

VALLEY HIGH VENTURES LTD.

FINANCIAL STATEMENTS

OCTOBER 31, 2005

AUDITORS' REPORT

To the Shareholders of
Valley High Ventures Ltd.

We have audited the balance sheets of Valley High Ventures Ltd. as at October 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 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

February 24, 2006

A Member of SC INTERNATIONAL

VALLEY HIGH VENTURES LTD.
BALANCE SHEETS
AS AT OCTOBER 31

	2005	2004
ASSETS		
Current		
Cash	\$ 24,144	\$ 128,827
Receivables	<u>2,269</u>	<u>3,151</u>
	26,413	131,978
Mineral property interests (Note 3)	<u>844,660</u>	<u>111,301</u>
	<u>\$ 871,073</u>	<u>\$ 243,279</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 195,703	\$ 130,206
Loan payable (Note 4)	-	31,165
Due to related parties (Note 5)	<u>77,725</u>	<u>-</u>
	<u>273,428</u>	<u>161,371</u>
Shareholders' equity		
Capital stock (Note 6)	3,219,058	2,098,392
Subscriptions received in advance (Note 6)	42,750	460,000
Contributed surplus (Note 6)	195,777	-
Deficit	<u>(2,859,940)</u>	<u>(2,476,484)</u>
	<u>597,645</u>	<u>81,908</u>
	<u>\$ 871,073</u>	<u>\$ 243,279</u>

Nature and continuance of operations (Note 1)

Subsequent event (Note 12)

On behalf of the Board:

“Kathrine MacDonald”

“David Bailey”

 Director

 Director

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

VALLEY HIGH VENTURES LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED OCTOBER 31

	2005	2004
EXPENSES		
Administrative	\$ 18,000	\$ 12,000
Consulting	10,560	3,000
Interest	2,975	12,872
Management fees	90,000	90,000
Professional fees	24,417	10,295
Regulatory, transfer agent and filing fees	10,676	13,658
Rent and office	31,051	20,794
Stock-based compensation (Note 6)	<u>195,777</u>	<u>-</u>
Loss for the year	(383,456)	(162,619)
Deficit, beginning of year	<u>(2,476,484)</u>	<u>(2,313,865)</u>
Deficit, end of year	<u>\$ (2,859,940)</u>	<u>\$ (2,476,484)</u>
Basic and diluted loss per share	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding	<u>7,084,519</u>	<u>4,199,953</u>

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

VALLEY HIGH VENTURES LTD.
STATEMENTS OF CASH FLOWS
YEAR ENDED OCTOBER 31

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (383,456)	\$ (162,619)
Items not affecting cash:		
Accrued interest on amounts due to a related parties	2,975	-
Accrued interest on loan payable	-	10,859
Stock-based compensation	195,777	-
Change in non-cash working capital items:		
(Increase) decrease in receivables	882	(2,027)
Increase in accounts payable and accrued liabilities	<u>139,019</u>	<u>11,652</u>
Net cash used in operating activities	<u>(44,803)</u>	<u>(142,135)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property expenditures	<u>(57,215)</u>	<u>(48,326)</u>
Net cash used in investing activities	<u>(57,215)</u>	<u>(48,326)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Subscriptions received in advance	42,750	460,000
Share issue costs	(14,000)	-
Repayment of loan payable	(31,165)	(100,000)
Amounts due to related parties	79,750	-
Repayment of amounts due to related parties	<u>(80,000)</u>	<u>(153,993)</u>
Net cash provided by (used in) financing activities	<u>(2,665)</u>	<u>206,007</u>
Change in cash during the year	(104,683)	15,546
Cash, beginning of year	<u>128,827</u>	<u>113,281</u>
Cash, end of year	<u>\$ 24,144</u>	<u>\$ 128,827</u>
Cash paid during the year for interest	<u>\$ 11,165</u>	<u>\$ 7,228</u>
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 7)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated in the Province of British Columbia. The Company is pursuing opportunities in the exploration of mineral and natural resource properties and is considered to be in the exploration stage.

The Company is in the process of acquiring and exploring its mineral property interests and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral property interests and related deferred exploration costs are 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 financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

	2005	2004
Deficit	\$ (2,859,940)	\$ (2,476,484)
Working capital (deficiency)	(247,015)	(29,393)

2. SIGNIFICANT ACCOUNTING POLICIES

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.

Mineral property interests

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

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

Mineral property interests (cont'd...)

The amounts shown for mineral property interests do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

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 the related capitalized asset retirement cost.

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.

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.

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 loss 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. For the year ended October 31, 2005, this calculation proved to be anti-dilutive. There were no anti-dilutive instruments outstanding as of October 31, 2004.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

VALLEY HIGH VENTURES LTD.
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2005

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

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

Comparative figures

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

3. MINERAL PROPERTY INTERESTS

	Yemen Property	British Columbia Properties	October 31, 2005	October 31, 2004 Yemen Property
Acquisition costs:				
Balance, beginning of year	\$ 48,001	\$ -	\$ 48,001	\$ 1
Additions	<u>-</u>	<u>699,666</u>	<u>699,666</u>	<u>48,000</u>
Balance, end of year	<u>48,001</u>	<u>699,666</u>	<u>747,667</u>	<u>48,001</u>
Exploration costs:				
Balance, beginning of year	<u>63,300</u>	<u>-</u>	<u>63,300</u>	<u>14,974</u>
Accommodation and travel	-	4,428	4,428	4,385
Consulting fees	-	24,788	24,788	-
Field expenditures	-	3,977	3,977	-
Prospecting permits	-	500	500	13,651
Personnel and labour	-	-	-	18,196
Samples	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,094</u>
	<u>-</u>	<u>33,693</u>	<u>33,693</u>	<u>48,326</u>
Balance, end of year	<u>63,300</u>	<u>33,693</u>	<u>96,993</u>	<u>63,300</u>
Total costs	<u>\$ 111,301</u>	<u>\$ 733,359</u>	<u>\$ 844,660</u>	<u>\$ 111,301</u>

3. MINERAL PROPERTY INTERESTS (cont'd...)

Title to mineral properties

Title to mineral 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 mineral 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 are in good standing.

Yemen Property

During fiscal 2004, pursuant to the acquisition of an exploration license that provided the Company with the rights to prospect for all minerals other than hydrocarbons in an area located in west central Yemen, the Company issued 200,000 common shares valued at \$48,000. The Company has agreed to pay a finder's fee of 20,000 common shares.

In August of 2005, the Company agreed to renew the exploration license for a period of two years expiring August 2007. Subsequent to October 31, 2005, the Company obtained a prospecting permit expiring August, 2006 and paid US\$25,000 pursuant to the prospecting permit and exploration license.

British Columbia Properties

The Company entered into purchase agreements for the following mining claims which are located in the Mount Polley area of the Cariboo Mining division of central British Columbia:

Nordik claims

The Company acquired a 100% interest in the Nordik mineral claims in consideration for the issuance of 666,666 common shares valued at \$153,333. The vendors retained a 2% net smelter returns royalty ("NSR") on the claims, with a buyout of \$500,000 for each one-half percent.

Calm claims

The Company acquired a 100% interest in the Calm mineral claims in consideration for the issuance of 333,333 common shares valued at \$76,667 and a cash payment of \$25,000. The vendors retained a 2% NSR on the claims, with a buyout of \$500,000 for each one-half percent.

Pay, A and OCT claims

The Company acquired a 100% interest in the Pay, A and OCT mineral claims in consideration for the issuance of 733,334 common shares valued at \$168,666. The vendors retained a 2% NSR on the claims, with a buyout of \$500,000 for each one-half percent.

Lloyd claims

The Company acquired a 90% interest in the Lloyd mineral claims in consideration for the issuance of 1,020,000 common shares valued at \$234,600. The Company also acquired 1.5% NSR on 100% of certain of the Lloyd claims in consideration for the issuance of 180,000 common shares valued at \$41,400.

VALLEY HIGH VENTURES LTD.
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4. LOAN PAYABLE

	2005	2004
Loan bearing interest at 12% per annum, unsecured, payable on demand	\$ -	\$ 20,000
Accrued interest	<u>-</u>	<u>11,165</u>
	<u>\$ -</u>	<u>\$ 31,165</u>

5. DUE TO RELATED PARTIES

	2005	2004
Due to a company controlled by a director, unsecured, bearing interest at 12% per annum with no fixed date of repayment. The amount includes accrued interest of \$731 (2004 - \$Nil).	\$ 24,011	\$ -
Due to a company controlled by a relative of a director, unsecured, bearing interest at 12% per annum with no fixed date of repayment. The amount includes accrued interest of \$2,244 (2004 - \$ Nil).	<u>53,714</u>	<u>-</u>
	<u>\$ 77,725</u>	<u>\$ -</u>

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
Issued			
Balance as at October 31, 2003	4,132,008	\$ 2,050,392	\$ -
Mineral property interest (Note 3)	<u>200,000</u>	<u>48,000</u>	<u>-</u>
Balance as at October 31, 2004	4,332,008	2,098,392	-
Mineral property interests (Note 3)	2,933,333	674,666	-
Private placement	2,000,000	460,000	-
Finders' fees	200,000	46,000	-
Share issue costs	-	(60,000)	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>195,777</u>
Balance as at October 31, 2005	<u>9,465,341</u>	<u>\$ 3,219,058</u>	<u>\$ 195,777</u>

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

Included in issued capital stock are 93,749 common shares that are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with, without the consent of the regulatory authorities. Subsequent to October 31, 2005, these common shares were returned to treasury and cancelled.

During the current fiscal year, the Company issued 2,000,000 units for which the proceeds of \$460,000 had been received in the prior fiscal year. Each unit consisted of one common share and one warrant entitling the holder to acquire one additional common share for a price of \$0.30 per share until August 26, 2006. A finders' fee of 200,000 units with the same terms and conditions was also issued.

Subscriptions received in advance

During fiscal 2005, the Company received proceeds of \$42,750 pursuant to subscription agreements towards the issuance of 1,927,388 non flow-through common shares and 571,888 flow-through common shares of the Company (Note 12).

Stock options and warrants

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of five years with vesting provisions determined by the board of directors.

Stock option and share purchase warrant activity is summarized as follows:

	Options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, October 31, 2003 and 2004	-	\$ -	-	\$ -
Granted	500,000	0.45	2,200,000	0.30
Exercised	-	-	-	-
Expired/cancelled	-	-	-	-
Outstanding, October 31, 2005	500,000	\$ 0.45	2,200,000	\$ 0.30
Exercisable, October 31, 2005	500,000	\$ 0.45	2,200,000	\$ 0.30

VALLEY HIGH VENTURES LTD.
NOTES TO THE FINANCIAL STATEMENTS
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6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options and warrants (cont'd...)

As at October 31, 2005, stock options and share purchase warrants were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	500,000	\$ 0	September 27, 2010
Warrants	2,200,000	\$ 0	August 26, 2006

During fiscal 2005, the Company granted 500,000 options valued at \$195,777 which has been recognized as stock-based compensation.

The weighted average fair value per option granted was \$0.39.

The following assumptions were used for the Black-Scholes valuation of stock options granted during fiscal 2005:

Risk-free interest rate	3.58%
Expected life of options	5 years
Annualized volatility	80%
Dividend rate	0.00%

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during fiscal 2005 include the Company:

- a) Issuing 2,933,333 common shares at a value of \$674,666 pursuant to the acquisition of mineral property interests.
- b) Issuing 2,000,000 units for subscription proceeds of \$460,000 received in fiscal 2004.
- c) Issuing 200,000 units at a value of \$46,000 for finders' fees.
- d) Reclassifying \$75,000 of accounts payable to due to related party.
- e) Incurring mineral property expenditures of \$1,478 through accounts payable.

The significant non-cash transaction during fiscal 2004 consisted of the Company issuing 200,000 common shares valued at \$48,000 for the acquisition of the mineral property interest.

VALLEY HIGH VENTURES LTD.
NOTES TO THE FINANCIAL STATEMENTS
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8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$90,000 (2004 - \$90,000) to a company controlled by a director.
- b) Paid or accrued administrative expenses of \$18,000 (2004 - \$12,000) to a relative of a director.
- c) Paid or accrued rent and office expenses of \$30,000 (2004 - \$6,000) to a company controlled by a director.
- d) Paid or accrued interest expense of \$2,975 (2004 - \$511) to a company controlled by a director and a company controlled by a relative of a director.
- e) Reclassifying \$75,000 of accounts payable due to a company controlled by a director when the related party assumed the debt.

Included in accounts payable is \$161,064 (2004 - \$23,064) due to a company controlled by a director for unpaid management fees, administrative, rent and office expenses.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. INCOME TAXES

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

	2005	2004
Loss before income taxes	\$ (383,456)	\$ (162,619)
Expected income tax (recovery)	\$ (135,148)	\$ (57,892)
Non-deductible items	106,920	33,974
Unrecognized benefit of non-capital losses	<u>28,228</u>	<u>23,918</u>
Total income tax recovery	<u>\$ -</u>	<u>\$ -</u>

VALLEY HIGH VENTURES LTD.
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2005

9. INCOME TAXES (cont'd...)

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

	2005	2004
Future income tax assets:		
Non-capital loss carryforwards	\$ 191,000	\$ 199,000
Resource expenditures	158,000	142,000
Share issue costs	<u>16,000</u>	<u>-</u>
	365,000	341,000
Less valuation allowance	<u>(365,000)</u>	<u>(341,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$560,000 in non-capital losses available to reduce taxable income of future years. If not utilized, these losses 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 losses, resource deductions and share issue costs have not been recognized in these financial statements and have been offset by a valuation allowance.

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loan payable and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

11. SEGMENTED INFORMATION

The Company currently operates in Canada in one business segment, being the acquisition and exploration of mineral property interests. The Company assets are located in Canada except for its mineral property interests which are located in the Yemen and Canada (Note 3).

12. SUBSEQUENT EVENT

Subsequent to October 31, 2005, the Company issued 1,927,388 non flow-through and 571,888 flow-through shares for gross proceeds of \$1,124,674, of which \$122,248 is still to be received by the Company. The Company paid finders' fees of \$65,529 in conjunction with this share issuance.