

**SKYLINE GOLD CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED October 31, 2010 and 2009**

<b>Management's Responsibility for Financial Reporting</b>	<b>2</b>
<b>Auditor's Report</b>	<b>3</b>
<b>Consolidated Balance Sheets</b>	<b>4</b>
<b>Consolidated Statements of Operations, Comprehensive Loss and Deficit</b>	<b>5</b>
<b>Consolidated Statements of Cash Flows</b>	<b>6</b>
<b>Notes to the Consolidated Financial Statements</b>	<b>7 - 28</b>

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Skyline Gold Corporation are the responsibility of the Company's management, are prepared in accordance with accounting principles generally accepted in Canada, and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls through an audit committee, which is comprised of non-management directors. The Audit Committee reviews the results of the consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by MacKay LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"Patrick Soares"

Patrick Soares  
Chief Executive Officer

"Lorne B. Anderson"

Lorne B. Anderson  
Chief Financial Officer

Richmond, British Columbia  
February 21, 2011

## **Auditors' Report**

### **To the Shareholders of Skyline Gold Corporation**

We have audited the consolidated balance sheets of Skyline Gold Corporation as at October 31, 2010 and 2009 and the consolidated statements of operations, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Vancouver, Canada.  
February 14, 2011**

**“MacKay LLP”  
Chartered Accountants**

# SKYLINE GOLD CORPORATION

## Consolidated Balance Sheets

	October 31, 2010	October 31, 2009
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,479,775	\$ 432,699
Accounts receivable	5,279	379
GST / HST receivable	83,699	26,487
Prepaid expenses	45,284	46,119
	<u>1,614,037</u>	<u>505,684</u>
<b>Term deposits (notes 5 and 10)</b>	246,467	246,310
<b>Mining and other equipment (notes 7 and 10)</b>	201,916	248,091
<b>Mineral properties (note 8)</b>	7,962,402	4,716,755
	<u>\$ 10,024,822</u>	<u>\$ 5,716,840</u>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 646,686	\$ 395,979
Accounts payable - Newcastle (note 8)	400,000	-
Loans payable (note 9)	-	81,420
Reclamation obligations (note 10)	327,000	360,000
	<u>1,373,686</u>	<u>837,399</u>
<b>Accounts payable - Chebry (note 8)</b>	500,000	-
<b>Reclamation obligations (note 10)</b>	668,244	606,534
<b>Future income tax liability (note 11)</b>	237,990	235,887
	<u>2,779,920</u>	<u>1,679,820</u>
<b>Shareholders' equity</b>		
<b>Share capital (note 12)</b>	9,868,929	5,752,474
<b>Share subscription receivable (note 12)</b>	(165,000)	-
<b>Equity component of loans payable (note 9)</b>	-	62,000
<b>Contributed surplus (note 12)</b>	831,254	239,725
<b>Deficit</b>	(3,290,281)	(2,017,179)
	<u>7,244,902</u>	<u>4,037,020</u>
	<u>\$ 10,024,822</u>	<u>\$ 5,716,840</u>

Basis of Presentation and Going Concern (note 2)

Commitments (note 14)

Subsequent Events (note 17)

Approved on behalf of the Board:

*"Clifford A. Grandison"*

.....Director

*"Robert V. Matthews"*

.....Director

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

# SKYLINE GOLD CORPORATION

## Consolidated Statements of Operations, Comprehensive Loss and Deficit

	For the Year ended October 31,	
	2010	2009
<b>Expenses</b>		
Accretion expense (note 10)	\$ 181,736	\$ 257,465
Advertising and promotion	21,498	22,202
Consulting fees	1,537	26,354
Depreciation	46,175	56,761
Flow-through interest costs	12,229	5,188
Insurance	23,285	16,041
Interest and bank charges	49,682	51,752
Legal, audit and accounting	110,434	137,994
Office	18,751	15,322
Property costs	9,183	-
Property investigation	2,126	-
Rent	47,896	45,045
Repairs and maintenance	3,006	1,088
Salaries and benefits	269,828	300,450
Stock-based compensation (note 12)	563,820	-
Telephone and communications	9,729	12,385
Transfer fees, regulatory fees and public relations	66,538	44,917
<b>Loss before other items and income taxes</b>	<b>(1,437,453)</b>	<b>(992,964)</b>
<b>Other items</b>		
Interest and miscellaneous income	970	5,857
<b>Loss before income taxes</b>	<b>(1,436,483)</b>	<b>(987,107)</b>
<b>Future income tax recovery (note 11)</b>	<b>163,381</b>	<b>108,344</b>
<b>Net and comprehensive loss for the year</b>	<b>(1,273,102)</b>	<b>(878,763)</b>
<b>Deficit, beginning of year</b>	<b>(2,017,179)</b>	<b>(1,138,416)</b>
<b>Deficit, end of year</b>	<b>\$ (3,290,281)</b>	<b>\$ (2,017,179)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>110,276,008</b>	<b>81,381,380</b>

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

**SKYLINE GOLD CORPORATION**  
**Consolidated Statements of Cash Flows**

	<b>For the Year ended</b>	
	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Net loss for the year	\$ (1,273,102)	\$ (878,763)
Items not involving cash		
Accretion expense	181,736	257,465
Depreciation	46,175	56,761
Accretion on loan	30,455	31,545
Accruals reversed	-	(56,702)
Stock-based compensation	563,820	-
Future income tax recovery	(163,381)	(108,344)
Change in non-cash working capital		
Accounts receivable	(4,900)	34,866
GST / HST receivable	(57,212)	(14,497)
Prepaid expenses	835	(22,623)
Accounts payable and accrued liabilities	(47,368)	37,688
<b>Cash used in operating activities</b>	<b>(722,942)</b>	<b>(662,604)</b>
<b>Financing activities</b>		
Loan proceeds	-	111,875
Proceeds on issuance of capital stock	3,567,626	1,672,150
Share issue costs	(123,162)	(89,083)
<b>Cash provided by financing activities</b>	<b>3,444,464</b>	<b>1,694,942</b>
<b>Investing activities</b>		
Acquisition and expenditures on mineral property interests	(1,521,263)	(581,330)
Reclamation expenditures	(153,026)	(61,833)
Term deposit - reclamation bond	(157)	-
<b>Cash used in investing activities</b>	<b>(1,674,446)</b>	<b>(643,163)</b>
<b>Increase in cash during period</b>	<b>1,047,076</b>	<b>389,175</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>432,699</b>	<b>43,524</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,479,775</b>	<b>\$ 432,699</b>
<b>Interest paid</b>	<b>\$ 18,283</b>	<b>\$ 2,074</b>
<b>Taxes paid</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Components of cash and cash equivalents</b>		
Cash	\$ 1,474,775	\$ 427,182
Term deposits	5,000	5,517
	<b>\$ 1,479,775</b>	<b>\$ 432,699</b>
<b>Supplementary Cash Flow Information (note 16)</b>		

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

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 1. Nature of Business

The Company is a junior exploration stage company; its principal business activities include acquisition and exploration of mineral resource properties.

The Company was incorporated as 588056 B.C. Ltd. on June 30, 1999 under the Company Act (British Columbia) and was inactive for the period to April 1, 2000. On March 31, 2000 the Company's parent, International Skyline Gold Corporation ("**Old Skyline**"), held the one issued and outstanding common share of the Company.

On April 1, 2000 in conjunction with a re-organization pursuant to a statutory plan of arrangement, the Company changed its name to Skyline Gold Corporation and Old Skyline changed its name, pursuant to an amalgamation, to Copper Mountain Mines Ltd.

### 2. Basis of Presentation and Going Concern

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to any adjustment that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets or retire its liabilities in other than the normal course of business and at amounts different from those in the accompanying audited consolidated financial statements.

In the opinion of management, all adjustments considered necessary for fair presentation have been included. Canadian generally accepted accounting principles ("**GAAP**") require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the balance sheet. Actual amounts could differ from these estimates.

At October 31, 2010, the Company's working capital is \$240,350 (October 31, 2009 – working capital deficit of \$331,715). The Company has recurring losses. The Company's ability to continue operations remains uncertain and dependent on its ability to obtain additional financing and the ongoing support of its creditors.

The recoverability of amounts shown as mineral properties is dependent upon converting resources into economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development and future profitable production or disposition thereof. Recorded costs of mineral properties are not intended to reflect present or future values of the properties.

### 3. Significant Accounting Policies

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of Skyline Gold Corporation and its wholly-owned subsidiary, Tuksi Mining and Development Company Limited, an inactive Canadian company.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 3. Significant Accounting Policies (continued)

#### (b) Mining and other equipment

Equipment is recorded at cost. The declining balance method is used to amortize assets over their estimated useful lives at the following annual rates:

Mining equipment 20%  
Furniture and fixtures 20%  
Computer equipment 30%

#### (c) Mineral properties

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition, exploration and leasehold costs are capitalized until such time as the property is put into production, or the property is disposed of either through sale or abandonment. If put into production, mineral property costs will be written off over the life of the property based on estimated economic reserves. Recovery of expenses and proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the mineral property costs will be written off to operations.

#### (d) Asset retirement obligations

Asset retirement obligations are recognized for legal obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation is recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. A corresponding asset retirement cost is recognized by increasing the carrying value of the related long-lived asset. The asset retirement cost is subsequently charged to operations in a rational and systematic manner over the underlying asset's useful life. The initial fair value of the asset retirement liability is accreted, by charges to operations, to its estimated future value.

#### (e) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. All financial instruments are measured in the balance sheet at fair value initially, except for certain related party transactions. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale assets are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost.

The Company has classified its cash and cash equivalents as held-for-trading financial assets and term deposits as held-to-maturity. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities and loans payable are classified as other financial liabilities.

**October 31, 2010**

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**3. Significant Accounting Policies (continued)****(f) Long-lived assets**

Long-lived assets held by the Company are continually reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In the event that facts and circumstances indicate that the carrying amount of an asset may not be recoverable and an estimate of future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss will be recognized.

**(g) Cash and cash equivalents**

Cash is defined as cash on hand and bank deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. The Company minimizes its credit risk by investing in cash equivalents with major banks and financial institutions. It is the opinion of management that no concentration of credit risk exists with respect to investment of its cash and cash equivalents. Due to the short-term maturity of cash equivalents, their carrying amounts approximate their fair value.

**(h) Share issue costs**

Commissions paid to underwriters, directly related legal, printing and other costs on the issue of the Company's shares are charged to share capital.

**(i) Income (loss) per share**

The Company utilizes the treasury stock method of calculating fully diluted per share amounts; whereby any proceeds from the exercise of stock options, warrants or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share has not been presented separately as the outstanding options and warrants are anti-dilutive for each of the years presented.

**(j) Income taxes**

Income taxes are accounted for using the future income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. To the extent the Company does not consider it more likely than not that a future asset will be recovered, it provides a valuation allowance against the excess. Future income tax assets and liabilities are measured using tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

**October 31, 2010**

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**3. Significant Accounting Policies (continued)****(k) Flow-through shares**

Upon renunciation of flow-through shares to the shareholders, the Company reduces share capital and records a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient deductible temporary differences available to offset the renounced tax deductions, the realization of the deductible temporary differences is credited to income in the period of renunciation.

**(l) Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the possible impairment of assets, asset retirement obligations, useful lives for amortization, stock-based compensation and future income taxes. Actual results could differ from those estimates.

**(m) Foreign currency translation**

Monetary assets and liabilities are translated at year end exchange rates; other assets and liabilities are translated at the rates prevailing at the date of the transaction. Revenue and expense items, except for depreciation, are translated at the average rate of exchange for the quarter. Depreciation is converted using the rates prevailing at the dates of acquisition. Gains and losses from foreign currency translation are included in the consolidated statements of operations.

**(n) Stock-based compensation**

The Company accounts for share options granted to directors, officers, employees and consultants using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. Any cash paid on the exercise of share options is added to the stated value of common shares and the fair values previously added to contributed surplus are reallocated to the stated value of the common shares. The Company has not incorporated an estimated forfeiture rate for share options that will not vest; rather the Company accounts for actual forfeitures as they occur.

**(o) Valuation of warrants**

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants.

**October 31, 2010**

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**3. Significant Accounting Policies (continued)****(p) Share capital**

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up, is not readily determinable, the fair market value (as defined) of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date of the agreement to issue shares as determined by the Board of Directors.

**4. Changes in accounting policies*****Changes not yet adopted******International Financial Reporting Standards ("IFRS")***

The CICA Accounting Standards Board ("**AcSB**") published a strategic plan for the direction of accounting standards in Canada and in February 2008 announced that accounting standards in Canada for public companies will change over to IFRS for financial statements for fiscal years beginning on or after January 1, 2011. The transition date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the impact of the transition to IFRS on the Company's financial statements, beginning with the interim reporting period ending January 31, 2012, has not yet been determined.

It is expected that the Company will be able to manage the transition to IFRS from Canadian GAAP using internal resources with limited external assistance. The conversion project consists of three phases: 1) general planning and scoping, 2) detailed assessment of accounting policy differences and detailed conversion planning, and 3) implementation, parallel reporting and review. The Company has and will continue to review financial statement presentation, IT infrastructure, control environment and accounting policy choices available under IFRS in regards to the current operations of the Company.

During the Company's scoping of IFRS compared to Canadian GAAP, the following areas have been identified as having the highest potential impact on the Company's financial reporting: initial adoption of IFRS under the policies set forth in IFRS 1 "First-Time Adoption of IFRS", exploration and development expenditures, asset retirement obligations, property plant and equipment, impairment of assets and stock-based compensation.

***Business Combinations, Consolidated Financial Statements and Non-controlling Interest***

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Estimated obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 4. Changes in accounting policies (continued)

#### *Changes not yet adopted (continued)*

##### *Business Combinations, Consolidated Financial Statements and Non-controlling Interest (continued)*

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

In January 2009, the CICA issued Handbook Section 1602, Non-controlling interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the IFRS on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

The Company is required to adopt Sections 1582, 1601 and 1602 concurrently; at this time the Company does not anticipate adopting these sections prior to the adoption of IFRS and therefore does not expect any impact to the financial statements.

### 5. Term Deposits

The term deposits owned by the Company at October 31, 2010 of \$246,467 (October 31, 2009 - \$246,310) are chartered bank guaranteed investment certificates ("GIC's") which are held jointly in the name of the Company and either the British Columbia Government's Minister of Finance or Minister of Agriculture. These funds will be released to the Company upon completion of the reclamation obligations (note 10). These investments bear interest at approximately 0.3% per annum (October 31, 2009 – 0.2%).

### 6. Financial Instruments

#### *Capital risk management*

The Company manages its capital to continue as a going concern largely through issuance of shares. These share issuances depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record and the experience of management. The capital structure of the Company consists of shareholders' equity, comprising issued shares, warrants, contributed surplus and deficit.

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value risk, credit risk, market risk and liquidity risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

#### *Fair value*

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, accounts payable – Newcastle and accounts payable - Chebry approximate their fair market value due to their relatively short periods of maturity.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 6. Financial Instruments (continued)

#### *Credit risk*

Credit risk refers to the risk that another entity will default on its contractual obligations resulting in financial loss to the Company. The Company's accounts receivable are generated from property expenditures paid on behalf of other companies and are subject to normal industry credit risks. When required, provision is made to reflect the fair value expected to be recovered.

#### *Market risk*

Market risk includes currency risk, interest rate risk and price risk. The Company's activities expose it primarily to the financial risks of changes in the price of gold particularly as it relates to the Company's ability to raise new funds. The Company does not currently hold any financial instruments that mitigate this risk.

#### *Liquidity risk*

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they become due, or can only do so at excessive cost. The Company's ability to continue operations remains uncertain and dependent on its ability to obtain additional financing and the ongoing support of its creditors.

#### *Fair Value Hierarchy*

Financial instruments recorded at fair value on the Consolidated Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Consolidated Balance Sheet, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	\$ 1,479,775	\$ -	\$ -

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**Skyline Gold Corporation****Notes to the Consolidated Financial Statements**

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**October 31, 2010**

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**7. Mining and Other Equipment**

	<b>October 31, 2010</b>		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	\$ 437,500	\$ 247,352	\$ 190,148
Mill equipment - Johnny Mountain	1	-	1
Office furniture & equipment	25,078	14,696	10,382
Computer equipment & software	5,744	4,359	1,385
	<b>\$ 468,323</b>	<b>\$ 266,407</b>	<b>\$ 201,916</b>

	<b>October 31, 2009</b>		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	\$ 437,500	\$ 204,049	\$ 233,451
Mill equipment - Johnny Mountain	1	-	1
Office furniture & equipment	25,078	12,331	12,747
Computer equipment & software	5,744	3,852	1,892
	<b>\$ 468,323</b>	<b>\$ 220,232</b>	<b>\$ 248,091</b>

The mining equipment is recorded at the historical book value as transferred from Old Skyline, the mill equipment at the Johnny Mountain mine site acquired by the Company in fiscal 2007 is recorded at a nominal value of \$1. The estimated net recoverable value of the mining equipment, the mill equipment – Johnny Mountain and the office furniture and equipment exceeds the net book value, thus no write-down is considered necessary. The mining equipment has been pledged to the Government of British Columbia as security for the Company's reclamation obligations (note 10).

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 8. Mineral Properties

The Company's mineral properties are situated in the Liard Mining Division of British Columbia on the Iskut property. The Iskut property includes the Bronson Slope ("**Bronson Slope**") deposit and the Johnny Mountain property ("**Johnny Mountain**"). The Company has made exploration expenditures on several other segments of the Iskut property but those costs have been charged to operations in earlier fiscal periods.

Following is a summary of mineral property expenditures:

	Iskut Property, primarily Bronson Slope
<b>Balance,</b>	
<b>October 31, 2008</b>	\$ 4,158,025
Additions:	
Mineral tenure acquisition costs	11,700
Maintenance, exploration and development costs:	
Assay costs	28,922
Camp costs	36,046
Contractor payments	206,333
Drilling costs	221,612
Helicopter/fixed wing costs	21,014
Licences, fees and insurance	22,579
Materials and supplies	5,554
Other costs	4,970
	<u>547,030</u>
Net additions	558,730
<b>Balance,</b>	
<b>October 31, 2009</b>	4,716,755
Additions:	
Mineral tenure acquisition costs	1,432,507
Maintenance, exploration and development costs:	
Assay costs	94,440
Camp costs	186,475
Contractor payments (note 12)	612,463
Drilling costs	364,798
Helicopter/fixed wing costs	455,110
Licences, fees and insurance	15,510
Materials and supplies	73,471
Travel costs	10,873
	<u>1,813,140</u>
Net additions	3,245,647
<b>Balance,</b>	
<b>October 31, 2010</b>	\$ 7,962,402

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 8. Mineral Properties (continued)

#### (a) The Iskut property - Bronson Slope

The Company owns 100% of the Bronson Slope situated within the Company's Iskut property, subject to a 3.5% net smelter return ("NSR") on a portion of the mineral tenures 517750 and 517754 (which portion was formerly known as the "Highwall claims"). The Company has the right to buy-back that NSR for \$500,000.

On June 29, 2010, the Company purchased a 100% interest in six mineral tenures with a combined area of 2,250 hectares (the "Newcastle" mineral tenures) located in the Liard Mining Division of British Columbia. The Company and the vendor share a common director who declined to vote in regard to this transaction. The purchase consideration comprised an initial payment of \$400,000 in the form of 2,139,037 issued common shares of the Company and a final payment, due by June 29, 2011, included in accounts payable, of either 1,426,025 common shares of the Company or \$400,000 in cash, at the Vendor's option.

On November 16, 2009, the Company purchased a 100% interest in four mineral tenures with a combined area of 1,800 hectares (the "Chebry" mineral tenures) located in the Liard Mining Division of British Columbia. The purchase consideration comprised a cash payment of \$50,000 paid at the time of purchase; \$75,000 payable on or before November 17, 2010 in cash or 300,000 common shares of the Company, at the Vendor's option (300,000 common shares were issued October 25, 2010); \$500,000 in cash payable on or before November 17, 2011, included in accounts payable, and expenditures on geophysical work, since completed, in excess of \$50,000.

#### (b) The Iskut property - other than Bronson Slope

The Company owns 100% of the Iskut property that is maintained in good standing, a portion of which is subject to the 3.5% NSR mentioned above.

### 9. Loans Payable

On June 15, 2009, the Company obtained unsecured convertible loans that totalled \$111,875 bearing interest at 12% per annum with effect from June 1, 2009. The value attributed to the equity components of the convertible loans, using the share price on the effective date of the loans (\$0.065) and the historical volatility rate (133%) for the Company's common shares was \$62,000.

The loans matured on June 1, 2010 and all holders of the loans exercised their rights to convert the loan principal to equity for a total of 1,721,154 common shares of the Company on the basis of \$0.065 per common share. As a result, the \$111,875 loans payable and the \$62,000 equity component of loans payable were transferred to common share capital. Interest on the loans at maturity totalled \$13,425 and was paid in cash.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 10. Reclamation Obligations

The reclamation obligations of the Company consist mainly of obligations to reclaim the Johnny Mountain mine site on the Iskut property estimated at \$995,244 (October 31, 2009 - \$966,534), representing the fair value of the liability based on information currently available. The fair value of the liability was determined based on a work system and reclamation program provided by the British Columbia Government's Ministry of Energy, Mines and Petroleum Resources on July 7, 2004 totalling \$1,591,179; by application of an expected cash flow approach incorporating a credit-adjusted risk-free discounting rate of 20% and an inflation rate of 3%; reduced by expenditures since that date. The Company estimates the undiscounted amount of cash flows required on reclamation costs at \$392,487 in the next year (October 31, 2009 - \$360,000) with an estimated present value of \$327,000 (October 31, 2009 - \$360,000) and \$1,064,503 in the following 2 years (October 31, 2009 - \$1,702,831 in the following 3 years) with an estimated present value of \$668,244 (October 31, 2009 - \$606,534).

Reclamation obligations are to be funded from operating cash flows, reclamation deposits or cash on hand. The ultimate amount of the reclamation obligations is uncertain and future changes to these estimates of the obligations will be made prospectively.

A summary of the Company's provision for asset retirement obligations is as follows:

	2010		2009	
Balance, beginning of the year	\$	966,534	\$	770,902
Expenditures		(153,026)		(61,833)
Accretion expense		181,736		257,465
Balance, end of the year		995,244		966,534
Less: current portion		327,000		360,000
Long term portion	\$	668,244	\$	606,534

The obligations are secured by term deposits and mining equipment which have carrying values at October 31, 2010 of \$246,467 (note 5) and \$190,148 (note 7) respectively.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 11. Future Income Tax

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

For the year ending,	October 31, 2010	October 31, 2009
Loss before taxes	\$ (1,436,483)	\$ (987,107)
	28.75%	28.75%
Income tax (recovery) at statutory rates	\$ (412,989)	\$ (283,793)
Effect of change in tax rates	31,249	44,647
Non-deductible (non-taxable) items	216,256	4,119
Non-capital losses expired	-	5,889
Change in valuation allowance	2,103	120,794
<b>Future income tax (recovery)</b>	<b>\$ (163,381)</b>	<b>\$ (108,344)</b>

The significant components of the Company's net future income tax liability are as follows:

	October 31, 2010	October 31, 2009
	25.00%	25.00%
Future income tax assets (liabilities)		
Non-capital losses carried-forward	\$ 679,290	\$ 488,469
Equipment	96,933	85,389
Mineral properties	(1,310,854)	(1,088,611)
Share issue costs	46,889	36,390
Reclamation obligation	248,811	241,634
Other	941	842
<b>Future income tax liability - net</b>	<b>\$ (237,990)</b>	<b>\$ (235,887)</b>

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,716,000, if not utilized, expiring as follows:

Expires:	
2014	\$ 2,000
2015	9,000
2027	547,000
2028	618,000
2029	701,000
2030	839,000
	<u>\$ 2,716,000</u>

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 11. Future Income Tax (continued)

The Company has approximately \$2,719,000 (October 31, 2009 - \$424,000) of unclaimed resource expenses and approximately \$590,000 (October 31, 2009 - \$590,000) unclaimed capital cost allowance for Canadian tax purposes which can be carried forward indefinitely and used to reduce taxable income in Canada.

During the year ended October 31, 2010, the Company renounced income tax benefits attached to 11,418,336 flow-through shares with proceeds of \$785,100 issued in calendar year 2009 and recognized a tax effect of \$196,275, which increased the future income tax liability and reduced share capital by the same amount.

During the year ended October 31, 2009, the Company renounced income tax benefits attached to 6,316,667 flow-through shares with proceeds of \$527,500 issued in calendar year 2008 and recognized a tax effect of \$131,875, which increased the future income tax liability and reduced share capital by the same amount.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 12. Shareholders' Equity

#### Capital Stock and Contributed surplus

Authorized:

Unlimited            common shares, no par value  
300,000,000       preferred shares, no par value

	Number of shares	Capital stock	Contributed surplus
Balance, October 31, 2008	71,930,816	\$ 4,315,153	\$ 177,000
Issued during the year			
For cash:			
Exercise of warrants	250,000	20,000	-
Private placements	26,718,754	1,589,425	62,725
In settlement of trade accounts payable	647,691	51,815	-
Share issue costs	-	(92,044)	-
Future income tax on flow-through share renunciation	-	(131,875)	-
Balance, October 31, 2009	99,547,261	5,752,474	239,725
Issued during the year			
For cash:			
Exercise of warrants	10,247,275	1,055,290	(23,600)
Private placements	16,175,803	2,700,936	-
For mineral properties	2,439,037	475,000	-
For convertible loans	1,721,154	173,875	-
Stock-based compensation	-	-	615,129
Share issue costs, net of tax of \$30,791	-	(92,371)	-
Future income tax on flow-through share renunciation	-	(196,275)	-
<b>Balance, October 31, 2010</b>	<b>130,130,530</b>	<b>\$ 9,868,929</b>	<b>\$ 831,254</b>

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 12. Shareholders' Equity (continued)

#### Capital Stock and Contributed surplus (continued)

Transactions for the issuance of share capital during the year ended October 31, 2010 were as follows:

On December 31, 2009, the Company issued 2,500,000 flow-through common shares by private placement at a price of \$0.10 per share for proceeds of \$250,000. Finders' fees of \$17,500 were paid in cash and share issue costs were \$11,968.

In November and December 2009, 2,930,000 warrants were converted into common shares of the Company for proceeds of \$234,400. A fair value of \$19,600 that was attributed at the time of issue to 980,000 of the warrants was transferred from contributed surplus to share capital. In April 2010, 248,889 warrants were converted for proceeds of \$23,911. A fair value of \$4,000 that was attributed at the time of issue to 100,000 of the warrants was transferred from contributed surplus to share capital. In June and July 2010, 1,532,278 warrants were converted for proceeds of \$126,942. During the period August 2010 to October 2010, 5,536,108 warrants were converted for proceeds of \$646,437.

From April to June 2010, the lenders of \$111,875 loans payable by Skyline opted to convert the loans to 1,721,154 common shares in the Company. As a result, \$111,875 was transferred from loans payable and \$62,000 was transferred from the equity component of loans payable to common share capital.

On May 6, 2010, the Company issued 4,993,334 units by private placement at a price of \$0.12 per unit for proceeds of \$599,200. Finders' fees of \$22,248 were paid in cash and share issue costs were \$11,594. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.15 per share during the period to May 6, 2011.

On July 27, 2010, the Company issued 2,139,037 common shares valued at \$400,000 to the vendor of the Newcastle mineral tenures as initial consideration for the purchase of a 100% interest.

On August 26, 2010, the Company issued 5,128,628 units by private placement at a price of \$0.14 per unit for proceeds of \$718,008. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.17 per share during the period to August 26, 2012. Also on August 26, 2010, the Company issued 1,251,341 flow-through common shares by private placement at a price of \$0.17 per share for proceeds of \$212,728. Finders' fees of \$50,410 were paid in cash.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 12. Shareholders' Equity (continued)

#### Capital Stock and Contributed surplus (continued)

On October 25, 2010, the Company issued 612,500 units by private placement at a price of \$0.40 per unit for proceeds of \$245,000. Each unit consists of one flow-through common share and one-half flow-through share purchase warrant. Each whole warrant entitles the holder to purchase one additional flow-through share of the Company at a price of \$0.60 per share during the period to April 25, 2012. The warrants contain an accelerator clause where, if the closing price of the Company's common shares is at a price equal to or greater than \$0.90 for a period of 10 consecutive trading days, the Company will have the right to accelerate the expiry date of the warrants on a date that is not less than 30 days from the date written notice is provided to the warrant holders.

On October 25, 2010, the Company issued 300,000 common shares valued at \$75,000 to the vendor of the Chebry mineral tenures as consideration for the second payment due toward the purchase of a 100% interest.

On October 26, 2010, the Company issued 1,690,000 units by private placement at a price of \$0.40 per unit for proceeds of \$676,000, of which \$165,000 has been collected after the year end. Each unit consists of one flow-through common share and one-half flow-through share purchase warrant. Each whole warrant entitles the holder to purchase one additional flow-through share of the Company at a price of \$0.60 per share during the period to April 26, 2012. The warrants contain an accelerator clause where, if the closing price of the Company's common shares is at a price equal to or greater than \$0.90 for a period of 10 consecutive trading days, the Company will have the right to accelerate the expiry date of the warrants on a date that is not less than 30 days from the date written notice is provided to the warrant holders. Finders' fees of \$9,442 were paid in cash.

Transactions for the issuance of share capital during the year ended October 31, 2009 were as follows:

On November 28, 2008, the Company issued 3,060,000 units at a price of \$0.05 per unit for proceeds of \$153,000 for which no finders' fees were paid in cash and share issue costs were \$7,615. Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share during the period to November 27, 2009.

On December 31, 2008, the Company issued 4,200,000 flow-through units at a price of \$0.05 per unit for proceeds of \$210,000 for which finders' fees of \$9,750 were paid in cash and share issue costs were \$13,909. Each unit consisted of one flow-through common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share during the period to December 30, 2009.

On April 30, 2009, the Company issued 1,706,250 units at a price of \$0.08 per unit for proceeds of \$136,500 for which finders' fees of \$4,800 were paid and share issue costs were \$2,575. Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.12 per share during the period to April 30, 2010.

On August 21, 2009, the Company issued 1,632,167 units by private placement at a price of \$0.18 per unit for net proceeds of \$293,790 for which finders' fees of \$10,994 were paid in cash and share issue costs were \$6,492. Each unit consisted of two flow-through common shares each priced at \$0.06, one non-flow-through common share priced at \$0.06 and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share during the period to August 21, 2010. The total number of shares issued on August 21, 2009 was 4,896,501 common shares.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 12. Shareholders' Equity (continued)

#### Capital Stock and Contributed surplus (continued)

On September 22, 2009, the Company issued 2,827,001 units by private placement at a price of \$0.18 per unit for net proceeds of \$508,860 for which finders' fees of \$32,796 were paid in cash and share issue costs were \$3,215. Each unit consisted of two flow-through common shares each priced at \$0.06, one non-flow-through common share priced at \$0.06 and one-half of a share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.08 per share during the period to September 22, 2010. The total number of shares issued on September 22, 2009 was 8,481,003 common shares.

On October 5, 2009, the Company issued 4,375,000 common shares by private placement at a price of \$0.08 per share for net proceeds of \$350,000 for which no finders' fees were paid. On the same date, a further 647,691 common shares were issued at \$0.08 per share for \$51,815 in settlement of accounts payable to suppliers of the same amount. Also in October 2009, certain of the Company's warrant holders exercised their rights to convert 250,000 warrants into common shares of the Company for net proceeds of \$20,000. The share issue costs for the above transactions were \$3,123.

#### Stock Options and Share Purchase Warrants

Stock option and share purchase warrant transactions are summarized as follows:

	Stock Options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, October 31, 2008	3,550,000	\$ 0.10	1,635,562	\$ 0.20
Granted	-	-	11,485,400	\$ 0.10
Expired	-	-	(1,635,562)	\$ 0.20
Outstanding, October 31, 2009	3,550,000	\$ 0.10	11,485,400	\$ 0.10
Granted	6,938,000	\$ 0.14	6,212,231	\$ 0.24
Exercised	-	-	(10,247,275)	\$ 0.10
Expired	-	-	(1,338,125)	\$ 0.10
<b>Outstanding, October 31, 2010</b>	<b>10,488,000</b>	<b>\$ 0.13</b>	<b>6,112,231</b>	<b>\$ 0.24</b>
<b>Exercisable / Fully vested, October 31, 2010</b>	<b>9,470,667</b>	<b>\$ 0.12</b>	<b>6,112,231</b>	<b>\$ 0.24</b>

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**Skyline Gold Corporation****Notes to the Consolidated Financial Statements**

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**October 31, 2010**

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**12. Shareholders' Equity (continued)****Stock Options and Share Purchase Warrants (continued)**

At October 31, 2010, outstanding stock options and share purchase warrants are as follows:

<b>Options</b>	<b>Issue Date</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>Outstanding:</b>			
3,550,000	25-Jul-08	\$ 0.10	25-Jul-11
5,210,000	09-Feb-10	\$ 0.10	09-Feb-15
376,000	02-Jul-10	\$ 0.17	02-Jul-15
376,000	31-Aug-10	\$ 0.21	31-Aug-15
976,000	04-Oct-10	\$ 0.34	04-Oct-15
<hr/>			
<b>10,488,000</b>			

<b>Warrants</b>	<b>Issue Date</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>Outstanding:</b>			
2,396,667	06-May-10	\$ 0.15	06-May-11
2,564,314	26-Aug-10	\$ 0.17	26-Aug-12
306,250	25-Oct-10	\$ 0.60	25-Apr-12 *
845,000	26-Oct-10	\$ 0.60	26-Apr-12 *
<hr/>			
<b>6,112,231</b>			

\* subject to accelerated expiry date if the closing price of the Company's common shares is at a price equal to or greater than \$0.90 for a period of 10 consecutive trading days.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 12. Shareholders' Equity (continued)

#### Stock Options and Share Purchase Warrants (continued)

The Company has a rolling stock option plan under which it is authorized to grant options to directors, officers, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option will not be less than the market price of the shares at market close on the last trade date prior to the grant date. The options can be granted for a maximum term of ten years and vest according to the terms which may be imposed at the discretion of the Board of Directors.

On February 9, 2010, the Board of Directors granted 5,210,000 options to purchase common shares of the Company with an exercise price of \$0.10. The option expiry date is February 9, 2015. Of these options, 4,476,666 vested immediately, another 366,667 vested on August 9, 2010 and the remaining 366,667 will vest on February 9, 2011. The total fair value of options to be recorded as stock-based compensation is \$395,960, of which \$380,538 has been recorded during the year ended October 31, 2010 and includes \$12,464 capitalized to mineral properties. Fair value was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected annual volatility	113%
Risk-free interest rate	2.45%
Expected life	5 years
Dividend rate	0.00%
Stock price at grant date	\$0.095

On July 2, 2010, the Board of Directors granted 376,000 options to purchase common shares of the Company with an exercise price of \$0.17. The option expiry date is July 2, 2015. All of these options vested immediately. The total fair value of options recorded as stock-based compensation was \$51,249, calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected annual volatility	112%
Risk-free interest rate	2.36%
Expected life	5 years
Dividend rate	0.00%
Stock price at grant date	\$0.17

On August 31, 2010, the Board of Directors granted 376,000 options to purchase common shares of the Company with an exercise price of \$0.21. The option expiry date is August 31, 2015. All of these options vested immediately. The total fair value of the options recorded as stock-based compensation was \$76,554, calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected annual volatility	111%
Risk-free interest rate	2.05%
Expected life	5 years
Dividend rate	0.00%
Stock price at grant date	\$0.25

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 12. Shareholders' Equity (continued)

#### Stock Options and Share Purchase Warrants (continued)

On October 4, 2010, the Board of Directors granted 976,000 options to purchase common shares of the Company with an exercise price of \$0.34. The option expiry date is October 4, 2015. Of these options, 325,333 vested immediately, 200,000 will vest on January 31, 2011, 125,333 will vest on April 1, 2011, 200,000 will vest on April 30, 2011 and the remaining 125,334 will vest on October 1, 2011. The total fair value of the options to be recorded as stock-based compensation is \$263,227, of which \$106,788 has been recorded during the year ended October 31, 2010 and includes \$38,845 capitalized to mineral properties. Fair value was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected annual volatility	110%
Risk-free interest rate	1.99%
Expected life	5 years
Dividend rate	0.00%
Stock price at grant date	\$0.34

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Stock-based compensation charges of \$615,129 (October 31, 2009 - \$nil) are summarized as follows:

	October 31, 2010
For the year ending,	
Mineral property	\$ (51,309)
Stock-based compensation expense	(563,820)
	<b>\$ (615,129)</b>

### 13. Related Party Transactions

During the year ended October 31, 2010, the Company incurred \$43,628 (October 31, 2009 - \$86,678) for legal expenses and share issue costs from a law firm of which a director is a member.

The above transactions are in the normal course of operations, occurring on terms that are similar to those transactions with unrelated parties and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 14. Commitments

The term of the Company's lease of its office premises in Richmond, BC expires on May 31, 2011. At October 31, 2010, the lease commitments amounted to \$26,346 (October 31, 2009 - \$22,112).

At October 31, 2010, the Company had a requirement to incur \$620,110 on eligible Canadian exploration in accordance with the terms of flow-through agreements made in fiscal 2010, all of which is to be incurred by December 31, 2012 (October 31, 2009 - \$700,998 of which \$165,898 was to be incurred by December 31, 2010 and \$535,100 by December 31, 2011).

### 15. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

### 16. Supplementary Cash Flow Information

The following non-cash financing and investing activities were recorded during the years ended,

	October 31,	
	2010	2009
Fair value of warrants exercised for share capital	\$ 23,600	\$ -
Shares issued for share subscriptions	\$ 165,000	\$ -
Stock-based compensation capitalized to mineral property interests	\$ 51,309	\$ -
Shares issued for mineral property interests	\$ 475,000	\$ -
Shares issued to settle accounts payable	\$ -	\$ 51,815
Shares issued to settle convertible loans	\$ 173,875	\$ -
Accounts payable relating to mineral property interests	\$ 1,431,691	\$ 233,616

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# Skyline Gold Corporation

## Notes to the Consolidated Financial Statements

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October 31, 2010

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### 17. Subsequent Events

On November 5, 2010, the Company issued 525,000 units by private placement at a price of \$0.40 per unit for proceeds of \$210,000. Each unit consists of one flow-through common share and one-half flow-through share purchase warrant. Each whole warrant entitles the holder to purchase one additional flow-through share of the Company at a price of \$0.60 per share during the period to May 5, 2012. The warrants contain an accelerator clause where, if the closing price of the Company's common shares is at a price equal to or greater than \$0.90 for a period of 10 consecutive trading days, the Company will have the right to accelerate the expiry date of the warrants on a date that is not less than 30 days from the date written notice is provided to the warrant holders. Finders' fees of \$5,250 were paid in cash.

During November 2010, the Company agreed and received TSX approval to acquire the Inel mineral tenures in the Iskut region of British Columbia which are adjacent and near to the Company's current tenure holdings in return for total payment of \$1,406,000 to St. Andrew Goldfields Ltd. Payment is comprised of an initial payment of 2,179,845 common shares of the Company, issued on November 25, 2010, valued at \$0.3225 per share and, at the option of the Vendor, a final payment of either \$703,000 in cash or 1,453,380 common shares valued at \$0.4837 per share on or before November 17, 2011.

Effective December 31, 2010, the Company renounced income tax benefits attached to 4,078,841 flow-through shares with proceeds of \$1,343,728 issued in calendar year 2010 and recognized a tax effect of \$335,932, which increased the future income tax liability and reduced share capital by the same amount.