

**SUR AMERICAN GOLD
CORPORATION**

**Consolidated Financial Statements
December 31, 2006 and 2005**

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF SUR AMERICAN GOLD CORPORATION

We have audited the consolidated balance sheets of Sur American Gold Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
April 29, 2007

SUR AMERICAN GOLD CORPORATION
Consolidated Balance Sheets (note 1)
December 31

	2006	2005
Assets		
Current		
Cash	\$ 1,365,814	\$ 2,871,629
Amounts receivable and advances	66,692	129,492
Prepaid expenses	134,617	5,391
	1,567,123	3,006,512
Investments in and Expenditures on Resource		
Properties (notes 4 and 5)	8,704,099	6,463,562
Property, Plant and Equipment (note 5)	450,018	529,507
	\$ 10,721,240	\$ 9,999,581
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 239,289	\$ 232,327
Non-Controlling Interest in Subsidiaries		
	107,421	120,988
	346,710	353,315
Shareholders' Equity		
Share Capital (note 6(b))	20,779,686	20,669,260
Share Subscriptions (note 6(h))	1,155,000	-
Contributed Surplus (note 6(g))	3,079,885	2,743,062
Deficit	(14,640,041)	(13,766,056)
	10,374,530	9,646,266
	\$ 10,721,240	\$ 9,999,581

Subsequent Events (note 11)

Approved by the Board:

"Brett Taylor"
..... Director
Brett Taylor

"Doug Evans"
..... Director
Doug Evans

SUR AMERICAN GOLD CORPORATION
Consolidated Statements of Operations and Deficit
Years Ended December 31

	2006	2005
Expenses		
Stock-based compensation (note 6(f))	\$ 372,319	\$ 981,348
Capitalized exploration expense written off	-	887,059
Salaries and benefits	221,759	154,648
Legal and professional	159,766	146,362
Regulatory and shareholder costs	65,965	114,882
Foreign exchange loss	2,845	97,005
Office and miscellaneous	24,131	33,043
Rent	24,000	30,875
Travel and accommodation	25,775	16,711
Telephone and fax	7,802	9,083
Interest on loan payable	-	8,686
Bank charges and interest	8,363	7,980
Depreciation and amortization	19,839	17,193
Loss Before Other Item	932,564	2,504,875
Other Item		
Interest income	(45,012)	(47,785)
Loss Before Non-Controlling Interest	887,552	2,457,090
Non-Controlling Interest	(13,567)	181,131
Net Loss for Year	873,985	2,638,221
Deficit, Beginning of Year	13,766,056	10,348,410
Cumulative Effect of Adoption of New Accounting Standard	-	779,425
Deficit, End of Year	\$ 14,640,041	\$ 13,766,056
Loss Per Share – basic	\$ (0.01)	\$ (0.04)
Weighted Average Number of Common Shares Outstanding	81,363,121	69,462,507

SUR AMERICAN GOLD CORPORATION
Consolidated Statements of Cash Flows
Years Ended December 31

	2006	2005
Operating Activities		
Net loss	\$ (873,985)	\$ (2,638,221)
Items not involving cash		
Depreciation and amortization	167,049	17,193
Stock based compensation	372,319	981,348
Loss on retirement of fixed assets	2,448	-
Non-controlling interest in subsidiary	(13,567)	(120,723)
	(345,736)	(1,760,403)
Changes in non-cash working capital		
Amounts receivable and advances	62,800	(113,369)
Prepaid expenses	(94,226)	1,375
Accounts payable and accrued liabilities	(28,038)	(60,805)
	(59,464)	(172,799)
Cash Used in Operating Activities	(405,200)	(1,933,202)
Investing Activities		
Purchase of capital assets	(90,008)	(497,307)
Investment in affiliate	-	1,327,449
Expenditures on deferred exploration costs (note 4)	(2,240,537)	(1,570,285)
Cash held in affiliates, beginning of year	-	127,027
Cash Used in Investing Activities	(2,330,545)	(613,116)
Financing Activities		
Proceeds from issuances of common shares	74,930	3,322,599
Share subscriptions received (note 11)	1,155,000	-
Share issue costs paid	-	(32,000)
Repayment of loans payable	-	(43,936)
Cash Provided by Financing Activities	1,229,930	3,246,663
Inflow (Outflow) of Cash	(1,505,815)	700,345
Cash, Beginning of Year	2,871,629	2,171,284
Cash, End of Year	\$ 1,365,814	\$ 2,871,629
Supplemental Cash Flow Information		
Non-cash investing activities		
Acquisition of subsidiary	\$ -	\$ 3,600,000
Property acquisition included in payables	35,000	-

See notes to consolidated financial statements.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

1. GOING-CONCERN AND NATURE OF OPERATIONS

Sur American Gold Corporation (the "Company") is incorporated under the laws of Alberta. Its principal business activity is natural resource exploration, presently focusing on unproven mineral interests located in the Philippines.

For the year ended December 31, 2006, the Company incurred a net loss of \$873,985 (2005 - \$2,638,221) and had a deficit of \$14,640,041 (2005 - \$13,766,056). The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund ongoing administrative, planned exploration and expenditures, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements are prepared on a going-concern basis, which contemplates that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going-concern, and therefore, be required to realize its assets and settle its liabilities in other than the normal course of business, possibly at amounts different from those presented in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These financial statements include the accounts of the Company, its wholly-owned subsidiaries, Exploradora La Esperanza S.A. (a Colombian company), and Sabena Limited (an Australian company) and the accounts of partially-owned affiliates, Philco Mining Corporation ("Philco"), Batoto Resources Corporation ("Batoto") and TMC Tribal Mining Corporation ("TMC"), referred throughout the financial statements as ("the Philippine companies"). The Company owns 40 percent of each of the Philippine companies; these companies have been consolidated as they meet the criteria for variable interest entities (note 2(k)). All significant intercompany balances and transactions have been eliminated.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include valuation of resource properties, rates of amortization, accrued liabilities, valuation allowance for future tax assets and the variables used in calculation of stock-based compensation expense. While management believes the estimates are reasonable, actual results could differ from those estimates and would impact future results of operations and cash flows.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Cash and cash equivalents

The Company considers cash and cash equivalents to be cash and short-term investments with original maturities of one year or less from date of acquisition.

(d) Amortization

Amortization of capital assets is calculated on a straight-line basis at the following annual rates:

Buildings	4%
Transportation and plant equipment	20 to 30%
Office furniture and equipment	10 to 33%
Vehicles	20%

(e) Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar.

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet dates;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the average rate of exchange for the year.

Gains and losses arising from the translation of foreign currency are included in net income (loss) for the year.

(f) Revenue recognition

Interest income is recognized on an as-earned basis.

(g) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. However, diluted loss per share has not been presented, as the effects of potential issuances of shares under options would be anti-dilutive.

(i) Income taxes

Future income tax expense is determined 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 basis (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 is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(j) Deferred exploration costs

The Company records deferred exploration costs, which consist of costs attributable to the exploration of mineral property interests, at cost. All direct and indirect costs relating to the acquisition and exploration of the resource interests are capitalized on the basis of specific claim blocks until the resource interests to which they relate are placed into production, the resource interests are disposed of through sale or where management has determined there to be an impairment. If a resource interest is abandoned, the resource interests and deferred exploration costs will be written off to operations in the period of abandonment.

On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject property.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

(k) Variable interest entities

On January 1, 2005 the Company adopted the CICA AcG-15 "*Consolidation of Variable Interest Entities*". The adoption of AcG-15 required the Company to consider whether it held interests in other entities that expose the Company to the majority of the financial risk of those entities. In cases where the Company determines it is the "primary beneficiary" of another entity, consolidation of that entity is required (see note 2(a)).

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

3. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying values of cash, amounts receivable and advances, and accounts payable approximate their fair values because of the short maturity of these financial instruments.

(b) Credit risk

Financial assets exposed to credit risk consist primarily of cash and cash equivalents and amounts receivable and advances. Cash of \$1,032,475 is placed with several major Canadian financial institutions, \$318,436 is placed with several major Philippine financial institutions, and \$4,383 is placed with an Australian financial institution. Amounts receivable of \$99,617 is held in Philippine pesos.

(c) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities.

(d) Currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company's investments in mineral properties require it to make expenditures in Philippine pesos in relation to its exploration activities. The Company's ability to make necessary payments will be affected by foreign currency fluctuations. As at December 31, 2006, cash included \$318,436 (2005 - \$526,334) denominated in Philippine pesos, \$4,383 (2005 - \$25,513) denominated in Australian dollars and \$10,147 denominated in Colombian Pesos (2005 - \$17). The Company does not utilize derivatives or other techniques to manage foreign currency risk.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

4. INVESTMENTS IN AND EXPENDITURES ON RESOURCE PROPERTIES

Through its subsidiaries and the Philippine affiliates, the Company has interests in certain permits and licenses to explore and develop mineral properties located in the Philippines described below.

2006	Panag, Suriganon and Tagpura	Batoto	T'Boli	2006 Total
Acquisition costs	\$ 1,037,981	\$ 1,038,101	\$ 1,017,159	\$ 3,093,241
Deferred exploration costs				
Balance, beginning of year	1,270,211	1,323,272	776,838	3,370,321
Incurred during year				
Assaying	50,032	20,444	-	70,476
Community development	25,023	28,468	13,380	66,871
Consultants	106,513	319,690	76,072	502,275
Depreciation and amortization	133,383	5,771	6,263	145,417
Drilling costs	305,232	-	-	305,232
Exploration and mineral processing	63,501	100,503	-	164,004
Field supplies and miscellaneous	125,019	484,502	134,675	744,196
Geological	88,068	-	-	88,068
Taxes, licences and fees	-	-	-	-
Transportation and travel	43,487	92,351	18,160	153,998
	940,258	1,051,729	248,550	2,240,537
	2,210,469	2,375,001	1,025,388	5,610,858
Balance, December 31, 2006	\$ 3,248,450	\$ 3,413,102	\$ 2,042,547	\$ 8,704,099

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

4. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

2005	Panag, Suriganon and Tagpura	Batoto	T'Boli	2005 Total
Acquisition costs	\$ 1,037,981	\$ 1,038,101	\$ 1,017,159	\$ 3,093,241
Deferred exploration costs				
Balance, beginning of year	703,282	445,811	477,100	1,626,193
Incurring during year				
Assaying	14,253	17,871	3,062	35,186
Community development	14,467	8,235	13,593	36,295
Consultants	126,159	258,436	78,911	463,506
Depreciation and amortization	42,772	1,069	6,162	50,003
Drilling costs	104,497	60,119	-	164,616
Exploration and mineral processing	20,985	107,945	24,031	152,961
Field supplies and miscellaneous	123,293	162,493	76,015	361,801
Geological	65,302	171,212	63,138	299,652
Taxes, licenses and fees	7,030	4,460	9,371	20,861
Transportation and travel	48,171	85,621	25,455	159,247
	566,929	877,461	299,738	1,744,128
	1,270,211	1,323,272	776,838	3,370,321
Balance, December 31, 2005	\$ 2,308,192	\$ 2,361,373	\$ 1,793,997	\$ 6,463,562

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

4. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

- (a) Panag, Suriganon and Tagpura, and Camanlangan are located in the Municipality of New Bataan, Compostela Valley Province, Philippines. The Cadan area lies partly in New Bataan but mostly in the Municipality of Nabunturan Compostela Valley Province.

Panag and Suriganon are located within Exploration Permit ("EP") No. 000001-00-X1 covering an area of approximately 2,170.82 hectares, which was granted on March 1, 2000. Tagpura is located within Exploration Permit Application ("EXPA") EXPA X1-063 covering a revised area of 2,200 hectares, more or less. It was filed in July 1997. Both are owned 100% by Philco. EXPA X1-063 is being converted into an EP.

There are no royalties payable to the government of the Philippines as the properties are located in an Indigenous area. The Indigenous peoples will, upon commercial production, be given a royalty equivalent to 1% of the operating cost of any operation. There are no annual work commitments.

- (b) Batoto, Barangay Camanlangan, Municipality of New Bataan, Compostela Valley Province, Philippines

Batoto is located within the Mineral Production Sharing Agreement Application (APSA No. 000246-X1 (formerly MLC 292) covering an area of approximately 648 hectares, and is situated within Exploration Permit Application EXPA-109-X1, which covers an area of approximately 3,205.2937 hectares. The property was transferred in 2004 from Philco EP No 000001-00-X1 to Batoto.

There are no royalties payable to the government of the Philippines as the properties are located in an Indigenous area. The Indigenous peoples will, upon commercial production, be given a royalty equivalent to 1% of the operating cost of any operation. There are no annual work commitments.

In December of 2006, Batoto acquired from local company, Bunawan Mining Corporation, an area of approximately 813.5942 hectares, which lies to the south-east of Batoto EXPA-109-X1.

Batoto EXPA – 109-X1 now has a total area of approximately 4,018.8879 hectares.

- (c) T'boli, Barangay Kematu, Municipality of T'boli, South Cotabato Province, Philippines

T'boli is located within approved Mineral Production Sharing Agreement ("MPSA") 090-97-X1 84 covering an area of 98.2 hectares, which was granted in November 1997 and Mineral Production Sharing Agreement Application ("APSA No. 51-X1 Holon Block") covering 2,790.86 hectares. TMC is the legal owner of these licenses. There is a 2% mineral royalty payable to the government of the Philippines in respect of any future mineral production.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

5. PROPERTY, PLANT AND EQUIPMENT

2006			
	Cost	Accumulated Amortization	Net
Transportation and plant equipment	\$ 434,343	\$ 205,843	\$ 228,500
Buildings	151,590	4,725	146,865
Office furniture and equipment	103,521	80,160	23,361
Vehicles	70,646	36,504	34,142
Land	17,150	-	17,150
	\$ 777,250	\$ 327,232	\$ 450,018
2005			
	Cost	Accumulated Amortization	Net
Transportation and plant equipment	\$ 410,217	\$ 76,565	\$ 333,652
Construction in progress	126,672	-	126,672
Office furniture and equipment	92,462	56,410	36,052
Vehicles	45,646	27,375	18,271
Land	14,860	-	14,860
	\$ 689,857	\$ 160,350	\$ 529,507

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

6. SHARE CAPITAL

(a) Authorized
 Unlimited common shares without par value

(b) Issued

	Number of Shares	Amount
Balance, December 31, 2004	62,636,114	13,574,085
Issued pursuant to:		
Private placement (note 6(c))	6,250,000	2,500,000
Exercise of warrants	1,508,000	616,600
Exercise of stock options	862,500	410,575
Acquisition of subsidiary (note 7)	10,000,000	3,600,000
Share issue costs	-	(32,000)
Balance, December 31, 2005	81,256,614	20,669,260
Issued pursuant to:		
Exercise of warrants	53,738	34,930
Exercise of stock options	100,000	40,000
Reallocation from contributed surplus	-	35,496
Balance, December 31, 2006	81,410,352	\$ 20,779,686

(c) Private placements

On August 2, 2005, the Company completed a non-brokered private placement of 6,250,000 units at \$0.40 per unit, for gross proceeds of \$ 2,500,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share, for a period of two years, for \$0.55 until August 16, 2006 and \$0.75 until August 16, 2007. No commissions were paid in connection with the private placement. Directors purchased 251,425 units of the private placement. Share issuance and certain closing costs of \$13,000 were incurred by the Company through the private placement.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

6. SHARE CAPITAL (Continued)

(d) Stock options

The Company has a stock option plan whereby the board of directors is authorized to grant options to a rolling ceiling of 10% of the issued and outstanding common shares of the Company.

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. The terms of the option and the option price are fixed by the directors at the time of grant subject to price restrictions imposed by the TSX Venture Exchange. Stock options awarded have a maximum term of five years and vest on the date of award.

As at December 31, 2006 and 2005, the following incentive stock options were outstanding and exercisable:

Expiry Date	Exercise Price	2006	2005
December 11, 2007	\$ 0.25	50,000	50,000
September 5, 2008	\$ 0.11	115,000	115,000
December 11, 2008	\$ 0.45	740,000	740,000
September 30, 2009	\$ 0.40	4,037,500	4,137,500
August 17, 2010	\$ 0.60	1,790,000	2,150,000
July 12, 2011	\$ 0.48	1,000,000	-
		7,732,500	7,192,500

Stock option transactions and the number of stock options outstanding and exercisable are summarized as follows:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	7,192,500	\$ 0.46	5,905,000	\$ 0.38
Awarded	1,000,000	\$ 0.48	2,150,000	\$ 0.60
Exercised	(100,000)	\$ 0.40	(862,500)	\$ 0.24
Cancelled	(360,000)	\$ 0.60	-	\$ 0.00
Outstanding and exercisable, end of year	7,732,500	\$ 0.46	7,192,500	\$ 0.46

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

6. SHARE CAPITAL (Continued)

(e) Warrants

As at December 31, 2006 and 2005, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	2006	2005
April 30, 2006	\$ 1.07	-	32,243
April 30, 2006	\$ 2.10	-	483,645
April 30, 2006	\$ 0.65	-	53,738
August 16, 2007	\$ 0.55 / \$0.75	6,250,000	6,250,000
		6,250,000	6,819,626

Share purchase warrant transactions and the number of share purchase warrants outstanding and exercisable are summarized as follows:

	2006		2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	6,819,626	\$ 0.53	2,217,626	\$ 0.80
Issued			6,250,000	\$ 0.40
Exercised	(53,738)	\$ 0.65	(1,508,000)	\$ 0.41
Expired/forfeited	(32,243)	\$ 1.07		
Expired/forfeited	(483,645)	\$ 2.10	(140,000)	\$ 0.50
Outstanding and exercisable, end of year	6,250,000	\$ 0.75	6,819,626	\$ 0.66

(f) Stock-based compensation

During 2006, the Company granted 1,000,000 stock options (2005 - 2,150,000) to directors and consultants. Stock-based compensation of \$372,319 (2005 - \$981,348), calculated using the Black-Scholes option pricing model, was recorded as an expense.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

6. SHARE CAPITAL (Continued)

(f) Stock-based compensation (Continued)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year ended December 31, 2006 and 2005:

	2006	2005
Risk-free interest rate	3.18%	2.48%
Expected life of options	5 years	5 years
Stock price volatility	92%	113%
Dividend rate	0.00%	0.00%

(g) Contributed surplus

On December 31, 2006 and 2005, the contributed surplus was as follows:

	2006	2005
Balance, beginning of year	\$ 2,743,062	\$ 1,966,290
Stock-based compensation expense for the year	372,319	981,348
Transfer to share capital	(35,496)	(204,576)
Balance, end of year	\$ 3,079,885	\$ 2,743,062

(h) Share subscriptions

The Company received proceeds of \$1,155,000 towards a private placement involving the issuance of 3,300,000 units at \$0.35 per unit. The details of this private placement are described in note 11.

7. ACQUISITION OF SUBSIDIARY

On June 30, 2005, the Company acquired the remaining 30% of the issued and outstanding shares of Sabena Limited, an Australian company, which owns or has rights to acquire various resource properties, concessions and prospects in the Philippines.

In consideration of the acquisition, the Company issued 10,000,000 common shares to vendors, including two directors, at a price of \$0.36 per share for a total deemed value of \$3,600,000 pursuant to an acceptance letter to the TSX Venture Exchange dated April 12, 2005. Share issuance costs of \$19,000 were incurred by the Company through the share exchange.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

8. INCOME TAXES

	2006	2005
	34.12%	35.62%
Income tax benefit computed at Canadian statutory rates	\$ (300,000)	\$ (940,000)
Temporary differences not recognized in year		
Non-deductible stock-based compensation	130,000	350,000
Depreciation and amortization	10,000	6,000
Share issuance and financing costs	-	(11,000)
Unrecognized tax losses	160,000	595,000
Income tax benefit per financial statements	\$ -	\$ -

The significant components of the Company's future income tax assets and liabilities as at December 31, 2006 and 2005 are as follows:

	2006	2005
Future income tax assets		
Non-capital losses carried forward	\$ 1,520,000	\$ 1,850,000
Future income tax liabilities		
Equipment	(19,413)	(23,045)
	1,500,587	1,826,955
Approximate tax rate	34.12%	35.62%
	512,000	650,761
Valuation allowance	(512,000)	(650,761)
Future income taxes, net	\$ -	\$ -

9. RELATED PARTY TRANSACTIONS

Included in amounts receivable and advances is \$nil (2005 - \$1,519) due from directors.

Included in accounts payable and accrued liabilities is \$87,010 (2005 - \$139,614) payable to directors and a corporation controlled by a director.

During the year, gross rent of \$24,000 (2005 - \$24,000) was paid to a former officer and director.

SUR AMERICAN GOLD CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

10. SEGMENTED INFORMATION

The Company's has one operating segment, mineral resource property exploration. The Company's corporate assets are located in Canada. The Company has investments in and advances to corporations located in the Philippines and Australia and natural resource exploration activities have occurred in Colombia in past years.

2006					
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 1,047,079	\$ 5,327	\$ 418,053	\$ 10,147	\$ 1,482,123
Deferred exploration					
Costs	-	-	8,754,099	-	8,754,099
Property, plant and					
Equipment	9,142	-	404,506	36,370	450,018
	\$ 1,056,221	\$ 5,327	\$ 9,576,658	\$ 46,517	\$ 10,686,240
2005					
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 2,338,755	\$ 26,078	\$ 634,752	\$ 6,927	\$ 3,006,512
Deferred exploration					
Costs	-	-	6,463,562	-	6,463,562
Property, plant and					
Equipment	23,045	-	495,092	11,370	529,507
	\$ 2,361,800	\$ 26,078	\$ 7,593,406	\$ 18,297	\$ 9,999,581

11. SUBSEQUENT EVENTS

- (a) On January 12, 2007 the Company completed a private placement involving the issuance of 3,300,000 units at \$0.35 per unit for gross proceeds of \$1,155,000. Each unit consists of one common share and one common share purchase warrant. The warrant entitles the holder to purchase an additional common share at a price of \$0.50 during the first 12 months and for \$0.65 during the second 12 months. All securities under this private placement have a four-month hold period expiring May 12, 2007.
- (b) Subsequent to December 31, 2006, the Company appointed a new CEO and CFO and the 3,800,000 stock options granted to the former CEO and CFO have expired.