

GHG RESOURCES LIMITED.

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February 28, 2006

BY SEDAR

NOTICE TO READER

To the Shareholders of
GHG Resources Limited

The attached financial statements have been prepared by Management of GHG Resources Limited and have not been reviewed by the auditor of GHG Resources Limited.

Yours truly,

GHG RESOURCES LIMITED

“Christopher Fung”

President

GHG RESOURCES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended

DECEMBER 31, 2005

(Unaudited)

GHG RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2005 AND SEPTEMBER 30, 2005

	December 31, 2005	September 30, 2005
ASSETS		
Current		
Cash	\$ 81,118	\$ 289,520
Advances and receivables	36,303	45,589
Prepaid expenses	28,772	3,877
	146,193	338,986
Due from related party (Note 5)	80,470	104,807
Mineral properties (Note 3)	15,805	15,805
Plant and equipment	91,260	90,260
	\$ 333,728	\$ 549,858

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

Current		
Accounts payable and accrued liabilities	\$ 150,027	\$ 278,675
Promissory notes payable (Note 4)	38,002	37,700
Due to related parties (Note 5)	209,445	182,676
	397,475	499,051
Asset retirement obligation (Note 5)	21,928	21,928
	419,402	520,979
Shareholders' equity (deficiency)		
Capital stock (Note 6)	6,908,207	6,908,207
Contributed surplus (Note 7)	186,847	186,847
Shares to be issued	60,600	---
Deficit	(7,016,918)	(6,939,657)
Cumulative translation adjustment	(224,410)	(126,518)
	(85,674)	28,879
	\$ 333,728	\$ 549,858

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

On behalf of the Board:

“Christopher Fung”

Director

“Brian Takeuchi”

Director

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

GHG RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
THREE MONTH PERIOD ENDED DECEMBER 31

	2005	2004
SALES	\$ ---	\$ ---
COST OF SALES	31,034	---
	<u>31,034</u>	<u>---</u>
EXPENSES		
Accounting and audit	900	900
Amortization	315	315
Automobile	1,185	1,185
Consulting	---	(4,863)
Finders fee	---	---
Interest on promissory notes payable	303	460
Management fees	15,000	15,000
Mining exploration costs	---	199,007
Office and administration	13,510	27,910
Transfer agent, filing and regulatory fees	2,613	1,446
Travel, promotion and entertainment	12,402	13,383
	<u>46,227</u>	<u>254,743</u>
Loss before other items	<u>(77,261)</u>	<u>(254,743)</u>
OTHER ITEMS		
Foreign exchange loss (gain)	---	(4,435)
	<u>---</u>	<u>(4,435)</u>
Loss for the period	(77,261)	(250,308)
Deficit, beginning of year	<u>(6,939,657)</u>	<u>(6,750,043)</u>
Deficit, end of period	<u>\$ (7,016,918)</u>	<u>\$ (7,000,351)</u>
Basic and diluted loss per common share	\$ (0.01)	\$ (0.025)
Weighted average number of common shares outstanding	10,673,633	9,844,883

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

GHG RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTH PERIOD ENDED DECEMBER 31

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (77,261)	\$ (250,308)
Items not affecting cash:		
Amortization	315	315
Accrued interest expense on promissory notes payable	302	462
Accrued expenses to related parties	(26,769)	15,891
Change in non-cash working capital items:		
(Increase) decrease in advances and receivables	9,286	23,390
Increase in prepaid expenses	(24,895)	1,837
Increase in accounts payable and accrued liabilities	<u>(125,672)</u>	<u>(11,250)</u>
Net cash used in operating activities	<u>(244,694)</u>	<u>(219,663)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Obligation to issue shares	<u>(60,600)</u>	<u>---</u>
Net cash provided by financing activities	<u>(60,600)</u>	<u>---</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(1,000)	13,232
Investment and advances	<u>-</u>	<u>---</u>
Net cash provided by (used in) investing activities	<u>(1,000)</u>	<u>13,232</u>
Effect of foreign exchange rate on cash	<u>97,892</u>	<u>(39,149)</u>
Change in cash for the period	(208,402)	(245,580)
Cash, beginning of period	<u>289,520</u>	<u>348,162</u>
Cash, end of period	<u>\$ 81,118</u>	<u>\$ 102,582</u>

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

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.

	2005	2004
Working capital (deficiency)	\$ (251,282)	\$ (31,711)
Deficit	(7,016,918)	(7,000,351)

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.

4. MINERAL PROPERTIES

	2005
Yunnan Yuntong Properties, Yunnan Province of China	
Mineral properties	\$ 17,293
Depletion	<u>(1,488)</u>
Mineral properties	<u>\$ 15,805</u>

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.

5. PROMISSORY NOTES PAYABLE

	2005	2004
Principal amount	\$ 27,000	\$ 27,000
Accrued interest	<u>11,002</u>	<u>9,325</u>
	<u>\$ 38,002</u>	<u>\$ 36,325</u>

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

6. RELATED PARTY TRANSACTIONS

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

- a) Paid or accrued accounting fees of \$900 (2004 - \$900) to a director of the Company.
- b) Paid or accrued management fees of \$15,000 (2004 - \$15,000) to a director of the Company.
- c) Paid or accrued office and administration expense of \$5,100 (2004 - \$5,100) to a director 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.

7. 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 December 31, 2005	10,673,633	6,908,207	\$ 186,847

7. 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:

At December 31, 2005, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
420,000	\$ 0.38	March 29, 2009
600,000	\$0.10	September 1, 2010

Warrants

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

	2005
Balance, beginning of year	1,263,250
Balance, end of year	1,263,250

At December 31, 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

8. 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.

Geographical Information

	2005	2004
Sales		
Canada	\$ -	\$ -
China	-	-
	<u>\$ -</u>	<u>\$ -</u>
Income (loss) for the year		
Canada	\$ (39,414)	\$ (29,994)
China	(37,847)	(220,314)
	<u>\$ (77,261)</u>	<u>\$ (250,308)</u>
Capital assets		
Canada	\$ 469	\$ 1,415
China	90,791	110,152
	<u>\$ 91,260</u>	<u>\$ 111,567</u>

9. 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.

10. SUBSEQUENT EVENT

Subsequent to December 31, 2005, the Company closed a private placement to issue 550,000 units at a price of \$0.13 per unit for gross proceeds of \$71,500. Each unit 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.