

**VALLEY HIGH VENTURES LTD.**

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2006 and 2005**

**DE VISSER GRAY LLP**  
**CHARTERED ACCOUNTANTS**

401 - 905 West Pender Street  
Vancouver, BC Canada  
V6C 1L6

Tel: (604) 687-5447  
Fax: (604) 687-6737

**AUDITORS' REPORT**

To the Shareholders of Valley High Ventures Ltd.

We have audited the balance sheet of Valley High Ventures Ltd. as at October 31, 2006 and the statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at October 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report to the shareholders dated February 24, 2006.

"De Visser Gray"

**CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
February 7, 2007

**VALLEY HIGH VENTURES LTD.**  
**BALANCE SHEETS**  
**AS AT OCTOBER 31,**

	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$115,459	\$24,144
Receivables	61,516	2,269
	176,975	26,413
<b>Equipment</b> (Note 4)	20,165	-
<b>Mineral property interests</b> (Note 3)	1,863,416	844,660
	<u>\$ 2,060,556</u>	<u>\$ 871,073</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 46,654	\$ 195,703
Due to related parties (Note 5)	36,215	77,725
	82,869	273,428
<b>Shareholders' equity</b>		
Capital stock (Note 6)	4,972,654	3,219,058
Subscriptions received in advance (Note 6)	-	42,750
Contributed surplus (Note 6)	275,640	195,777
Deficit	(3,270,607)	(2,859,940)
	1,977,687	597,645
	<u>\$ 2,060,556</u>	<u>\$ 871,073</u>

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

**On behalf of the Board:**

\_\_\_\_\_  
 "Kathrine MacDonald" Director

\_\_\_\_\_  
 "Patrice Nazareno" 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,**

	2006	2005
<b>EXPENSES</b>		
Administrative	\$ 18,000	\$ 18,000
Consulting	68,033	10,560
Interest	745	2,975
Management fees	90,000	90,000
Professional fees	59,500	24,417
Regulatory, transfer agent and filing fees	15,517	10,676
Rent and office	39,078	31,051
Travel and promotion	43,832	-
Shareholder costs	1,136	-
Stock-based compensation (Note 6)	79,863	195,777
Interest income	(5,037)	-
<b>Loss for the year</b>	(410,667)	(383,456)
<b>Deficit, beginning of year</b>	(2,859,940)	(2,476,484)
<b>Deficit, end of year</b>	\$ (3,270,607)	\$ (2,859,940)
<b>Basic and diluted loss per share</b>	\$ (0.03)	\$ (0.05)
<b>Weighted average number of shares outstanding</b>	13,674,390	7,084,519

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

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

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (410,667)	\$ (383,456)
Items not affecting cash:		
Accrued interest on amounts due to a related parties	731	2,975
Stock-based compensation	79,863	195,777
	<u>(330,073)</u>	<u>(184,704)</u>
Change in non-cash working capital items:		
(Increase) decrease in receivables	(59,247)	882
Increase (decrease) in accounts payable and accrued liabilities	(41,315)	139,019
Decrease in amounts due to related parties	(83,785)	-
Net cash used in operating activities	<u>(514,420)</u>	<u>(44,803)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(22,828)	-
Property acquisition costs	(20,000)	-
Mineral property expenditures	(950,108)	(57,215)
Net cash used in investing activities	<u>(992,936)</u>	<u>(57,215)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share capital issued	1,741,925	-
Subscriptions received in advance	-	42,750
Share issue costs	(65,529)	(14,000)
Repayment of loan payable	-	(31,165)
Amounts due to related parties	-	79,750
Repayment of amounts due to related parties	(77,725)	(80,000)
Net cash provided by financing activities	<u>1,598,671</u>	<u>(2,665)</u>
<b>Change in cash during the year</b>	<b>91,315</b>	<b>(104,683)</b>
<b>Cash, beginning of year</b>	<b>24,144</b>	<b>128,827</b>
<b>Cash, end of year</b>	<b>\$ 115,459</b>	<b>\$ 24,144</b>
<b>Cash paid during the year for interest</b>	<b>\$ 11,165</b>	<b>\$ 11,165</b>
<b>Cash paid during the year for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

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.

	2006	2005
Deficit	\$ (3,270,607)	\$ (2,859,940)
Working capital (deficiency)	94,106	(247,015)

**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 tax rates expected to apply when the asset is realized or the liability settled. 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, 2006, this calculation proved to be anti-dilutive. There were no anti-dilutive instruments outstanding as of October 31, 2005.

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, 2006

**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**

	October 31, 2005	Additional Expenditures	October 31, 2006
	\$	\$	\$
<b>Yemen Property</b>			
Acquisition costs	48,001	-	48,001
Deferred exploration costs			
Personnel and labour	18,196	-	18,196
Prospecting permit	28,625	29,316	57,941
Samples	12,094	-	12,094
Travel and transportation	4,385	-	4,385
	<u>111,301</u>	<u>29,316</u>	<u>140,617</u>
<b>British Columbia Property</b>			
Acquisition costs	699,666	54,450	754,116
Deferred exploration costs			
Amortization	-	2,663	2,663
Accommodation and travel	4,428	41,573	46,001
Geological consulting	24,788	175,750	200,538
Field and exploration costs	3,977	178,513	182,490
Prospecting permits	500	4,647	5,147
Survey	-	121,069	121,069
Exploration salaries and wages	-	29,865	29,865
Equipment	-	5,188	5,188
Drilling	-	329,980	329,980
Assay	-	32,009	32,009
Fuel	-	3,679	3,679
Vehicles	-	2,318	2,318
Office and sundry	-	7,736	7,736
	<u>733,359</u>	<u>989,440</u>	<u>1,722,799</u>
<b>Total</b>	<b><u>844,660</u></b>	<b><u>1,018,756</u></b>	<b><u>1,863,416</u></b>

**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.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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

**British Columbia Properties** (cont'd...)

*Buc claims*

The Company acquired a 100% interest subject to a 2.0% NSR in the Buc mineral claims in consideration for the issuance of 25,000 shares and \$10,000

*Dome Claim*

The Company has acquired the right to earn a 100% interest subject to a 1.5% NSR in the three mine claims. To earn its interest the Company must pay \$10,000 and issue 270,000 shares over four year period.

**4. EQUIPMENT**

	Cost	2006 Accumulated Amortization	Net Book Value	2005 Net Book Value
	\$	\$	\$	\$
Vehicles	22,828	2,663	20,165	-
	<b>22,828</b>	<b>2,663</b>	<b>20,165</b>	<b>-</b>

**5. DUE TO RELATED PARTIES**

	2006	2005
Due to a company controlled by a director, unsecured, bearing interest at 10% per annum with no fixed date of repayment. The amount includes accrued interest of \$Nil (2005 - \$731).	\$ 36,215	\$ 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 comparative amount includes accrued interest of \$2,244.	-	53,714
	<b>\$ 36,215</b>	<b>\$ 77,725</b>

**VALLEY HIGH VENTURES LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2006

**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, 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	-	-	195,777
Balance as at October 31, 2005	9,465,341	3,219,058	195,777
Mineral property interests (Note 3)	65,000	34,450	-
Private placement	2,499,276	1,124,675	-
Warrants	2,200,000	660,000	-
Cancellation of escrow	(93,749)	-	-
Share issue costs	-	(65,529)	-
Stock-based compensation	-	-	79,863
Balance as at October 31, 2006	14,135,868	\$ 4,972,654	\$ 275,640

During the current fiscal year, the Company issued 1,927,388 non flow-through and 571,888 flow-through shares for gross proceeds of \$1,124,674. The Company paid finders' fees of \$65,528 in conjunction with this share issuance.

During the current fiscal year, the Company issued 2,200,000 units at a price of \$0.30 unit pursuant to the exercise of warrants for gross proceeds of \$660,000.

**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.

**VALLEY HIGH VENTURES LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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

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

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, 2004 and 2005	500,000	\$ 0.45	2,200,000	\$ 0.30
Granted	820,000	0.55	-	-
Exercised	-	-	(2,200,000)	0.30
Expired/cancelled	(20,000)	-	-	-
Outstanding, October 31, 2006	1,300,000	\$ 0.58	-	\$ -
Exercisable, October 31, 2006	636,666	\$ 0.58	-	\$ -

As at October 31, 2006, stock options and share purchase warrants were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	480,000	\$ 0.45	September 27, 2010
<b>Options</b>	820,000	\$ 0.55	August 4, 2011

During fiscal 2006, the Company granted 820,000 options of which 136,666 options were vested and stock-based compensation of \$79,863 was recognized thereon.

The weighted average fair value per option granted was \$0.51.

The following assumptions were used for the Black-Scholes valuation of stock options granted during fiscal 2006:

Risk-free interest rate	3.96%
Expected life of options	5 years
Annualized volatility	58%
Dividend rate	0.00%

**7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non-cash transactions during fiscal 2006 include the Company:

- a) Issuing 65,000 common shares at a value of \$34,450 pursuant to the acquisition of mineral property interests.
- b) Issuing 2,200,000 commons shares for gross proceeds of \$660,000 pursuant to exercise of warrants

**8. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$90,000 (2005 - \$90,000) to a company controlled by a director.
- b) Paid or accrued administrative expenses of \$18,000 (2005 - \$18,000) to a relative of a director.
- c) Paid or accrued rent and office expenses of \$30,000 (2005 - \$3,000) to a company controlled by a director.
- d) Paid or accrued interest expense of \$731 (2005 - \$2,975) to a company controlled by a director and a company controlled by a relative of a director.

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:

	2006	2005
Loss before income taxes	\$ (410,667)	\$ (383,456)
Expected income tax (recovery)	\$ (140,037)	\$ (135,148)
Non-deductible items	32,100	106,920
Valuation allowance	107,937	28,228
Total income tax recovery	\$ -	\$ -

**VALLEY HIGH VENTURES LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2006

**9. 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 carryforwards	\$ 259,160	\$ 191,000
Resource expenditures	98,890	158,000
Share issue costs	-	16,000
	<u>(6,820)</u>	<u>-</u>
	351,230	365,000
Less: valuation allowance	<u>(351,230)</u>	<u>(365,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$760,000 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's assets are located in Canada except for one mineral property interest which is located in Yemen (Note 3).