

# **GHG RESOURCES LIMITED.**

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August 29, 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**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2006 \$	September 30, 2005 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	644,771	289,520
Advances and receivables	58,426	45,589
Prepaid expenses	28,061	3,877
	731,258	338,986
<b>Due from related party</b>	64,963	104,807
<b>Mineral properties</b> (Note 4)	15,805	15,805
<b>Plant and equipment</b>	80,862	90,260
	892,887	549,858
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	162,671	278,675
Promissory notes payable (Note 5)	18,802	37,700
Due to related parties (Note 6)	214,098	182,676
	395,571	499,051
<b>Asset retirement obligation</b>	21,928	21,928
	417,499	520,979
<b>Shareholders' Deficiency</b>		
Capital stock (Note 7)	7,078,329	6,908,207
Contributed Surplus	186,847	186,847
Commitment to issue shares	525,000	---
Deficit	(7,134,795)	(6,939,657)
Cumulative Translation adjustment	(179,993)	(126,518)
	475,388	28,879
	892,887	549,858

On Behalf of the Board:

"Christopher Fung"  
**Director**

"Kenny Chi Ho Lok"  
**Director**

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

**GHG RESOURCES LIMITED**  
CONSOLIDATED STATEMENT OF OPERATIONS OF DEFICIT

	Three Month Period Ended June 30, 2006 \$	Nine Month Period Ended June 30, 2006 \$	Three Month Period Ended June 30, 2005 \$	Nine Month Period Ended June 30, 2005 \$
<b>SALES</b>	485,813	680,491	405,853	647,312
<b>COST OF SALES</b>	406,996	707,110	122,746	313,256
	78,815	(26,619)	283,107	334,056
<b>EXPENSES</b>				
Accounting and audit	5,138	17,338	---	1,817
Amortization	315	945	315	945
Automobile	2,948	5,318	1,185	3,555
Consulting	---	---	---	(4,863)
Finders Fee	---	---	---	7,700
Interest and bank charges	136	312	61	198
Interest on promissory notes payable	299	898	458	1,378
Legal fees	698	4,781	1,873	5,017
Management fees	22,940	45,440	15,000	45,000
Mining Exploration Costs	---	---	142,048	488,166
Office and administration	23,465	52,790	16,821	51,500
Transfer agent and regulatory fees	10,560	22,666	5,394	13,810
Travel, promotion and entertainment	11,273	23,675	---	28,725
	77,772	174,163	180,155	642,943
<b>Gain (Loss) Before Other Items</b>	1,045	(200,782)	102,952	(308,887)
<b>OTHER ITEMS</b>				
Foreign exchange gain	---	---	---	7,791
Gain on debt settlement	---	4,413	---	---
Interest Income	1,189	1,231	---	---
	2,234	(195,138)	102,952	(301,096)
<b>Gain (Loss) for the Period</b>	2,234	(195,138)	102,952	(301,096)
<b>Deficit, Beginning of the Period</b>	(7,137,029)	(6,939,657)	(7,154,091)	(6,750,043)
<b>Deficit, End of the Period</b>	(7,134,795)	(7,134,795)	(7,051,139)	(7,051,139)
Basic and diluted loss per common share	0.0002	(0.02)	0.01	(0.03)
Number of common shares outstanding	12,016,883	12,016,883	10,566,883	10,566,883

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

**GHG RESOURCES LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Three Month Period Ended June 30, 2006 \$</b>	<b>Nine Month Period Ended June 30, 2006</b>	<b>Three Month Period Ended June 30, 2005</b>	<b>Nine Month Period Ended June 30, 2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net Gain (Loss) for the Period	2,234	(195,138)	102,952	(301,096)
Items not affecting cash				
Amortization	315	945	315	945
Accrued interest on promissory notes payable	299	899	458	1,373
Accrued expenses to related parties	(10,798)	(31,422)	(10,048)	31,359
Changes in non-cash working capital items				
Decrease in advances and receivables	(24,100)	(76,865)	10,827	31,716
Increase (decrease) in accounts payable and accrued liabilities	(48,760)	(180,694)	4,766	(75,289)
Net cash Used in Operating Activities	(80,810)	(482,275)	109,279	(314,507)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issue of capital stock	136,981	208,481	---	84,700
Obligation to issue shares	525,000	525,000		
Net Cash Used in Investing Activities	661,981	733,481	---	84,700
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment and advances	10,398	9,398	5,266	26,925
Net Cash Provided by Financing Activities	10,398	9,398	5,266	26,925
<b>Effect of foreign exchange rate on cash</b>	15,969	94,647	64,695	129,383
	607,538	355,251	179,231	(69,984)
<b>Change in Cash During the Year</b>	607,538	355,251	179,231	(69,984)
<b>Cash, Beginning of the Period</b>	37,233	289,520	98,947	348,162
<b>Cash, End of Period</b>	644,771	644,771	278,178	278,178

The accompanying notes are an integral part of these 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.

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	2006	2005
Working capital (deficiency)	\$ (335,687)	\$ (88,356)
Deficit	(7,134,795)	(7,051,139)

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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.

**4. MINERAL PROPERTIES**

	2006
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.

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**

	2006	2005
Principal amount	\$ 12,000	\$ 27,000
Accrued interest	6,802	10,236
	<u>\$ 18,802</u>	<u>\$ 37,416</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 \$3,357 (2005 - \$2,700) to a director of the Company.
- b) Paid or accrued management fees of \$45,400 (2005 - \$45,000) to a director of the Company.
- c) Paid or accrued office and administration expense of \$13,293 (2004 - \$16,200) 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 September 30, 2005	10,673,633	6,908,207	\$ 186,847
Private placement	550,000	71,500	-
Exercise of warrants	543,250	73,622	-
Exercise of stock options	250,000	25,000	-
Balance as at March 31, 2006	12,016,883	\$ 7,078,329	\$ 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 June 30, 2006, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
420,000	\$ 0.38	March 29, 2009
350,000	\$0.10	September 1, 2010

**Warrants**

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

	2006
Balance, beginning of year	1,813,250
Exercised warrants	543,250
Expired warrants	<u>600,000</u>
Balance, end of June, 2006	670,000

At June 30, 2006, the following warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
270,000	0.13	February 7, 2007
400,000	0.15	January 11, 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*

	2006	2005
Sales		
Canada	\$ -	\$ -
China	680,491	647,312
	<u>\$ 680,491</u>	<u>\$ 647,312</u>
Income (loss) for the year		
Canada	\$ (139,094)	\$ (118,705)
China	(56,044)	(182,391)
	<u>\$ (195,138)</u>	<u>\$ (301,095)</u>
Capital assets		
Canada	\$ 2,898	\$ 6,129
China	77,964	436,050
	<u>\$ 80,862</u>	<u>\$ 442,179</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 June 30, 2006, the Company closed a private placement to issue 10,000,000 units at a price of \$0.15 per unit for gross proceeds of \$1,500,000. 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 \$0.20 for a one year period. A 7 ½ % finder's fee was paid in common shares of the Company.