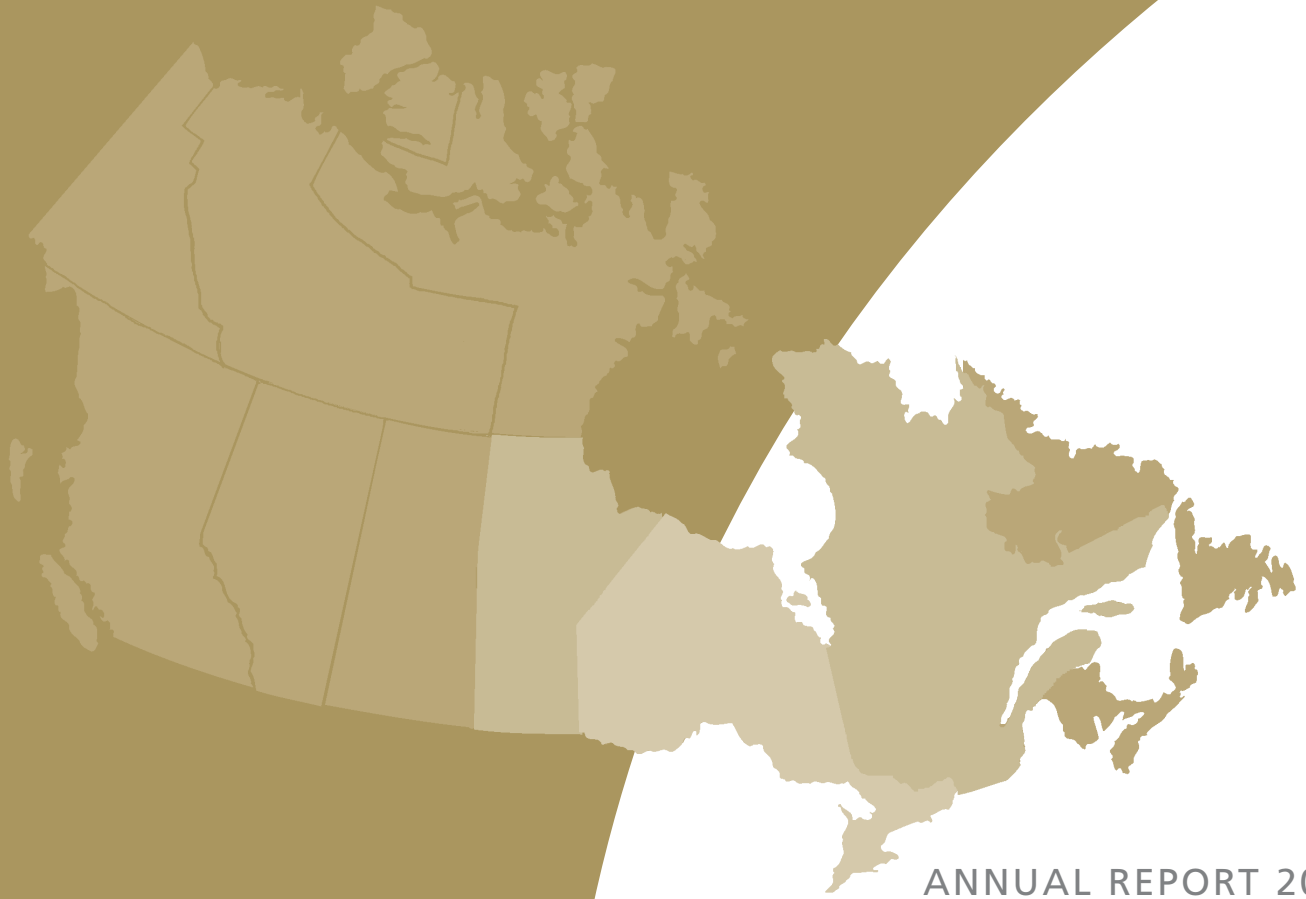


# ADVANCING GOLD PROJECTS IN THE CANADIAN SHIELD



ANNUAL REPORT 2006



ATV:TSX-V





## **LETTER TO SHAREHOLDERS**

In 2006, Alto had an active year of gold exploration in Canada including further resource delineation drilling at the Despinassy project, Quebec, and an initial drill campaign at the Coldstream project in northwestern Ontario. The Company consolidated its ownership at Despinassy through completion of its option to acquire a 70% project interest from Cameco Corporation. Alto holds 100% ownership interests in seven other gold projects in eastern Canada, all of which contain significant gold mineralization defined by past trenching and drilling.

A mineral resource study of the Despinassy project by Hubacheck Consulting Geologists (HCG) in 2005 confirmed both the continuity of the mineralization of the DAC Deposit to a depth of 600 metres (m) as well as the excellent exploration potential of the entire Despinassy project. A second phase of drilling, comprising 5,106 m in 19 holes was completed in 2006 and HCG is currently updating its resource model. The 2006 drill campaign led to the discovery of the Darla Zone grading 19.5 grams per tonne (g/t) gold over 2.1 m more than one kilometer (km) to the east of the DAC deposit. Significant gold mineralization has been intersected by drilling at several centres for over 6 km along the the Despinassy Shear Zone.

The deposit model and style of mineralization on the Despinassy property has similarities to other gold deposits in the Abitibi gold camp, such as the Hollinger/McIntyre mines in Timmins, Ontario. Despinassy exhibits extensive alteration and persistent gold mineralization associated with quartz porphyry dikes within a wide gold bearing shear structure.

Management is currently reviewing alternatives for further evaluation of the Despinassy project, including possible underground development and bulk sampling of the DAC Deposit and additional drilling of the Darla Zone and other targets within the Despinassy Shear Zone. The project is well located in northwestern Quebec, a pro-mining jurisdiction with excellent infrastructure nearby existing mining services.

During the year, Alto also completed a 2,062 m drill campaign, comprising 13 drill holes at its East Coldstream gold deposit in the Shebandowan greenstone belt in northwestern Ontario. The drill program confirmed the presence of wide zones of gold mineralization, up to 68 m thick with grades of 1.2 g/t gold, occurring along an east-northeast trending alteration corridor that can be traced for over 10 km. The mineralized system remains open to depth and along strike. With further drilling, the East Coldstream gold deposit has excellent potential to form a large, near-surface, bulk-mineable gold deposit that can be mined by open-pit methods.

The styles of alteration and mineralization at East Coldstream display many of the characteristics of Iron Oxide-Copper-Gold (IOCG) deposits found elsewhere in the world. IOCG deposits are large and the recognition of IOCG-type mineralization in the Shebandowan greenstone belt by Alto and other companies is a significant development for exploration in the area.

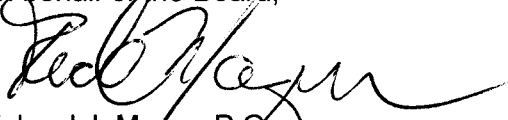
Exploration activity has picked up in the prolific Beardmore-Geraldton Gold Camp where over 4 million ounces of gold have been produced historically. Alto is strategically located with three gold properties in the Beardmore area: Greenoaks, Mud Lake and Cote-Archie Lake. Management is reviewing its exploration strategy in the camp.

At Mud Lake, a 6 km gold mineralized shear structure with grades up to 19.8 g/t gold in quartz veins has been defined by trenching and geophysical surveying. This property has significant potential and has not been adequately drilled. The Cote-Archie Lake exploration property is immediately adjacent to the historic Leitch Mine with past production of approximately one million tons at an average grade of 0.92 ounce per ton (opt) gold. Mineralized shear zones, interpreted to be probable extensions of those containing the Leitch and East Leitch gold deposits, have yielded mineralization up to 17.3 g/t gold on Alto claims. The Greenoaks project contains multiple gold-bearing quartz veins, tested only by trenching and shallow drill holes, with intercepts up to 0.5 opt gold across 5 feet. The veins all remain open at depth.

The Company is actively seeking a joint venture partner for its 100% owned Oxford Lake gold project in Manitoba. Oxford Lake contains a historic resource estimate by Noranda based on drilling in the 1980's of 800,000 tonnes grading 6 g/t gold. Management continues to review and evaluate new gold project opportunities and potential strategic acquisitions capable of bringing diversity to the Company and further enhancing shareholder value.

Alto appreciates the significant contributions of its highly experienced exploration team, the dedication of its corporate and administration team and the continued support of its shareholders. We look forward to an important year ahead where we can build on the successes of the past year and add value to the Company's exploration prospects.

On behalf of the Board,



Richard J. Mazur, P. Geo.  
President & CEO

November 13, 2006



**MANAGEMENT DISCUSSION AND  
ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2006**



## INTRODUCTION

The following discussion of performance and financial condition should be read in conjunction with the annual audited financial statements of the Company for the year ended June 30, 2006. The Company's financial statements are prepared in accordance with Canadian GAAP. The Company's reporting currency is Canadian dollars unless otherwise stated. The date of this Management's Discussion and Analysis is October 27, 2006.

## DESCRIPTION OF BUSINESS

Alto Ventures Ltd. (the "Company") was incorporated under the provisions of the British Columbia Business Corporations Act (formerly the BC Company Act) on June 6, 1987. The Company is listed on the TSX Venture Exchange (the "Exchange") as a Tier 2 mining issuer under the trading symbol - **ATV**.

The Company is in the business of acquiring and exploring gold projects. There has been no determination whether these properties contain reserves which are economically recoverable.

The recoverability of values assigned to these gold properties is dependent upon the discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development, and future profitable production or proceeds from disposition.

## RESULTS OF OPERATIONS

### Current Quarter

The Company incurred a \$121,530 loss for the three months ended June 30, 2006 as compared to a loss of \$300,442 for the same period last year. This amounts to a \$178,912 decrease over the same quarter last year. Expenses that decreased were stock option compensation (\$73,677), management fees (\$67,500), consulting fees (\$17,815), insurance (\$9,108) and expanded investor relations and corporate communications (\$25,537).

Cash and cash equivalents balance increased by \$465,993 to \$587,712 at June 30, 2006. The cash spending for mineral properties was \$579,159. Cash expenditures on exploration focused on the Despinassy JV (\$207,807), on Coldstream (\$314,023) and other properties (\$57,329).

### YTD

The Company incurred a \$544,133 loss for the year ended June 30, 2006 as compared to a loss of \$826,048 for the same period last year. This amounts to a \$281,915 decrease over same period last year. Expenses that decreased were stock-based compensation (\$125,636), management fees (\$63,000), consulting fees (\$133,123) and gains on sale of marketable securities of (\$38,873, Noront Resources Inc.). Increases were due to expanded investor relations and corporate communications (\$75,203), director's fees (\$24,000) and office expenses (\$22,652).

**RESULTS OF OPERATIONS****YTD (continued)**

Cash and cash equivalents balance decreased by \$400,574 to \$587,712 at June 30, 2006. The cash spending for mineral properties was \$1,229,008. Cash expenditures on exploration included \$551,867 on the Despinassy JV, Coldstream (\$344,825), Cote-Archie Lake (\$87,579), \$82,515 on Mud Lake, \$27,817 on Oxford Lake and \$78,842 on other/new projects.

**SUMMARY OF QUARTERLY RESULTS**

The table below present's selected financial data for the Company's eight most recently completed quarters:

In thousands(000's)	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004
<b>Financial results</b>								
Net loss for period	121	176	122	125	302	84	140	300
Basic and diluted loss per share	-	-	-	0.01	0.01	-	-	0.02
Expenditures on resource properties (cash)	579	240	176	234	215	472	1,702	138
<b>Balance sheet data</b>								
Cash and short term deposits	588	1,054	347	547	988	1,427	2,051	393
Resource properties	3,789	3,534	3,215	3,038	2,799	2,584	2,046	354
Total assets	4,725	4,788	3,722	3,816	3,965	4,250	4,208	944
Shareholders' equity #	4,572	4,612	3,681	3,727	3,847	4,070	4,131	540

**SUBSEQUENT EVENT**

Subsequent to June 30, 2006, the Company completed the purchase of Cameco's 70% participating interest in the Despinassy Gold Joint Venture. The purchase agreement was amended to \$350,000 from the original \$700,000. The Company made a one-time payment of \$150,000 on August 31, 2006 in final settlement and now owns the 70% participating interest in this joint venture.

**LIQUIDITY**

The Company's exploration programs for the current financial year have been budgeted and can be completed with current finances.

The financial statements from Schedule A 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 upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	June 30, 2006	June 30, 2005	June 30, 2004
Working capital(deficit)	\$ 770,968	\$ 1,036,943	\$ (59,820)
Deficit	\$ (7,199,434)	\$ (6,655,301)	\$ (5,829,253)

**TRANSACTIONS WITH RELATED PARTIES**

- a) At June 30, 2006, the Company owed \$15,817 (2005: \$28,000) to companies with common Directors and the Company was owed \$1,605 (2005: nil\$) from a company with common Directors
- a) Mirador Management is compensation for an Officer's services to the Company. The following are related party transactions for the period ended June 30, 2006 and 2005:

	June 30, 2006	June 30, 2005
Mike Koziol – geological consulting services (Officer)	\$ 122,370	\$ 70,000
Mirador Management (Company with a Director in Common)	96,000	96,000
RWA Management – administrative services (Company with a former Officer in Common)	83,062	64,000
HRG Management Ltd. – administrative services (Company with Directors in Common, see note 10)	72,037	-
Hamilton Capital Partners Limited (Company with a Director in Common)	30,000	131,500
John Prochnau- consulting services	14,501	35,001
Robert Anderson – accounting services	-	8,000
Lang Michener – legal services (Legal Company with a Company Director)	6,224	19,293
<b>Total</b>	<b>\$ 424,194</b>	<b>\$ 423,794</b>

## COMMITMENTS

Entered into a services agreement, effective February 1, 2006, with HRG Management Ltd. ("HRG") in which the Company will pay a monthly corporate administration fee of approximately \$13,141 which includes office administration, accounting, corporate secretarial, chief financial officer, investor relations and other related services at cost. HRG is a captive management company jointly owned by the Company and certain other public companies, all of which share office space and staff on a cost only basis. The Company shares two common directors with HRG.

## SHARE CAPITAL INFORMATION

The table below presents the Company's common share data as of October 27, 2006.

	Price	Expiry date	Number of common shares
Common shares, issued and outstanding			55,071,543
Securities convertible into common shares			
Warrants	\$0.30	December 30, 2006	11,118,889
	\$0.15/\$0.20	Jan. 24, 2007/2008	7,668,200
	\$0.15/\$0.20	Feb. 9, 2007/2008	3,728,500
Options	\$0.10	August 30, 2007	131,000
	\$0.15	December 2, 2009	1,200,000
	\$0.15	May 12, 2010	790,000
	\$0.16	March 21, 2011	240,000
			79,948,132

### Common Shares

- a) 657,895 common shares were issued on October 4, 2005 at \$0.11 per common share in settlement of the \$75,000 requirement under the Despinassy Joint Venture purchase agreement.
- b) The Company completed a private placement (January 24, 2006 and February 9, 2006) raising \$1,109,000 through the issuance of 11,090,000 units. Each unit was sold at \$0.10 and consists of one common share and one warrant. Each warrant will entitle the holder to purchase an additional common share at a price of \$0.15 during the first year and \$0.20 in the second year.

The terms and conditions of the warrants also contain an accelerated exercise provision that, if the Company's shares trade on a weighted average of \$0.30 for 20 consecutive trading days, warrant holders will be given notice that they have 30 days to exercise or their warrants will expire.

**SHARE CAPITAL INFORMATION (continued)**Stock Options

240,000 stock options at \$0.16 were granted March 21, 2006. The weighted average remaining contractual life of the outstanding options is 3.3 years.

**INVESTMENT IN MINERAL PROPERTIES**

The following table shows the activity from July 1, 2005 to June 30, 2006:

<b>Property</b>	June 30, 2005	Acquisitions	Deferred Explorations	Tax Credit	<b>June 31, 2006</b>
Alcudia Claims	\$ 109,607		\$ (833)	\$ -	<b>108,744</b>
Coldstream Property	191,484	77,750	344,825		<b>614,059</b>
Cote Archie Lake	111,802	15,000	77,579		<b>204,381</b>
Despinassy JV Property	717,423	100,000	551,867	(384,736)	<b>984,554</b>
Dog Lake Property	221,055		10,873		<b>231,928</b>
Greenoaks Gold Property	456,090		982		<b>457,072</b>
Mud Lake Property	64,331	20,000	62,515		<b>146,846</b>
Oxford Lake	894,712		27,817		<b>922,529</b>
Empress-Ridout Property	20,000		6,277		<b>26,277</b>
Generative exploration	12,892	16,095	62,747		<b>91,734</b>
<b>Total Mineral Properties</b>	<b>\$ 2,799,396</b>	<b>\$ 228,845</b>	<b>\$ 1,144,649</b>	<b>\$ (384,736)</b>	<b>\$ 3,789,154</b>

The following table shows the activity from July 1, 2004 to June 30, 2005:

<b>Property</b>	June 30, 2004	Acquisitions	Deferred Explorations	Sale of property/ Write-down	June 30, 2005
Alcudia Claims	\$ 83,203	\$ 5,000	\$ 21,404	\$ -	\$ 109,607
Coldstream Property	109,862	-	81,622	-	191,484
Cote Archie Lake Property	-	28,006	83,796	-	111,802
Despinassy JV Property	8,116	130,000	579,307	-	717,423
Dog Lake Property	400	220,000	655	-	221,055
Greenoaks Gold Property	1,200	450,000	4,890	-	456,090
Mud Lake Property	400	22,126	41,805	-	64,331
Oxford Lake Property	12,337	855,040	27,335	-	894,712
Windfall Lake Claims	56,250	-	-	(56,250)	-
Empress-Ridout Property	-	20,000	-	-	20,000
Generative exploration	-	-	12,892	-	12,892
<b>Total Mineral Properties</b>	<b>\$ 271,768</b>	<b>\$ 1,730,172</b>	<b>\$ 853,706</b>	<b>\$ (56,250)</b>	<b>\$ 2,799,396</b>

**INVESTMENT IN MINERAL PROPERTIES (continued)**

<b>Deferred Mineral Costs</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Diamond drilling	\$ 773,644	\$ 481,194
Acquisition and claim staking	239,298	1,730,172
Management and planning of projects	82,230	53,162
Mapping	61,124	60,727
Line cutting, trenching and blasting	50,778	49,973
Assessment reports and filing works	17,871	47,954
Geological surveys	48,288	42,006
Airborne geophysics	-	40,618
License, permits and taxes	9,544	18,821
Travel, camp and other expenses	20,574	18,021
Prospecting	37,302	16,775
Data compilation and digitizing	26,937	15,959
Assays	3,696	6,886
Leases	2,208	1,610
Exploration tax credits	<b>(383,736)</b>	
<b>Deferred Exploration Costs for the Year</b>	<b>989,758</b>	<b>2,583,878</b>
<b>Deferred Exploration Costs – Beginning of Year</b>	<b>2,799,396</b>	<b>271,768</b>
Less: Proceeds on disposal of property	-	(56,250)
<b>Deferred Exploration Costs – End of Year</b>	<b>\$ 3,789,154</b>	<b>\$ 2,799,396</b>

Mike Koziol, P.Geo, Alto's Vice President of Exploration is the qualified person responsible for the technical information reported in this Management's Discussion and Analysis.

a) Despinassy Property, Quebec

The Despinassy project is located in Despinassy Township, approximately 75 km northeast of Val d'Or, Quebec and lies within the Archean age Abitibi greenstone belt in the eastern Superior Province in Quebec. The property consists of 4,454 hectares are held by the Despinassy Joint Venture. The Company has entered into a sales and purchase agreement for a 70 % interest in the property from Cameco Corporation with Commander Resources Ltd. as a 30% joint venture partner. In addition, Alto holds 6,457 hectares of 100% held ground. Prior to Alto's acquisition of the property, a total of 23,005 metres (m) was drilled by Cameco and previous operators, resulting in the discovery of the DAC deposit with gold mineralization encountered to a depth of 600 m and over a 5 km strike extent along the Despinassy Shear Zone.

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**INVESTMENT IN MINERAL PROPERTIES (continued)****a) Despinassy Property, Quebec (continued)**

Following a first phase drill program of 5,307 m last year, a mineral resource study by Hubacheck Consulting Geologists (HCG) of Mississauga, Ontario found that there was enough drill hole data to conclude that DAC deposit has gold potential for up to approximately 670,000 tonnes grading in a range from 6.8 g/t to 7.8 g/t. The results of the report confirm both the continuity of the mineralization of the DAC Deposit as well as the excellent exploration potential of the entire Despinassy project.

Alto designed a second phase drill program to increase the drill density in the DAC deposit in order to upgrade the resource to an inferred category. The program was also designed to test gold mineralization along strike to identify other gold mineralized shoots along the Despinassy Shear Zone. The Company completed a 5,106 m drill program during the quarter in 19 drill holes and successfully encountered positive drill results. The drill program again confirmed the continuity of the mineralization on the DAC deposit and the potential for further gold mineralization along the auriferous Despinassy Shear Zone. Numerous high grade gold intercepts extended the multiple veins along strike and down plunge. Highlights include an intercept of 178.5 g/t over 1 m on the DAC deposit and the discovery of the Darla Zone grading 19.5 g/t gold over 2.1 m, one kilometre to the east of DAC deposit. The Company's is upgrading its resource estimate and a report is anticipated in November 2006 utilizing the data collected during the second phase drill program just completed.

**b) Coldstream Property, Ontario**

Alto owns a 100% interest in 3,056 hectares nearby the past producing North Coldstream Copper/Gold mine in the Shebandowan Greenstone Belt. The Company recently acquired a further 1,216 hectares adjoining the Coldstream project in a series of three acquisitions, including Inco Limited's Burchell Lake property between Alto's property and the Moss River gold deposit containing 60 million tonnes grading 1.1 grams gold per tonne (as reported by Moss River Gold Mines Ltd.). Alto's East Coldstream gold deposit has an historical resource estimate of 7.6 million tonnes grading 2.0 grams gold per tonne, totalling 485,000 ounces of gold (see News Release dated May 4, 2005 for NI 43-101 disclosure of this resource estimate). The Company acquired, through an option from Canadian Golden Dragon Ltd., the possible strike extension of the East Coldstream deposit. The June 2006 drill program confirmed continuity of mineralization and extended the zone.

The Company acquired 100% interest in 416 hectares immediately west of existing property from Inco Ltd ("Inco"). The claims were acquired by making a cash payment of \$20,000 and 250,000 common shares of the Company to Inco. There are no royalties and the property is in good standing till 2010. The Company resampled some of the existing drill cores and examined surface showings which indicated the rocks fit the IOCG style of mineralization found on other Coldstream Property tested. A future 2,000 metres drill program is being considered.

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**INVESTMENT IN MINERAL PROPERTIES (continued)****c) Oxford Lake Property, Manitoba**

Alto owns a 100% interest in 2,870 hectares of mineral claims and a 5,516 hectare mineral exploration permit, located 160 km southeast of Thompson, Manitoba. Noranda outlined an historical resource estimate of 800,000 tonnes grading 6 grams gold per tonne, totalling 154,000 ounces of gold at the Rusty Zone (see SEDAR Filing dated December 23, 2004 for NI43-101 disclosure on this resource estimate). Further gold mineralization up to 10 g/t gold over 2 metres was encountered by Noranda, 2 km east of the Rusty Zone in the same oxide iron formation. In total, 6 km of strike length of prospective auriferous iron formation has been identified on the property that has never been drilled. A consolidation of the land position in the past year has positioned the property for joint venture.

**d) Mud Lake Property, Ontario**

The Mud Lake property, located 25 km northeast of Beardmore, Ontario, consists of 1,696 hectares located in the Beardmore-Geraldton gold camp. The Company has earned a 100% interest in the project.

The 2005 summer exploration program identified 10 main gold showings ranging from 4.1 to 50.6 g/t in grab samples. Gold occurs principally within quartz-carbonate veins and areas of silicification along a major auriferous shear structure that extends for 6 kilometres along strike within the Coyle Lake Intrusive. The property has only seen limited drilling since the 1930's. Several of the veined shears that are cut by stringers of pyrite and chalcopyrite carry the best gold values. A 16.9 line kilometre Induced Polarization survey has outlined 20 anomalies along strike of existing surface showings and in overburden covered areas. The Mud Lake property is ready for drilling and the Company is seeking a joint venture partner.

**e) Cote-Archie Lake Property, Ontario**

The Cote Archie Lake property, located 5 km north of Beardmore, Ontario consists of 2,672 hectares in the Beardmore-Geraldton Gold Camp. The Company has earned a 100% interest in the project. Alto confirmed the existence of an extensive shear hosted gold-quartz vein system (Cote-Archie Shear) that was traced along strike for over two kilometres on the property. Individual shears are up to 12 metres wide and carry highly anomalous gold values, with higher grades up to 11.2 g/t over 1.0m continuous chip sample.

The Cote-Archie Shear is a major auriferous shear system that is interpreted to lie on strike with the shear system associated with the Leitch Mine which produced 860,000 ounces gold at an average grade of 0.92 opt (31.5 grams per tonne) gold. Despite previous work by Placer Dome in the 1980's, the Cote-Archie Shear Zone had not been recognized before and consequently has only been sparsely drilled at its northeast end. The Cote-Archie Shear is a new and highly prospective auriferous vein structure that is ready for drilling. The Company is seeking a joint venture partner.

**INVESTMENT IN MINERAL PROPERTIES (continued)**f) Greenoaks Property, Ontario

The 100% owned Greenoaks property, consisting of 409 hectares is located 43 kilometres northeast of Beardmore, Ontario. A gold bearing quartz vein has been tested to a depth of 30 m with grades averaging 15 g/t. The property is ready for drilling of the down plunge extension of the mineralization.

g) Dog Lake Property, Ontario

The Dog Lake property, located 14km southwest of Missinabie, Ontario, consists of 8 patented claims covering 155 hectares, located in the Michipicoten greenstone belt. Previous work delineated gold bearing quartz veins with dimensions up to 34 metres long by 3 metres thick containing an average of 0.19 oz. /t gold. A short program of prospecting, mapping and sampling was completed in September 2005 located a shear zone that is from 20 to 25 metre wide and extends for approximately 1.5 kilometres across the property. Wide spread carbonate alteration and quartz veining are associated with the shear zone which occurs within a blue quartz-eye diorite. Results from the Company's 2005 work program returned up to 26.8 g/t gold and up to 0.41 g/t Pt+Pd.

h) Alcudia Property, Ontario

The 100% owned Alcudia property totalling 320 hectares is located adjacent to Noront's Windfall Lake property in Urban Township. A surface hydraulic stripping-trenching and sampling program was completed on the property in September 2006. Further work program will be determined after results are received and analyzed.

i) Empress-Ridout Properties, Ontario

The Empress gold project is comprised of 1,312 hectares and is located adjacent to the Trans-Canada Highway near Terrace Bay in the productive Schreiber-Hemlo greenstone belt, Ontario. The Company has acquired a 100% interest from Cameco Corporation for cash consideration of \$20,000, subject to a 2% net smelter royalty with a buyback of 1% for \$1 million.

Gold mineralization on the project claims occurs within a 15-25 m wide shear zone identified at the historic Empress gold mine immediately to the west and traceable for 1.8 km within the property.

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**INVESTMENT IN MINERAL PROPERTIES (continued)****i) Empress-Ridout Properties, Ontario (continued)**

A summer program of mapping and prospecting was completed in 2006. The work has confirmed the presence of a well mineralized shear zone that extends for almost 2 kilometres across the property. The shear zone is up to 25 metres wide and locally contains high gold grades. Gold mineralization obtained from previous work includes 22.3 g/t gold across 3 metres in surface trenching and 44.4 g/t gold over 0.6 metres in diamond drilling. The 2006 work has identified specific diamond drill targets along the mineralization shear zone and approximately 1,000 metres of drilling is required to test these targets.

**FINANCIAL AND OTHER INSTRUMENTS**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of those instruments.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

## RISKS AND UNCERTAINTIES

The Company is in the mineral exploration and development business and as such is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Some of the possible risks include the following:

- a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates.
- b) The only source of future funds for further exploration programs, or if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration or development. Management was successful in accessing the equity markets during the period, but there is no assurance that such sources will be available on acceptable terms in the future.
- c) Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.
- d) The Company must comply with environmental regulations governing air and water quality and land disturbance and provide for mine reclamation and closure costs.
- e) The operations of the Company will require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to continue its exploration and development activities in the future.
- f) There is no certainty that the properties which the Company has deferred as assets on its balance sheet will be realized at the amounts recorded. These amounts should not be taken to reflect realizable value.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on forward-looking statements. The Company has not completed a feasibility study on any of its deposits to determine if it hosts a mineral resource that can be economically developed and profitably mined.

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information. The company's CEO and CFO have confirmed to the Company that they are satisfied with the effectiveness of the Company's system of disclosure controls and procedures as at June 30, 2006 based upon their evaluation of the effectiveness of such disclosure controls and procedures.

**OTHER INFORMATION**

Additional information is available on the Company's website at [www.altoventures.com](http://www.altoventures.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

**CAUTION REGARDING FORWARD LOOKING STATEMENTS**

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements.

**ALTO VENTURES LTD.**  
**(A Development Stage Company)**

Audited Financial Statements  
For the Years Ended  
June 30, 2006 and 2005  
(Expressed in Canadian Funds)

**AUDITORS' REPORT**

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**To the Shareholders of Alto Ventures Ltd:**

We have audited the balance sheet of Alto Ventures Ltd (the "Company") as at June 30, 2006 and the statement of loss 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 June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2005 and for the year then ended were audited by predecessor auditors who expressed an opinion without reservation on those statements in their report dated September 8, 2005, except for Note 6b(i), which is as of October 24, 2005.

*"PricewaterhouseCoopers LLP"*

Vancouver, BC  
October 23, 2006

PricewaterhouseCoopers LLP  
CHARTERED ACCOUNTANTS

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**Balance Sheets**

As at June 30, 2006 and 2005

Canadian Funds

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
<b>Current</b>		
Cash and cash equivalents	\$ 587,712	\$ 988,286
Marketable securities (Note 3)	9,000	56,250
Receivables (Note 7)	110,085	86,374
Quebec Exploration Tax Credit receivable	191,700	-
Prepaid expenses and deposits	24,845	24,086
	923,342	1,154,996
<b>Mineral Properties (Note 5)</b>	3,789,154	2,799,396
<b>Property and Equipment (Note 4)</b>	12,227	10,730
	\$ 4,724,723	\$ 3,965,122

**LIABILITIES**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 136,557	\$ 90,053
Advances from related parties (Note 7)	15,817	28,000
	152,374	118,053

**Going Concern and Nature of Operations (Note 1)**

**Subsequent events (Notes 5 and 12)**

Commitments (Notes 5 and 10)

**SHAREHOLDERS' EQUITY**

<b>Share Capital (Note 6a)</b>	11,161,682	10,241,130
<b>Contributed Surplus (Note 6a)</b>	610,101	261,240
<b>Deficit - Statement 2</b>	(7,199,434)	(6,655,301)
	4,572,349	3,847,069
	\$ 4,724,723	\$ 3,965,122

ON BEHALF OF THE BOARD:

"David Cowan",  
David Cowan  
Director

"Richard Mazur",  
Richard Mazur  
Director

**Statements of Loss and Deficit**

As at June 30  
Canadian Funds

	2006	2005
<b>Expenses</b>		
Investor relations and shareholder information	\$ 132,695	\$ 57,492
Administrative services	78,857	64,000
Office and miscellaneous	71,606	45,433
Professional fees	56,669	57,449
Management fees	48,000	111,000
Directors' fees	48,000	24,000
Consulting	37,948	167,446
Stock-based compensation	33,768	227,400
Rent	32,117	26,336
Transfer agent and regulatory fees	28,420	43,209
Travel and promotion	25,861	14,925
Amortization	4,021	2,014
Interest and bank charges	1,325	1,402
Property investigations	1,022	-
Foreign exchange (gain)/loss	-	(2,506)
	<b>600,309</b>	<b>839,600</b>
<b>Other Items</b>		
Interest income	(17,303)	(15,773)
(Gain)/Loss on sale of marketable securities	(38,873)	2,221
	<b>(56,176)</b>	<b>(13,552)</b>
<b>Net Loss for the Year</b>	<b>544,133</b>	<b>826,048</b>
Deficit - Beginning of Year	<b>6,655,301</b>	<b>5,829,253</b>
<b>Deficit – End of Year</b>	<b>\$ 7,199,434</b>	<b>\$ 6,655,301</b>
<b>Weighted Average Shares Outstanding</b>	<b>48,071,529</b>	<b>27,921,268</b>
<b>Loss per Share – Basic and Diluted</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>

- See Accompanying Notes -

**Statements of Cash Flows**

As at June 30  
Canadian Funds

<b>Cash Resources Provided By (Used In)</b>	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Loss for the year	\$ (544,133)	\$ (826,048)
Items not affected by cash:		
Amortization	4,021	2,014
Gain on sale of marketable securities	(38,873)	-
Stock option compensation	33,768	227,400
	<u>(545,217)</u>	<u>(596,634)</u>
Changes in non-cash working capital items	(74,647)	(116,369)
Net cash used in operating activities	<u>(619,864)</u>	<u>(713,003)</u>
<b>Financing Activities</b>		
Advances to related parties	(12,183)	(86,228)
Common shares issued	1,109,000	2,591,400
Share issuance costs	(30,730)	-
Exercise of stock options	14,250	17,857
Net cash provided by financing activities	<u>1,080,337</u>	<u>2,523,029</u>
<b>Investing Activities</b>		
Deferred exploration costs	(1,054,687)	(806,656)
Quebec exploration tax credit received	192,036	-
Acquisition of mineral property	(79,000)	(139,156)
Property and equipment purchases	(5,519)	(11,850)
Sale of marketable securities	86,123	-
Net cash used by investing activities	<u>(861,047)</u>	<u>(957,662)</u>
<b>Net (decrease) increase in Cash and Cash Equivalents</b>	<b>(400,574)</b>	<b>852,364</b>
Cash and cash equivalents - Beginning of Year	<u>988,286</u>	<u>135,922</u>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 587,712</b>	<b>\$ 988,286</b>

**Supplementary Cash Flow Information (Note 9)**

- See Accompanying Notes -

**Alto Ventures Ltd.**

*(A Development Stage Company)*

**Notes to Financial Statements**

**As at June 30, 2006 and 2005**

*Canadian Funds*

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**1. Going Concern and Nature of Operations**

Alto Ventures Ltd. ("the Company") is engaged in the acquisition, exploration and development of Canadian gold projects. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The Company has not generated any revenues from its operations to date and consequently is considered to be in the exploration stage. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. While these financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business there are conditions and events that cast substantial doubt on the validity of that assumption. The Company has a working capital of \$770,968 (2005 - \$1,036,943) and accumulated deficit of \$7,199,434 (2005 - \$6,655,301). Its ability to continue as a going concern is dependant upon the continued support of related parties, the ability of the Company to raise equity financing, the ability to meet property commitments and administration costs, the discovery of economically recoverable reserves and the attainment of profitable operations. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

**2. Significant Accounting Policies**

As a precise determination of certain assets and liabilities is dependant on future events, the preparation of the financial statements involves the use of estimates based on careful judgement and actual results could differ from such estimates. The financial statements have, in management's opinion, been prepared within reasonable limits of materiality using the significant accounting policies noted below:

**a) Cash and Cash Equivalents**

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid debt investments with an original maturity date of three months or less. The Company places its cash and cash investments with institutions of high credit worthiness. At times, such investments may be in excess of federal insurance limits.

**b) Loss per Share**

Loss per share is computed by dividing losses attributable to common shareholders by the weighted average number of common shares outstanding during the period. The dilutive effect of outstanding options and warrants and their equivalents are reflected in diluted earnings per share by application of the treasury stock method. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method.

**c) Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, marketable securities, receivables, Quebec exploration tax credit receivable, advances from related parties and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. As of June 30, 2006, the market value of marketable securities was \$10,200.

**Alto Ventures Ltd.**

*(A Development Stage Company)*

## **Notes to Financial Statements**

**As at June 30, 2006 and 2005**

*Canadian Funds*

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### **2. Significant Accounting Policies - Continued**

#### **d) Stock-based compensation**

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. The Company recognizes compensation expense for each grant on the later of the date of regulatory approval of the grant and the date of vesting, as applicable.

For newly granted options, compensation expense is based on the fair value of the options at the grant date. For any options that have alteration in their conditions, compensation expense is based on the fair value of the options on the alteration date less the fair value of the original options based on the shorter of the remaining expanded life of the old option or the expected life of the modified option.

#### **e) Property and Equipment**

Property and equipment are valued at cost less accumulated amortization. The Company provides for amortization for all property and equipment classes using the declining balance method at rates between 20% and 45% and applies only one-half of the applicable rate in the year of acquisition.

#### **f) Asset Retirement Obligations**

Asset retirement obligations are recognized when a legal or constructive obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company may incur a gain or loss. As at June 30, 2006 the Company does not have any asset retirement obligations.

#### **g) Income Taxes**

The Company accounts for income taxes using the asset and liability method. Future income taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years on differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income during the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

**Alto Ventures Ltd.**

*(A Development Stage Company)*

## **Notes to Financial Statements**

**As at June 30, 2006 and 2005**

*Canadian Funds*

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### **2. Significant Accounting Policies - Continued**

#### **h) Mineral Properties**

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration and development costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is sold, abandoned, or determined to be impaired. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its mineral properties, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

The Company assesses its capitalized mineral property costs on a regular basis. A property is written-down or written-off when the Company determines that a permanent impairment of value has occurred or when exploration results indicate that no further work is warranted.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received. After costs are recovered, the balance of the payments is recorded as a gain on option or disposition of mineral property.

#### **i) Mineral Exploration Tax Credits ("METC")**

The Company recognizes METC amounts when the Company's METC application is approved by Canada Revenue Agency ("CRA") auditors or when the amount to be received can be reasonably estimated and collection is reasonably assured.

#### **j) Property Option Agreements**

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

#### **k) Impairment of Long-Lived Assets**

The Company assesses the impairment of long-lived assets, which consist primarily of property, plant and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to its fair value. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

**Alto Ventures Ltd.**

*(A Development Stage Company)*

**Notes to Financial Statements**

**As at June 30, 2006 and 2005**

*Canadian Funds*

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**2. Significant Accounting Policies - Continued**

**l) Share Capital**

- i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

**m) Variable Interest Entities**

The Company adopted a policy in 2005 for determination of identifying variable interest entities ("VIE") and if there are any VIE's would consolidate them. At this time the Company does not have any VIE's.

**3. Marketable Securities**

Marketable securities consist of 60,000 (2005 – 375,000) shares of Noront Resources Inc. ("Noront") at a cost of \$9,000 (2005 - \$56,250) and market value of \$10,200 on June 30, 2006 (2005: \$80,500). The Company's share ownership in Noront is minimal and they have no control or significant influence over Noront.

**4. Property and Equipment**

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	Cost	Accumulated Amortization	<b>2006 Net Book Value</b>	2005 Net Book Value
Computer equipment	\$ 22,539	\$ 10,515	\$ <b>12,024</b>	\$ 10,477
Furniture and equipment	1,676	1,473	<b>203</b>	253
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 24,215	\$ 11,988	\$ <b>12,227</b>	\$ 10,730

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**Alto Ventures Ltd.**  
(A Development Stage Company)

## Notes to Financial Statements

As at June 30, 2006 and 2005

Canadian Funds

### 5. Mineral Properties

The following table shows the activity from July 1, 2005 to June 30, 2006:

Property	June 30, 2005	Acquisitions	Deferred Explorations	Tax Credit	June 30, 2006
Alcudia Claims	\$ 109,607	-	\$ (833)	\$ -	<b>108,774</b>
Coldstream Property	191,484	77,750	344,825	-	<b>614,059</b>
Cote Archie Lake	111,802	15,000	77,579	-	<b>204,381</b>
Despinassy JV Property	717,423	100,000	551,867	(383,736)	<b>985,554</b>
Dog Lake Property	221,055	-	10,873	-	<b>231,928</b>
Greenoaks Gold Property	456,090	-	982	-	<b>457,072</b>
Mud Lake Property	64,331	20,000	62,515	-	<b>146,846</b>
Oxford Lake	894,712	-	27,817	-	<b>922,529</b>
Empress-Ridout Property	20,000	-	6,277	-	<b>26,277</b>
Other exploration	12,892	16,095	62,747	-	<b>91,734</b>
Total Mineral Properties	\$ 2,799,396	\$ 228,845	\$ 1,144,649	\$ (383,736)	<b>\$ 3,789,154</b>

The following table shows the activity from July 1, 2004 to June 30, 2005:

Property	June 30, 2004	Acquisitions	Deferred Explorations	Sale of property/ Write-down	June 30, 2005
Alcudia Claims	\$ 83,203	\$ 5,000	\$ 21,404	\$ -	\$ 109,607
Coldstream Property	109,862	-	81,622	-	191,484
Cote Archie Lake Property	-	28,006	83,796	-	111,802
Despinassy JV Property	8,116	130,000	579,307	-	717,423
Dog Lake Property	400	220,000	655	-	221,055
Greenoaks Gold Property	1,200	450,000	4,890	-	456,090
Mud Lake Property	400	22,126	41,805	-	64,331
Oxford Lake Property	12,337	855,040	27,335	-	894,712
Windfall Lake Claims	56,250	-	-	(56,250)	-
Empress-Ridout Property	-	20,000	-	-	20,000
Other exploration	-	-	12,892	-	12,892
Total Mineral Properties	\$ 271,768	\$ 1,730,172	\$ 853,706	\$ (56,250)	\$ 2,799,396

Alto Ventures Ltd.

(A Development Stage Company)

## Notes to Financial Statements

As at June 30, 2006 and 2005

Canadian Funds

### 5. Mineral Properties - Continued

Mineral Property Costs	June 30, 2006	June 30, 2005
Diamond drilling	\$ 773,644	\$ 481,194
Acquisition and claim staking	239,298	1,730,172
Management and planning of projects	82,230	53,162
Mapping	61,124	60,727
Line cutting, trenching and blasting	50,778	49,973
Geological surveys	48,288	42,006
Prospecting	37,302	16,775
Data compilation and digitizing	26,937	15,959
Travel, camp and other expenses	20,574	18,021
Assessment reports and filing works	17,871	47,954
License, permits and taxes	9,544	18,821
Assays	3,696	6,886
Leases	2,208	1,610
Airborne geophysics	-	40,618
Exploration tax credits	(383,736)	-
<b>Mineral Property Costs for the Year</b>	<b>989,758</b>	<b>2,583,878</b>
<b>Mineral Property Costs – Beginning of Year</b>	<b>2,799,396</b>	<b>271,768</b>
Less: disposal of property	-	(56,250)
<b>Mineral Property Costs – End of Year</b>	<b>\$ 3,789,154</b>	<b>\$ 2,799,396</b>

#### a) Alcudia Claims

Pursuant to an agreement dated February 22, 1996 the Company acquired from Alcudia Capital Incorporated (“Alcudia”) a 100% interest in 20 mineral claims located in Urban Township, Province of Quebec. As consideration, the Company issued 100,000 common shares valued at \$10,000 (\$0.10 per share). The property is subject to a 2% net smelter return royalty (“NSR”) in favour of Alcudia in which a former director has an interest.

#### b) Coldstream Property

Pursuant to a letter of agreement dated August 1, 2002 with Hidefield Gold, PLC (“Hidefield”), a company with directors in common with the Company, the Company was granted an option to acquire a 100% interest in 71 contiguous patented claims and licenses of occupation in the Burchell Lake area, Thunder Bay, Ontario. As consideration, the Company issued 800,000 shares valued at \$80,000 (\$0.10 per share) to Hidefield and is required to expend \$100,000 (expended) in exploration expenditures over a three-year period. The property is subject to a 2% NSR. The Company also staked twenty mining claims adjoining the property.

**Alto Ventures Ltd.**

*(A Development Stage Company)*

**Notes to Financial Statements**

**As at June 30, 2006 and 2005**

*Canadian Funds*

**5. Investment - Mineral Properties - *Continued***

**b) Coldstream Property - *Continued***

During the year ended June 30, 2006, the Company acquired 100% interest in 416 hectares immediately west of existing property from Inco Ltd ("Inco"). The claims were acquired by making a cash payment of \$20,000 and issuing 250,000 common shares valued at \$43,750 to Inco. There are no royalties and the property is in good standing till 2010.

Pursuant to an agreement dated May 8, 2006, the Company acquired a 100% interest in 3 additional mineral claims located in the Burchell Lake area, Thunder Bay, Ontario. The consideration for the acquisition includes a cash payment of \$4,000 (paid) and the issuance of 50,000 common shares (issued) of the Company valued at \$10,000. Further, the vendors will retain a 2.0% NSR royalty which the Company retains the right to buyout 1% of the NSR at anytime for \$1,000,000.

**c) Oxford Lake Property**

By agreements dated June 4, 2004 the Company purchased the Oxford Lake Gold property located in the Gods Lake area of northern Manitoba from Hidefield, a company with directors in common with the Company, and Anglo Pacific Group plc (Symbol "APF"), in consideration for 4,000,000 common shares (issued) of the Company to Hidefield and 4,000,000 common shares (issued) to APF.

By agreement dated March 22, 2005, the Company acquired a 100% interest in an additional 150 hectares on the Oxford Lake property. Consideration for the acquisition included a cash payment of \$25,000 (paid) and the issuance of 200,000 common shares (issued) of the Company. Further, the vendor retained a 2.5% NSR royalty of which the Company can repurchase 1% for \$1,000,000.

In addition to this acquisition, also on June 4, 2004, the Company has been granted a 5,516 hectare mineral exploration permit surrounding the Company's existing claims.

**d) Despinassy JV Property**

Pursuant to an agreement dated September 30, 2004, the Company acquired an option to earn 70% interest in a joint venture with Commander Resources Ltd. ("Commander") from Cameco Corporation ("Cameco"). To complete the acquisition of its 70% interest, the Company must pay \$50,000 (paid), pay a further \$50,000 (paid) in cash or shares, at the Company's option, after 6 months (paid in cash), make four further payments of \$100,000, as to \$25,000 in cash and \$75,000 in cash or shares, at the Company's option, on the first (first paid and issued) to fourth anniversary dates and make a final payment on the fifth anniversary of \$50,000 in cash and \$150,000 in cash or shares, at the Company's option to "Cameco".

The Company was also required to issue 100,000 common shares (issued) to Commander upon closing of the JV agreement.

**e) Greenoaks Gold Property**

By agreements dated June 4, 2004, the Company acquired the Greenoaks Gold property comprising 15 leasehold patents located in the Beardmore-Geraldton Gold District, Northwest Ontario from Hidefield in consideration for 4,500,000 common shares (issued) of the Company.

**Alto Ventures Ltd.**

*(A Development Stage Company)*

**Notes to Financial Statements**

**As at June 30, 2006 and 2005**

*Canadian Funds*

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**5. Investment – Mineral Properties - Continued**

**f) Dog Lake Property**

By agreements dated June 4, 2004, the Company purchased the Dog Lake Gold property located approximately 14 kilometres southwest of Missinabie, Ontario from Hidefield in consideration for 2,200,000 (issued) common shares of the Company. .

**g) Mud Lake Property**

On August 1, 2004, the Company obtained the option, from an unrelated party, to acquire a 100% interest in the Mud Lake property by making a cash payment of \$10,000 and issuing 50,000 common shares of the Company (issued and paid) on signing the agreement, a cash payment of \$15,000 (paid) and issuing 50,000 shares valued at \$5,000 upon the first anniversary date of the agreement (issued) and a cash payment of \$15,000 and issuing 50,000 shares upon the second anniversary date of the agreement (issued and paid subsequent to year-end). The vendors will retain a 2.5% NSR and the Company has the right to buyback 1.5% of the NSR for \$500,000.

**h) Cote-Archie Lake Property**

On September 13, 2004, the Company obtained the option from, an unrelated party, to acquire a 100% interest in the Cote-Archie Lake property by making a cash payment of \$20,000 and issuing 50,000 common shares of the Company valued at \$5,000 (issued and paid) on signing of the agreement, a cash payment of \$10,000 and issuing 50,000 shares upon the first anniversary date of the agreement valued at \$5,000 (issued and paid) and a cash payment of \$10,000 and issuing 50,000 shares (issued and paid subsequent to year) upon the second anniversary date of the agreement. The vendors will retain a 2.0% NSR and Alto has the right to buyback 1.0% of the NSR for \$1,000,000.

**i) Empress-Ridout Property**

On June 15, 2005, the Company entered into an agreement with Cameco Corporation (“Cameco”) to acquire a 100% interest in the Empress-Ridout Property located in the province of Ontario by making a cash payment of \$20,000 (paid). The agreement is subject to a 2% NSR with the Company being obligated to pay a 1% NSR to the owners of the property and Cameco retaining an obligation to pay the remaining 1%..

**g) Burchell Property**

On May 3, 2006, the Company entered into an agreement with Canadian Golden Dragon Resources Ltd. (“CGD”) to acquire a 100% interest in the Burchell Property located in the province of Ontario by making a cash payment of \$5,000 and issuing 25,000 common shares of the Company valued at \$4,375 (issued and paid) on signing of the agreement, a cash payment of \$10,000 and issuing 50,000 shares upon the first anniversary date of the agreement and a cash payment of \$25,000 and issuing 125,000 shares upon the second anniversary date of the agreement and a cash payment of \$50,000 and issuing 200,000 shares upon the third anniversary date of the agreement. The vendors will retain a 2.0% NSR. The Company is required to incur exploration expenditures to maintain the property in good standing.

**Alto Ventures Ltd.***(A Development Stage Company)***Notes to Financial Statements****As at June 30, 2006 and 2005***Canadian Funds***6. Share Capital**a) **Common shares**

Authorized: Unlimited common shares without par value

	Number of Shares	Amount	Contributed Surplus
Issued:			
Balance – June 30, 2004	7,954,798	5,832,095	-
Issued for cash – private placements	19,118,889	2,801,400	-
Issued in exchange for mineral properties	15,300,000	1,540,000	-
Issued pursuant to debt settlement agreement	365,675	36,568	-
Stock options exercised	128,571	17,857	-
Escrow shares retired	(64,285)	(643)	643
Fair value of options granted	-	-	274,450
Fair value of options exercised	-	13,853	(13,853)
Balance – June 30, 2005	42,803,648	\$ 10,241,130	\$ 261,240
Units issued in exchange for cash (*)	11,090,000	797,218	311,782
Fair value of options granted	-	-	33,768
Fair value of options exercised	-	10,165	(10,165)
Fair value of agent warrants granted	-	-	13,476
Stock options exercised	95,000	14,250	-
Share issuance costs	-	(44,206)	-
Issued in exchange for mineral properties	1,082,895	143,125	-
<b>Balance – June 30, 2006</b>	<b>55,071,543</b>	<b>\$ 11,161,682</b>	<b>\$ 610,101</b>

\* The Company completed a private placement raising \$1,109,000 through the issuance of 11,090,000 units. Each unit was sold at \$0.10 and consists of one common share and one warrant. Each warrant will entitle the holder to purchase an additional common share at a price of \$0.15 during the first year and \$0.20 in the second year. The warrants attached have been valued at \$311,782 based upon average of the residual method and the black scholes method (using the assumptions as follows):

<b>Assumption</b>	<b>1<sup>st</sup> Year</b>	<b>2<sup>nd</sup> Year</b>
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	111.94%	109.87%
Risk-free interest rate	3.83%	3.97%
Expected life of options	1 year	1 year

The terms and conditions of the warrants also contain an accelerated exercise provision that, if the Company's shares trade on a weighted average of \$0.30 for 20 consecutive trading days, warrant holders will be given notice that they have 30 days to exercise or their warrants will expire.

**Alto Ventures Ltd.**  
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**Notes to Financial Statements**  
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**6. Share Capital - Continued**

b) **Warrants**

Warrants have been granted and are exercisable in whole or in part allowing the holders to purchase common shares of the Company as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance – June 30, 2004	-	\$ -
Granted	19,118,889	0.26
Balance – June 30, 2005	19,118,889	\$ 0.26
Granted	11,090,000	0.15
Agents warrants *	306,700	0.15
Expired	(8,000,000)	0.20
Balance – June 30, 2006	22,515,589	\$ 0.22

\* The agents warrants were valued using the Black Scholes option pricing model. Assumptions used are as follows:

<b>Assumption</b>	<b>1<sup>st</sup> Year</b>	<b>2<sup>nd</sup> Year</b>
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	111.94%	109.87%
Risk-free interest rate	3.83%	3.97%
Expected life of options	1 year	1 year

Of the warrants outstanding at June 30, 2006:

- 11,118,889 warrants are exercisable at \$0.30 per share up to December 30, 2006
- 7,668,200 warrants are exercisable at \$0.15 per share up to January 24, 2007 and \$0.20 per share up to January 24, 2008
- 3,728,500 warrants are exercisable at \$0.15 per share up to February 9, 2007 and \$0.20 per share up to February 9, 2008

**Alto Ventures Ltd.***(A Development Stage Company)***Notes to Financial Statements****As at June 30, 2006 and 2005***Canadian Funds***6. Share Capital - Continued****c) Share Purchase Options**

The Company has established a share purchase option plan whereby the Board of Directors, may from time to time, grant options to directors, officers, employees or consultants to a maximum of 10% of the issued and outstanding share capital amount. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's Board of Directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant date.

The following is a summary of the Company's options at June 30, 2006 and 2005 and the changes for the year are as follows:

Exercise Price	Outstanding June 30, 2005	Granted	Exercised	Outstanding June 30, 2006	Expiry Date
\$0.10	131,000			131,000	August 30, 2007
\$0.15	1,200,000			1,200,000	September 30, 2009
\$0.15	885,000		(95,000)	790,000	June 20, 2010
\$0.16		240,000		240,000	March 21, 2011
	2,216,000	240,000	(95,000)	2,361,000	

On March 21, 2006 the Company granted incentive options to purchase up to 240,000 common shares of the Company's stock to employees of the Company at an exercise price of \$0.16 for a term of 5 years. A fair value of \$33,768 (2005 - \$227,400) was determined on the grant date and has been recorded in the Company's loss from operations for the year. All options vest immediately according to the Company's option plan. During the year, 95,000 options were exercised at \$0.15 for total cash proceeds of \$14,250.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Assumption	Value
Expected dividend yield	0.00%
Expected stock price volatility	134%
Risk-free interest rate	3.86%
Expected life of options	5 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options

**7. Related Party Transactions**

- a) At June 30, 2006, the Company owed \$15,817 (2005: \$28,000) to companies with Directors in common and the Company was owed \$1,605 (2005: \$Nil) from a company with Directors in common.

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**7. Related Party Transactions - Continued**

b) The following are related party transactions for the period ended June 30, 2006 and 2005:

	June 30, 2006	June 30, 2005
Hamilton Capital Partners Limited (Company with a Director in Common)	\$30,000	\$131,500
RWA Management – administrative services (Company with a former Officer in Common)	83,062	64,000
HRG Management Ltd. – administrative services (Company with Directors in Common, see note 10)	72,037	-
Mirador Management (Company with a Director in Common)	96,000	96,000
John Prochnau - consulting services (Director)	14,501	35,001
Robert Anderson – accounting services (a former Officer)	-	8,000
Mike Koziol – geological consulting services (Officer)	122,370	70,000
Lang Michener – legal services (Legal Company with a Company Director)	6,224	19,293
<b>Total</b>	<b>\$424,194</b>	<b>\$423,794</b>

**8. Segment Information**

The Company currently conducts substantially all of its operations in Canada in one business segment.

**9. Supplementary Cash Flow Information**

Non-Cash Financing and Investing Activities include:	2006	2005
Shares issued for property costs	\$ 143,125	\$ -
Quebec exploration tax credit (accrued)	\$ 191,700	\$ -
Accounts payable included in resource properties	\$ 89,962	\$ 51,016
Share issuance costs – brokers warrants	\$ 13,476	\$ -
Stock-based compensation	\$ 33,768	\$ 227,400

**Alto Ventures Ltd.***(A Development Stage Company)***Notes to Financial Statements****As at June 30, 2006 and 2005***Canadian Funds*

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**10. Commitments**

The Company entered into a services agreement, effective February 1, 2006, with HRG Management Ltd. ("HRG") in which the Company will pay a monthly corporate administration fee of approximately \$13,141 which includes office administration, accounting, corporate secretarial, chief financial officer, investor relations and other related services at cost. HRG is a captive management company jointly owned by the Company and certain other public companies, all of which share office space and staff on a cost only basis. The Company shares two common directors with HRG.

**11. Corporate Tax Losses Carry Forwards**

The Company has non-capital loss carry forwards available to reduce future taxable income as follows:

<b>Year of Expiry</b>	<b>Amount</b>
2007	121,000
2008	136,000
2009	96,000
2010	190,000
2011	56,000
2012	593,000
2013	<u>548,000</u>
	<u>\$1,740,000</u>

In addition, the Company has Canadian exploration and development expenditures approximating \$4,468,000 (2005- \$3,482,000), which are available to reduce future taxable income. The Company also has capital losses of \$1,553,000 (2005 - \$1,591,000).

Significant components of the Company's future income tax assets, after applying enacted corporate income tax rates are as follows:

Future income tax assets:

	<b>2006</b>	<b>2005</b>
Statutory tax rate	34.12%	35.6%
Capital losses	264,870	283,278
Non-capital losses	593,688	424,352
Exploration and development expenditures	1,533,025	1,239,562
	<u>2,391,583</u>	<u>1,947,192</u>
Less: valuation allowances	<u>(2,391,583)</u>	<u>(1,947,192)</u>
	<u>—</u>	<u>—</u>

Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements, as their realization is not considered more likely than not.

**Alto Ventures Ltd.**

*(A Development Stage Company)*

## **Notes to Financial Statements**

**As at June 30, 2006 and 2005**

*Canadian Funds*

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### **12. Subsequent event**

Subsequent to June 30, 2006, the Company completed the purchase of Cameco's 70% participating interest in the Despinassy Gold Joint Venture. The purchase agreement was amended to \$350,000 from the original \$700,000. The Company made a one-time payment of \$150,000 on August 31, 2006 in final settlement and now owns a 70% participating interest in this joint venture.

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## **DIRECTORS AND OFFICERS**

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President, CEO and Director

**KERRY BEAMISH**  
Chief Financial Officer

**JACQUELINE COLLINS**  
Corporate Secretary

**MARIAN (MIKE) KOZIOL**  
Vice President, Exploration

**KENNETH JUDGE**  
Director

**JOHN PROCHNAU**  
Director

**PAUL ROBERTS**  
Director

**DAVID COWAN**  
Director

## **SHARES LISTED**

TSX Venture Exchange  
Symbol: **ATV**

## **WEBSITE**

[www.altoventures.com](http://www.altoventures.com)

