Annual Report 1987

Valhalla Energy Corporation

CORPORATE INFORMATION

Officers & Directors:

JARL Aa. B. WHIST
Chairman of the Board, President,
Chief Executive Officer and Director

LAWRENCE J. NAGY
Vice President, Mineral Exploration &
Development and Director

JARL A. WHIST, Jr.
Vice President, Administration
and Director

EGIL H. LORNTZSEN
Director

U. ANDREW WHIST
Director

Corporate Office:

#814, 837 West Hastings Street
Vancouver, B.C. V6C 1B6
(604) 669-6656

Bankers:

The Royal Bank of Canada
685 West Hastings Street
Vancouver, B.C. V6B 1N9

Auditors:

Arthur Andersen & Co.
2300 Guinness Tower
1055 West Hastings Street
Vancouver, B.C. V6E 2J2

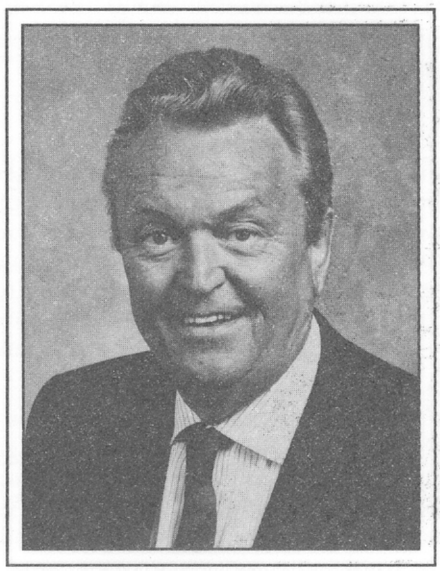
Registrar & Transfer Agent:

Canada Trust
1055 Dunsmuir Street
Vancouver, B.C. V7X 1P3

Exchange Listing:

Vancouver Stock Exchange
Share Authorization: 20,000,000
common shares
Shares Outstanding: 4,668,200
Symbol: "VLA"

Valhalla Energy Corporation



THE CONTINUING SAGA...

Last year, we commenced transforming Valhalla from a pure energy company to a company exploring for and developing gold and precious metal properties in North America. The transformation will be completed at the Annual General Meeting by the company changing its name to The Valhalla Gold Group Corporation.

At the last Annual General Meeting, we advised our shareholders that we intended to continue to pursue gold and precious metal mining prospects by optioning, outright purchase or corporate takeovers. As a result; the Valhalla Group now consists of Valhalla, which in turn controls three other companies, each of which is involved in gold exploration and development. This development will continue in the new year.

But times are again changing. Valhalla will again participate in oil and gas development. Another well will be drilled in the Webb Field in Dewey County., Oklahoma and six more development wells are contemplated for acreage in the Kerrobert area of Saskatchewan. There has lately been more interest in our shut-in gas wells at Thorsby, Alberta. We ought to be able to achieve the same income level from oil and gas during 1988.

Valhalla will continue its entrepreneurial ways. The money management function will be expanded. Valhalla will continue to expand its corporate base in gold and precious metal companies. Valhalla will also continue to explore and develop gold and precious metal properties for its own account.

We look forward to an exciting and rewarding future and thank you for your continued support.

Jarl Aa.B. Whist
Chairman, President & C.E.O.

To The Shareholders

Last year, we focussed on the development and production of precious metal exploration and management which resulted in two more companies being added to the Valhalla Gold Group, namely Highland Valley Resources Ltd. and Thor Gold Corporation. A research office has been added to the corporate headquarters, along with a research assistant specializing in the research of gold stocks for the newsletter and the Investment Advisory Service. In addition, a Vice President in charge of Administration, a corporate secretary and an assistant secretary have been hired to ensure the proper management of the Valhalla Group. Mr. Larry Nagy, our Vice President in charge of Mineral Exploration and Development, continues to search for properties capable of low cost mining anywhere on this continent.

The following information on our oil and gas reserve position has been compiled from reserve reports obtained in January, 1987.

Oil and Gas

Valhalla has working interests in several oil and gas properties located in Alberta, Saskatchewan and Oklahoma. The majority of the company's production is derived from three properties, two of which are located in Saskatchewan and the third in Oklahoma. The Saskatchewan properties include working interests of 12% in the North Plato area and approximately 6.5% in the Kerrobert area. Currently, there are eight wells in production at North Plato and another ten wells at Kerrobert. In Oklahoma the company holds working interests ranging from 2% to 10% in eight wells in the Webb field.

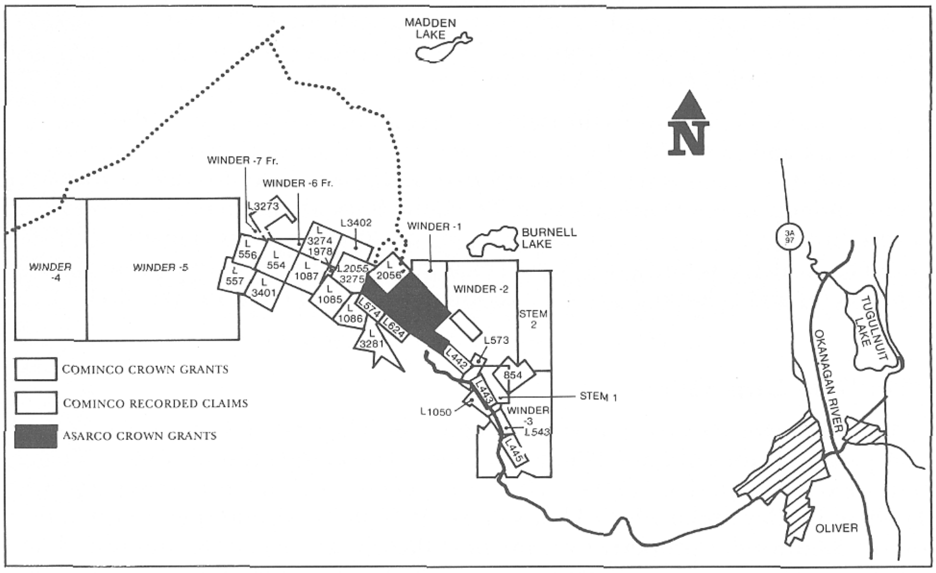
In 1987, production amounted to approximately 10,000 barrels of oil and 46,000 mcf of gas, or 28 barrels of oil per day and 126 mcf of gas per day. Roughly 80% of the company's oil production was derived from the North Plato area, while 60% of the gas production was attributed to the Webb field. As of January 1, 1987 Valhalla's proven reserve position stood at 70,584 barrels of oil and 1,579,544 mcf of gas.

The following table illustrates the distribution of the above-mentioned reserves among our various property interests.

Reserves at January 1, 1987

	Proven Producing		Proven Non-Producing	
	OIL STB	GAS MCF	OIL STB	GAS MCF
Webb Field,Oklahoma	2,802	171,772	13,959	663,277
North Plato, Saskatchewan	36,145			
Kerrobert, Saskatchewan	17,042			
Stettler, Alberta	636			
Thorsby, Alberta				355,170
Carbon/Cherhill,Alberta				181,000
Quirk Creek, Alberta				36,625
Carstairs, Alberta		171,700		
	56,625	343,472	13,959	1,236,072

Valhalla now owns 29% of Oliver Gold Corporation, a company which is also listed on the Vancouver Stock Exchange and which trades under the symbol of "OGO". This company has an agreement with Cominco Ltd. under which Oliver has optioned the Fairview-Morningstar mine property from Cominco, which consists of some 10,000 acres known as the Fairview Gold Belt, stretching some six miles northwesterly from the village of Oliver in the province of British Columbia.



Asarco Crown Grants = Highland Valley Crown Grants and Claims

Established, inferred, indicated and measured reserves by Cominco at the Fairview mine total 762,700, tonnes at 0.11 oz Au/T and 1.2 oz Ag/T. In 1986, Oliver Gold constructed a 61.9 kilometre picket grid, collected 1,851 soil samples, geologically mapped the property at 1:2,500 and took 84 rock chip samples from quartz veins. The program, which was conducted over the entire property, was intended to assess the potential of mineralized quartz veins away from the old mine workings and to identify targets for future follow-up work.

In 1987, an extensive exploration program concentrated on the workings at the Fairview mine. This just-completed program included re-opening the 3, 5 and 6 Levels of the Fairveiw mine, rehabilitating portions of the 6 Level, slashing three underground drill stations and carrying out 22.9 metres of drifting. Six underground holes were drilled below 6 Level and four holes were drilled from surface at the northwest end of the old mine workings. Accessible areas of the 5 and 6 Levels were geologically mapped at 1:500 and similar areas of 3, 5 and 6 Levels were extensively rock sampled. A preliminary feasibility assessment was made of the property, and metallurgical testing was initiated on the Fairview quartz vein.

In addition, follow-up soil geochem sampling was carried out over the western portion of the grid and a VLF survey was conducted over the property.

The completion of the 1987 program brings Oliver Gold Corporation's expenditures on the property to over $400,000, thereby satisfying the initial commitment in the Oliver Gold-Cominco Option Agreement and earning Oliver Gold a 40% interest in the property. The company is now awaiting a decision as to whether Cominco wishes to continue the agreement by participating with 60% as Operator or whether it wishes to allow Oliver to continue to earn interest by spending the next $400,000 on the property.

Oliver also owns 100% of two promising claim blocks in the Deschambault Lake area of the LaRonge Gold Belt, where further exploration will be undertaken in due course.

Oliver is well-financed and has access to $4.0 million of flow-through tax funds to develop its properties further.

The Fairview property remains the main project of the company; other properties are being examined in the central interior of British Columbia. The company intends to option, stake, purchase or otherwise acquire properties in that area and undertake work in such properties while the Fairview property is developed underground to the conclusion of a feasibility study.

Highland Valley Resources Ltd.

In July, your company was successful in acquiring a 39% equity interest in Highland Valley Resources Ltd. The underlying reason for this acquisition was the company's property interest of some 600 acres in the Fairview camp. This property, which is referred to as the Stemwinder property, is strategically located within the Fairview Gold Belt some 600 to 1,000 feet lower than the Fairview mine, which latter property is being developed by Oliver Gold. Underground development and drilling by previous operators and Highland Valley has indicated a potential of 1.0 to 2.0 million tonnes grading approximately 0.10 oz Au/T and 1.5 oz Ag/T. Highland Valley has recently begun further development work on this property in a joint venture with Thor Gold Corporation.

Highland Valley also owns the rights to three additional properties; the Susie, the Little Buck and the Gold. The Susie is comprised of seven Crown grants totalling approximately 1,000 acres. This property is a past producer located north of the Stemwinder property in the granites. The Little Buck platinum property is located in the historic Franklin camp and consists of 20 claim units. Finally, the Gold property, which was formerly referred to as the Ed-Kettle property, is comprised of 1,606 acres and is located some 15 kilometres north of Grand Forks, B.C.

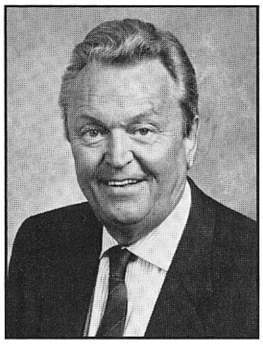
Thor Gold Corporation

Valhalla owns 36% of the issued capital of Thor Gold Corporation, which company has a total of 2,800,000 shares issued. This company trades on the Calgary Stock Exchange under "THG". Thor has recently concluded a transaction with Highland Valley under which Thor will pay $250,000 cash and spend $1.0 million on the Stemwinder property over the next three years to earn an undivided 50% interest in the lease from Asarco covering the Stemwinder property. This agreement is still subject to approval by regulatory authorities, which is expected in due course. Immediately upon receipt of approval, underground development and drilling will commence.

Scottie Creek Chrome/Platinum Property

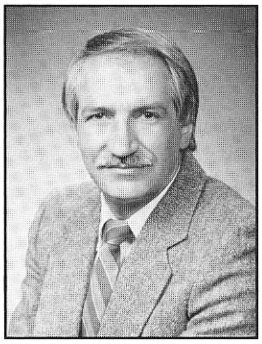
Valhalla itself also carries out direct exploration and development. Valhalla has a joint venture with Granges Exploration Ltd. covering a chrome/platinum property located near Cache Creek, British Columbia. Granges is the Operator and further exploration is scheduled for the property, which produced chrome during the last world war.

The above comprises the mining exploration and development activities of the Valhalla Group. All of the companies are debt-free and well -financed. The Group continues to screen gold and precious metal properties of merit throughout North America and intends to expand by taking options, entering into joint ventures and outright purchase or corporate take-overs, hostile or otherwise, of producing or near-producing properties.



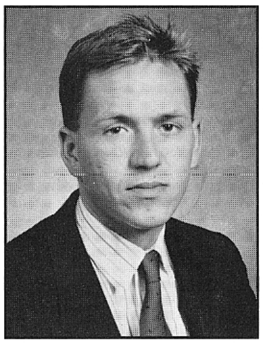
Jarl Aa.B. Whist
Chairman of the Board, President,
Chief Executive Officer and Director

Mr. Whist is an investment advisor and also publishes and edits The Jarl Aa.B. Whist Gold Letter. Mr. Whist has several decades of involvement with precious metals, metal exploration, development, production and as surveyor, prospector, mine operator, founder and major shareholder of several public companies. Mr. Whist practiced corporate securities law for many years as senior partner of a law firm in Kamloops, the centre for the copper mining industry in B.C. Mr. Whist retired from the full-time practice of law in 1983 and now devotes his full time to the Valhalla Gold Group.



Lawrence J. Nagy, B.A. (Geo.Sc.), F.G.A.C.
Vice President, Mineral Exploration & Development and Director

Mr. Nagy, who specializes in precious metal exploration, has a background of over fifteen years as a senior exploration geologist for Cominco worldwide. For the last five years, Mr Nagy has operated as an independant consultant. He is also a director of other public companies associated with Valhalla.



Jarl A. Whist, Jr.
Vice President, Administration and Director

Jarl Whist, Jr. has practical oil drilling experience and an Advanced Prospector's Diploma and works for the Company on a full-time basis. Jarl Whist Jr. is responsible for all matters administrative in nature affecting the company. He is also Vice President and Director of Oliver Gold Corporation, Highland Valley Resources, and Thor Gold Corporation.

U. Andrew Whist
Director

Mr. Whist is presently Senior Vice President of Philip Morris International and resides in New York. Andrew Whist provides much appreciated senior financial advice to the company.

Egil H. Lorntzsen
Director

Mr. Lorntzsen is the founder and developer of the Lornex Mining Corporation, which operates one of the largest open pit copper mines in the world in the Highland Valley of British Columbia. Mr. Lorntzsen is also a director of other public companies, but is an active participant in planning the development of the Fairview Gold Belt.

The Jarl Aa.B. Whist Gold Letter

Valhalla is the world distributor of The Jarl Aa. B. Whist Gold Letter and provides the administration and money management services by way of contract with Whist Holdings Ltd. Compensation to Valhalla comprises 75% of the gross revenues, which is a significant source of revenue for the company.

The Gold Letter is intended for subscription by sophisticated investors and presently subscribers are throughout Europe, the United States and Canada, with a few in the Far East. The Gold Letter specializes in research of the gold market and through this research, gives its recommendations on North American emerging producing and non-producing gold stocks. The subscription price of the newsletter is $700 Canadian per annum. This continues to be a significant profit centre.

The Jarl Aa.B. Whist Investment Advisory Service

Valhalla provides the administration of The Jarl Aa. B. Whist Investment Advisory Service by way of third-party funds management. The revenues generated from this sector more than doubled for the year ended July 31, 1987 compared to 1986. The Investment Advisory Service provides Valhalla with a significant source of revenue and we will continue to expand this significant profit centre.

VALHALLA ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

July 31, 1987 and 1986

ASSETS

	1987	1986
CURRENT ASSETS:		
Cash and term deposits	$ 302,089	$ –
Marketable securities	200,440	–
Accounts receivable	103,715	289,367
Notes receivable (Note 6)	–	41,000
Prepaid expenses	8,738	3,358
	$ 614,982	$ 333,725
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 4)	1,602,077	1,719,873
INVESTMENTS IN AFFILIATED COMPANIES (Note 3)	745,308	32,000
DEFERRED CHARGES, net of accumulated amortization of $14,760 (1986 - Nil)	51,656	23,500
	$ 3,014,023	$ 2,109,098

LIABILITIES AND SHAREHOLDERS' EQUITY

	1987	1986
CURRENT LIABILITIES:		
Bank loan (Note 4)	$ 29,844	$ 307,781
Accounts payable	175,264	160,127
Commitments (Note 6)	–	41,000
	$ 205,108	$ 508,908
SHAREHOLDERS' EQUITY:		
Share capital (Note 6)	$ 2,961,219	$ 2,044,610
Accumulated deficit	(152,304)	(444,420)
	$ 2,808,915	$ 1,600,190
	$ 3,014,023	$ 2,109,098

Approved by the Directors:

Director

Director

The accompanying notes are an intergral part of these consolidated statements.

VALHALLA ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

For the years ended July 31, 1987 and 1986

	1987	1986
REVENUE:		
Oil and gas (Note 5)	$ 331,066	$ 334,864
Management fees (Note 7)	581,358	296,507
Administration fees (Note 7)	68,871	–
	$ 981,295	$ 631,371
EXPENSES:		
Administrative (Schedule 1)	$ 499,720	$ 246,512
Depletion and depreciation (Note 5)	126,884	130,260
Production	74,261	144,746
Interest, net	24,029	4,318
	$ 724,894	$ 525,836
Income from operations	$ 256,401	$ 105,535
GAIN ON SALE OF INVESTMENTS	35,715	–
Income before provision for income taxes and extraordinary item	$ 292,116	$ 105,535
PROVISION FOR INCOME TAXES (Note 8)	137,400	32,000
Income before extraordinary item	$ 154,716	$ 73,535
EXTRAORDINARY ITEM:		
Tax recovery of losses carried forward (Note 8)	137,400	32,000
Net income	$ 292,116	$ 105,535
ACCUMULATED DEFICIT, beginning of year	(444,420)	(549,955)
ACCUMULATED DEFICIT, end of year	$ (152,304)	$ (444,420)
Earnings per share –		
Income before extraordinary items	$0.04	$0.02
Net income	$0.07	$0.03

The accompanying notes and Schedule 1 are an integral part of these consolidated statements.

VALHALLA ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended July 31, 1987 and 1986

	1987	1986
CASH FROM (TO) OPERATING ACTIVITIES:		
Income before extraordinary item	$ 154,716	$ 73,535
Items not requiring the use of cash –		
Depletion and depreciation	126,884	130,260
Amortization of deferred charges	15,719	–
Gain on sale of investment	(35,715)	–
Loan guarantee fees (Note 6)	30,000	–
Other	(34,366)	–
	$ 257,238	$ 203,795
Changes in operating accounts –		
Accounts receivable	185,652	(114,716)
Prepaid expenses	(5,380)	(2,006)
Notes receivable	41,000	151,000
Accounts payable	15,137	28,961
Commitments	(41,000)	(209,000)
Deferred charges	(43,875)	(23,500)
Extraordinary item –		
Tax recovery of losses carried forward	137,400	32,000
	$ 546,172	$ 66,534
CASH FROM (TO) FINANCING ACTIVITIES:		
Issuance of share capital	$ 886,609	$ 119,400
Payment of note payable	–	(16,336)
	$ 886,609	$ 103,064
CASH FROM (TO) INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	$ –	$ (276,691)
Petroleum incentive program grants received	25,278	–
Investment in Highland Valley Resources Ltd.	(703,764)	–
Investment in Thor Gold Corporation	(10,000)	–
Investment in Oliver Gold Corporation	(500)	(32,000)
Investment in marketable securities	(200,440)	–
Proceeds on sale of investment	36,671	–
	$ (852,755)	$ (308,691)
Increase (decrease) in cash and cash equivalents	$ 580,026	$ (139,093)
CASH AND CASH EQUIVALENTS, beginning of year	(307,781)	(168,688)
CASH AND CASH EQUIVALENTS, end of year	$ 272,245	$ (307,781)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1987 and 1986

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

These consolidated financial statements include the accounts of Valhalla Energy Corporation and its wholly owned subsidiary, Valhalla Minerals U.S. Incorporated.

(b) Investments

When the Company owns less than 50% of the issued shares of a company and exercises significant influence, the equity method of accounting is used.

At July 31, 1986, the Company held a controlling interest in Oliver Gold Corporation. Subsequent to July 31, 1986, Oliver Gold Corporation ("Oliver") issued 1,000,000 shares in a public offering and the Company's ownership of Oliver was reduced to below fifty percent. As such, the Company's investment has been accounted for on the equity basis.

(c) Foreign Exchange Translation

The integrated foreign operations approach is followed in consolidating the United States subsidiary. Non-monetary assets and liabilities are translated at historic exchange rates and monetary items are translated at current exchange rates. Revenues and expenses are translated at the exchange rates in effect at the time of the transactions except for depletion and depreciation which are recorded at historic rates.

(d) Oil and Gas Properties

Oil and gas properties are accounted for using the full cost method, whereby all costs of acquiring, exploring and developing oil and gas properties are capitalized. The provision for depreciation and depletion is computed using the unit-of-production method on a country-by-country basis using estimated proven oil and gas reserves converted to gas equivalents on the basis of one barrel of oil equals 6.3 thousand cubic feet of gas. Properties in the exploration stage are excluded from the computation of depreciation and depletion. No gain or loss is recognized upon the sale of oil and gas properties except in significant transactions. No administration costs are capitalized.

Amounts earned under the Petroleum Incentive Program are accrued at the time the expenditures are incurred and are recorded as a reduction of oil and gas properties. Properties are recorded net of tax benefits renounced to investors through the issuance of flow-through shares.

Substantially all oil and gas exploration and production activities are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate share of assets, liabilities, revenues and expenses.

For purposes of determining the ceiling limitation of capitalized costs, the net book value of the oil and gas properties net of deferred income taxes was compared to the sum of:

i) the undiscounted future net revenues from the production of proved reserves, net of production related interest, general and administrative costs and income taxes; and

ii) undeveloped properties at cost less impairment.

Future net revenue is calculated using oil and gas prices as of the year end date.

For the year ended July 31, 1986, the ceiling limitation test described above was retroactively applied to the net book value of the oil and gas properties at July 31, 1986 and there was no impact on the July 31, 1986 financial statements.

(e) Depreciation

Depreciation is charged on a straight-line basis against pipeline costs (14 years) and furniture and equipment (5 years).

(f) Deferred Charges

Deferred charges relate to start-up costs associated with publishing the "Jarl. Aa. B. Whist Gold Letter", which is an investment advice publication. These charges will be amortized on a straight-line basis over three years, commencing at the end of the start-up phase.

(g) Marketable Securities

Marketable securities are recorded at cost. The quoted market value as at July 31, 1987 is approximately $306,000.

2. PROPERTY, PLANT AND EQUIPMENT

	1987		1986	
	Cost	Accumulated Depletion & Depreciation	Cost	Accumulated Depletion & Depreciation
Oil and gas:				
Canada –				
Production	$ 939,418	$ 211,221	$ 612,024	$ 128,220
Undeveloped	51,882	–	423,780	–
United States –				
Production	979,511	273,910	976,431	248,210
	$1,970,811	$ 485,131	$2,012,235	$ 376,430
Mineral properties	48,575	–	–	–
Pipeline –				
United States	45,546	14,236	45,546	10,996
Furniture and fixtures	81,062	44,550	79,125	29,607
	$2,145,994	$ 543,917	$2,136,906	$ 417,033
Net book value		$1,602,077		$1,719,873

3. INVESTMENTS IN AFFILIATED COMPANIES

	1987	1986
Highland Valley Resources Ltd.	$ 703,764	$ –
Oliver Gold Corporation	31,544	32,000
Thor Gold Corporation	10,000	–
	$ 745,308	$ 32,000

(a) On July 27, 1987, the Company concluded a transaction whereby it acquired 42.6% or 1,253,834 shares (750,000 escrowed and 503,834 free trading) of Highland Valley Resources Ltd. ("Highland") in exchange for cash of $200,900 and 206,325 shares of the Company (100,000 escrowed and 106,325 free trading). In addition $18,000 of legal fees relating to the acquisition was capitalized as part of the cost of the property. The purchase price for the Highland shares has been determined using the average May, 1987 trading price of Valhalla shares. Subsequent to July 31, 1987, the Company purchased an additional 175,000 shares of a private placement by Highland for $98,000 ($0.56 per share). The shares are accompanied by warrants to purchase an additional 175,000 shares at $0.75 per share. This private placement has diluted the Company's ownership of Highland to approximately 39%. The recoverability of the Company's investment in Highland will be dependent on Highland discovering economically recoverable mineral reserves on its properties and obtaining the necessary financing to complete development of those properties.

(b) The Company holds 825,000 shares of Oliver Gold Corporation representing a 29% interest therein (1986 - 800,000 shares, 84% interest).

(c) On March 2, 1987, the Company acquired 1,000,000 shares of Thor Gold Corporation for cash representing a 36% interest therein.

4. BANK LOAN

Security for the demand bank loan, incurring interest at the rate of prime plus 1%, is as follows:

(a) assignment of certain oil and gas properties;

(b) a $1,500,000 floating charge debenture over all assets;

(c) a registered assignment of accounts receivable; and

(d) the personal guarantee of one of the directors for $120,000.

The Company is in the process of negotiating a new line of credit for $350,000 bearing interest at the prime rate plus 1½%.

5. SEGMENTED INFORMATION

The Company's business operations are grouped into three industry segments:

(a) Oil and gas operations in Canada and the United States.

(b) Investment Advisory Services

Services are provided to Whist Holdings Ltd., relating to the investment of monies on behalf of investors and the preparation, publication and distribution of a gold investment letter, "The Jarl Aa. B. Whist Letter."

(c) Administration Services

Provided primarily to investee companies.

Financial data relating to the Company's operations by industry segment is as follows:

	Oil & Gas Operations	Investment Advisory Services	Administration Services	Total
Revenues	$ 331,066	$ 581,358	$ 68,871	$ 981,295
Operating profit	$ 63,262	$ 193,139	$ –	$ 256,401
Depreciation & depletion	$ 108,700	$ 18,184	$ –	$ 126,884

Financial data relating to the Company's operations by geographic area is as follows:

	Canada	U.S.A.	Total
Revenues	$ 889,516	$ 91,779	$ 981,295
Production costs	(51,780)	(22,481)	(74,261)
Depletion and depreciation	(97,944)	(28,940)	(126,884)
General, administrative & interest expenses	(517,982)	(5,767)	(523,749)
Income from operations	$ 221,810	$ 34,591	$ 256,401

6. SHARE CAPITAL

Authorized share capital consists of 20,000,000 common shares of no par value. Issued and fully paid share capital is as follows:

	1987		1986	
	Shares	Amount	Shares	Amount
OPENING BALANCE	3,871,272	$ 2,044,610	3,565,022	$ 1,925,910
Issued by private placements for cash	225,000	318,145	–	–
Issued on acquisition of shares of Highland Valley Resources Ltd.	206,325	484,864	–	–
Exercise of stock options	214,000	70,200	7,500	2,400
Issued in return for loan guarantee given by certain directors	100,353	30,000		
Flow-through shares	51,250	41,000	298,750	209,000
Less–Petroleum Incentive Program amounts		(10,600)	–	(45,000)
Tax effect		(17,000)	–	(47,000)
CLOSING BALANCE	4,668,200	$ 2,961,219	3,871,272	$ 2,044,610

The recorded amounts of the flow-through shares have been reduced by the tax benefits renounced and the amounts earned under the Petroleum Incentive Program, with an offsetting reduction to the cost of the related resource properties.

At July 31, 1986 commitments were outstanding for the issuance of 51,250 flow-through shares. These shares were issued during the 1987 fiscal year and generated gross proceeds of $41,000.

The following stock options granted to directors and employees were outstanding at July 31, 1987:

	Shares	Exercise Price	Expiry Date
Directors	75,000	1.85	July 21, 1990
Employees	215,000	1.85	July 21, 1990

The Company issued 100,353 shares to certain directors in return for their guarantee of a bank loan of the Company. The shares have been recorded at approximately $0.30 per share being the trading price of the shares on the date the bank loan agreement was made.

In May, 1987, the Company issued 100,000 shares for $100,000 through a private placement. In connection therewith, non-transferable warrants have been issued to acquire up to 100,000 shares of the Company by February 16, 1988 at a price of $1.25 per share.

In July, 1987, the Company issued 125,000 shares for $250,000 through a private placement. Finder and legal fees totalling $31,855 were deducted from the proceeds of this issue. In conjunction with the shares, the Company issued non-transferable warrants to acquire up to 62,500 shares of the Company by July 17, 1988 at a price of $2.50 per share.

7. TRANSACTIONS WITH RELATED PARTIES

(a) The Company earned $537,340 (1986 - $133,466) from Whist Holdings Ltd. for management services provided relating to the investment of monies on behalf of investors and the preparation, publication and distribution of an investment letter. Included in accounts payable is approximately $8,500 payable to Whist Holdings Ltd. for newsletter subscriptions and investment fees received by the Company on behalf of Whist Holdings Ltd.

(b) The Company charged Oliver Gold Corporation $68,871 (1986 - Nil) for administrative services provided. Included in accounts receivable is $17,368 (1986 - Nil) from Oliver Gold Corporation related to these administrative charges.

8. INCOME TAXES

At July 31, 1987 the Company has accumulated losses for income tax purposes of $265,400 U.S. (1986 - $310,000 U.S.) relating to United States operations and $207,000 Cdn. (1986 - $310,000 Cdn.) relating to Canadian operations. The future tax benefit of these losses has not been recognized for financial statement purposes. The U.S. losses will expire in various years between 1996 and 1998. Utilization of a portion of the available losses against operations is reflected as an extraordinary item in the years ending July 31, 1987 and 1986. The Canadian losses will expire in various years between 1990 and 1992.

SCHEDULE 1

VALHALLA ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF ADMINISTRATIVE EXPENSES

For the years ended July 31, 1987 and 1986

	1987	1986
PERSONNEL COSTS:		
Salaries and benefits	$ 161,478	$ 102,851
Consulting fees	8,960	22,952
Directors fees	–	1,250
	$ 170,438	$ 127,053
EXPENSES:		
Legal and audit	54,292	27,731
Travel	37,551	19,063
Allowance for doubtful accounts	35,127	–
Loan guarantee fee (Note 6)	30,000	–
Printing and stationery	25,469	4,544
Advertising and promotion	21,756	4,934
Office	20,626	8,443
Rent	18,451	16,178
Telephone	15,936	14,610
Dues and subscriptions	11,619	–
Office equipment	11,365	8,426
Delivery	10,749	4,217
Miscellaneous	10,442	5,504
Commitment fee	8,000	–
Seminars	7,742	–
Loss on sale of equipment	6,425	–
VSE and transfer agent fees	3,732	5,809
	$ 499,720	$ 246,512

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

AUDITORS' REPORT

To the Shareholders,

Valhalla Energy Corporation:

We have examined the consolidated balance sheets of VALHALLA ENERGY CORPORTION (a British Columbia company) as at July 31, 1987 and 1986 and the related consolidated statements of operations and accumulated deficit and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at July 31, 1987 and 1986 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

In our auditors' report dated September 13, 1986, we were unable to express an opinion on the 1986 consolidated financial statements. The company did not have reserve reports prepared or reviewed by independent petroleum engineers on its oil and gas properties for 1986 and accordingly we could not verify the carrying amounts of the company's oil and gas property interests, the amounts recorded for depletion expense, write-down of oil and gas properties, accumulated deficit, provision for income taxes and tax recovery of losses carried forward. The company obtained reserve reports dated January 1, 1987 and we have been able to verify the amounts recorded in the above noted accounts. Accordingly, our present opinion on the 1986 consolidated financial statements, as presented herein, is unqualified.

Vancouver, B.C.
September 4, 1987

Management - Financial Overview

Management

During the year the company realized revenue of $331,000 from farming out and managing oil and gas interests for joint venture partners. In addition, last year the company earned revenue of $537,340 from Whist Holdings Ltd. for management services provided relating to the Investment Advisory Service and from subscriptions to The Jarl Aa.B. Whist Gold Letter. We anticipate that these profit centres will continue to grow and expand. In addition to the above, the company derives revenue from the management of Oliver Gold Corporation, and for the coming year Highland Valley Resources and Thor Gold Corporation will be added to this area.

Financial Overview

For the year ended July 31, 1987 the company had a net income per share of $0.07 compared to $0.03 for the previous year end. The revenues generated from our oil and gas remained relatively the same as compared to 1986. With the new wells planned for the next year, we anticipate increasing our revenue from oil and gas operations to approximately $500,000. The money management income doubled compared to the previous year and we hope to repeat this in 1988.

Last year, general administrative expenses increased. We anticipate these costs decreasing in 1988 due to distributing the costs among the Valhalla Group. Our bank loan has been virtually eliminated and we are in the process of negotiating a new line of credit for $350,000. This line of credit will only be used for investment opportunities with a pay-back period of less than three years. Over the next year, Valhalla will continue to raise money through private placements, the proceeds of which will be used for further mining exploration ventures.

Outlook

The management and Board of Directors of Valhalla, as last year, will continue to concentrate on exploration for, and the development and operation of gold mines in Canada and the United States. We will also again participate in oil and gas development, striving to increase our cash flow through new wells being drilled both in Oklahoma and Saskatchewan. Our money management function will continue to grow which will also increase our cash flow.

We believe that through the above, the value of the company and the equity of our shareholders will continue to increase in the coming year.

Valhalla Energy Corporation

#814 - 837 West Hastings Street, Vancouver, B.C. V6C 1B6 Telephone: (604) 669-6656 Telecopier (604) 669-4210

NEWS RELEASE

Jarl Aa. B. Whist, Chairman of Valhalla Energy Corporation, wishes to announce that Richard H. Vogel, Q.C. and Robin A. Abercrombie have resigned as Directors. The Board of Directors have appointed Mr. Jarl A. Whist, Jr. of Vancouver and Mr. U. A. (Andrew) Whist of New York as Directors.

Mr. Jarl A. Whist, Jr. has been appointed Vice President in charge of Administration. Mr. Lawrence J. Nagy will continue as Director and Vice President in charge of Exploration and Development. The audit committee consists of Jarl Aa. B. Whist, Mr. Egil Lorntzsen and Mr. U. A. Whist.

ON BEHALF OF THE BOARD

Jarl Aa. B. Whist
Chairman

JABW:clw

April 23, 1987

Valhalla Energy Corporation

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NEWS RELEASE

Jarl A. Whist, Jr., Vice President, Administration, is pleased to announce that the Company has made a private placement of 250,000 shares to Levesque Beaubien Inc. of Edmonton at a price of $2.00 per share with a warrant to purchase 125,000 shares at a price of $2.50 per share exercisable on or before May 15, 1988. A Finder's Fee of 8%, in the sum of $40,000, is payable to Levesque Beaubien Inc. The proceeds will be used for working capital.

The above transactions are subject to the approval of the regulatory authorities.

ON BEHALF OF THE BOARD

Jarl A. Whist, Jr.
Vice President, Administration & Director

JAW:clw

May 15, 1987

The Vancouver Stock Exchange has neither approved nor disapproved the information contained herein.

Valhalla Energy Corporation
814 - 837 West Hastings St.
Vancouver, B.C.
669-6656

Highland Valley Resources Ltd.
515 - 837 West Hastings St.
Vancouver, B.C.
681-3328

May 19, 1987

JOINT NEWS RELEASE

The Directors of Valhalla Energy Corporation (the "Company") are pleased to announce the Company has entered into an Agreement with John Carson, Nick Kochan, Wallace Yahnke and Jacques Thibault (the "Sellers") for the purchase by the Company of 750,000 escrowed shares and 326,834 free trading shares of Highland Valley Resources Ltd. ("Highland") representing approximately 36% of the outstanding shares of Highland, in consideration of agreeing to issue 150,000 free trading shares for the 750,000 escrowed shares and the payment of $0.60 per share for the 326,834 free trading shares.

As a condition of the Agreement, prior to completing the purchase from the Sellers, the Company shall make an offer to the Shareholders of Highland resident in British Columbia to acquire a further 24% of the issued shares of Highland, or such lesser percentage as the Company may elect. This offer will be made in accordance with the take-over provisions of the Securities Act and will be made on the basis of one free trading share of the Company for every three free trading shares of Highland. It is anticipated that the offer will be made to the Shareholders of Highland within two weeks from the date of this news release.

The Agreement and subsequent offer to the Shareholders of Highland is subject to regulatory approval and if required, shareholders approval of Highland.

The Vancouver Stock Exchange has neither approved nor disapproved the information contained herein.

Signed on behalf of the Board of Directors.

Valhalla Energy Corporation

Jarl Whist, Vice President

Highland Valley Resources Ltd.

John Carson, President

#168

VALHALLA ENERGY CORPORATION

And

HIGHLAND VALLEY RESOURCES LTD.

NEWS RELEASE

Jarl Aa. B. Whist, Chairman of Valhalla Energy Corporation, ("Valhalla"), is pleased to announce that 169,000 shares of Highland Valley Resources Ltd. ("Highland Valley"), have been tendered pursuant to the offer made by Valhalla Energy Corporation to the shareholders of Highland Valley Resources Ltd. dated June 12, 1987 (the "Offer").

Although the offer was conditionally subject to a minimum of 700,000 shares of Highland being tendered, Valhalla has decided to waive this condition and to proceed with the acquisition of the 169,000 shares tendered under the Offer and to also proceed to acquire 750,000 escrow shares and 326,834 free trading shares from the directors of Highland Valley pursuant to the May 19, 1987 agreement, which is still awaiting final regulatory approval.

The Chairman of Valhalla also announced that, subject to the above transactions being completed, that Jarl Aa. B. Whist, Lawrence Nagy, Jarl Whist, Jr. and Grant Sinitson have agreed to stand as directors of Highland Valley Resources Ltd.

The directors and employees of Highland Valley will be granted incentive share purchase options to purchase up to 364,500 shares of Highland Valley which options will be exercisable at a price of $0.70 per share for a period of five years.

Mr. Whist is also pleased to announce that, subject to the share transfers being completed and regulatory approval being obtained, a private placement has been arranged for the sale of 700,000 shares of Highland Valley at a price of $0.56 per share under the private placement, the placees will also be entitled to receive one non-transferrable warrant for each share purchased with each warrant entitling the holder to purchase a further share of the company at $0.75 for a period of one year. Midland Doherty Limited will be paid a Finder's Fee equal to 8% of the proceeds of the private placement with respect to 500,000 shares, for a total of $19,200.

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The transactions referred to in this News Release are subject to regulatory approval and the Vancouver Stock Exchange has neither approved nor disapproved of the contents of this News Release.

JARL Aa. B. WHIST
Chairman, Valhalla Energy Corporation

John Carson

JOHN CARSON
President, Highland Valley Resources Ltd.

Valhalla Energy Corporation

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NEWS RELEASE

The Company wishes to announce that, at a Directors' Meeting held on July 21, 1987, the Company has granted the following employee and directors' options:

Jarl Aa. B. Whist	191,000 shares @ $1.85
Egil H. Lorntzsen	25,000 shares @ $1.85
U. A. (Andrew) Whist	50,000 shares @ $1.85
Daphne Salvo	8,000 shares @ $1.85
Candace Waldron	8,000 shares @ $1.85
Grant Sinitsin	8,000 shares @ $1.85

commencing July 21, 1987 until June 21, 1990. The granting of the options are subject to the approval of the Vancouver Stock Exchange and conditional upon the optionees remaining employees and directors of the Company.

The Company also wishes to announce that it has participated in yet another well in legal subdivision 6-30-32-22-W3M in the Kerrobert area of Saskatchewan. The Company now has 12% Net Revenue Interest in ten producing wells at Kerrobert. It is anticipated that a further six wells will be drilled this fall. The Company also has eight producing wells in the Plato area of Saskatchewan. The Company continues to look for viable projects in the Province of Saskatchewan.

The Company also wishes to announce that the minimum requirement of the private placement through Levesque Beaubien Inc. of Edmonton, Alberta, resulting in the placement of 125,000 shares at $2.00 per share with a 12-month hold and a 6-month warrant to buy a half-share at $2.50, was successfully completed and the Company received the proceeds of $250,000.00. The balance of the private placement is expected to close successfully before the end of July.

ON BEHALF OF THE BOARD

Jarl Aa. B. Whist
Chairman

July 21, 1987

For further information, please call Mr. Jarl A. Whist, Jr. at (604) 669-6656.