

GHG RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

AUDITORS' REPORT

To the Shareholders of
GHG Resources Limited

We have audited the consolidated balance sheets of GHG Resources Limited as at September 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 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.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

November 1, 2006

A Member of SC INTERNATIONAL

GHG RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30

	2006	2005
ASSETS		
Current		
Cash	\$ 4,173,910	\$ 289,520
Advances and receivables	81,225	45,589
Inventories (Note 3)	71,099	-
Prepaid expenses	<u>3,385</u>	<u>3,877</u>
	4,329,619	338,986
Due from related parties (Note 8)	45,029	104,807
Mineral properties (Note 4)	23,329	15,805
Plant and equipment (Note 6)	<u>77,254</u>	<u>90,260</u>
	<u>\$ 4,475,231</u>	<u>\$ 549,858</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 1,381,828	\$ 278,675
Promissory notes payable (Note 7)	19,487	37,700
Due to related parties (Note 8)	<u>173,242</u>	<u>182,676</u>
	1,574,557	499,051
Asset retirement obligation (Note 5)	<u>33,385</u>	<u>21,928</u>
	<u>1,607,942</u>	<u>520,979</u>
Shareholders' equity		
Capital stock (Note 9)	8,609,088	6,908,207
Contributed surplus (Note 9)	229,908	186,847
Deficit	(5,805,072)	(6,939,657)
Cumulative translation adjustment	<u>(166,635)</u>	<u>(126,518)</u>
	<u>2,867,289</u>	<u>28,879</u>
	<u>\$ 4,475,231</u>	<u>\$ 549,858</u>

Nature and continuance of operations (Note 1)

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

	2006	2005
SALES	\$ 949,835	\$ 921,976
COST OF SALES	<u>713,321</u>	<u>685,723</u>
	<u>236,514</u>	<u>236,253</u>
EXPENSES		
Accounting and audit	66,691	42,716
Accretion of asset retirement obligation	2,053	2,084
Amortization	23,221	32,615
Automobile	8,044	4,740
Consulting	17,290	-
Directors' salaries	209,511	60,244
Foreign exchange gain	(1,313)	(2,217)
Interest on promissory notes payable	1,594	1,837
Legal fees	8,570	5,017
Management fees	22,500	60,000
Mining exploration costs	-	83,252
Office and administration	23,029	28,324
Stock-based compensation	73,819	-
Transfer agent, filing and regulatory fees	23,773	14,254
Travel, promotion and entertainment	<u>61,817</u>	<u>89,789</u>
	<u>540,599</u>	<u>422,655</u>
Loss before other items	<u>(304,085)</u>	<u>(186,402)</u>
OTHER ITEMS		
Interest income	9,910	1,121
Gain on sales of mineral properties (Note 4)	1,424,347	-
Gain on settlement of debts	4,413	-
Write-off of receivables	-	(1,414)
	<u>1,438,670</u>	<u>(293)</u>
Income (loss) for the year	1,134,585	(186,695)
Deficit, beginning of year	<u>(6,939,657)</u>	<u>(6,752,962)</u>
Deficit, end of year	<u>\$ (5,805,072)</u>	<u>\$ (6,939,657)</u>
Basic income (loss) per common share	<u>\$ 0.08</u>	<u>\$ (0.02)</u>
Diluted income (loss) per common share (Note 10)	<u>\$ 0.08</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding - basic	<u>13,402,700</u>	<u>10,323,186</u>
Weighted average number of common shares outstanding - diluted	<u>13,885,616</u>	<u>10,323,186</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

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the year	\$ 1,134,585	\$ (186,695)
Items not affecting cash:		
Amortization	23,221	32,615
Accretion of asset retirement obligation	2,053	2,084
Accrued interest expense on promissory notes payable	1,200	1,837
Depletion	2,087	1,488
Unrealized foreign exchange gain	(1,313)	(2,217)
Gain on settlement of debts	(4,413)	-
Gain on sales of mineral properties	(1,424,347)	-
Stock-based compensation	73,819	-
Write-off of receivables	-	1,414
Change in non-cash working capital items:		
Increase in advances and receivables	(37,097)	(20,654)
Increase in inventories	(71,099)	-
Decrease in prepaid expenses	416	3,973
Increase in due to related parties	31,015	108,699
Increase (decrease) in accounts payable and accrued liabilities	(72,578)	26,247
Net cash used in operating activities	<u>(342,451)</u>	<u>(31,209)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of capital stock (net of issuance costs)	1,670,123	90,879
Repayment of promissory notes	(15,000)	-
Due to related parties	-	(96,394)
Net cash provided by (used in) financing activities	<u>1,655,123</u>	<u>(5,515)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(12,495)	(3,999)
Gross proceeds on sale of mineral properties	2,922,480	-
Expenses paid on sale of mineral properties	(303,938)	-
Net cash provided by (used in) investing activities	<u>2,606,047</u>	<u>(3,999)</u>
Effect of foreign exchange rate on cash	<u>(34,329)</u>	<u>(17,919)</u>
Change in cash for the year	3,884,390	(58,642)
Cash, beginning of year	<u>289,520</u>	<u>348,162</u>
Cash, end of year	<u>\$ 4,173,910</u>	<u>\$ 289,520</u>

Supplemental disclosure with respect to cash flows (Note 15)

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

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

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 currently in the production stage, and is continuing 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.

	2006	2005
Working capital (deficiency)	\$ 2,755,062	\$ (160,065)
Deficit	(5,805,072)	(6,939,657)

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 venture assets, liabilities, revenues and expenses are allocated between the Company and its joint venture partner based on each venturers' pro-rated 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, is charged to operations on a unit of production method based on estimated 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.

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...)

Inventories

Inventories are stated at the lower of average cost and net realizable value.

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.

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

3. INVENTORIES

Inventories primarily consist of gold that is carried at the lower of cost and net realizable value. Chemical materials are carried at the lower of cost and replacement cost. Cost is determined on a weighted average basis.

	2006	2005
Inventories		
Chemical materials	\$ 4,049	\$ -
Gold	<u>67,050</u>	<u>-</u>
	<u>\$ 71,099</u>	<u>\$ -</u>

4. MINERAL PROPERTIES

	2006	2005
Yunnan Yuntong Properties, Yunnan Province of China		
Balance, beginning of year	\$ 15,805	\$ -
Asset retirement obligation	10,015	17,257
Depletion	(2,087)	(1,488)
Effect of foreign exchange rate	<u>(404)</u>	<u>36</u>
Balance, end of year	<u>\$ 23,329</u>	<u>\$ 15,805</u>

The Company, through its wholly owned subsidiary, Tun Resources Inc. owned 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 and the Bianfushan exploration licence area and mining concession, which have been in production; and the Jiazutian (formerly Lannitang) exploration licence area, which is in the exploration and development stage. The Company’s interests in its mineral properties are held through the Yunnan Yuntong JV, a Chinese joint venture company (Note 12).

On August 29, 2006, the Company signed a Contract of Transferring Exploration Properties with Simao Municipal Bureau of Land and Resources in Yunnan Province (“Simao”) to transfer the title of the above three mineral properties to Simao for gross proceeds of RMB 25 million. After transferring the title to Simao, the Company will still keep the mining rights of Shangzhai and Bianfushan, which will allow the Company to mine gold on the two properties until the current mining rights expire in June 2011. However, the Company can do no further exploration on the properties. Related to this transaction, the Company paid a consulting fee of RMB 2.5 million to a company for its help in negotiating the deal. In addition, the Company accrued at year end RMB 1,250,000 of business tax , RMB 100,000 of property valuation fees and RMB 8,965,600 of government assessment in connection with the transaction, resulting in net proceeds of RMB 12,184,400 from the sale of the mineral titles.

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. MINERAL PROPERTIES (cont'd...)

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. 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.

	2006		2005	
Balance, beginning of year	\$	21,928	\$	-
Asset retirement obligation		10,015		19,895
Accretion expense		2,053		2,084
Effect of foreign exchange rate		(611)		(51)
Balance, end of year	\$	33,385	\$	21,928

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 \$42,916 (2005 - \$35,670). The obligation was calculated using a credit-adjusted risk free discount rate of 6.48% (2005 - 6.12%) and an inflation rate of 3.6% (2005 - 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 of.

6. PLANT AND EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Automobile	\$ 146,547	\$ 83,845	\$ 62,702	\$ 148,170	\$ 72,103	\$ 76,067
Computer equipment	30,834	20,192	10,642	27,541	16,908	10,633
Plant, machinery and equipment	<u>22,545</u>	<u>18,635</u>	<u>3,910</u>	<u>21,564</u>	<u>18,004</u>	<u>3,560</u>
	\$ 199,926	\$ 122,672	\$ 77,254	\$ 197,275	\$ 107,015	\$ 90,260

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

7. PROMISSORY NOTES PAYABLE

	2006	2005
Principal amount	\$ 37,700	\$ 27,000
Repayments	(15,000)	-
Write-off of accrued interest	(4,413)	-
Accrued interest	<u>1,200</u>	<u>10,700</u>
	<u>\$ 19,487</u>	<u>\$ 37,700</u>

The promissory notes are payable on demand, are unsecured and bear interest at 10% per annum.

8. RELATED PARTY TRANSACTIONS

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

- a) Paid or accrued accounting fees of \$900 (2005 - \$14,400) to a director of the Company.
- b) Paid or accrued management fees of \$22,500 (2005 - \$60,000) to a director of the Company.
- c) Paid or accrued office and administration expense of \$3,600 (2005 - \$9,600) 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.

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
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 placements	10,550,000	1,571,500	-
Finders' fee	750,000	112,500	-
Share issuance costs	-	(112,500)	-
Exercise of warrants	543,250	73,623	-
Exercise of options	250,000	55,758	(30,758)
Stock-based compensation	-	-	73,819
Balance as at September 30, 2006	22,766,883	\$ 8,609,088	\$ 229,908

During the year ended September 30, 2006, the Company:

- i) Completed a non-brokered private placement consisting of 10,000,000 units issued at \$0.15 each for gross proceeds of \$1,500,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.20 per share for a period of one year from closing. In connection with the private placement, the Company issued 750,000 shares with a value of \$112,500 as a finder's fee.
- ii) Completed a non-brokered private placement consisting of 550,000 units issued at a price of \$0.13 each for gross proceeds of \$71,500. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.15 per share for a period of one year from closing.

During the year ended September 30, 2005, the Company:

- i) Completed a non-brokered private placement consisting of 770,000 units issued at \$0.10 each for gross proceeds of \$77,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.13 per share for a period of two years from closing. In connection with the private placement, the Company's issued 77,000 shares with a value of \$7,700 as a finder's fee.

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

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

Stock options

Under its 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 preceding 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:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	420,000	\$ 0.38	700,000	\$ 0.38
Granted	600,000	0.10	-	-
Exercised	(250,000)	0.10	-	-
Cancelled	-	-	(280,000)	0.38
Outstanding, end of year	770,000	\$ 0.25	420,000	\$ 0.38
Exercisable, end of year	770,000	\$ 0.25	420,000	\$ 0.38

At September 30, 2006, the following stock options were outstanding:

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

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

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

Stock-based compensation

The fair value of stock options granted totalled \$73,819 (2005 - \$ Nil), all of which was expensed in the year.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the years ended September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	3.75%	-
Expected life	5 years	-
Annualized volatility	163.57%	-
Dividend rate	N/A	-

The weighted average fair value of options granted was \$0.12 (2005 – \$ Nil).

Warrants

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

	<u>2006</u>		<u>2005</u>	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	1,263,250	\$ 0.21	2,136,676	\$ 0.32
Issued	10,550,000	0.20	770,000	0.13
Exercised	(543,250)	0.14	(106,750)	0.21
Expired	<u>(600,000)</u>	0.30	<u>(1,536,676)</u>	0.21
Balance, end of year	10,670,000	\$ 0.20	1,263,250	\$ 0.21
Exercisable, end of year	10,670,000	\$ 0.20	1,263,250	\$ 0.21

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Warrants (cont'd...)

At September 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 10, 2007
10,000,000	\$0.20	July 5, 2007

10. INCOME (LOSS) PER SHARE

A reconciliation of the numerator and the denominator of the basic and diluted per share computations are summarized as follows:

	2006		
	Income (numerator)	Shares (denominator)	Per Share Amount
Basic earnings per share			
Income available to common shareholders	\$ 1,134,585	13,402,700	<u>\$0.08</u>
Effect of dilutive securities			
Warrants	-	299,583	
Options	<u>-</u>	<u>183,333</u>	
Diluted earnings per share			
Income available to common shareholders plus assumed exercises	\$ 1,134,585	13,885,616	\$0.08

11. INCOME TAXES

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

	2006		2005	
Income (loss) for the year	\$ 1,134,585	\$	(186,695)	
Expected income tax expense (recovery)	\$ 415,485	\$	(65,801)	
Difference in foreign tax rates	(537,439)		(3,776)	
Non-deductible expenses	21,577		2,764	
Unrecognized benefit of non-capital losses	<u>100,377</u>	<u></u>	<u>66,813</u>	
Net income tax (recovery)	\$ -	\$	-	

GHG RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. INCOME TAXES (cont'd...)

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

	2006	2005
Future income tax assets:		
Non-capital loss available for future periods	\$ 501,727	\$ 589,850
Capital loss available	441,612	441,612
Plant and equipment	4,008	3,414
Resource properties	<u>1,336,362</u>	<u>2,081,590</u>
	2,283,709	3,116,466
Valuation allowance	<u>(2,283,709)</u>	<u>(3,116,466)</u>
Net future income tax assets	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$1,370,000 in Canada. These losses, if not utilized, will expire through to 2026. 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.

12. 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.

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12. 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:

	2006	2005
Current assets	\$ 2,931,081	\$ 329,154
Capital assets	98,001	105,281
Current liabilities	1,227,083	87,228
Sales	\$ 949,835	\$ 921,976
Cost of sales	(713,321)	(685,723)
Expenses	(194,197)	(225,227)
Other income	1,424,792	-
Net income from joint venture	\$ 1,467,109	\$ 11,026
Cash flows resulting from operating activities	\$ (79,675)	\$ 72,654
Cash flows resulting from financing activities	\$ -	\$ (97,501)
Cash flows resulting from investing activities	\$ 2,609,107	\$ (3,999)

13. SEGMENTED INFORMATION

Industrial information

The Company has one operating segment that being the exploration, development and mining of natural resources. The Company's mining properties are all located in China.

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13. SEGMENTED INFORMATION (cont'd...)

Geographical Information

	2006	2005
Sales		
Canada	\$ -	\$ -
China	<u>949,835</u>	<u>921,976</u>
	<u>\$ 949,835</u>	<u>\$ 921,976</u>
Income (loss) for the year		
Canada	\$ (332,524)	\$ (197,721)
China	<u>1,467,109</u>	<u>11,026</u>
	<u>\$ 1,134,585</u>	<u>\$ (186,695)</u>
Capital assets		
Canada	\$ 2,582	\$ 784
China	<u>98,001</u>	<u>105,281</u>
	<u>\$ 100,583</u>	<u>\$ 106,065</u>

Revenue from one customer represents \$949,835 (2005 - \$ 921,976) (100%) of the Company's total revenue.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, advances and receivables, due from related parties, 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 remittances abroad, and rates and methods of taxation, among other things.

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15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2006	2005
Cash paid for income taxes during the year	\$ -	\$ -
Cash paid for interest during the year	\$ -	\$ -

Significant non-cash transactions for the year ended September 30, 2006 included:

- a) The Company issued 750,000 common shares with a value of \$112,500 as a finder's fee for a private placement.
- b) The Company recorded a value of \$30,758 into share capital due to 250,000 stock options being exercised during the year.
- c) The Company recorded stock-based compensation of \$73,819 as calculated using the Black-Scholes option pricing model.

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.