

**GHG RESOURCES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2005**

**AUDITORS' REPORT**

To the Shareholders of  
GHG Resources Limited

We have audited the consolidated balance sheets of GHG Resources Limited as at September 30, 2005 and 2004 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 September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

December 17, 2005

A Member of *SC INTERNATIONAL*

**GHG RESOURCES LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30**

	2005	2004 (Restated - Note 3)
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 289,520	\$ 348,162
Advances and receivables	45,589	30,201
Prepaid expenses	<u>3,877</u>	<u>8,178</u>
	338,986	386,541
<b>Due from related parties</b> (Note 8)	104,807	86,118
<b>Mineral properties</b> (Note 4)	15,805	18,280
<b>Plant and equipment</b> (Note 6)	<u>90,260</u>	<u>125,114</u>
	\$ 549,858	\$ 616,053
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 278,675	\$ 258,786
Promissory notes payable (Note 7)	37,700	35,863
Due to related parties (Note 8)	<u>182,676</u>	<u>147,670</u>
	499,051	442,319
<b>Asset retirement obligation</b> (Note 5)	<u>21,928</u>	<u>21,075</u>
	<u>520,979</u>	<u>463,394</u>
<b>Shareholders' equity</b>		
Capital stock (Note 9)	6,908,207	6,817,328
Contributed surplus (Note 9)	186,847	186,847
Deficit	(6,939,657)	(6,752,962)
Cumulative translation adjustment	<u>(126,518)</u>	<u>(98,554)</u>
	<u>28,879</u>	<u>152,659</u>
	\$ 549,858	\$ 616,053

**Nature and continuance of operations** (Note 1)

**Subsequent event** (Note 15)

**On behalf of the Board:**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

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

**GHG RESOURCES LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED SEPTEMBER 30**

	2005	2004 (Restated - Note 3)
<b>SALES</b>	\$ 921,976	\$ 544,473
<b>COST OF SALES</b>	<u>744,479</u>	<u>316,522</u>
	<u>177,497</u>	<u>227,951</u>
<b>EXPENSES</b>		
Accounting and audit	42,716	51,535
Accretion of asset retirement obligation	2,084	2,041
Amortization	32,615	27,807
Automobile	4,740	6,331
Consulting	-	58,906
Depletion	1,488	878
Foreign exchange gain	(2,217)	(4,435)
Interest on promissory notes payable	1,837	1,825
Legal fees	5,017	22,789
Management fees	60,000	60,000
Mining exploration costs	83,252	162,664
Office and administration	28,324	53,227
Stock-based compensation	-	177,387
Transfer agent, filing and regulatory fees	14,254	25,385
Travel, promotion and entertainment	<u>89,789</u>	<u>98,597</u>
	<u>363,899</u>	<u>744,937</u>
<b>Loss before other items</b>	<u>(186,402)</u>	<u>(516,986)</u>
<b>OTHER ITEMS</b>		
Interest income	1,121	-
Write-off of receivables	<u>(1,414)</u>	<u>-</u>
	<u>(293)</u>	<u>-</u>
<b>Loss for the year</b>	(186,695)	(516,986)
<b>Deficit, beginning of year</b>	<u>(6,752,962)</u>	<u>(6,235,976)</u>
<b>Deficit, end of year</b>	<u>\$ (6,939,657)</u>	<u>\$ (6,752,962)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>
<b>Weighted average number of common shares outstanding</b>	<u>10,323,186</u>	<u>8,669,570</u>

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

**GHG RESOURCES LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30**

	2005	2004 (Restated - Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (186,695)	\$ (516,986)
Items not affecting cash:		
Amortization	32,615	27,807
Accretion of asset retirement obligation	2,084	2,041
Accrued interest expense on promissory notes payable	1,837	1,825
Depletion	1,488	878
Unrealized foreign exchange gain	(2,217)	-
Stock-based compensation	-	177,387
Write-off of receivables	1,414	-
Change in non-cash working capital items:		
(Increase) decrease in advances and receivables	(20,654)	61,004
(Increase) decrease in prepaid expenses	3,973	(10,011)
Increase in due to related parties	108,699	-
Increase in accounts payable and accrued liabilities	<u>26,247</u>	<u>45,606</u>
Net cash used in operating activities	<u>(31,209)</u>	<u>(210,449)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of capital stock (net of issuance costs)	90,879	768,799
Due to related parties	<u>(96,394)</u>	<u>(164,256)</u>
Net cash provided by (used in) financing activities	<u>(5,515)</u>	<u>604,543</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment	(3,999)	(107,480)
Net cash paid on acquisition of joint venture interest	<u>-</u>	<u>(59,780)</u>
Net cash used in investing activities	<u>(3,999)</u>	<u>(167,260)</u>
<b>Effect of foreign exchange rate on cash</b>	<u>(17,919)</u>	<u>(79,178)</u>
<b>Change in cash for the year</b>	(58,642)	147,656
<b>Cash, beginning of year</b>	<u>348,162</u>	<u>200,506</u>
<b>Cash, end of year</b>	<u>\$ 289,520</u>	<u>\$ 348,162</u>

**Supplemental disclosure with respect to cash flows** (Note 14)

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

**GHG RESOURCES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the laws of British Columbia on June 7, 1983 and its principal business activities include the acquisition and development of mineral properties. The Company is presently listed on the TSX Venture Exchange.

The Company is in the process of exploring and developing its mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent on obtaining continued support from its creditors, raising adequate financing and generating profitable operations in the future.

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	2005	2004
Working capital (deficiency)	\$ (160,065)	\$ (55,778)
Deficit	(6,939,657)	(6,752,962)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Tun Resources Inc. ("Tun"). All significant inter-company balances and transactions have been eliminated. These consolidated financial statements also include Tun's proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint venture interest in the Yunnan Yuntong Exploration Company Ltd. ("YYE"), a company established in the People's Republic of China ("China"). Joint ventures assets, liabilities, revenues and expenses are allocated between the Company and its joint venture partner based on each venturers' pro-rate interest in the joint venture using the proportionate consolidation method.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Mineral properties**

The cost of acquiring mineral properties is capitalized and, when commercial production commences, will be charged to operations on a unit of production method based on estimated proven and probable reserves. Exploration and development expenditures, including those on capitalized mineral properties, are expensed as incurred.

The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

**Cost of maintaining mineral properties**

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

**Asset retirement obligations**

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and in the cost of the related long-lived assets.

**Plant and equipment**

Plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded using the following methods and annual rates:

Automobile	20% straight-line
Computer equipment	20% - 30% declining balance
Plant, machinery and equipment	20% straight-line

**Stock-based compensation**

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense.

**Revenue recognition**

Revenue from gold production is recognized in the accounts when gold is shipped, title passes and collection of the sale is reasonably assured.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Foreign currency translation**

The financial statements of the Company's subsidiary, whose functional currency is the Renminbi ("RMB"), are translated into Canadian dollar equivalents using the current rate method, whereby all assets and liabilities are translated at year end exchange rates and revenues and expenses are translated at rates which approximate those on the dates of transactions. Gains and losses arising from exchange translation are included in shareholders' equity under cumulative translation adjustment on the balance sheet. The RMB is not freely convertible into foreign currency, and there are restrictions on the removal of capital from the country. In addition, the quotation of exchange rates does not imply convertibility of RMB into Canadian dollars or other currencies.

All monetary assets and liabilities of the Company that are denominated in foreign currencies are converted at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are converted at the rates which approximate those on the dates of the transactions. Exchange gains and losses on transactions are included in the statement of operations.

**Earnings (loss) per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic earnings (loss) per share are calculated using the weighted-average number of shares outstanding during the year.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Comparative figures**

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

**3. CHANGE IN ACCOUNTING POLICIES**

**Asset retirement obligations**

Effective October 1, 2004, the Company adopted a new standard relating to asset retirement obligations (“ARO”) as recommended by the Canadian Institute of Chartered Accountants (“CICA”). This change in accounting policy has been applied retroactively with restatement of prior years presented for comparative purposes.

The previously reported amounts for 2004 have been restated due to the retroactive application of this new standard. The ARO liability as at September 30, 2004 was calculated as \$21,075 based on the new standard as compared to \$Nil based on the prior accounting standard. As at September 30, 2004, mineral properties increased by \$18,279. The accumulated deficit increased by \$2,918 to reflect the cumulative impact of accretion expense. For the year-ended September 30, 2004, accretion expenses increased by \$2,041 and depletion expenses increased by \$878. Basic and diluted net loss per share calculations for the year ended September 30, 2004 remained unchanged as a result of adopting this standard.

**4. MINERAL PROPERTIES**

	2005	2004 (Restated - Note 3)
Yunnan Yuntong Properties, Yunnan Province of China		
Mineral properties	\$ 17,293	\$ 19,158
Depletion	<u>(1,488)</u>	<u>(878)</u>
<b>Mineral properties</b>	<b>\$ 15,805</b>	<b>\$ 18,280</b>

The Company, through its wholly owned subsidiary, Tun Resources Inc. owns interests in three mineral properties located in the Zhen Yuan Mining District, China (together, the “Yunnan Yuntong Properties”): the Shangzhai exploration licence area and mining concession, which has been in production since 2001; the Bianfushan exploration licence area and mining concession; and the Lannitang exploration licence area, which are in the exploration and development stage. The Company’s interests in its mineral properties are held through YYE, a Chinese joint venture company (Note 11).

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

**GHG RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**5. ASSET RETIREMENT OBLIGATION**

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of the properties.

	2005		2004 (Restated - Note 3)	
Asset retirement obligation	\$	19,844	\$	19,034
Accretion expense		<u>2,084</u>		<u>2,041</u>
Asset retirement obligation	\$	<u>21,928</u>	\$	<u>21,075</u>

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$19,844 (2004 - \$19,034). The obligation was calculated using a credit-adjusted risk free discount rate of 6.12% and an inflation rate of 4.1%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur when the properties are disposed.

**6. PLANT AND EQUIPMENT**

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Automobile	\$ 148,170	\$ 72,103	\$ 76,067	\$ 156,958	\$ 49,471	\$ 107,487
Computer equipment	27,541	16,908	10,633	24,710	14,419	10,291
Plant, machinery and equipment	<u>21,564</u>	<u>18,004</u>	<u>3,560</u>	<u>22,553</u>	<u>15,217</u>	<u>7,336</u>
	\$ 197,275	\$ 107,015	\$ 90,260	\$ 204,221	\$ 79,107	\$ 125,114

**7. PROMISSORY NOTES PAYABLE**

	2005		2004	
Principal amount	\$	27,000	\$	27,000
Accrued interest		<u>10,700</u>		<u>8,863</u>
	\$	<u>37,700</u>	\$	<u>35,863</u>

The promissory notes are payable on demand, are unsecured and bear interest at rates ranging from 4% to 10% per annum.

**GHG RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

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**8. RELATED PARTY TRANSACTIONS**

During the year, the Company entered into the following transactions with related parties:

- a) Paid or accrued accounting fees of \$14,400 (2004 - \$3,600) to a director of the Company.
- b) Paid or accrued management fees of \$60,000 (2004 - \$60,000) to a director of the Company.
- c) Paid or accrued office and administration expense of \$9,600 (2004 - \$20,400) to a director of the Company.
- d) Paid or accrued wages, included as part of cost of sales, of \$60,244 (2004 - \$67,964) to two directors of the Company.

Amounts due to and from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Balance as at September 30, 2003	5,689,201	\$ 6,048,529	\$ 9,460
Private placement	2,787,497	500,000	-
Finders' fee	174,182	30,659	-
Share issuance costs	-	(30,659)	-
Exercise of warrants	1,194,003	268,799	-
Stock-based compensation	-	-	177,387
Balance as at September 30, 2004	9,844,883	6,817,328	186,847
Private placement	770,000	77,000	-
Finders' fee	77,000	7,700	-
Share issuance costs	-	(7,700)	-
Exercise of warrants	106,750	13,879	-
Cancellation of escrow shares	(125,000)	-	-
Balance as at September 30, 2005	10,673,633	\$ 6,908,207	\$ 186,847

**GHG RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options**

Under a stock option plan, the Company is authorized to grant stock options, upon receiving regulatory approval, to directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding common shares of the Company. Generally under the plan, stock options vest on grant and have no more than a five year term. The exercise price of the options will be determined by the board of directors but will not be less than the closing price of the Company's common shares on the day proceeding the day on which the directors grant such options, less any discount permitted by the TSX Venture Exchange to a minimum of \$0.10 per share.

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

	2005		2004	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	700,000	\$ 0.38	-	\$ -
Granted	-	-	700,000	0.38
Cancelled	(280,000)	0.38	-	-
Outstanding, end of year	420,000	\$ 0.38	700,000	\$ 0.38
Exercisable, end of year	420,000	\$ 0.38	610,000	\$ 0.38

At September 30, 2005, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
420,000	\$ 0.38	March 29, 2009

**Stock-based compensation**

The fair value of stock options granted totalled \$Nil (2004 - \$203,559). Of this \$Nil (2004 - \$177,387) was expensed in the year. The remaining \$26,172 from 2004 was not recorded because the corresponding options to be vested in the year ended September 30, 2005 were cancelled in September 2005.

**GHG RESOURCES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock-based compensation (cont'd...)**

The following assumptions were used for the Black-Scholes valuation of stock options granted during the years ended September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Risk-free interest rate	-	3.17%
Expected life	-	5 years
Annualized volatility	-	101.96%
Dividend rate	-	0.00%

The weighted average fair value of options granted was \$Nil (2004 – \$0.29).

**Warrants**

Warrant transactions and the number of warrants outstanding are summarized as follows:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	2,136,676	700,000
Issued	770,000	2,930,679
Exercised	(106,750)	(1,194,003)
Expired	<u>(1,536,676)</u>	<u>(300,000)</u>
Balance, end of year	<u>1,263,250</u>	<u>2,136,676</u>

At September 30, 2005, the following warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
600,000	\$ 0.30	June 28, 2006
663,250	0.13	February 7, 2007

**GHG RESOURCES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

**10. INCOME TAXES**

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

	2005	2004
		(Restated - Note 3)
Loss for the year	\$ (186,695)	\$ (516,986)
Expected income tax recovery	\$ (65,801)	\$ (183,111)
Difference in foreign tax rates	(3,776)	7,403
Non-deductible expenses	2,764	63,634
Unrecognized benefit of non-capital losses	<u>66,813</u>	<u>112,074</u>
Net income tax recovery	\$ -	\$ -

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

	2005	2004
Future income tax assets:		
Non-capital loss carryforwards	\$ 589,850	\$ 401,000
Plant and equipment	3,414	3,000
Resource properties	<u>2,081,590</u>	<u>2,463,000</u>
	2,674,854	2,867,000
Valuation allowance	<u>(2,674,854)</u>	<u>(2,867,000)</u>
Net future income tax assets	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$1,289,000 in Canada. These losses, if not utilized, will expire through to 2015. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

**11. JOINT VENTURE**

Tun Resources Inc. ("Tun"), the Company's wholly owned subsidiary, entered into a Joint Venture Agreement with the Yunnan Province Dianxi Geological Engineering, Exploration Development Company ("Dianxi") on August 8, 1994. The joint venture was called the Yunnan Yuntong Exploration Company Limited Joint Venture (the "Yunnan Yuntong JV"). Tun's initial capital investment, US\$800,000, earned a 60% interest in the Yunnan Yuntong JV. The term of the Yunnan Yuntong JV is for a period of 15 years expiring in 2009. In the year ended September 30, 2004, the Company increased its interest in the joint venture to 82%, by contributing \$479,018 to the joint venture.

**GHG RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**11. JOINT VENTURE (cont'd...)**

The major components of the Company's interest in the joint venture, included in the consolidated financial statements, are as follows:

	2005	2004
		(Restated - Note 3)
Current assets	\$ 329,154	\$ 365,045
Plant and equipment	89,476	123,385
Current liabilities	<u>87,228</u>	<u>51,700</u>
Sales	\$ 921,976	\$ 544,473
Cost of sales	(744,479)	(316,522)
Expenses	<u>(166,471)</u>	<u>(251,634)</u>
Net income (loss) from joint venture	<u>\$ 11,026</u>	<u>\$ (23,683)</u>
Cash flows resulting from operating activities	<u>\$ 72,654</u>	<u>\$ 25,937</u>
Cash flows resulting from financing activities	<u>\$ (97,501)</u>	<u>\$ -</u>
Cash flows resulting from investing activities	<u>\$ (3,999)</u>	<u>\$ (200,209)</u>

**12. SEGMENTED INFORMATION**

*Industrial information*

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by management, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mining sector. Due to geographic and political diversity, the Company's mining operations are decentralized whereby mining managers are responsible for business results and regional corporate offices provide support to the mining programs in addressing local and regional issues. The Company's operations are therefore segmented on a geographical basis. The Company's mining properties are all located in China.

**GHG RESOURCES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**12. SEGMENTED INFORMATION** (cont'd...)

*Geographical Information*

	2005	2004 (Restated - Note 3)
Sales		
Canada	\$ -	\$ -
China	<u>921,976</u>	<u>544,473</u>
	<u>\$ 921,976</u>	<u>\$ 544,473</u>
Income (loss) for the year		
Canada	\$ (197,721)	\$ (493,303)
China	<u>11,026</u>	<u>(23,683)</u>
	<u>\$ (186,695)</u>	<u>\$ (516,986)</u>
Capital assets		
Canada	\$ 784	\$ 1,729
China	<u>105,281</u>	<u>141,665</u>
	<u>\$ 106,065</u>	<u>\$ 143,394</u>

Revenue from one customer represents \$ 921,976 (2004 - \$544,473) (100%) of the Company's total revenue.

**13. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, advances and receivables, due from related party, accounts payable and accrued liabilities, promissory notes payable and due to related parties. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

As substantially all of the Company's mining operations are conducted in China, the Company is subject to different considerations and other risks not typically associated with companies in North America. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in China, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

**GHG RESOURCES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2005	2004
Cash paid for income taxes during the year	\$ -	\$ -
Cash paid for interest during the year	\$ -	\$ -

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Significant non-cash transactions for the year ended September 30, 2005 included:

- a) The Company issued 77,000 common shares with a value of \$7,700 as a finder's fee for a private placement.

Significant non-cash transactions for the year ended September 30, 2004 included:

- a) The Company issued 174,182 common shares with a value of \$30,659 as finders' fees for private placements.
- b) The Company recorded, using the Black-Scholes option pricing model, stock-based compensation with a fair value of \$177,387.

**15. SUBSEQUENT EVENT**

Subsequent to September 30, 2005, the Company announced its intention to undertake a private placement to issue 550,000 units at a price of \$0.13 per unit for gross proceeds of \$71,500. Each unit will be comprised of one common share and one share purchase warrant. Each warrant will entitle the holder to acquire one additional common share at a price of \$0.15 for a one year period.