

A HIGH LEVERAGE PERPETUAL OPTION ON GOLD

Seabridge Gold Inc.

ANNUAL REPORT 2006

CORPORATE OVERVIEW

Seabridge Gold Inc. is designed to provide its shareholders with exceptional leverage to a rising gold price. From 1999 through 2002, when the gold price was lower, Seabridge acquired eight North American projects with substantial gold resources, including the multi-million ounce Courageous Lake and Kerr-Sulphurets deposits. Subsequent exploration by Seabridge has significantly expanded its acquired gold resource base.

Seabridge measures its performance in terms of gold ownership per common share. Project acquisitions and exploration programs are carefully chosen to ensure that share dilution required to fund these activities is more than offset by additional ounces of gold resources. In contrast to most other gold companies, Seabridge's gold ownership per share has risen for six successive years, providing its shareholders with exceptional leverage to a rising gold price. As a result, Seabridge shares have outperformed the Toronto Stock Exchange Gold Index by nearly 1800% from 2002 through 2006.

Seabridge is pursuing three value-enhancing strategies. First, the Company continues to search for gold projects in North America which would be accretive in terms of gold ownership per common share. Second, Seabridge funds exploration on projects considered likely to expand gold ownership per common share. Third, Seabridge enters into partnerships to advance its projects toward production while limiting risk and share dilution.

Our philosophy at Seabridge is to provide investors with participation in gold ownership and gold flow as a hedge against other asset classes and currencies. Our ultimate objective is to obtain gold flow from our projects for Seabridge's shareholders, effectively turning cash into gold, contrary to the gold industry's current practice of converting gold into cash flow.

Trading Symbol: SEA on TSX-V
SA on AMEX

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Wednesday, June 27, 2007
4:30 p.m. EDT
The Albany Club
91 King Street East
Toronto, Ontario M5C 1G3
Canada

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Report to Shareholders for 2006

We are pleased to present our Report to Shareholders and financial statements for the year ended December 31, 2006.

During the past year, substantial gold resources were added to the Seabridge portfolio resulting in a 96% increase in gold resources. (Seabridge's resources, presented on a project-by-project basis and divided into measured, indicated and inferred categories, are presented in the Tables at the end of this report.) As a result, gold resources per fully diluted common share increased from 0.52 ounces to 0.85 ounces, thereby further improving Seabridge's leverage to the gold price. While the price of gold increased approximately 23% during 2006, Seabridge's share price increased by over 50%. Shareholder value was enhanced during the year with the discovery of Canada's largest undeveloped gold deposit at Mitchell, increased gold resources at Courageous Lake and the acquisition of a 100% interest in the Noche Buena project in Mexico.

Kerr-Sulphurets: Drilling at Mitchell Leads to the Discovery of Canada's Largest Undeveloped Gold Deposit

Considerable financial and human resources were devoted to the Kerr-Sulphurets project located in British Columbia, Canada during 2006. Activities included Seabridge increasing its interest to 100% by re-acquiring the 65% option in the

project previously ceded to Falconbridge, and a drill program that resulted in discovering Canada's newest and largest gold deposit, Mitchell. As a result, Seabridge now owns 100% of the two largest undeveloped gold projects in Canada, Mitchell and Courageous Lake.

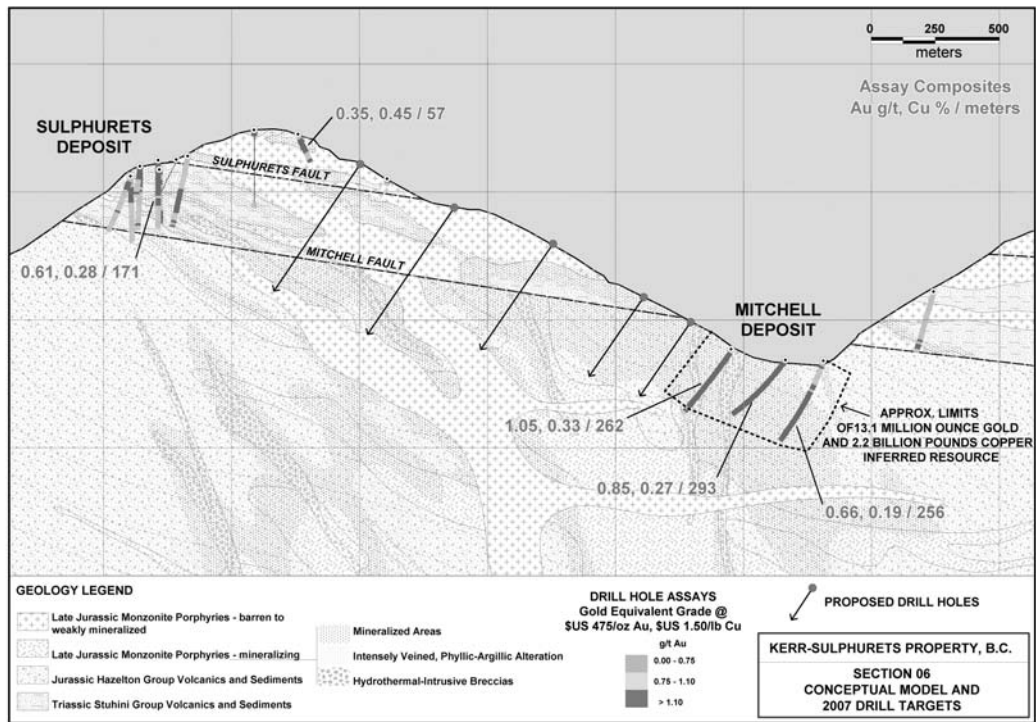
In April, an agreement was reached with Falconbridge Limited whereby Seabridge purchased Falconbridge's option to earn a 65% interest at Kerr-Sulphurets. Consideration paid by Seabridge to Falconbridge included 200,000 common shares and two million common share purchase warrants exercisable for five years at a strike price of C\$13.50 per share. In May 2007, 500,000 of the warrants were exercised providing C\$6.75 million in cash proceeds to Seabridge.

Also during 2006, Seabridge completed a highly-successful 9,129 meter core drill program designed to expand the Kerr-Sulphurets project's known resource by testing for the extensions of the Sulphurets deposit and systematically drilling the promising Mitchell gold zone identified in previous work. In the 2006 program, 24 holes (7,506 meters) were drilled at Mitchell and five holes (1,623 meters) were drilled at Sulphurets.

The drilling at Sulphurets demonstrated additional continuity of the Sulphurets deposit down dip and along strike to the southwest. The 2006 results are being incorporated into a National Instrument 43-101 compliant resource estimate for the Sulphurets deposit which is expected to expand the historic estimate.

The 24 holes drilled at Mitchell during 2006 confirmed a continuously mineralized gold-copper deposit measuring 1,600 meters long, 800 meters wide and at least 300 to 400 meters thick. The drill results were incorporated into a National Instrument 43-101 compliant resource estimate for Mitchell yielding an initial inferred resource of 564 million tonnes grading 0.72 grams per tonne gold (13.1 million ounces) and 0.18% copper (2.23 billion pounds) at an equivalent gold cut-off grade of 0.50 grams per tonne gold. Equivalent grades were determined using a gold price of US\$475 per ounce and a copper price of US\$1.50 per pound. Based on the projected economics from the recently completed feasibility study for the nearby similar Galore Creek project, Seabridge believes that Mitchell represents a highly-attractive development opportunity at current commodity prices. The grades for the Mitchell deposit compare favorably with several large operating porphyry gold-copper mines around the world, as well as other projects in the development stage.

The entire Mitchell zone appears to be open to the south and at depth. Two of the best holes were the most southern drilled thus far. Both gold and copper grades for these two holes were above the average grades for the Mitchell deposit. Seabridge's geologists believe it is possible that the Mitchell and Sulphurets deposits could be separately exposed portions of the same gold-copper mineralized zone or system, and the untested, blind area beneath the



Sulphurets thrust fault offers attractive exploration potential (see cross section interpretation). Seabridge is planning an aggressive follow-up drill program for the summer of 2007 designed to upgrade inferred mineral resources to measured and indicated and to test the southern extension of the Mitchell deposit towards Sulphurets with a view to further expanding mineral resources.

Courageous Lake: Now Canada's 2nd Largest Undeveloped Gold Deposit

During 2006 Seabridge completed two separate drill programs (winter and summer) at its 100% owned Courageous Lake project located in the Northwest Territories, Canada. Both programs were designed to expand the projected 8.5 year mine life in the 2005 Preliminary Assessment.

The winter program was comprised of 26 core holes totaling approximately 7,100 meters. The winter program successfully tested: (1) higher grade structures within the FAT deposit which were not intersected in previous drilling; (2) two new structures to the west of the known deposit but within the projected open pit; and (3) a northern extension of the FAT deposit discovered in the previous year's drilling.

The summer drill program was primarily dedicated to further testing of several gold zones to the west of the FAT deposit. Ten drill holes totaling approximately 2,900 meters were located to off-set previous drill hole intersections that had not been incorporated into the 2004 resource model.

Following the 2006 drill programs, a new independent resource model was

prepared (the “Technical Report”), incorporating all exploration activities at Courageous Lake since the last resource model was completed in December 2004. The new model includes an additional 15,689 meters of core drilling completed since the last model and reflects a substantial improvement in Seabridge’s understanding of the geologic controls that define the distribution of gold within the deposit. The new resource estimate adds approximately 14% more ounces than the previous estimate.

The updated Technical Report that contains the new resource estimate for Courageous Lake includes a series of conceptual pits using a variety of gold prices and the same operating costs and pit slopes used in the 2005 Preliminary Assessment. The conceptual pit at US\$450 gold contains 35% more tonnes and 36% more ounces of gold than the mine plan from the 2005 Preliminary Assessment. At the same annual throughput rate of 9.0 million tonnes, this represents an increase in projected mine life of about three years (to 11.5 years). At a gold price of US\$550, the projected increase in mine life is approximately 5.5 years (to 14 years) based on 65% more tonnes and 65% more ounces of gold. The increase in projected mine life in the conceptual LG pits compared to the 2005 Preliminary Assessment is a result of (i) a 14% increase in total resources in the updated 2007 resource estimate over the 2004 resource model; and (ii) a conversion of material from waste to above cut-off grade on the western edge of the deposit thereby allowing the conceptual pits to be deeper.

Seabridge has commissioned TJS Mining-Met Services Inc. to coordinate various studies needed to update the 2005 Preliminary Assessment of the Courageous Lake Project. This new Preliminary Assessment will update capital and operating cost estimates and is expected to be completed during 2007.

Noche Buena: Three New Targets Emerge for 2007 Drilling

In April 2006, Seabridge acquired a 100% interest in the Noche Buena project located in northwestern Sonora State, Mexico that is situated within the geological terrain that is host to several large gold deposits, including the La Herradura and Mesquite Mines. As part of its due diligence, Seabridge completed a NI 43-101 compliant technical report that confirmed an open-pit resource amenable to heap leach technology.

Following the acquisition, Seabridge’s geologists spent considerable time re-logging all previous drill core and chips, remodelling the deposit and comparing it to similar occurrences. Based on this work, it is believed that considerable potential exists to expand the gold resources at Noche Buena. A 2007 program consisting of 10,000 meters of reverse circulation drilling will be undertaken to test three new targets:

Deep potential under the existing resource. Past operators restricted their drilling on the property to a depth of about 125 meters. Evidence from re-logging of these previous drill holes (and by analogy to the La Herradura Mine) indicates that potential exists for multiple stacked ore zones on the property as deep as 300 meters.

Strike extensions of the existing resource. Geological and geophysical evidence suggest that the resource identified to date has not been fully delineated. The strike potential of the existing resource will be drill tested by off-setting previous well mineralized intersections.

A fault off-set of the existing resource. Seabridge's geologists believe a fault may have offset part of the deposit. The blind target is defined by projecting the known deposit beyond a proposed fault, and applying the fault's derived displacement.

An updated resource estimate for the deposit incorporating the results of the 2007 drill program is expected to be completed in the third quarter of 2007.

Objectives for 2006: Success Leads to Enhanced Shareholder Value

In last year's annual report, we set six objectives to be achieved during the year. The first objective was to maintain a ratio of at least 0.50 ounces of gold resources per fully diluted common share. As a result of drilling successes at Mitchell and Courageous Lake, Seabridge now provides its shareholders with 0.85 ounces of gold resources per share on a fully diluted basis, representing an increase of 64% over last year's figure of 0.52 ounces per share. Seabridge believes that 2007 exploration activities planned at Mitchell and Noche Buena could result in a further increase.

The second objective set last year was to add up to four years of projected mine life at the Courageous Lake project. As noted above, the updated Technical Report filed on Courageous Lake points to the addition of approximately three years of mine life at US\$450 gold and over five years of mine life at US\$550 gold. Seabridge is in the process of updating the Preliminary Assessment that will include a new mine plan and update capital and operating cost projections.

The third objective was to drill test the Four-Mile Basin and Golden Arrow projects in Nevada. Unfortunately, due to delays in obtaining permits, this objective was not achieved during 2006. In late 2006 Seabridge received approval from the United States Bureau of Land Management to drill Golden Arrow. Seabridge is still waiting on approval from the United States Forest Service to drill Four Mile Basin. Your Company remains hopeful that it will be able to drill test these two prospects during 2007.

The fourth objective was to complete Technical Reports under National Instrument 43-101 on Grassy Mountain and Kerr-Sulphurets. A 43-101 Technical Report was completed and filed in April 2007 for Grassy Mountain which

confirms a large gold resource. 43-101 studies are in process for the Kerr and Sulphurets deposits and are expected to be filed during the 2nd quarter of 2007.

The fifth objective was to acquire, or develop through exploration, a new gold project with multi-million ounce potential. Clearly the Mitchell discovery and resulting 13 million ounce gold resource fulfilled this objective. Seabridge believes that the Noche Buena project, acquired during 2006, also has the potential to host a more significant gold resource. Drilling at Noche Buena during 2007 will test this theory.

The final objective was to increase the intensity of investor relations programs in the United States to build on the success of our listing on the American Stock Exchange. In 2006, Seabridge hired a U.S. based firm to arrange meetings for the Company with retail and institutional investors. As a result of these meetings, liquidity improved dramatically during 2006 with nearly 58 million Seabridge common shares traded compared to 26 million during 2005. Average daily volume improved from 106,000 shares in 2005 to nearly 230,000 during 2006 with approximately 85% of the Company's share volume being traded on the American Stock Exchange. Seabridge will continue its U.S. investor relations program and plans to further broaden exposure in Europe.

Objectives for 2007: A Further Enhancement of Shareholder Value

For the coming year, your Company has set the following objectives:

- Upgrade at least 75% of the 13 million ounces of inferred gold resources at Mitchell to the indicated resource category.
- Expand resources at Mitchell by at least 5 million ounces by drilling towards the Sulphurets deposit.
- Commence a Preliminary Assessment of the Kerr-Sulphurets project.
- Complete Technical Reports under National Instrument 43-101 for the Kerr and Sulphurets deposits.
- Complete an updated Preliminary Assessment under National Instrument 43-101 of the FAT deposit at Courageous Lake.
- Complete a drill program at Noche Buena designed to expand gold resources and issue a new National Instrument 43-101 resource estimate.
- Drill test the Four-Mile Basin and Golden Arrow projects.

The Gold Market

As we write this, the mood is somewhat sour in the gold market. Gold has failed to reach the highs of last May, never mind the 1980 record high. Recently, other investment classes which are normally countercyclical to gold such as equities

and industrial metals have performed better than gold although the gold price remains in an up-trend against the U.S. dollar. In general, gold shares have underperformed gold itself for more than the last three years, with notable exceptions such as Seabridge.

What is the long term outlook for gold? In our view, answering this question requires that we understand the nature of the current environment. Virtually all asset classes are rising simultaneously throughout the world. This unprecedented, synchronized bull market in just about everything except the U.S. dollar and residential real estate is characterized by a total disregard for risk. Risk premiums, the additional return investors demand for taking additional risk, are at record lows. Emerging market equities and debt are outperforming more senior markets. The spread between junk debt and highly rated senior corporate issues has never been lower.

The explanation for the current environment, in our view, is that we are now in the midst of the first global speculative credit boom. The broadly defined money supply in most industrialized countries is growing at 10% to 15% annually, 20% and more in key Asian markets and 50% in Russia. This is not money supply in the traditional sense, not money saved or held within the banking system, but rather purchasing power created by credit markets from the leveraging of inflating assets. It's a rising tide of liquidity which is not derived from operating cash flow and is not invested in the real economy but rather in financial instruments unconnected to productive, wealth-creating capital goods.

Consider M2 (a measure of cash and near cash resources) as a percentage of the total market value of equities. In the U.S.A., 20 years ago, M2 was more than 120% of total equity values. Now, the ratio is about 36%, a testament to the increase in credit financing of financial assets (see contraryinvestor.com, April 10, 2007).

Our economic system has become immensely dependent upon this liquidity - low cost credit in abundance for asset purchases by investors and lifestyle enhancements by consumers. In the 1960s, a dollar of additional real debt (after applying the GDP deflator) generated \$0.64 in real GDP in the U.S.A. economy. Now, a dollar of real debt buys only \$0.15 of real growth. Why? Because debt is increasingly incurred for non productive consumer purchases and investments in real estate and financial assets. Corporations have discovered this, not only financial companies (where proprietary trading outperforms traditional business lines) but also operating companies which have acquired financial or investment subsidiaries. Economists are perplexed by the fact that corporate profits are at record percentages of GDP and continue to rise. The reason is that speculative profits are not capacity or supply constrained and accordingly account for a rapidly rising percentage of all profits.

The rising tide of liquidity explains the lower credit spreads and the yield

curve inversion. There is unlimited purchasing power available to buy bonds and press down interest rates at the long end of the curve. Japan's all but zero interest rate policy (now 0.5%) provides cheap funding for asset purchases as do Japan's prolific savers who search abroad for higher yields. Meanwhile, the U.S.A. is running an \$800 billion current account deficit - dollars are created out of thin air and recycled into financial markets to fuel the credit boom.

In our lifetime, we have seen a growing and innovative financial system reshape our economy. We have gone from Commercial Capitalism, where entrepreneurs borrowed capital from commercial bankers to build businesses, to Money Manager Capitalism, where managers court investment funds and analysts to drive their stock prices, to Financial Arbitrage Capitalism, where Wall Street sponsored hedge funds and private equity pools multiply leverage to complete buy-outs at the top of the market, redirecting immense amounts of credit into non productive transactions. The equity bubble of 1999-2000 became the housing/mortgage bubble of 2005-2006 and has now morphed into the private equity bubble of 2006-2007. Each of these is itself just a manifestation of an underlying credit bubble (see Doug Noland, Credit Bubble Bulletin, April 13, 2007, prudentbear.com).

Every step of the way in this transformation of an operating economy to a financial economy, traditional standards of lending and investing have been progressively abandoned. What passed for investment analysis in the dotcom mania has been mirrored in the ridiculous laxity of "non-doc" Alt-A option arm mortgages and the six page bridge loan documents for LBOs totaling billions of dollars. Speculation rules the day and easy credit makes it possible.

What does all this mean for gold? In our view, as long as the credit bubble is expanding, gold will underperform most other asset classes. In fact, it is remarkable that gold has performed as well as it has over the past three years. Historically gold has done best in periods of contracting liquidity and slower growth, when investor confidence is weak and faith in financial markets and currencies is waning, when inflation expectations cause yield spreads to widen and economic weakness increases credit spreads, and when risk aversion outweighs the desire to speculate.

In our view, gold has performed as well as it has because it is under accumulation by smart, long-term money anticipating an end to the credit boom. The investing public at large is not yet involved in gold.

At Seabridge, we believe that the global liquidity boom will exhaust itself and a contraction will set in. Central Banks worldwide will try to forestall a slowdown by attempting to maintain system liquidity at any cost because they know that we are in the midst of a credit boom, not a real economic boom. Yield and credit spreads will widen as inflation expectations and perceived risk begin to mount. In these circumstances, gold will outperform all other asset classes and currencies including industrial commodities. With input costs such as oil and steel falling

relative to the gold price, gold equities will outperform gold as operating margins improve. That is what we see ahead, but we cannot know when.

In the meantime, we have much to do at Seabridge as this report identifies. As long as the gold price remains in the current neighborhood, all of our major projects have the potential to be economic and enhancing them will enhance our share value. This year, we expect to add more resource ounces, improve the quality of those we already have, and further define the economics of our best projects.

We will also continue to avoid or minimize many of the risks inherent in the gold business. We will not involve ourselves in projects outside North America, a strategy now amply validated by the difficulties experienced by other companies operating in South America, Africa and Asia.

We will not issue shares to augment our cash position just because the money is available. Dilution is a critical risk for the shareholder of smaller gold companies searching for deposits or trying to put them into production. We guard against this risk by adhering strictly to our primary objective of increasing gold ownership per fully diluted share.

We will never attempt to build or operate a gold mine. The risks involved are immense, suitable only for large, well-diversified companies with strong balance sheets and deep technical teams. From permitting and environmental risks to financing, technical and market risks, the likelihood of failing to meet expectations is very high.

At Seabridge we are clear that our task is to provide you, our shareholder, with maximum exposure to gold and reduced exposure to the risks of the gold mining business. Compared to a gold ETF, we provide the leverage of finding or acquiring additional ounces and the leverage inherent in defining and improving the economic parameters of our projects. This approach has produced disproportionate gains for our shareholders to date. We remain confident that this record of success will continue.

I would like to express my personal thanks, and that of other directors, to Henry Fenig, who joined our board in 2002 as a representative of Albert Friedberg, our largest shareholder. Henry has decided to step down as a director in order to dedicate more of his time to his other obligations. We will miss his experience, his wisdom and his sense of humour at Board meetings but expect to have his continuing advice as a senior officer of the Friedberg Mercantile Group.

On Behalf of the Board of Directors,



RUDI P. FRONK

President and Chief Executive Officer

May 2, 2007

Resources

The following tables provide a breakdown of Seabridge's mineral resources by project. Seabridge notes that mineral resources that are not mineral reserves do not have demonstrated economic viability.

MINERAL RESOURCES

PROJECT	Cut-Off Grade (g/T)	Measured			Indicated			Inferred		
		Tonnes (000's)	Grade (g/T)	Ounces (000's)	Tonnes (000's)	Grade (g/T)	Ounces (000's)	Tonnes (000's)	Grade	Resources
Courageous Lake	0.83 gold	6,293	2.92	591	53,020	2.14	3,648	93,720	1.98 g/T gold	5,966,000 ounces gold
Mitchell	0.50 gold equiv.							563,873	0.72 g/T gold 0.18% copper	13,053,000 ounces gold 2,231 million pounds copper
Noche Buena	0.30 gold				21,867	0.81	560	14,031	0.68 g/T gold	308,000 ounces gold
Grassy Mountain	0.55 gold				18,667	1.54	924	1,722	1.10 g/T gold	61,000 ounces gold
Quartz Mountain	0.34 gold	3,480	0.98	110	54,330	0.91	1,591	44,800	0.72 g/T gold	1,043,000 ounces gold
Red Mountain	1.00 gold	1,260	8.01	324	340	7.04	76	2,079	3.71 g/T gold	248,000 ounces gold
Castle/Black Rock	0.25 gold	4,120	0.57	75	8,260	0.53	140	7,950	0.37 g/T gold	93,000 ounces gold

- (1) See news release dated January 9, 2007 for details on the Courageous Lake project.
- (2) See news release dated February 20, 2007 for details on the Mitchell deposit.
- (3) See news release dated April 3, 2006 for details on the Noche Buena project.
- (4) See news release dated May 1, 2007 for details on the Grassy Mountain project.
- (5) See news release dated April 17, 2002 for details on the Quartz Mountain project.
- (6) See news release dated February 17, 2005 for details on the Red Mountain project.
- (7) See news release dated October 10, 2000 for details on the Castle/Black Rock project.

HISTORICAL MINERAL RESOURCES

DEPOSIT	Cut-Off Grade	Measured			Indicated			Inferred		
		Tonnes (000's)	Grade (g/T)	Ounces (000's)	Tonnes (000's)	Grade	Resources	Tonnes (000's)	Grade	Resources
Sulphurets	0.50 g/T gold				39,300	1.05 g/T gold 0.32% copper	1,332,000 ounces gold 277 million pounds copper	15,500	0.92 g/T gold 0.33% copper	458,000 ounces gold 113 million pounds copper
Kerr	0.40% copper				74,030	0.34 g/T gold 0.74% copper	809,000 ounces gold 1,208 million pounds copper	66,780	0.37 g/T gold 0.76% copper	794,000 ounces gold 1,119 million pounds copper
Hog Ranch	0.34 g/T gold				1,450	1.13 g/T gold	53,000 ounces gold	4,000	1.68 g/T gold	24,000 ounces gold

- (1) The independent historical mineral resource estimates for the Kerr and Sulphurets deposits at the Kerr-Sulphurets project were prepared by Placer Dome Inc. in 1993.
- (2) The independent historical mineral resource estimates for Hog Ranch were prepared in 1996.

Management's Discussion and Analysis

The following is a discussion of the results of operations and financial condition of Seabridge Gold Inc. and its subsidiary companies for the years ended December 31, 2006, December 31, 2005 and December 31, 2004. This report is dated March 20, 2007 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2006, 2005 and 2004, the Company's Annual Information Form filed on SEDAR at www.sedar.com, and the 20F Report filed on EDGAR at www.sec.gov/edgar.shtml. Other corporate documents are also available on SEDAR and EDGAR as well as the Company's website www.seabridgegold.net. As the Company has no revenue generating projects at this time, its ability to carry out its business plan rests with its ability to secure equity and other financings.

COMPANY OVERVIEW

Seabridge Gold Inc. is a development stage company engaged in the acquisition and exploration of gold properties located in North America. The Company is designed to provide its shareholders with exceptional leverage to a rising gold price. During the period 1999 through 2002, when the price of gold was lower than it is today, Seabridge acquired 100% interests in eight advanced-stage gold projects situated in North America. Subsequently, the Company also acquired a 100% interest in the Noche Buena project. As the price of gold has moved higher over the past several years, Seabridge has commenced exploration activities and engineering studies at several of its projects. Seabridge's principal projects include the Courageous Lake property located in the Northwest Territories, the Kerr-Sulphurets property located in British Columbia and the Noche Buena property located in Mexico. Seabridge's common shares trade in Canada on the TSX Venture Exchange under the symbol "SEA" and in the United States on the American Stock Exchange under the symbol "SA".

SELECTED ANNUAL INFORMATION

Summary operating results (\$)	2006	2005	2004
Interest income	363,000	135,000	83,000
Operating costs	5,658,000	2,113,000	1,940,000
Loss	3,300,000	1,157,000	1,226,000
Loss per share	0.10	0.04	0.04
Summary balance sheets (\$)	2006	2005	2004
Current assets	6,855,000	10,896,000	4,396,000
Mineral interests	53,262,000	24,395,000	20,999,000
Total assets	61,244,000	37,085,000	27,172,000
Total long-term liabilities	1,530,000	1,407,000	1,293,000

RESULTS OF OPERATIONS

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

The net loss for the year ended December 31, 2006 was \$3,300,000 or \$0.10 per share compared to a loss of \$1,157,000 or \$0.04 per share for 2005. For both years, reported losses were less due to the recognition of income tax recoveries (\$1,906,000 in 2006 and \$821,000 in 2005) relating to the renouncing of Canadian Exploration Expenses to the investors of flow-through financings. The Company's interest income from cash investments was up considerably at \$363,000 compared with \$135,000 in 2005 with higher cash balances to invest from financings and higher interest rates compared to 2005. Corporate and general expenses were higher in the 2006 period due to stock option compensation expenses valued at \$1,979,000 (2005 - \$361,000), resulting mainly from one third of the options granted early in 2006 vesting due to the significant increase in the Company's share price, increased management compensation, higher investor relations expenses, mineral property search activities and stock exchange and other regulatory fees, and a loss on foreign exchange of \$161,000 as funds were accumulated to acquire the Noche Buena property. At December 31, 2006, the Company wrote down the value of its investment in Atlas Precious Metals Inc. as that company has not been able to secure financing due to perceived political risks in the jurisdiction where its main asset is located.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

The net loss for the year ended December 31, 2005 totalled \$1,157,000 or \$0.04 per share compared to \$1,226,000, or \$0.04 per share for the year ended December 31, 2004. The loss in 2005 was reduced by \$821,000 (2004 - \$575,000) in income tax recovery largely relating to the Company renouncing the Canadian Exploration Expenses to the investors of the flow-through financings completed in 2004 and 2003, respectively. Also in 2004, Pacific Intermountain Gold Corp. ("PIGCO"), a subsidiary of the Company, sold shares which it had received on optioning out a mineral property resulting in a gain of \$75,000 offset by \$19,000 representing the minority interest in the gain. Corporate and general expenses were slightly lower in 2005 compared to 2004 as additional expenses in 2004 were incurred related to the listing of the Company's shares on the American Stock Exchange and investor relations activity offset by slightly higher management fees in 2005. In 2005, stock option compensation expense was \$361,000 compared to \$115,000 in 2004. Approximately \$332,000 of the 2005 amount relates to the recognition of compensation expense for the two-tiered options to management. The expense was for reaching the \$6 and \$9 share price vesting requirements with the consequent vesting of 500,000 of the 750,000 stock options outstanding.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

The Net Loss for the year ended December 31, 2004 totaled \$1,226,000 or \$0.04 per share compared to \$1,338,000, or \$0.05 per share for the year ended December 31, 2003. The loss in 2004 was reduced by a \$575,000

income tax recovery largely relating to the recognition of the Company's tax assets after renouncing the Canadian Exploration Expenses to the investors of the flow-through financings completed in 2003. Also in 2004, PIGCO sold shares which it had received on optioning out a mineral property resulting in a gain of \$75,000 offset by \$19,000 representing the minority interest in the gain. Corporate and general expenses increased by \$867,000 in 2004 over 2003. Approximately 39% of this increase was due to increased investor relations activities including listing on the American Stock Exchange and investor communications. Approximately 27% of the increase in corporate and general expenses was due to higher salaries and benefits for senior personnel and the hiring of a Chief Financial Officer. A further 15% of the increase reflects a full year of directors' fees which the Company commenced paying in mid 2003 as well as the introduction of a comprehensive directors and officers liability insurance policy. About 12% of the increase was due to the recognition of the accretion for costs of reclamation liabilities. Finally, about 6% of the increase was due to higher costs of regulatory compliance, principally accounting and legal fees required by changes in regulations. In 2003, the Company wrote off the Tobin Basin exploration project in Nevada amounting to \$342,000 due to unsuccessful exploration results.

QUARTERLY INFORMATION

Selected financial information for each of the last eight quarters ended December 31, 2006 is as follows (unaudited):

	4th Quarter Ended December 31, 2006	3rd Quarter Ended September 30, 2006	2nd Quarter Ended June 30, 2006	1st Quarter Ended March 31, 2006
Revenue	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Income (loss) for period	\$ (1,598,000)	\$ (1,878,000)	\$ (1,134,000)	\$ 1,310,000
Income (loss) per share	\$ (0.05)	\$ (0.06)	\$ (0.03)	\$ 0.04

	4th Quarter Ended December 31, 2005	3rd Quarter Ended September 30, 2005	2nd Quarter Ended June 30, 2005	1st Quarter Ended March 31, 2005
Revenue	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Income (loss) for period	\$ (807,000)	\$ (389,000)	\$ (384,000)	\$ 423,000
Income (loss) per share	\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ 0.01

The loss in the fourth quarter of 2005 and the third quarter of 2006 were higher than other quarters due to the stock option compensation expense for the vesting of two-tiered stock options. The loss in the fourth quarter of 2006 was higher due to the write-down of an investment amounting to \$749,000.

The income for the first quarters in 2006 and 2005 was due to the recognition of the Company's tax assets after renouncing the Canadian Exploration Expenses to the investors of the flow-through financings completed in 2005 and 2004.

MINERAL INTEREST ACTIVITIES

During the year ended December 31, 2006, the Company incurred net expenditures of \$28,867,000 on mineral interests compared to \$3,397,000 in the year ended December 31, 2005. Almost \$15 million of these costs were for the deemed value of the shares and warrants issued to acquire the Kerr-Sulphurets project and an additional \$4.9 million was paid in cash for the acquisition of the Noche Buena project in Mexico.

Exploration expenditures incurred in the 2006 period included \$4,553,000 at the Courageous Lake project where drilling programs have helped expand the gold mineral resource, and \$3,656,000 on the Kerr-Sulphurets project where drilling work enabled the Company to determine a new 13.1 million ounce gold mineral resource at the Mitchell zone which was announced early in 2007. The balance of expenditures on mineral interests during 2006 was related to the preliminary assessment of the Noche Buena project and holding costs, including underlying lease payments and payments to government agencies for claim maintenance.

At Courageous Lake, the 2006 work and new mineral resource will be used to complete a revised Preliminary Economic Assessment ("PEA") and engineering studies in 2007. At Kerr-Sulphurets an expanded drilling program is planned for 2007 to increase the knowledge of the deposit and the extent of mineralization. In Nevada, 2007 exploration activities will include drilling by the Company on the Golden Arrow and Four-Mile Basin projects.

LIQUIDITY AND CAPITAL RESOURCES

The ability of the Company to successfully acquire additional advanced-stage gold projects or to advance the projects already acquired is conditional on its ability to secure financing when required. The Company proposes to meet any additional cash requirements through equity financings. In light of the continually changing financial markets, there is no assurance that new funding will be available at the times required or desired by the Company.

Year Ended December 31, 2006

The Company's working capital position, at December 31, 2006, was \$6,420,000 a decrease of \$4,183,000 compared to \$10,603,000 at the prior year-end. In 2006, two private placement financings were completed which netted \$12,008,000 (2005 - \$10,076,000). In addition, during 2006, \$585,000 was received from the exercise of stock options while in 2005 \$1,223,000 was received from the exercise of stock options and warrants. The increase in share capital in 2006 was used for expenditures on operating costs, the acquisition of the Noche Buena property for \$4.9 million and on exploration activities including drilling programs at the Courageous Lake and Kerr-Sulphurets properties.

Cash and short-term deposits at December 31, 2006 were \$5,786,000, down from \$10,193,000 at December 31, 2005. Operations activities used \$2,330,000 in 2006 compared to \$1,220,000 in the prior year due to increased compensation costs, investor activities and corporate costs. Cash expenditures on Mineral Interests were \$14,571,000 compared to the \$3,843,000 cash expenditures in 2005.

In April 2006, the Company reacquired the exploration rights to the Kerr-Sulphurets property in British Columbia, Canada from Falconbridge Limited. On closing of the formal agreement in August 2006, the Company issued Falconbridge 200,000 common shares of the Company (deemed value \$3,140,000) and issued 2 million warrants to purchase common shares of the Company at \$13.50 each (deemed value \$11,436,000). One warrant becomes exercisable for five years from the date each new ounce of gold resources at Kerr-Sulphurets is declared (up to 2 million ounces of gold) for work undertaken on the property through the year 2010. The warrants vested in February 2007, based on the results of the 2006 exploration program. Falconbridge also has a limited right of first refusal should the Company desire to sell all or any portion of its interest at Kerr-Sulphurets.

The Company's cash position at December 31, 2006 plus expected funding from the exercise of options in 2007 is sufficient to undertake planned exploration and corporate activities in 2007, except for the next program of exploration at the Kerr-Sulphurets property when it is designed, which will likely be funded by a share issue.

CONTRACTUAL OBLIGATIONS (\$,000)

	Total	Payments due by period			
		2007	2008-10	2011-12	After 2012
Mineral interests	10,595	1,607	3,543	3,647	1,798
Reclamation liabilities	1,530	-	-	-	1,530
	12,125	1,607	3,543	3,647	3,328

Amounts shown for mineral interests include option payments and mineral lease payments that are required to maintain the Company's interest in the mineral projects.

OUTLOOK

During 2007, the Company will continue to make exploration expenditures to advance the Courageous Lake and Kerr-Sulphurets projects, undertake exploration principally in Mexico and Nevada and to review its other projects for possible joint venture opportunities while at the same time ensuring that funding is available for its project holding costs and other corporate requirements.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at December 31, 2006, the Company's management, with the participation of the CEO and CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and has concluded that such controls and procedures are effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's President and Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining the Company's internal controls over financial reporting in accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators. These controls have been established as at December 31, 2006. There have been no changes in these controls during fiscal year 2006 which has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

SHARES ISSUED AND OUTSTANDING

At March 20, 2007, the issued and outstanding common shares of the Company totaled 34,168,685. In addition, there were 2,000,000 share purchase warrants and 2,152,500 stock options granted (of which 613,333 were unexercisable and contingent upon achieving certain future goals). On a fully diluted basis there would be 38,321,185 common shares issued and outstanding.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2006, a private company controlled by a director of the Company was paid \$33,900 (2005 - \$39,400) for technical services provided by his company related to mineral properties; a private company controlled by a second director was paid \$144,000 (2005 - \$120,000) for corporate consulting services rendered; a new director (effective January 4, 2006) was paid \$18,000 for geological consulting and outstanding accounts payable to directors at year end was \$32,000. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants issued the following accounting standards effective for the fiscal years beginning on or after October 1, 2006: Accounting Standards Section 1530 "Comprehensive Income"; Accounting Standards Section 3855 "Financial Instruments – Recognition and Measurement"; Accounting Standards Section 3861 "Financial Instruments – Presentation and Disclosure"; and, Accounting Standards Section 3865 – Hedges". These sections require certain financial instruments and hedge positions to be recorded at fair value. The standards also introduce the concept of comprehensive income and accumulated other comprehensive income.

Adoption of these standards will be effective from January 1, 2007 on a prospective basis without retroactive restatement of prior periods, except for the reclassification of equity balances to reflect “Accumulated other comprehensive income” which will include foreign currency translation adjustments.

Under the new standard, financial instruments designated as “held-for-trading” and “available-for-sale” will be carried at their fair value while financial instruments such as “loans and receivables”, “financial liabilities” and those classified as “held-to-maturity” will be carried at their amortized cost. All derivatives will be carried on the consolidated balance sheets at their fair value, including derivatives designated as hedges. Unrealized gains and losses on effective cash flow hedges will be carried in “Accumulated other comprehensive income”, a component of “Shareholders’ equity” on the consolidated balance sheets, while any gains or losses on ineffective hedges will be recognized in earnings.

The Company has not yet quantified the impact of the implementation of this new accounting pronouncement on its financial results.

RISKS AND UNCERTAINTIES

Exploration and Development Risks

The business of exploring for minerals involves a high degree of risk. Attracting and maintaining educated and knowledgeable technical personnel may be difficult at times. Few properties that are explored are ultimately developed into producing mines. At present, none of the Company’s properties have a known body of commercial ore. The mineral resource estimates set out herein are not mineral reserves and do not have demonstrated economic viability. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in a profitable commercial mining operation.

Financing Risks

The Company has limited financial resources, has no operating cash flow and has no assurance that sufficient funding will be available to it for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible forced sale or loss of such properties. The Company will require additional financing if ongoing exploration of its properties is warranted.

Mineral Interests

Mineral interests represent the capitalized expenditures related to the exploration and development of mineral properties. Upon commencement of commercial production, all related capital expenditures for any given mining interest are amortized over the estimated economic life of the property. If a property is abandoned or deemed economically unfeasible, the related project balances are written off.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company’s estimate of recoverable value of its mineral properties and related deferred exploration expenditures as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company’s control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors, including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model. However, the future volatility is uncertain and the model has its limitations.

The Company's recoverability of its recorded value of its mineral properties and associated deferred exploration expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

FORWARD LOOKING STATEMENTS

These consolidated financial statements and management's discussion and analysis contain certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

Management's Report

The management of Seabridge Gold Inc. is responsible for the preparation of the consolidated financial statements as well as the financial and other information contained in the annual report, annual information form and form 20-F. Management maintains an internal control system in order to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and necessarily include amounts determined in accordance with estimates and judgments made by management. KPMG LLP, the external auditors, express their opinion on the consolidated financial statements in the annual report.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control.

The consolidated financial statements of the Company have been approved by the Board of Directors.



Rudi P. Fronk
President & CEO
March 20, 2007

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Seabridge Gold Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 9 to the consolidated financial statements.



Chartered Accountants
Toronto, Canada
March 20, 2007

Consolidated Balance Sheets

December 31, 2006 and 2005 (in Canadian dollars)

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,578,691	\$ 293,107
Cash held for exploration expenditures (Note 5)	206,815	4,028,247
Short-term deposits	—	5,871,753
Amounts receivable and prepaid expenses	904,437	543,123
Marketable securities	165,001	160,101
	6,854,944	10,896,331
Mineral interests (Note 3)	53,262,180	24,395,438
Investment (Note 3(c))	—	749,450
Reclamation deposits (Note 4)	1,069,900	1,000,000
Property and equipment	56,772	43,510
	\$ 61,243,796	\$ 37,084,729
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$ 435,148	\$ 293,120
Provisions for reclamation liabilities (Note 4)	1,529,948	1,406,734
	1,965,096	1,699,854
Shareholders' equity (Note 5)		
Share capital	66,774,637	52,914,945
Stock options	2,857,676	959,543
Share purchase warrants	11,436,000	—
Contributed surplus	19,500	19,500
Deficit	(21,809,113)	(18,509,113)
	59,278,700	35,384,875
Commitments (Note 3(e) and 5(a))	\$ 61,243,796	\$ 37,084,729

See accompanying notes to consolidated financial statements

On behalf of the board of directors



Rudi P. Fronk
Director



James S. Anthony
Director

Consolidated Statements of Operations and Deficit

For the years ended December 31, 2006, 2005 and 2004 (in Canadian dollars)

	2006	2005	2004
Expenditures			
Corporate and general expenses	\$ 4,747,724	\$ 2,100,791	\$ 1,943,789
Interest income	(362,957)	(134,677)	(82,763)
Gain on sale of marketable securities	(88,800)	—	(74,900)
Write-down of investment (Note 3(c))	749,450	—	—
Foreign exchange losses (gains)	161,267	11,967	(3,563)
Minority interest	—	—	18,725
Loss before income taxes	5,206,684	1,978,081	1,801,288
Income tax recoveries (Note 5(a)(ii))	(1,906,684)	(820,800)	(575,000)
Net loss for year	3,300,000	1,157,281	1,226,288
Deficit, beginning of year	18,509,113	17,351,832	16,125,544
Deficit, end of year	\$ 21,809,113	\$ 18,509,113	\$ 17,351,832
Loss per share – basic	\$ 0.10	\$ 0.04	\$ 0.04
Weighted average number of shares outstanding	33,458,517	30,682,026	28,876,451

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December, 2006, 2005 and 2004 (in Canadian dollars)

	2006	2005	2004
Cash provided from (used for) operations			
Net loss for year	\$ (3,330,000)	\$ (1,157,281)	\$ (1,226,288)
Items not involving cash			
Stock option compensation	1,978,807	361,350	114,735
Write-down of investment (Note 3(c))	749,450	—	—
Foreign exchange	(53,768)	—	—
Minority interest	—	—	18,725
Accretion	123,214	113,285	104,160
Amortization	2,611	7,215	4,339
Income tax recoveries	(1,906,684)	(820,800)	(580,800)
Changes in non-cash working capital items			
Amounts receivable and prepaid expenses	32,269	83,707	(109,911)
Accounts payable and accruals	43,793	192,037	(89,305)
	(2,330,308)	(1,220,487)	(1,764,345)
Investing activities			
Mineral interests	(14,571,174)	(3,815,625)	(6,714,026)
Short-term deposits	5,871,753	(3,241,551)	(1,739,302)
Reclamation deposits	(20,900)	—	225,000
Property and equipment	(30,921)	(27,334)	—
	(8,751,242)	(7,084,510)	(8,228,328)
Financing activities			
Issue of share capital and warrants	12,545,702	11,299,051	8,241,374
Net cash provided (used)	1,464,152	2,994,054	(1,751,299)
Cash and cash equivalents, beginning of year	4,321,354	1,327,300	3,078,599
Cash and cash equivalents, end of year	\$ 5,785,506	\$ 4,321,354	\$ 1,327,300
Cash and cash equivalents, end of year:			
Cash and cash equivalents	\$ 5,578,691	\$ 293,107	\$ 157,502
Cash held for exploration expenditures	206,815	4,028,247	1,169,798
	\$ 5,785,506	\$ 4,321,354	\$ 1,327,300

See accompanying notes to consolidated financial statements

Notes to the Financial Statements

*At December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004
(in Canadian dollars, except where noted)*

1. NATURE OF OPERATIONS

The Company is engaged in the acquisition, exploration and development of mineral properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The ability of the Company to carry out its business plan rests with its ability to secure equity and other financings and develop the properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which, except as noted in Note 10, are consistent in all material respects with GAAP in the United States of America.

The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These consolidated financial statements include the accounts of Seabridge Gold Inc. and its wholly-owned subsidiaries, Seabridge Gold Corp., a company incorporated under the laws of the State of Nevada, USA, 5073 N.W.T. Limited, a company incorporated under the laws of the Northwest Territories of Canada; Pacific Intermountain Gold Inc. ("PIGCO"), a company incorporated under the laws of the State of Nevada, USA and Minera Seabridge Gold SA de CV, a company incorporated in Mexico in 2006 to hold the Noche Buena project. Prior to July 2004, PIGCO was 75% owned. All significant inter-company transactions and balances have been eliminated.

b) Mineral Interests

Direct property acquisition costs, advance royalties, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the properties are brought into production, at which time, they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

The Emerging Issues Committee of the CICA issued EIC-126 – “Accounting by Mining Enterprises for Exploration Costs” which interprets how Accounting Guideline No. 11 entitled Enterprises in the Development Stage - (AcG 11) affects mining companies with respect to the deferral of exploration costs. EIC-126 refers to CICA Handbook Section 3061 “Property, Plant and Equipment”, paragraph .21, which states that for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. EIC-126 then states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment. EIC-126 also sets forth the Committee’s consensus that a mining enterprise in the development stage is not required to consider the conditions in AcG-11 regarding impairment in determining whether exploration costs may be initially capitalized. With respect to impairment of capitalized exploration costs, EIC-126 sets forth the Committee’s consensus that a mining enterprise in the development stage that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in AcG-11 and CICA Handbook sections relating to long-lived assets in determining whether subsequent write-down of capitalized exploration costs related to mining properties is required. Any resulting write-downs are charged to the statement of operations.

The Company considers that exploration costs have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Furthermore, pursuant to EIC-126, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11 exist.

AcG 11 also provides guidance on measuring impairment of when pre-operating costs have been deferred. While this guidance is applicable, its application did not result in impairment, except for those noted in Note 3.

c) Asset Retirement Obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur and/or in which a reasonable estimate of such costs can be made using the total undiscounted cash flows required to settle estimated obligations, estimated expected timing of cash flow payments required to settle the obligations and estimated credit-adjusted risk-free discount rates and inflation rates (Note 4).

d) Stock-based Compensation

The Company applies the fair value method for stock-based compensation and other stock-based payments. Options are valued using the Black Scholes option-pricing model and other models for the two-tiered options as may be appropriate. The resulting value is charged against income over the anticipated vesting period of the option (see Note 5(b)). The company reviews estimated forfeitures of options on an ongoing basis.

e) Property and Equipment

Property and Equipment are carried at cost less accumulated amortization. Amortization is provided using the straight-line method at an annual rate of 20% from the date of acquisition.

f) Cash and Short-term Deposits

Cash and short-term investments consist of balances with banks and investments in money market instruments. These investments are carried at cost, which approximates market. Cash and cash equivalents consist of investments with maturities of up to 90 days at the date of purchase. Short-term deposits consist of investments with maturities greater than 90 days at the date of purchase.

g) Marketable Securities

Short-term investments in marketable securities are recorded at the lower of cost or market value. The market values of investments are determined based on the closing prices reported on recognized securities exchanges and over-the-counter markets. Such individual market values do not necessarily represent the realizable value of the total holding of any security, which may be more or less than that indicated by market quotations. When there has been a loss in the value of an investment in marketable securities that is determined to be other than a temporary decline, the investment is written down to recognize the loss. The securities are valued at cost. The market value of the marketable securities holdings at December 31, 2006 was \$219,000.

h) Investments

Investments in companies where the Company does not have significant influence are carried at cost less any allowance for other than temporary impairment.

i) Flow-through Shares

The Company financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. When the renunciation is made, the tax value of the renunciation is recorded as a liability and charged against share capital. Where the Company has a valuation allowance, which reduces future income tax assets, the valuation allowance is reduced and an income tax recovery is recorded in the statement of operations.

j) Translation of Foreign Currencies

The functional currency of the Company and its subsidiaries is considered to be the Canadian dollar. Foreign currency transactions entered into by the Company and financial statements of integrated foreign operations are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end rates of exchange, non-monetary assets and liabilities are translated at historic rates of exchange and statement of operations items are translated at average exchange rates prevailing during the year. Exchange gains and losses on foreign currency transactions and foreign currency denominated balances are included in the statement of operations in the current year.

k) Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates enacted is included in operations in the period in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

l) Loss Per Share

Loss per share of common stock is computed based on the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. As the Company incurred net losses for the year ended December 31, 2006 and 2005, all outstanding options have been excluded from the calculation of diluted loss per share.

m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reported year. The most significant estimates relate to the carrying values of exploration properties, amortization rates, accrued liabilities and contingencies and calculations of future income tax assets. Actual results could be materially different from those estimates.

3. MINERAL INTERESTS

Expenditures made on account of mineral interests by the Company were as follows:

Property and Expense	Balance,	2006		Balance,
	December 31, 2005	Expenditures	Recoveries	December 31, 2006
Courageous Lake				
Acquisition costs	\$ 8,252,305	\$ 50,000	\$ —	\$ 8,302,305
Deferred exploration	7,519,488	4,553,309	—	12,072,797
	15,771,793	4,603,309	—	20,375,102
Castle Black Rock				
Acquisition costs	140,426	—	—	140,426
Deferred exploration	243,642	45,556	—	289,198
	384,068	45,556	—	429,624
Grassy Mountain				
Acquisition costs	2,261,299	—	—	2,261,299
Deferred exploration	844,548	142,193	—	986,741
	3,105,847	142,193	—	3,248,040
Hog Ranch				
Acquisition costs	443,838	—	—	443,838
Deferred exploration	629,850	71,038	—	700,888
	1,073,688	71,038	—	1,144,726
Kerr-Sulphurets				
Acquisition costs	465,542	14,595,666	—	15,061,208
Deferred exploration	61,382	3,656,444	—	3,717,826
	526,924	18,252,110	—	18,779,034
Quartz Mountain				
Acquisition costs	357,139	—	—	357,139
Deferred exploration	85,348	—	—	85,348
	442,487	—	—	442,487
Red Mountain				
Acquisition costs	82,090	—	—	82,090
Deferred exploration	690,720	168,460	—	859,180
	772,810	168,460	—	941,270
Pacific Intermountain Gold Corp.				
Acquisition costs	14,860	—	(14,860)	-
Deferred exploration	2,060,644	472,568	(44,610)	2,488,602
	2,075,504	472,568	(59,470)	2,488,602
Other Nevada Projects				
Acquisition costs	20,000	—	—	20,000
Deferred exploration	193,416	61,186	—	254,602
	213,416	61,186	—	274,602
Noche Buena, Mexico				
Acquisition costs	28,901	4,859,369	—	4,888,270
Deferred exploration	—	250,423	—	250,423
	28,901	5,109,792	—	5,138,693
Total				
Acquisition costs	12,066,400	19,505,035	(14,860)	31,556,575
Deferred exploration	12,329,038	9,421,177	(44,610)	21,705,605
Total Mineral Interests	\$ 24,395,438	\$ 28,926,212	\$ (59,470)	\$ 53,262,180

Property and Expense	Balance,	2005		Balance,
	December 31, 2004	Expenditures	Recoveries	December 31, 2005
Courageous Lake				
Acquisition costs	\$ 8,202,305	\$ 50,000	\$ —	\$ 8,252,305
Deferred exploration	5,388,752	2,130,736	—	7,519,488
	13,591,057	2,180,736	—	15,771,793
Castle Black Rock				
Acquisition costs	140,426	—	—	140,426
Deferred exploration	194,214	49,428	—	243,642
	334,640	49,428	—	384,068
Grassy Mountain				
Acquisition costs	2,261,299	—	—	2,261,299
Deferred exploration	708,837	135,711	—	844,548
	2,970,136	135,711	—	3,105,847
Hog Ranch				
Acquisition costs	443,838	—	—	443,838
Deferred exploration	563,897	65,953	—	629,850
	1,007,735	65,953	—	1,073,688
Kerr-Sulphurets				
Acquisition costs	465,542	—	—	465,542
Deferred exploration	59,177	2,205	—	61,382
	524,719	2,205	—	526,924
Quartz Mountain				
Acquisition costs	357,139	—	—	357,139
Deferred exploration	85,348	—	—	85,348
	442,487	—	—	442,487
Red Mountain				
Acquisition costs	82,090	—	—	82,090
Deferred exploration	534,866	155,854	—	690,720
	616,956	155,854	—	772,810
Pacific Intermountain Gold Corp.				
Acquisition costs	48,215	—	(33,355)	14,860
Deferred exploration	1,303,058	757,586	—	2,060,644
	1,351,273	757,586	(33,355)	2,075,504
Other Nevada Projects				
Acquisition costs	20,000	—	—	20,000
Deferred exploration	139,668	53,748	—	193,416
	159,668	53,748	—	293,416
Noche Buena, Mexico				
Acquisition costs	—	28,901	—	28,901
Deferred exploration	—	—	—	—
	—	28,901	—	28,901
Total				
Acquisition costs	12,020,854	78,901	(33,355)	12,066,400
Deferred exploration	8,977,817	3,351,221	—	12,329,038
Total Mineral Interests	\$ 20,998,671	\$ 3,430,122	\$ (33,355)	\$ 24,395,438

Property and Expense	Balance, December 31, 2003	2004 Expenditures	Recoveries	Balance, December 31, 2004
Castle Black Rock				
Acquisition costs	\$ 140,426	\$ —	\$ —	\$ 140,426
Deferred exploration	137,141	57,073	—	194,214
	277,567	57,073	—	334,640
Grassy Mountain				
Acquisition costs	2,261,299	—	—	2,261,299
Deferred exploration	490,785	218,052	—	708,837
	2,752,084	218,052	—	2,970,136
Hog Ranch				
Acquisition costs	488,838	—	(45,000)	443,838
Deferred exploration	563,220	677	—	563,897
	1,052,058	677	(45,000)	1,007,735
Kerr-Sulphurets				
Acquisition costs	465,542	—	—	465,542
Deferred exploration	58,673	504	—	59,177
	524,215	504	—	524,719
Quartz Mountain				
Acquisition costs	357,139	—	—	357,139
Deferred exploration	85,348	—	—	85,348
	442,487	—	—	442,487
Red Mountain				
Acquisition costs	82,090	—	—	82,090
Deferred exploration	344,691	190,175	—	534,866
	426,781	190,175	—	616,956
Courageous Lake				
Acquisition costs	8,152,305	50,000	—	8,202,305
Deferred exploration	1,708,693	3,680,059	—	5,388,752
	9,860,998	3,730,059	—	13,591,057
Pacific Intermountain Gold Corp.				
Acquisition costs	137,461	—	(89,246)	48,215
Deferred exploration	1,049,893	460,534	(207,369)	1,303,058
	1,187,354	460,534	(296,615)	1,351,273
Other Nevada Projects				
Acquisition costs	20,000	—	—	20,000
Deferred exploration	91,329	48,339	—	139,668
	111,329	48,339	—	159,668
Total				
Acquisition costs	12,105,100	50,000	(134,246)	12,020,854
Deferred exploration	4,529,773	4,655,413	(207,369)	8,977,817
Total Mineral Interests	\$ 16,634,873	\$ 4,705,413	\$ (341,615)	\$ 20,998,671

Continued exploration of the Company's mineral properties are subject to certain lease payments, project holding costs, rental fees and filing fees.

a) *Courageous Lake*

In 2002, the Company purchased a 100% interest in the Courageous Lake gold project from Newmont Canada Limited and Total Resources (Canada) Limited ("the Vendors") for US\$2.5 million. The Courageous Lake gold project consists of mining leases located in Northwest Territories of Canada.

The Vendors were granted a 2% net smelter royalty interest in the project. In addition, the Company agreed to pay the Vendors US\$1.5 million when the spot price of gold closed at or above US\$360 per ounce for 10 consecutive days (paid in March 2003), and pay the Vendors US\$1.5 million when the spot price of gold closed at or above US\$400 per ounce or a production decision is made at Courageous Lake, whichever is earlier (paid in February 2004).

In 2004, an additional property was optioned in the area. Under the terms of the agreement, the Company paid \$50,000 on closing and was required to make option payments of \$50,000 on each of the first two anniversary dates and subsequently \$100,000 per year. In addition, the property may be purchased at any time for \$1,250,000 with any option payments being credited against the purchase price.

b) *Castle Black Rock*

The Company entered into a mining lease agreement dated August 15, 2000, and amended on August 1, 2001, with respect to mineral claims located in Esmeralda County, Nevada, USA. In 2002, the Company paid US\$17,500 and in 2003, US\$25,000 in advance royalties and is required to pay further advance royalties of US\$25,000 each August 15 thereafter and to pay a production royalty, varying with the price of gold, of 3% to 5%, and a 3.5% royalty on gross proceeds from other metals produced. The Company has the right to purchase 50% of the production royalty for US\$1.8 million.

c) *Grassy Mountain*

In 2000, the Company acquired an option on a 100% interest in mineral claims located in Malheur County, Oregon, USA. During 2002, the Company paid US\$50,000 in option payments. On December 23, 2002, the agreement was amended and the Company made a further option payment of US\$300,000 and in March 2003 acquired the property for a payment of US\$600,000. As part of the acquisition of the Grassy Mountain property, the Company acquired one million shares of a U.S. based private exploration company at US\$0.50 per share which represented approximately 6.9% of the private company's issued and outstanding shares. Subsequently, the private company was merged with Atlas Precious Metals Inc. ("APMI"). On the merger, the Company's one million shares of the private company were converted into 1,200,000 common shares of APMI representing approximately 5.7% of APMI's issued and outstanding shares. At December 31, 2006, the Company has written down the value of its investment, as APMI has not been able to secure financing due to perceived political risks in the jurisdiction where its main asset is located.

d) *Hog Ranch*

In 2000, the Company entered into a mining lease agreement for mineral claims located in Washoe County, Nevada. Advance royalties are payable as to US\$15,000 on November 15, 2006; US\$17,500 on November 15, 2007; US\$20,000 on November 15, 2008 and each November 15 thereafter. A production royalty is payable varying with the price of gold, ranging from 3% to 5%, and a 3.5% royalty on the gross proceeds from other metals. 40% of the production royalty may be purchased for US\$2 million. In August 2003, The Company optioned a 60% interest in the Hog Ranch project in Nevada, USA to Romarco Minerals Inc. ("Romarco"). Under the terms of the agreement the Company received 200,000 shares of Romarco valued at \$52,000 in 2003 and in 2004 received 200,000 shares valued at \$45,000 which amounts were shown as a recovery of mineral interests and the investments are included in marketable securities on the balance sheet. In February 2005, Romarco terminated its option on the Hog Ranch property.

e) *Kerr-Sulphurets*

In 2001, the Company purchased a 100% interest in contiguous claim blocks in the Skeena Mining Division, British Columbia. The vendor maintains a 1% net smelter royalty interest on the project, subject to maximum aggregate royalty payments of \$4.5 million. The Company is obligated to purchase the net smelter royalty interest for the price of \$4.5 million in the event that a positive feasibility study demonstrates a 10% or higher internal rate of return after tax and financing costs.

In 2002, the Company optioned the property to Falconbridge Limited (formerly Noranda Inc.) which could earn up to a 65% interest by incurring exploration expenditures and funding the cost of a feasibility study.

In April 2006, the Company reacquired the exploration rights to the Kerr-Sulphurets property in British Columbia, Canada from Falconbridge Limited. On closing of the formal agreement in August 2006, the Company issued Falconbridge 200,000 com-

mon shares of the Company with a deemed value \$3,140,000 excluding share issue costs. The Company also issued 2 million warrants to purchase common shares of the Company at \$13.50 each. The warrants become exercisable for five years from the date each new ounce of gold resources is declared (up to 2 million ounces of gold) for work undertaken on the property through the year 2010. At closing of the formal agreement in August 2006 the fair value of warrants was estimated at \$11,436,000 using a Black-Scholes option-pricing model. The value of the warrants were calculated using a volatility of 60%, interest rate of 4% and expected life of 1.5 years. Falconbridge also has the right of first refusal should the Company desire to sell all or any portion of its interest therein. On February 20, 2007, the Company announced a new mineral resource at the Mitchell zone of the property based on the 2006 drilling program and consequently the above 2 million warrants became exercisable.

f) Quartz Mountain

In 2001, the Company purchased a 100% interest in mineral claims in Lake County, Oregon. The vendor retained a 1% net smelter royalty interest on unpatented claims acquired and there is a 0.5% net smelter royalty interest to an unrelated third party as a finder's fee. In October 2003, the Company optioned a 50% interest in the Quartz Mountain project in Oregon, USA to Energy Metals Corp. (formerly Quincy Resources Inc.). The current gold resource known on the property is excluded from the agreement. The terms of the agreement require Quincy to incur US\$1.5 million in exploration and issue 250,000 of its shares in stages by October 2008. Quincy can earn a further 12.5% interest in the project by funding a feasibility study and issuing a further 250,000 of its shares to the Company. If after earning its 50% interest, Quincy elects not to proceed with a feasibility study, the Company has the option to acquire Quincy's interest for US\$750,000. In 2003, the Company received the first payment of 50,000 shares of Quincy valued at \$13,100 which amount was shown as a recovery of mineral interests and the investment is included in marketable securities on the balance sheet.

g) Red Mountain

In 2001, the Company purchased a 100% interest in an array of assets associated with mineral claims in the Skeena Mining Division, British Columbia, together with related project data and drill core, an owned office building and a leased warehouse, various mining equipment on the project site, and a mineral exploration permit which is associated with a cash reclamation deposit of \$1 million.

The Company assumed all liabilities associated with the array of assets acquired, including all environmental liabilities, all ongoing licensing obligations and ongoing leasehold obligations including net smelter royalty obligations on certain mineral claims ranging from 2.0% to 6.5% as well as an annual minimum royalty payment of \$50,000.

h) Pacific Intermountain Gold Corporation

During 2002, the Company and an unrelated party incorporated Pacific Intermountain Gold Corporation ("PIGCO"). The Company funded PIGCO's share capital of \$755,000 and received a 75% interest. The other party provided the exclusive use of an exploration database and received a 25% interest. The value associated with the use of this database, being the minority interest in PIGCO at December 31, 2002 was charged to operations as PIGCO exploration. Subsequent to 2002, funding which was for deferred exploration expenditures has been by way of loans to PIGCO. In July 2004, the Company acquired the 25% interest in PIGCO which it did not own for forgiving debt of approximately \$65,000 and agreeing to pay 10% of any sale of projects to third parties. The minority interest liability value amounting to \$207,369 was deleted and the amount credited against PIGCO deferred exploration expenses on the balance sheet.

The Company and PIGCO acquired approximately 30 claim blocks in Nevada, USA in 2002. A 50% interest in one property, Thunder Mountain, was optioned to a third party in 2002. The optionee paid US\$25,000 in cash and issued 250,000 of its shares and was required to spend US\$1.5 million in exploration over a three year period and issue PIGCO 500,000 common shares on or before the first anniversary and 750,000 on or before the second anniversary. At the completion of the earn-in, a 50-50 joint venture would have been formed with the optionee as operator. In 2003, the agreement was amended with the Clifford property, another PIGCO owned property, added to the agreement and the 500,000 shares becoming payable in 2004. During 2004, the third party terminated all of its rights under the option agreement.

i) Noche Buena, Mexico

In April 2006, the Company acquired 100% interest in the 1,000 hectare Noche Buena gold project in the Sonora district of Mexico for US\$4,350,000 in cash.

4. RECLAMATION DEPOSITS AND PROVISIONS FOR RECLAMATION LIABILITIES

\$1 million of the balance in reclamation deposits represents the Company's interest in Canadian bank term deposits which are held for the benefit of the Province of British Columbia until released or applied to reclamation costs which may arise in the future. Interest earned is paid to the Company. During 2001, a deposit of \$1 million was transferred to the Company's name for the Red Mountain project. A corresponding reclamation provision of \$1 million was recorded as an estimation of any potential future reclamation costs. This reclamation provision is an estimate, and therefore the provision is subject to changes in regulatory requirements and other external factors. During 2003, a reclamation provision of US\$146,000 (CDN\$189,289) was recorded on the Grassy Mountain property. The corresponding reclamation deposit is in the process of being finalized and deposited with the regulatory authorities.

The fair value of the asset retirement obligations was calculated using the total undiscounted cash flows required to settle estimated obligations of \$1,189,000, expected timing of cash flow payments required to settle the obligations, credit-adjusted risk-free discount rate of 8.76% and an inflation rate of 2.0%.

5. SHAREHOLDERS' EQUITY

a) Share Capital

	Shares	Amount
Authorized		
Unlimited number of common shares without par value		
Unlimited number of preference shares (none issued)		
Issued – Common shares		
Balance, December 31, 2003	27,584,785	\$ 34,470,262
Issued during year		
For cash, exercise of stock options	200,000	212,650
For cash, exercise of warrants	225,000	562,500
For cash, private placements	1,705,000	7,466,224
Value of share purchase warrants and stock options exercised	–	99,500
Renunciation of flow-through share value (ii)	–	(580,800)
	2,130,000	7,760,074
Balance, December 31, 2004	29,714,785	42,230,336
Issued during year		
For cash, exercise of stock options	169,400	360,905
For cash, exercise of warrants	287,500	862,500
For cash, private placements (iii)	1,935,000	10,075,646
Value of share purchase warrants and stock options exercised	–	206,358
Renunciation of flow-through share value (ii)	–	(820,800)
	2,391,900	10,684,609
Balance, December 31, 2005	32,106,685	52,914,945
Issued during year		
For cash, exercise of stock options	584,000	584,780
For cash, private placements (i)	1,200,000	12,008,144
Acquisition of mineral interest (Note 3 (e))	200,000	3,092,778
Value of stock options exercised	–	80,674
Renunciation of flow-through share value (ii)	–	(1,906,684)
	1,984,000	13,859,692
Balance, December 31, 2006	34,090,685	\$ 66,774,637

(i) In April 2006, the Company completed a private placement consisting of 875,000 common shares for gross proceeds of \$8,443,750.

In June 2006, the Company completed a private placement flow-through financing of 325,000 common shares for gross proceeds of \$3,656,250. Under the terms of the financing the Company will renounce to the investors the Canadian Exploration Expenses ("CEE") incurred with the proceeds of the financing. The balance of funds not spent by December 31, 2006 has been recorded on the balance sheet as Cash held for Exploration Expenditures. In January 2007, the CEE was renounced to the investors.

(ii) In January 2006, the Company renounced \$5,278,750 (2005 – \$2,272,500, 2004 – \$1,608,000) in Canadian Exploration Expenses to investors of flow-through shares in 2005, 2004 and 2003, respectively. The tax value of these renunciations has been recorded as a future tax liability and charged against share capital. Since the Company has a valuation allowance which reduces the future income tax assets, the valuation allowance has been reduced and income tax recoveries have been recognized in the statement of operations.

(iii) In October 2005, the Company completed a private placement consisting of 1,000,000 common shares for gross proceeds of \$5,000,000.

In February 2005 and December 2005, the Company completed private placement flow-through financings of 500,000 common shares for gross proceeds of \$2,125,000 and 435,000 common shares for gross proceeds of \$3,153,750, respectively. Under the terms of the financings the Company will renounce to the investors the CEE incurred with the proceeds of the financings. The balance of funds not spent by December 31, 2005 has been recorded on the balance sheet as Cash held for Exploration Expenditures. In February 2006, the CEE was renounced to the investors.

b) Stock Options Outstanding

The Company provides compensation to directors, employees and consultants in the form of stock options. In August 2002, the Company announced new provisions to the stock option plan for directors and senior management. New option grants to directors and senior management are subject to a two-tiered vesting policy designed to better align option compensation with the interests of shareholders. Grants to other employees and consultants do not have the two-tiered provision.

The Board granted options as to 600,000 in August 2002, as to 100,000 in August 2004 and as to 50,000 in January 2005 to senior management in lieu of market rate salaries. These option grants required a \$6.00 share price for 10 successive days for the first third to vest, a \$9.00 share price for the second third and a \$12.00 share price for the final third. Once the share price has met the first test, the Company's share price performance must have exceeded the Toronto Stock Exchange Canadian Gold Index by more than 20% over the preceding six months or these options will be cancelled.

In October 2005, the \$6 vesting criteria was reached, in December 2005 the \$9 vesting criteria was reached and in May 2006 the \$12 vesting criteria was reached. Compensation expense on the former two vesting criteria, which related to the vesting of 500,000 shares was recognized in 2005 in the amount of \$332,000 and the balance of \$176,791 was recognized in 2006 with the vesting of the remaining 250,000 shares.

In January 2006, the Board granted 875,000 additional five-year options to directors and senior management exercisable at \$10.56 each and subject to the two-tiered vesting policy. These options require a \$15.00 share price for 10 successive days for the first third to vest, an \$18.00 share price for the second third and a \$21.00 share price for the final third. Once the share price has met the first test, the Company's share price performance must have exceeded the Toronto Stock Exchange Canadian Gold Index by more than 20% over the preceding six months or these options will be cancelled. These option grants were also subject to the approval of shareholders which was received on May 17, 2006.

The weighted average grant date fair value of the 15,000 options granted during 2006 which were not subject to the two-tiered vesting policy described above was \$2.70 (2005 - \$3.33, 2004 - \$1.53). The grant of these 15,000 options resulted in compensation expense totalling \$40,485 compared to 45,000 options resulting in compensation expense totalling \$29,784 during 2005 and 75,000 options resulting in compensation expense of \$114,735 during 2004. 30,000 of the 2005 options vested over the period December 2005 to December 2006 and consequently \$3,729 was expensed in 2005 and \$120,021 in 2006. The fair value of the options granted is estimated on the dates of grant using a Black-Scholes option-pricing model with the following assumptions:

	2006	2005	2004
Dividend yield	Nil	Nil	Nil
Expected volatility	65%	60%	37%
Risk free rate of return	3.8%	4.21%	4.0%
Expected life of options	1 year	3.5 years	3 years

The weighted average grant date fair value of the 875,000 two-tiered options granted during 2006 was \$4.03. The fair value of the options granted was estimated on the date of grant using a Monte Carlo simulation and a binomial option-pricing model to consider the two-tier vesting probabilities using the following assumptions:

Dividend yield	Nil
Expected volatility	60%
Risk free rate of return	3.8%
Expected life of options	4.6 years

The estimated fair value of the two-tiered options granted in 2006 amounted to \$3,523,333. In September 2006, the \$15 per share and 20% out performance of the TSX Gold Index vesting requirements were met on the options granted in 2006 and the value related to that vesting provision has been expensed in the current year. During 2006 in total, \$1,641,510 of this amount has been expensed and the balance will be expensed over the shorter of the term of the option and when the remaining vestings actually occur.

A summary of the status of the plans at December 31, 2006 and changes during the years are presented below:

	Shares	Weighted Average Exercise Price	Amount
Outstanding at December 31, 2003	1,978,900	\$ 1.66	\$ 609,941
Granted	175,000	4.14	114,735
Exercised	(200,000)	1.06	(20,750)
Outstanding at December 31, 2004	1,953,900	1.57	703,926
Granted	95,000	5.74	29,784
Exercised	(169,400)	(2.13)	(105,733)
Value of two-tiered options vested	—	—	331,566
Outstanding at December 31, 2005	1,879,500	2.21	959,543
Granted	890,000	10.55	1,681,995
Exercised	(584,000)	(1.00)	(80,674)
Value of 2002-2005 options vested	—	—	296,812
Outstanding at December 31, 2006	2,185,500	\$ 5.93	\$ 2,857,676

Number of Shares	Option Price Per Share	Expiry Date
78,000	\$ 0.88	February 17, 2007
40,000	\$ 2.63	May 30, 2007
295,000	\$ 2.90	July 1, 2007
600,000	\$ 2.20	August 19, 2007
10,000	\$ 2.58	December 18, 2007
15,000	\$ 2.08	June 3, 2008
17,000	\$ 2.58	August 12, 2008
8,000	\$ 3.82	October 28, 2008
37,500	\$ 5.65	January 13, 2009
100,000	\$ 3.37	August 13, 2009
65,000	\$ 4.00	January 11, 2010
30,000	\$ 9.50	December 20, 2010
875,000	\$ 10.56	January 4, 2011
15,000	US\$ 9.13	June 14, 2007
2,185,500	\$ 5.93	

At December 31, 2006 there were 2,185,500 options outstanding of which 1,602,166 were exercisable at prices ranging from \$0.88 to \$10.56 each. In addition, there were 583,334 options subject to the two-tiered vesting provisions.

c) Share Purchase Warrants

The Company's movement in share purchase warrants is as follows:

	Number of Warrants	Amount
Balance at December 31, 2003	512,500	\$ 179,375
Exercised	(225,000)	(78,750)
Balance at December 31, 2004	287,500	100,625
Exercised	(287,500)	(100,625)
Balance at December 31, 2005	—	—
Issued for Mineral Property	2,000,000	11,436,000
Balance at December 31, 2006	2,000,000	\$ 11,436,000

The share purchase warrants granted in 2006 were part of the acquisition of the Kerr-Sulphurets project (see Note 3(e)).

The grant date fair value of the 2,000,000 warrants was deemed to be \$5.72 each. The fair value of the warrants granted was estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	60%
Risk free rate of return	4%
Expected life of warrants	1.5 years

6. RELATED PARTY TRANSACTIONS

a) During the year, a private company controlled by a director of the Company was paid \$33,900 (2005 – \$39,400, 2004 – \$56,700) for technical services provided by his company related to the mineral properties.

b) During the year, a private company controlled by a second director was paid \$144,000 (2005 – \$120,000, 2004 – \$132,500) for consulting services rendered.

c) During the year, a new director (effective January 4, 2006) was paid \$18,000 for geological consulting services.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. FINANCIAL INSTRUMENTS

The fair value of the Company's cash and cash equivalents and short term deposits, cash held for exploration expenditures, amounts receivable, reclamation deposits and accounts payable and accruals at December 31, 2006 and December 31, 2005 is estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

8. INCOME TAXES

The income tax recovery varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating to 36.12% (2005 – 36.12%, 2004 – 36.12%) as follows:

	2006	2005	2004
Statutory rate applied to loss for year	\$ 1,881,000	\$ 714,000	\$ 650,000
Non deductible items	(785,000)	(217,000)	(151,000)
Valuation allowance	(1,096,000)	(497,000)	(499,000)
Reduction in valuation allowance	1,907,000	820,800	575,000
	\$ 1,907,000	\$ 820,800	\$ 575,000

Significant components of the Company's future tax assets and liabilities are as follows:

	2006	2005
Future income tax assets		
Mineral interests	\$ (1,611,000)	\$ 135,000
Share issue costs	104,000	103,000
Non capital losses	1,979,000	1,508,000
Provision for reclamation	157,000	68,000
Unrealized capital losses	291,000	29,000
	920,000	1,843,000
Valuation allowance	(920,000)	(1,843,000)
Future income tax assets, net	\$ –	\$ –

A future tax asset of approximately \$1,594,000 (2005 - \$975,000) in one Canadian entity has been offset with a future tax liability in another Canadian entity on the basis that management has undertaken to carry out tax planning measures when required.

The Company has accumulated noncapital losses for Canadian tax purposes of approximately \$6,234,000 which expire in various years to 2026 as follows:

2007	\$ 185,000
2008	338,000
2009	735,000
2010	707,000
2014	910,000
2015	1,092,000
2026	2,267,000
	<u>\$ 6,234,000</u>

The benefit of the above loss carry forwards has not been recognized for accounting purposes.

9. RECONCILIATION TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Except as set out below, these consolidated financial statements also comply, in all material aspects, with accounting principles generally accepted in the United States and the rules and regulations of the U.S. Securities and Exchange Commission. The following tables reconcile results as reported under Canadian GAAP with those that would have been reported under United States GAAP:

Consolidated statements of operations:

	2006	2005	2004
Net loss for year – Canadian GAAP	\$ (3,300,000)	\$ (1,157,281)	\$ (1,226,288)
Mineral interests prior to the establishment of proven and probable reserves (a)	(9,376,567)	(3,351,221)	(4,448,044)
Amortization of acquisition costs (a)	–	–	(324,402)
Amortization of option payments (a)	–	–	–
Flow-through share renunciation	(1,906,684)	(820,800)	(580,800)
Flow-through share value	421,800	202,000	97,200
Minority interest (b)	–	–	(188,644)
Net loss for the year - U.S. GAAP	(14,161,451)	(5,127,302)	(6,670,978)
Other comprehensive income:			
Unrealized gains on marketable securities (d)	53,561	–	–
Comprehensive loss – U.S. GAAP	\$ (14,107,890)	\$ (5,127,302)	\$ (6,670,978)
Loss per share – U.S. GAAP, Basic and diluted	\$ (0.42)	\$ (0.17)	\$ (0.23)

Accumulated other comprehensive income – U.S. GAAP

	2006	2005	2004
Unrealized gains on short-term investments	\$ 53,561	\$ –	\$ –

Consolidated statements of cash flows:

	Canadian GAAP			U.S. GAAP		
	2006	2005	2004	2006	2005	2004
Cash used in operating activities	\$ (2,330,308)	\$ (1,220,487)	\$ (1,764,345)	\$ (11,706,875)	\$ (4,571,708)	\$ (6,212,389)
Cash provided by (used for) investing activities	\$ (8,751,242)	\$ (7,084,510)	\$ (8,228,328)	\$ 625,325	\$ (3,733,289)	\$ (3,780,284)

Consolidated balance sheets:

	Canadian GAAP		U.S. GAAP	
	2006	2005	2006	2005
Current assets– marketable securities	\$ 165,001	\$ 160,101	\$ 218,562	\$ 160,101
Mineral interests – unproven (a)	\$ 53,262,180	\$ 24,395,438	\$ 28,649,170	\$ 9,158,995
Liabilities	\$ –	\$ –	\$ 393,250	\$ 421,800
Shareholders' equity	\$ 59,278,700	\$ 35,384,875	\$ 34,326,001	\$ 19,726,632

a) Mineral interests

Under United States GAAP, acquisition costs associated with mining interests are classified according to the land tenure position and the existence of proven and probable reserves as defined under Industry Guide 7.

Under United States GAAP, through to March 31, 2004, costs associated with owned mineral claims and mining leases were classified as definite life intangible assets and amortized over the period of intended use or until proven and probable reserves are established ranging from four to eleven years. Effective April 1, 2004, pursuant to EITF 04-2, the Company classified its mineral rights as tangible assets and stopped amortizing them. This change was accounted for prospectively. These assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. Under Canadian GAAP the unit of production basis of amortization is acceptable prior to the establishment of proven and probable reserves resulting in no amortization during the exploration and development phase.

Under United States GAAP, costs associated with options to acquire mineral claims and mining leases are regarded as having a finite life expiring over the term of the option agreement and are not a component of the acquisition cost. Under Canadian GAAP the option payments are regarded as part of the acquisition cost and are deferred until the option is exercised when they are reclassified depending on the ownership position acquired or charged to operations if the option is not exercised.

Under United States GAAP, exploration expenditures relating to mining interests prior to the completion of a definitive feasibility study, which establishes proven and probable reserves must be expensed as incurred. Under Canadian GAAP these costs may be deferred.

b) Minority interest

Under United States GAAP, the minority interest recognized in respect of PIGCO is nil at December 31, 2003. The US GAAP net assets of PIGCO are reduced compared to the net assets under Canadian GAAP due to the write off of exploration expenditures and the amortization of acquisition expenditures (as explained in (a) above). In 2004, the minority interest in PIGCO was acquired by the Company and the balance credited to Deferred Exploration.

c) Flow-through shares

Under United States GAAP, when flow-through shares are issued, the proceeds are allocated between the issue of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount that the investor pays for the shares. The shareholders' equity is reduced and a liability is recognized for this difference which amounted to \$421,800 for the flow-through shares issued in 2005 (2004 - 202,000). The liability is reversed when the tax benefits are renounced and a deferred tax liability recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

d) Comprehensive income

Under Canadian GAAP, short-term investments are recorded at the lower of cost and quoted market value. Under United States GAAP, unrealized gains and losses on short-term investments classified as available for sale securities are recorded in comprehensive income until realized.

Statement of Financial Standards No. 130 "Reporting Comprehensive Income" ("FAS 130") is applicable for U.S. GAAP purposes. FAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. FAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. No material difference arises from the application of FAS 130.

In January 2005, the CICA issued re-exposure drafts of the proposed Handbook Section 1530 Comprehensive Income which harmonizes Canadian GAAP with U.S. GAAP. The CICA has proposed that mandatory implementation of these standards be for interim and annual financial statements relating to years commencing on or after October 1, 2006.

e) Impact of recent United States accounting pronouncements

In November 2004, the FASB issued FAS 151, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material as they relate to inventory costing and requires these items to be recognized as current period expenses. Additionally, the allocation of fixed production overheads to the cost of inventory should be based on the normal capacity of the production facilities. FAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The application of FAS 151 did not have an impact on the consolidated financial statements under U.S. GAAP.

In December 2004, the FASB issued FAS 153, which deals with the accounting for the exchanges of non-monetary assets and is an amendment of Accounting Principles Board ("APB") Opinion 29. FAS 153 eliminates the exception from using fair market value for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance, as defined. FAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The application of FAS 153 did not have an impact on the consolidated financial statements under U.S. GAAP.

In December 2004, the FASB Statement No. 123 (revised), *Share-based Payment*, was issued. This statement requires an entity to recognize the grant date fair value of stock options and other equity-based compensation issued to employees. In the income statement, FASB Statement No. 123 (revised) eliminates the ability to account for share-based compensation transactions using the intrinsic value method in APB Opinion No. 25. The Company, effective January 1, 2003, adopted FASB Statement No. 123, *Accounting for Stock-based Compensation*, as amended by FASB Statement No. 148, *Accounting for Stock-based Compensation – Transition and Disclosure*, and adopted FASB Statement No. 123 (revised) in 2006. These applications did not have an impact on the consolidated financial statements under U.S. GAAP.

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes", which clarifies accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized. A company would be required to recognize the best estimate of a tax position if that position is more likely than not of being sustained upon examination, based solely on the technical merits of the position. This change is effective beginning in 2007. The Company has not yet determined the impact on 2007 results.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Market Measurements* that provides enhanced guidance for using fair value to measure assets and liabilities. FASB Statement No. 157 is meant to remedy the diversity and inconsistency within generally accepted accounting principles in measuring fair value, especially for items that are not actively traded. No. 157 also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. This change is effective beginning in 2007. The Company has not yet determined the impact on 2007 results.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 – *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. This bulletin addresses the multiple methods used to quantify financial statement misstatements and evaluate the accumulation of misstatements on the balance sheet. This change is effective beginning in 2007. The Company has not yet determined the impact on 2007 results.

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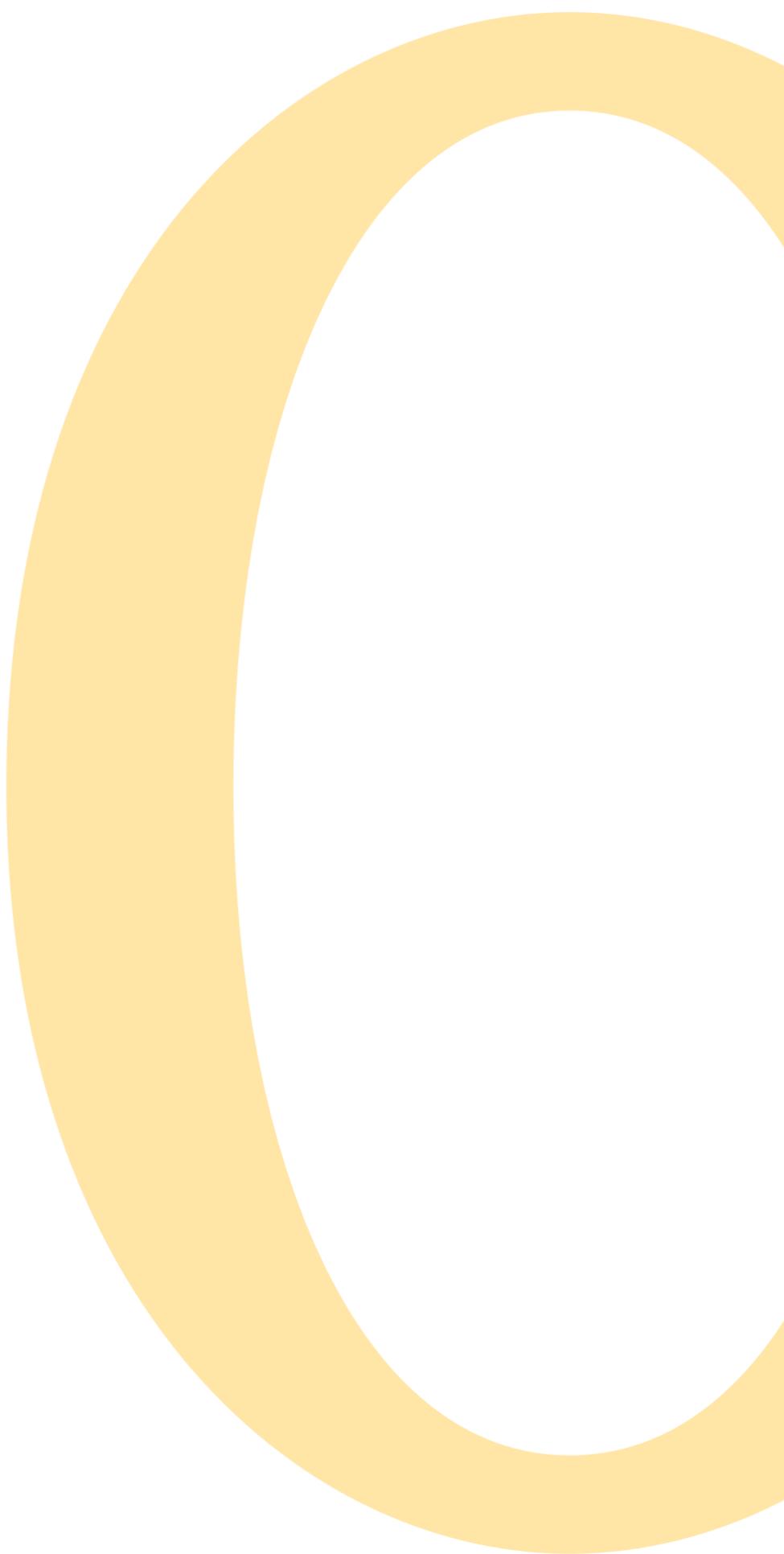
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