

YOUNG-SHANNON GOLD MINES, LIMITED
(A Development Stage Entity)

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005



KRAFT BERGER LLP CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
YOUNG-SHANNON GOLD MINES, LIMITED
(A Development Stage Entity)

We have audited the balance sheets of **YOUNG-SHANNON GOLD MINES, LIMITED (A Development Stage Entity)** as at December 31, 2006 and 2005 and the 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 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.

Kraft Berger LLP

KRAFT BERGER LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 16, 2007

Young-Shannon Gold Mines, Limited

(A Development Stage Entity)

BALANCE SHEETS

DECEMBER 31	2006	2005
ASSETS		
Current		
Cash	\$ 521,135	\$ 242,525
Sundry receivables	10,458	7,538
Prepaid expenses	19,883	9,900
	551,476	259,963
Equipment (Note 3)	2,471	3,394
Other assets		
Deferred mineral property expenditures (Note 4)	3,134,252	2,959,212
Mineral property acquisitions (Note 5)	688,147	648,647
Amount received for earn-in percentage	(125,000)	(125,000)
	3,697,399	3,482,859
	\$ 4,251,346	\$ 3,746,216
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 169,348	\$ 133,004
Future income tax liability (Note 11)	368,500	309,218
	537,848	442,222
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	4,679,580	4,163,408
Warrants (Note 7)	206,475	75,910
Stock options (Note 8)	125,726	86,900
Contributed surplus	72,650	35,800
Deficit	(1,370,933)	(1,058,024)
	3,713,498	3,303,994
	\$ 4,251,346	\$ 3,746,216

Approved on Behalf of the Board:

"Greg Lipton"
Director

"David Constable"
Director

The accompanying notes are an integral part of these financial statements

Young-Shannon Gold Mines, Limited
(A Development Stage Entity)

STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

	2006	2005
REVENUE	<u>\$ -</u>	<u>\$ -</u>
EXPENSES		
Consulting fees	90,244	94,000
Stock-based compensation	38,826	21,800
Stock maintenance and exchange fees	20,975	24,028
Professional fees	56,034	68,091
Office and administration	9,380	19,150
Insurance	10,817	10,800
Rent	9,000	9,000
Conference	10,511	15,558
Travel	2,415	12,148
Amortization	923	1,285
Advertising and promotion	4,527	1,521
Flow-through interest expense	-	7,241
Write-off of the LaCucharas property	-	50,783
	253,652	335,405
Less: interest income	(25)	(2,558)
LOSS, before income taxes	(253,627)	(332,847)
Income taxes - future expense (recovery) (Note 11)	59,282	(106,560)
NET LOSS for the year	(312,909)	(226,287)
DEFICIT, beginning of year	(1,058,024)	(831,737)
DEFICIT, end of year	\$ (1,370,933)	\$ (1,058,024)
Basic and diluted loss per share (Note 9)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>26,417,705</u>	<u>21,784,170</u>

The accompanying notes are an integral part of these financial statements

Young-Shannon Gold Mines, Limited
(A Development Stage Entity)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

2006

2005

CASH (USED IN) PROVIDED BY:

OPERATING ACTIVITIES

Net loss for the year	\$ (312,909)	\$ (226,287)
Amortization	923	1,285
Write-off of the La Cucharas Gold and Silver property	-	50,783
Stock-based compensation	38,826	21,800
Future income taxes (recovery)	59,282	(106,560)
Net change in non-cash working capital:		
Sundry receivables	(2,920)	68,892
Prepaid expenses	(9,983)	-
Accounts payable and accrued liabilities	67,802	85,519
	(158,979)	(104,568)

INVESTING ACTIVITIES

Deferred mineral property expenditures	(200,040)	(673,011)
Mineral property acquisitions	(20,000)	(15,000)
Non-refundable deposit on property	25,000	-
	(195,040)	(688,011)

FINANCING ACTIVITY

Net proceeds from issuance of common shares	632,629	225,017
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INCREASE (DECREASE) IN CASH

278,610 (567,562)

CASH, beginning of year

242,525 810,087

CASH, end of year

\$ 521,135 \$ 242,525

SUPPLEMENTARY CASH FLOW INFORMATION

Common shares issued for option to acquire mineral property	\$ 19,500	\$ 15,750
Common shares issued on settlement of financial obligation	\$ 31,458	\$ -
Private placement finder's fee	\$ 27,088	\$ 14,250

The accompanying notes are an integral part of these financial statements

Young-Shannon Gold Mines, Limited (A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

1. NATURE OF OPERATIONS AND GOING CONCERN

Young-Shannon Gold Mines, Limited (the "Company" or "Young-Shannon") carries on business in one segment, being the acquisition, exploration and development of properties for the mining of precious and base metals. The Company holds a group of 11 patented and 18 unpatented claims within Chester Township located west of Highway 144 midway between Sudbury and Timmins, Ontario. It also has an option to earn a 60% interest in the McMillan Gold Mine property, located 75 kilometres southwest of the Greater City of Sudbury.

The accompanying financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not earned significant revenue, has an accumulated deficit of \$1,370,933 and is considered to be in the development stage. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and/or achieve profitable operations in the future.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Company are summarized as follows:

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Significant areas where management's judgement is applied include the carrying value of mineral properties, fair value estimates for stock options and warrants, and estimated lives of depreciable assets. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly from these estimates.

Mineral Interests

The Company considers its exploration costs to have the characteristics of property and equipment. As such, the Company defers all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to the specific properties until those properties are brought into production, at which time, they will be amortized on a unit-of-production basis based on proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

The recoverability of the amounts shown for deferred mineral property expenditures and mineral property acquisitions is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet its obligations under various agreements and the success of future operations or dispositions.

Young-Shannon Gold Mines, Limited (A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment

Equipment is recorded at cost. Depreciable assets are amortized over their estimated useful lives utilizing the following rates and methods:

Computer	30%	Declining balance
Furniture and fixtures	20%	Declining balance

Stock Based Compensation

The Company has a stock-based compensation plan, which is described in Note 8. The Company accounts for all stock-based payments using the fair value based method. Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized on a straight line basis over the vesting period. No compensation cost is recognized for options that are forfeited if the individual fails to satisfy the service requirement for vesting.

Flow Through Shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to mining and resource properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

Future Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method of tax allocation, future income and mining 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 enacted 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 income in the year in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Net Loss per Share

Basic loss per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the year greater than their exercise price are exercised and the proceeds used to repurchase common shares.

Young-Shannon Gold Mines, Limited (A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

Canadian GAAP requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, undiscounted future cash flows expected to result from the use of the asset and its disposition must be estimated and compared with the carrying value of those assets.

Where the undiscounted future cash flows are less than the carrying amount of the asset, the assets are written down to their estimated fair values. Management has not identified circumstances indicating possible impairment of the Company's long-lived assets as at December 31, 2006.

Asset Retirement Obligations

The Company recognizes the liability arising from legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Upon settlement of the liability, a gain or loss is recorded. The liability is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flow underlying the obligation.

New Accounting Pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued four new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments - Recognition and Measurement, and Handbook Section 3865, Hedges. These standards are effective for interim and annual financial statements for the Company's fiscal years beginning on or after October 1, 2006. The Company is currently assessing the impact of these new accounting standards on its financial statements.

3. EQUIPMENT

	Cost	Accumulated Amortization	Total December 31, 2006	Total December 31, 2005
Computer	\$ 6,389	\$ (4,676)	\$ 1,713	\$ 2,447
Furniture and fixtures	1,572	(814)	758	947
	\$ 7,961	\$ (5,490)	\$ 2,471	\$ 3,394

Young-Shannon Gold Mines, Limited
(A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

4. DEFERRED MINERAL PROPERTY EXPENDITURES

Deferred mineral property expenditures consist of :

	December 31, 2006	December 31, 2005
Drilling	\$ 1,541,859	\$ 1,541,859
Drilling - Phase 1	126,896	126,896
Drilling - Phase 2	622,194	465,196
Engineering and consulting	438,656	424,376
Laboratory	211,674	210,225
Surveying and sampling	50,724	50,724
Site preparation	33,363	33,363
Dewatering	29,482	29,482
Supplies	24,819	23,839
Travel	45,671	44,338
Maintenance	8,914	8,914
	\$ 3,134,252	\$ 2,959,212

The tax attributes of deferred mineral property expenditures in the amount of \$2,290,000 as at December 31, 2006 (2005 - \$2,290,000) have been renounced to shareholders pursuant to flow-through share agreements. The corresponding future tax costs of the Company of renouncing tax benefits to shareholders have been recorded accordingly.

The following represents a breakdown of the annual activity on each of the Company's properties:

	2006	2005
Chester Township		
Balance, beginning of year	\$ 2,586,057	\$ 2,336,984
Drilling	-	122,054
Engineering and consulting	4,500	77,568
Laboratory	-	7,237
Travel	-	27,123
Non-recoverable deposit (Note 5)	(25,000)	-
Other	980	15,091
	(19,520)	249,073
Balance, end of year	\$ 2,566,537	\$ 2,586,057

Young-Shannon Gold Mines, Limited
(A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

4. DEFERRED MINERAL PROPERTY EXPENDITURES (Continued)

	2006	2005
McMillan Property		
Balance, beginning of year	\$ 373,155	\$ -
Drilling	181,998	253,021
Engineering and consulting	9,780	106,825
Laboratory	1,449	11,961
Survey	-	1,330
Travel	1,333	-
Other	-	18
	194,560	373,155
Balance, end of year	\$ 567,715	\$ 373,155
La Cucharas Gold and Silver Property		
Balance, beginning of year	\$ -	\$ -
Non-refundable advance	-	12,500
Other	-	952
Write-off	-	(13,452)
	-	-
Balance, end of year	\$ -	\$ -
TOTAL MINERAL PROPERTY EXPENDITURES	\$ 3,134,252	\$ 2,959,212

**Young-Shannon Gold Mines, Limited
(A Development Stage Entity)**

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

5. MINERAL PROPERTY AQUISITIONS

Mineral property acquisitions consist of:

	December 31, 2006	December 31, 2005
Chester Township, Ontario		
Eleven patented gold mining claims	\$ 399,790	\$ 399,790
Chester Township, Ontario		
Eighteen unpatented mining claims	192,357	192,357
McMillan Property Option	96,000	56,500
	\$ 688,147	\$ 648,647

Chester Township, Ontario

Pursuant to an agreement dated March 27, 1987, the Company must pay a royalty of 3% of net smelter returns, once production begins on any of the eleven patented gold mining claims in Chester Township. The Company must pay a royalty of 3% of net smelter returns, once production begins on two of the unpatented mining claims. The eighteen unpatented mining claims in Chester Township were acquired from related parties in 1997 under an option agreement requiring payment of 200,000 common shares and \$50,000 in cash. The Company issued the shares and paid the vendors \$5,000 before the option period expired. An agreement dated May 15, 2002 revived the option and the Company paid the vendors \$15,000 in cash on July 31, 2002. The \$30,000 unpaid balance was settled by the issuance of 200,000 common shares on January 7, 2003.

During 2006, the Company entered into an agreement with a private company for a 46.25% undivided interest in the Company's Chester Gold Property. On July 17, 2006, the Company announced that the June 30, 2006 deadline for payment of \$2,000,000, less the \$25,000 non-refundable deposit stipulated under the terms of the agreement had passed and the offer to purchase has expired. An extension of two weeks was granted by the Company, however, the private company failed to raise the cash requirement.

Young-Shannon Gold Mines, Limited (A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

5. MINERAL PROPERTY AQUISITIONS (Continued)

McMillan Property Option, Ontario

Effective October 7, 2004, the Company optioned 26 mining claims including the former McMillan gold mine located southwest of Sudbury, Ontario. The terms of the option to earn a 50% interest are as follows:

	Cash	Common Shares	Work Commitment
Upon signing (paid)	\$ 10,000	150,000	\$ -
First anniversary (paid)	15,000	150,000	200,000
Second anniversary (paid)	20,000	150,000	300,000
Third anniversary	30,000	200,000	400,000
	\$ 75,000	650,000	\$ 900,000

The Company may increase its interest to 60% by spending an additional \$400,000 on the McMillan property and issuing 250,000 common shares to the vendor. As at December 31, 2006, the Company has spent a total amount of \$567,715 (2005 - \$373,155) on this property.

La Cucharas Property, Mexico

On July 8, 2005, the Company signed a Letter of Intent ("LOI") with MacMillan Gold Corp ("MGC") whereby the Company was granted certain rights to acquire a 50% interest in the La Cucharas Gold and Silver Property ("La Cucharas Property") in the state of Nayarit in Mexico. The LOI required the Company, upon signing of the agreement, to pay cash of US\$10,000 and a commitment to spend a total amount of \$2,000,000 over a period of five years in order to earn its 50% interest in the La Cucharas Property. In October 2005, the Company announced that it would not proceed with the LOI and, consequently, a claim was filed by MGC against the Company.

On February 14, 2006, the Company and MGC signed a Settlement and Release Agreement terminating the LOI, with the Company paying the following to MGC: Cash of US\$5,000 and issuing 300,000 common shares of the capital of the Company. All costs associated with this project were written off in 2005.

Young-Shannon Gold Mines, Limited (A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

6. CAPITAL STOCK

(a) AUTHORIZED

Unlimited number of common shares

(b) ISSUED

	SHARES	AMOUNT
Balance - December 31, 2004	21,238,828	\$ 3,945,141
Private placement, November 2, 2005 (i)	3,000,000	188,267
Private placement finder's fee (i)	150,000	14,250
Share issuance re: MacMillan property (Note 5)	150,000	15,750
Balance - December 31, 2005	24,538,828	\$ 4,163,408
Private placement, October 12, 2006 (ii)	5,575,000	613,250
Private placement cost of issue - cash and shares (ii)	-	(43,709)
Private Placement finders fees (ii)	246,250	27,088
Issuance of warrants - valuation (ii)	-	(183,975)
Issued on settlement of financial obligation (iii)	300,000	31,458
Issued for McMillan property option (Note 5)	150,000	19,500
Exercise of warrants -cash	360,000	36,000
Exercise of warrants - valuation	-	16,560
Balance - December 31, 2006	31,170,078	\$ 4,679,580

- (i) On November 2, 2005, the Company completed a non-brokered private placement of 3,000,000 units at \$0.08 for gross proceeds \$240,000. Each of the 3,000,000 units includes a one-half common share purchase warrant. A whole warrant entitles the holder to purchase a common share at a price of \$0.125 per share until May 1, 2007. A value of \$22,500 of the total proceeds was allocated to the warrants.

The Company incurred issue costs in connection with the non-brokered private placement comprised of a 5% finder's fee of 150,000 common shares valued at \$0.095 per share or \$14,250, legal and other commission fees totalling \$14,983. These amounts were deducted from the proceeds of the private placement.

- (ii) On October 12, 2006, the Company closed a non-brokered private placement of 5,575,000 units at a price of \$0.11 per unit for gross proceeds of \$613,250. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant will entitle the holder thereof to purchase one common share of the Company at a price of \$0.15 per share for a period of 18 months following the closing date of the private placement.

The value assigned to these warrants was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 142.37%, risk-free rate of return 4.05% and expected maturity of 18 months. The fair value of each warrant issued was \$0.066 per warrant, or \$183,975 in aggregate.

Young-Shannon Gold Mines, Limited

(A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

6. CAPITAL STOCK (Continued)

- (ii) A 5% finder's fee comprising 158,750 common shares of the Company was paid to Trilogy Capital Limited and a 5% finder's fee comprising of 87,500 common shares of the Company was paid to VC Group Investments, S.A. In addition, a 5% cash commission was paid to Brant Securities Limited in the amount of \$1,375 and to Haywood Securities Inc. in the amount of \$2,200.
- (iii) Pursuant to the settlement agreement with MacMillan Gold Corp. on February 14, 2006, the Company issued 300,000 common shares with an assigned value of \$31,458 (Note 5).

7. WARRANTS

The following table reflects the continuity of warrants for the years ended December 31, 2006 and 2005:

	NUMBER OF WARRANTS	AMOUNT (\$)
Balance - December 31, 2004	5,880,500	89,210
Issued	1,500,000	22,500
Expired	(2,208,000)	(35,800)
Balance - December 31, 2005	5,172,500	75,910
Issued (Note 6(b)(ii))	2,787,500	183,975
Exercised	(360,000)	(16,560)
Expired (i)	(3,312,500)	(36,850)
Balance - December 31, 2006	4,287,500	206,475

- (i) On June 22, 2006, a total of 3,312,500 warrants with an exercise price of \$0.25 expired.

The following table reflects the actual warrants outstanding as at December 31, 2006:

Expiry Date	Date of Issue	Exercise Price (\$)	Warrants Outstanding	Black-Scholes Value (\$)
May 1, 2007	November 2, 2005	0.125	1,500,000	22,500
April 12, 2008	October 12, 2006	0.15	2,787,500	183,975
			4,287,500	206,475

Young-Shannon Gold Mines, Limited
(A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

8. STOCK OPTIONS

The following table reflects the continuity of stock options for the years ended December 31, 2006 and 2005:

	NUMBER OF STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$
Balance - December 31, 2004	1,265,000	0.12
Granted	630,000	0.09
Balance - December 31, 2005	1,895,000	0.11
Forfeited	(125,000)	0.10
Balance - December 31, 2006	1,770,000	0.12

The following table reflects the stock options outstanding as at December 31, 2006:

Expiry Date	Exercise Price (\$)	Weighted Average Life Remaining	Options Outstanding	Black-Scholes Value (\$)
February 27, 2008	0.13	1.16 years	890,000	62,400
November 16, 2009	0.10	2.88 years	250,000	13,999
February 24, 2010	0.105	3.15 years	210,000	11,863
March 16, 2010	0.105	3.21 years	25,000	1,225
April 1, 2010	0.10	3.25 years	395,000	28,440
		2.14 years	1,770,000	117,927
Add: expired stock options			-	7,799
			1,770,000	125,726

All of the above options were exercisable as at December 31, 2006

The weighted fair value at the date the options were granted in 2005 was \$0.07. The cost of the options is amortized over the vesting period. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate:	3.26 - 5.00%
Expected dividend yield	0%
Expected share price volatility	60-90%
Expected life of the options	5 years

During 2003, the Company established a Stock Option Plan. Under the Plan, the Company may grant options to directors, officers, employees and consultants of the Company. The maximum number of Company shares that can be reserved under this plan is 10% of the issued and outstanding common shares of the Company, or 3,117,008 at December 31, 2006 (2005 - 2,453,883). The options granted vest according to an eighteen month schedule from the date of the grant at a rate of 16.67% every three months.

Young-Shannon Gold Mines, Limited
(A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

9. BASIC AND DILUTED LOSS PER SHARE

Year ended December 31	2006	2005
Numerator:		
Net loss for the year	(312,909)	(226,287)
Denominator:		
Weighted average number of common shares outstanding	26,417,705	21,784,170
Basic and diluted loss per share	(0.01)	(0.01)

The determination of the weighted average number of shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding warrants and options since they are anti-dilutive.

10. FINANCIAL INSTRUMENTS

At December 31, 2006 the Company's financial instruments consisted of cash, sundry receivables, and accounts payable and accrued liabilities. The Company estimates that the fair value of these financial instruments approximate the carrying values, at December 31, 2006 in consideration of their short term nature.

11. INCOME TAXES

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates to income (loss) before income taxes as follows:

	2006	2005
Income taxes based on combined federal and provincial statutory rate of 36.12% (2005 - 36.12%)	\$ (91,610)	\$ (120,224)
Increase(decrease) in income tax resulting from:		
Stock compensation	14,024	7,874
Future tax benefits not recognized	27,473	-
Revaluation of future tax assets previously recognized	108,612	-
Other	783	5,790
Effective income tax provision (recovery)	\$ 59,282	\$ (106,560)

The components of income taxes are as follows:

	2006	2005
Current	\$ -	\$ -
Future (recovery)	59,282	(106,560)
	\$ 59,282	\$ (106,560)

Young-Shannon Gold Mines, Limited (A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

11. INCOME TAXES (Continued)

Future Tax Liability

A summary of the principal components of future taxes calculated in accordance with Canadian accounting principles as at December 31, 2006 and 2005 is as follows:

	2006	2005
Operating losses carried forward	\$ 107,478	\$ 66,230
Capital losses carried forward	2,438	2,438
Property and equipment	1,500	1,170
Capital stock share issuance cost	39,963	39,944
Deferred mineral property	(370,000)	(419,000)
Valuation allowance	<u>(149,879)</u>	<u>-</u>
Net future income tax liability	<u>\$ (368,500)</u>	<u>\$ (309,218)</u>

Non-Capital Losses

As at December 31, 2006, the Company had net operating losses \$297,600 (2005 - \$183,400) which was provided with a valuation allowance. The following are the net operating loss carryforwards by year of expiry:

2014	\$ 54,300
2015	123,600
2026	<u>119,700</u>
	<u>\$ 297,600</u>

12. SUBSEQUENT EVENTS

- a) In January 2007, the Company ("Young-Shannon") announced that it had signed a Letter of Intent with a private Canadian company whereby the private company can earn a 46.25% interest in Young-Shannon's gold property in Chester Township, Ontario. Coincident with the signing of the Letter of Intent, the private company paid the Company a non-refundable deposit of \$5,000.

Both the private company and Young-Shannon confirm that the terms of the Letter of Intent are non-binding and that the full terms of a binding agreement will be set out in a definitive option and joint venture agreement (the "agreement"). Upon execution of the Agreement, the private company shall pay Young-Shannon an additional \$10,000.

The private company will be required to spend a total of \$2,250,000 in exploration costs to earn its 46.25% interest, including \$250,000 by July 31, 2007 and \$500,000 in each twelve month period ending July 31 thereafter, until July 31, 2011. Also, cash payments of \$15,000 will be made by the private company to Young-Shannon on each of the first four anniversaries of the effective date of the Agreement.

Young-Shannon Gold Mines, Limited (A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

12. SUBSEQUENT EVENTS (Continued)

The private company will undertake a strategy to go public and become listed on the TSX Venture Exchange, or other equivalent stock exchange, by merger or other transaction within nine months following the execution date of the Agreement. Upon completing a public transaction, the private company will cause the resulting issuer, subject to regulatory approval, to issue the following shares to Young-Shannon or its shareholders:

- (i) Shares in the resulting issuer on closing of the public transaction having a value of \$100,000; and
- (ii) 50% of the number of shares issued under (i) above on each anniversary of the closing of the public transaction for each year that the Agreement is in force.

Upon satisfying these obligations, the private company will then have the option to acquire an additional 28.75% interest in the property by paying Young-Shannon \$300,000 cash and issuing Young-Shannon five times the number of shares in the resulting issuer which were issued per (i) above.

Completion of the transactions described herein shall be subject to a comprehensive due diligence period. Also, the private company will require delivery of an updated National Instrument 43-101 report for the Chester property, which will be paid for by the private company. Work on the National Instrument 43-101 is underway by the private company and both parties have agreed to extend the due diligence period to allow for its completion.

Both the private company and Young-Shannon agree that the transactions contemplated by the Letter of Intent and option and joint venture agreement shall be subject to the approval of the TSX Venture Exchange.

- b) Subsequent to year end, the Company announced the appointment of a Chief Financial Officer (CFO) effective February 1, 2007. As part of the CFO's compensation the Company has agreed to grant him a 100,000 share option out of the company's stock option plan at an exercise price of \$0.135 and valid for a period of five years.