in the Fall of 2005. Three drill holes from the drilling, K-06-08, K-06-10 and K-06-12, indicated that the green carbonate quartz breccia zone and mafic replacement zones identified in the Fall 2005 program could be traced to the northeast for a further 200 metres. It was concluded that the Kerrs Gold System had been extended over a strike length of 900 metres, a down-dip length of 500 metres varying in thickness from 30m to 40m and is open to depth and along strike.

On May 3, 2006 the Company reported further results from its winter drill program at the property. High grade gold-quartz glacially transported boulders, recovered south of Kerrs property (the East Ford Lake boulders) have been assayed for gold / silver and analysed for multi-element ICP. Results show background levels of arsenic, copper, chrome and boron with enrichment of lead, consistent with typical analyses returned from the green carbonate breccia mineralization encountered in the Kerrs Gold system. High grade visible gold in a boulder sample south of the Kerrs property assayed 91.5 g Au/t and 23 g Ag/t. The gold/silver ratio is also similar to the higher grade section observed in K-05-01 (9.18 g/t – 1.86 m. including 32.8 g/t – 0.18 m.)

The Kerrs Gold System has been defined by 14 drill holes arrayed in a 200m x 200m pattern piercing a shallow dipping synclinal fold structure. The results of drill holes K-06-08, 10, 11, 12, 13, 14, and 16 indicate that the green carbonate quartz breccia zone and mafic replacement zones can be traced for over 1,200 metres. The down-dip dimension of the fold structure has been traced to depth along a curvilinear inclined plane from 150m to 750m. The system is open to depth from surface and along strike to the northeast.

The Company is seeking a joint venture partner for the property.

Mr. Peter Hubacheck is a qualified person as defined by NI-43-101 and has reviewed and authorised this geotechnical material regarding this property.

b) Onaman Drill Program: On July 19, 2006, Sage Gold Inc reported the completion of the initial phase of stripping, channel sampling and collection of a bulk metallurgical sample at the Cane Gold open pit in the Onaman Lake project area of the Beardmore-Geraldton greenstone belt. Assays for 11 channel samples of one metre in length of the lower bench of the open pit yielded 4.10 g Au/t, Zn 2.84%, and Pb 2.76%.

As part of a metallurgical test program, the Research and Productivity Council (Fredericton, New Brunswick) reported the following average grade: 3.9 g Au/t, Pb 5.8% and Zn 4.5% from a 60 kg composite sample of the Cane Gold showing.

On August 29, 2006, The Research and Productivity Council (Fredericton, New Brunswick) reported a silver assay of 426g/t from a 60kg composite sample (taken from the Lower Bench) from Cane Gold which was sent for metallurgical testing.

On August 31, 2006, the Company reported the commencement of stripping and channelling at the Lynx No.2 and Cane Copper zones in the Onaman Lake project area. Preliminary results for the 99 channel samples taken over the entire area in the Lynx No. 2 zone averaged 0.59%Cu and 15.2 g/t Ag. Initial results from the Cane Copper mineralized zone averaged 1.63% Cu, 124 g/t Ag and 0.099 g/t Au on the basis of 48 assays from 21 sawed channel samples over a strike length of 20 metres.

On October 30, 2006 Sage Gold Inc. reported results from the first hole of a 3,000 metre drill program on the Onaman Property. Hole S06-1 drilled on the Lynx No.1 zone intersected 5.83% Cu, 141 g/t Ag and 1.72 g/t Au over 6 metres This was followed up by a report on December 21, 2006 where Sage Gold had

completed its 15 hole, 3,000 metres drill program, extensive surface stripping and sampling of the Lynx No. 2 showings and drilling in the newly discovered Lynx No. 3 zone. The drill program yielded a number of significant intersections including Hole S06-09 with 2.6 m grading 6.33 % Cu, 2.25 g/t Au and 112.6 g/t Ag. This program is aimed at determining whether the surface showings could support a mineable resource, and the Company is currently evaluating the results of the drill program. The Onaman Property represents the Company's principal property where more drilling will be undertaken in early 2007.

Dr. Ulrich Kretschmar is a qualified person as defined by NI-43-101 and has reviewed and authorised this geotechnical material regarding this property.

c) Jacobus Drill Program: On December 4, 2006 Sage commenced an initial drilling program on the Jacobus Copper Nickel Property in Elmhirst Township, with plans to expand the program dependent upon initial results, which are pending.

d) Arizona Exploration: Sage completed a sampling program over part of the Big Bend area which was intended to sample both the quartz vein structures and the surrounding alteration envelope. Fifty rock/soil samples of the surface material and eight rock chip samples of the veins in the adit and pits were taken on a 30 x 30 metre grid and were sent to SGS laboratories in Toronto, Canada. Soil samples assayed from 1 ppb to 9250 ppb (9.25g/t) Au. Samples that were greater than 50 ppb were rerun and assayed from < 0.03 to 8.64 g Au/t. Rock chip samples assayed 0.43 to 58 g Au/t. Sage is encouraged with the results of the sampling program in that the soil geochemistry reflects a broad area of anomalous gold values in the soils. Further, the rock chip samples indicate the presence of high grade values within the massive quartz veins. Sage intends to evaluate this property as a potential heap leaching opportunity.

Dr. Ulrich Kretschmar is a qualified person as defined by NI-43-101 and has reviewed and authorised this geotechnical material regarding this property.

e) Nevada Exploration: The Company commenced geophysical projects on the Triple Junction and Dixie Fork properties, as well as on the Pony Spur, Dike and Corridors properties in Nevada. During fiscal 2006, a total of \$240,459 was expended on the properties, and drilling plans have been set up for fiscal 2007.

4) Financing Activities

On October 12, 2005 Sage and Atna Resources Ltd. ("Atna") agreed to amend the September 4, 2004 option agreement whereby the Company could earn up to 70% interest in the Triple Junction and Dixie Fork exploration properties in Nevada. For the consideration of being issued 500,000 common shares of Sage, Atna agreed to extend the length of the option by one year to November 30, 2007, and to reduce Sage's total drilling commitment on the properties from 15,000 feet to 10,000 feet.

On October 26, 2005 Sage reported the granting of a total of 260,000 stock options to consultants, at a price of \$0.075 per share until October 26, 2010. As a condition of listing on the TSX Venture Exchange, these options were re-priced to \$0.10.

On November 2, 2005, the Company closed a private placement unit financing by the issuance of 1,333,333 units at \$0.075 per unit 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.

Effective December 14, 2005, the Company's common shares began trading on the TSX Venture Exchange under the symbol SGX.

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 was released to the beneficial shareholders on each of December 13, 2005, June 13,

2006, and December 13, 2006 and the remaining 25% of the total number of escrowed shares will be released on June 13, 2007.

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 Sage with each option entitling the holder to purchase one common share at \$0.10 per common share up to December 29, 2007. The proceeds from the Offering were used by Sage for exploration on its properties in Ontario and Quebec.

On December 30, 2005, Sage 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.

The issuance of 8,905,000 flow-through common shares noted in the December 29 and 30, 2005 announcements created a future income tax liability of approximately \$321,023 which was allocated as a cost of issuing the flow-through shares at the time of renunciation in the second quarter of fiscal 2006.

The Company issued 9,001,667 flow-through common shares in the previous fiscal year. The renunciation created a future tax liability of approximately \$232,918 which was allocated as a cost of issuing the flow-through shares at the time of renunciation in the second quarter of fiscal 2006.

On January 27, 2006, the Company reported, pursuant to its 2005 Incentive Stock Option Plan, the granting of 1,290,000 options to acquire 1,290,000 common shares of Sage at an exercise price of \$0.17 per common share to members of management, the board of directors, its employees and consultants of Sage. The options will be exercisable for a period of five years from the date of grant.

During the second quarter, 318,920 warrants were exercised for gross proceeds of \$31,892

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. This was the second tranche of a 22,017,990 unit financing for gross proceeds of \$2,201,799 previously announced on April 6, 2006. The first tranche closed on April 13, 2006, at which time Sage completed a non-brokered private placement of 10,990,000 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.

In connection with both tranches of the financing, Sage agreed to pay a total of \$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 at any time within 24 months from the date of closing.

The proceeds from these offerings were used for exploration on Sage's properties in Ontario and Nevada and for general working capital purposes.

5) Corporate appointments

On April 23, 2006, the Company announced the appointments of William Love, Geologist, M.B.A., as Vice-President Business Development; Art Hampson, C.A., as Chief Financial Officer; and Michael Skutezky, LL.B., as Corporate Secretary.

6) Commitment

The Company agreed to incur \$1,173,598 of eligible exploration expenditures during calendar 2006 as part of the flow-through funding agreements that were completed and renounced during calendar 2005. The Company has determined that it has met this commitment.

Selected Annual Information

The following tables set out financial performance highlights for the last four* years and were prepared in accordance with Canadian GAAP.

	2006	2005	2004	2003
Revenues	\$ 0	\$ 0	\$ 0	\$ 0
Expenses	1,758,319	1,009,308	760,500	69,001
Net (loss) (including interest income)	(1,194,195)	(1,007,122)	(754,917)	(69,001))
Net (loss) per share	(0.021)	(0.050)	(0.088)	(0.030)
Cash flow (used in) operations	(1,019,789)	(824,012)	(729,185)	(76,053)
Cash & cash equivalents, end of period	713,525	620,704	991,087	36,776
Assets	3,826,474	1,816,319	1,276,596	56,966
Long-term liabilities	0	0	0	0
Dividends	0	0	0	0

All Net (loss) per share amounts have been adjusted to give effect to the pro forma share consolidation as defined below.

*The Company was formed on October 1, 1997 pursuant to the Business Companies 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 for 25 basis on March 3, 2005 and changed its name to Sage Gold Inc.

Results of Operations

Year ended September 30, 2006

Sage's operations in fiscal 2006 were focused on exploration and financing, and the Corporation did not generate any operating revenue. Sage's net loss for 2006 increased to (\$1,194,195) from a loss of (\$1,007,122) for 2005, with the increased loss being primarily due to higher expenses related to increased stock based compensation costs, management fees, investor relations and travelling expenses associated with growing and promoting the Company, offset in part by an income tax recovery related to the issuance of flow-through shares.

Summary of Quarterly Results

The following tables set out financial performance highlights for the last eight quarters and were prepared in accordance with Canadian GAAP.

	Fourth Quarter Sept 30, 2006	Third Quarter June 30, 2006	Second Quarter March 31, 2006	First Quarter Dec. 31, 2005
Revenues	\$ 0	\$ 0	\$ 0	\$ 0
Expenses	461,652	532,645	514,042	249,980
Net income (loss) (including interest income)	(490,078)	(532,645)	78,508	(249,980)
Net income (loss) per share	(0.00)	(0.01)	0.00	(0.01)
Cash flow from (used in) operations	(61,430)	(560,250)	(123,571)	(274,538)
Cash & cash equivalents, end of period	713,525	1,204,695	238,653	864,895
Assets	3,826,474	4,172,829	2,670,843	2,664,602
Long-term liabilities	0	0	0	0
Dividends	0	0	0	0

	Fourth Quarter Sept 30 2005	Third Quarter June 30, 2005	Second Quarter March 31, 2005	First Quarter Dec 31, 2004
Revenues	\$ 0	\$ 0	\$ 0	\$ 0
Expenses	384,830	158,035	253,589	212,853
Net income (loss) (including interest income)	(384,830)	(158,035)	(253,274)	(210,983)
Net income (loss) per share	(0.02)	(0.01)	(0.02)	(0.00)
Cash flow from (used in) operations	(228,202)	(134,196)	(273,963)	(187,651)
Cash & cash equivalents, end of period	620,704	378,182	227,057	662,608
Assets	1,816,319	1,174,962	941,592	1,195,699
Long-term liabilities	0	0	0	0
Dividends	0	0	0	0

LIQUIDITY AND CAPITAL RESOURCES

At the end of the fiscal 2006 Sage reported working capital of \$540,751 (\$601,230 – fiscal 2005), cash & cash equivalents of \$210,802 (\$620,704 – fiscal 2005), and a short term investment of \$502,723 (nil – fiscal 2005). The working capital amount at the end of fiscal 2006 is not sufficient to support the Company's operating expenses and projected exploration budget for 2007. As a result, the Company secured a flow-through financing for \$1,225,060 in November, 2006 (see Subsequent Events), and plans to seek additional capital early in 2007 to support the drilling programs ongoing at both the Onaman and Jacobus properties, and the related expenses required to manage the Company. Sage plans to fund all Canadian exploration costs by issuing flow-through shares. The amount and nature of financing raised will depend on prevailing capital market conditions, and the Company will adjust its operating and exploration budget as necessary in response to unexpected changes in the availability of financing.

Sage currently does not have any credit facilities with financial institutions, and does not anticipate that it will generate revenue from its activities in fiscal 2007; therefore it will rely on its ability to obtain equity financing for growth. The Company raised \$3,002,655 (net of costs) in equity financing in fiscal 2006, and approximately \$1,137,000 (net of costs) in financing in the first quarter of fiscal 2007. Management anticipates that it will be able to raise sufficient capital to further explore and develop its properties and projects in the future; however the Company cannot provide any assurance that equity financing will be available on terms and conditions acceptable to the Company. Refer to "Risk Considerations".

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During fiscal 2006, management and consulting expenses of \$273,333 (fiscal 2005 - \$241,500) were paid to officers or a corporation whose shareholder is a director or officer of the Company.

During fiscal 2006, mineral property expenditures include consulting fees of \$37,225 (fiscal 2005 - \$11,325) paid to an officer of the Company.

Directors fees paid to independent directors in fiscal 2006 amounted to \$33,750 (fiscal 2005 - \$Nil)

All of the above transactions noted above were recorded at the exchange amount.

Included in accounts payable and accrued liabilities as at September 30, 2006 is \$63,965 (2005 - \$32,050) owing to these related parties.

PROPOSED TRANSACTIONS

There are no material decisions by the board of directors of the Corporation with respect to any imminent or proposed transactions that have not been disclosed herein.

DISCLOSURE OF OUTSTANDING SHARE DATA

Since December 14, 2005, Sage shares have traded on the TSX- Venture Exchange under the symbol "SGX." The Corporation is authorized to issue an unlimited number of common shares, and on January 18, 2007 there were 78,876,959 common shares issued.

As at September 30, 2006, there were 200,000,000 warrants outstanding , whereby 25 warrants entitle the holder to acquire 1 common share at \$1.25, expiring in 2009 and 16,587,829 warrants outstanding with a weighted average exercise price of \$0.13 of which 5,578,824 expire in 2007 and 11,008,995 expire in 2008.

The following table represents the warrants outstanding at September 30, 2006.

Number of Options	Black-Scholes Value	Exercise Price	Expiry Date
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	126,385	0.15	April 18, 2008
5,513,995	126,822	0.15	April 25, 2008

As at September 30, 2006, the Company had the following stock options outstanding:

	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 (1)	1,815,000	99,000	0.10	August 10, 2010
Consultants (1) Management, Directors, Employees & Consultants	260,000	20,800	0.10	October 26, 2010
Directors, Officers, Consultants & Employees	1,150,000	149,500	0.17	January 27, 2011
	<u>2,315,000</u>	<u>247,705</u>	0.14	May 29, 2011
Subtotal	6,908,000	792,168		
Broker's Options	160,000	2,720	0.075	July 22, 2007
Broker's Options	320,000	2,240	0.075	July 1, 2007
Broker's Options	176,240	4,758	0.075	September 22, 2007
Compensation Options	512,000	25,600	0.10	December 29, 2007
Compensation Options (2)	384,000	18,048	0.10	April 12, 2008
Compensation Options (3)	<u>264,000</u>	<u>12,408</u>	0.10	April 25, 2008
	<u>8,724,240</u>	<u>\$ 857,942</u>		

- (1) As a condition of listing on the TSX Venture Exchange, the directors, officers, consultants, and employee options that were issued at \$0.075 were re-priced to \$0.10.
- (2) Upon exercise of the 384,000 compensation options, 384,000 common shares and 192,000 warrants will be issued.
- (3) Upon exercise of the 264,000 compensation options, 264,000 common shares and 132,000 warrants will be issued.

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 Pony Spur, Dike, Corridors and Sugarloaf properties.

Subsequent to September 30, 2006, 368,000 stock options expired that were previously outstanding to two former directors of the Company.

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 will pay an 8% finder's fee and issue finder's 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.

The Company has agreed to incur \$1,225,060 of eligible exploration expenditures during calendar 2007 in accordance with the flow-through funding agreement completed and renounced in December 2006. Sage's budgeted exploration plans for calendar 2007 exceed this commitment.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) 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.

Critical accounting estimates represent estimates that are highly uncertain and for which changes in those estimates could materially impact the financial statements. The following accounting estimates are critical: the measurement of deferred income tax assets and liabilities and assessment of the need to record valuation allowances against those assets; valuation of options; and capitalized mining costs.

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserves are established or the properties are sold or abandoned. Based on the results at the conclusion of each phase of an exploration program, management re-evaluates properties that are not suitable as prospects to determine if future exploration is warranted, and that carrying values are appropriate. The decision to capitalize exploration expenditures and the timing of the recognition that capitalized exploration is unlikely to have future economic benefits can materially affect the reported earnings of the Corporation.

(b) 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.

(c) Mineral properties

All direct costs associated with exploration properties are capitalized as incurred. If a 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.

(d) Office equipment and related depreciation

Office equipment is recorded at cost. Depreciation is recorded on the declining balance basis at an annual rate of 20%. Computer equipment is recorded at cost. Depreciation is recorded on the declining balance basis at an annual rate of 30%.

(e) Stock-based compensation

The Company has a stock option plan to provide incentive for the directors, officers, employees, consultants and service providers of the Company. The maximum number of shares which may be set aside for issuance under the plan is 10% of the outstanding common shares. The fair value of any stock options granted to eligible parties 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. 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.

(f) 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.

(g) Loss per common share (LPS)

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period, 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. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted LPS are the same.

(h) 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 these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(i) 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.

(j) 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. Included in accounts payable is \$39,098 (2005 - \$291) denominated in U.S. dollars.

(k) Deferred costs

Deferred cost relates to expenses incurred with respect to mineral properties that the Company considers for acquisition. Upon completion of the acquisition of the mineral properties, the cost is capitalized to the mineral properties. Should the properties not be acquired the cost will be written off.

During the year, the Company wrote-off all costs and expenses associated with properties on which the Company is no longer considering further expenditures.

(l) Changes in Accounting Policies

There were no changes to accounting policies in the most recent period.

(m) Financial and Other Instruments

The Corporation has not made use of any hedging or other financial instruments, and is not exposed to significant interest rate nor credit risks arising from its financial instruments.

RISK CONSIDERATIONS

Nature of Mineral Exploration and Development Projects

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that exploration efforts will continue to be successful. Success in establishing reserves is a result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land available for exploration and other factors. Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities.

Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves. Whether a resource deposit will ultimately be commercially viable depends on a number of factors, including the particular attributes of the deposit such as the deposit's size; its proximity to existing infrastructure; financing costs and prevailing prices for the applicable minerals. Also of key importance are government regulations, including those related to prices, taxes, royalties, land tenure, land use, the importing and exporting of resources and production plant and equipment, and environmental protection. Development projects have no operating history upon which to base estimates of future cash operating costs. Particularly for development projects, resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns could differ significantly from those estimated for a project before production. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur.

Sage's business of exploring for mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and Sage common shares should be considered speculative.

There can be no assurance that any funding required by the Company will become available to it, and if so, that it will be offered on reasonable terms, or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects, or that they can be secured on competitive terms.

DISCLOSURE CONTROL AND PROCEDURES

Beginning with the filing of the financial statements for the fiscal year ended September 30, 2006, the Company's Chief Executive Officer and Chief Financial Officer became responsible for certifying certain matters relating to the Company's disclosure controls and procedures; being the internal systems, controls and procedures that have been established to provide reasonable assurance that material information used internally and disclosed externally is reliable and timely.

The Chief Executive Officer and the Chief Financial Officer have designed and evaluated the Company's disclosure controls and procedures, and have concluded that the disclosure controls and procedures provide these assurances.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Commencing with the filing of the financial statements for the fiscal year ended September 30, 2006, the Company's Chief Executive Officer and Chief Financial Officer became responsible for certifying that appropriate internal controls over financial reporting have been designed which provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Chief Executive Officer and the Chief Financial Officer have evaluated the design of the Company's internal controls over financial reporting as of the end of the period covered by the annual filings, and have concluded that the design is sufficient to provide such reasonable assurance.

During fiscal 2006, there were no changes in the Company's internal control over financial reporting that materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on the Internet at the SEDAR website located at www.sedar.com and at www.sagegoldinc.com.

Additional Disclosure for Venture Issuers Without Significant Revenue

The accumulated costs related to Sage's interests in mineral properties are detailed in the Consolidated Financial Statements for fiscal 2006.

Discussion regarding the Company's Share Capital and Capital Deficiency may be found under Note 5 of the Consolidated Financial Statements for fiscal 2006.

FORWARD-LOOKING INFORMATION

Certain information in this MD&A contains management's assessment of the Company's future plans and may constitute "forward-looking information" under applicable securities laws. Such information may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, achievements, or opportunities expressed or implied by such forward-looking information. This forward-looking information includes estimates, forecasts and statements as to management's and others' expectations with respect to, among other things, exploration, development and production strategies and the outlook for the Company and the precious metals and base metals exploration and mining industry. When used in this MD&A, such information uses words such as "may", "will", "estimate", "expect", "anticipate", "believe", "intend", "plan", "could" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed under "Risk Considerations". Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, the Company cannot assure that actual results will be consistent with this forward-looking information. This forward-looking information is made as of the date of this MD&A, and the Company assumes no obligation to update or revise it to reflect new events or circumstances.