

# OREX *EXPLORATION INC.*

## UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED

DECEMBER 31, 2004

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### Notice to Reader

Management has compiled the unaudited interim financial information of Orex Exploration Inc. consisting of the interim balance sheet as at December 31, 2004 and the statements of Deferred Exploration Expenditures, Earnings, Deficit and Cash Flows for the six-month period ended December 31, 2004. An accounting firm has not reviewed or audited these interim financial statements.

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CORPORATE INFORMATION	
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## Management Discussion And Analysis

The Management's Discussion and Analysis (« MD&A ») provides a discussion and analysis of our financial condition and results of operations to enable a reader to assess material changes for the period ended December 31, 2004 to those of the comparative period. This MD&A, prepared as of February 7, 2005 is intended to complement and supplement our interim financial statements. It should be read in conjunction with the MD&A for the year ended June 30, 2004, our audited annual financial statements and notes thereto, together with our interim financial statements and notes thereto for the six month period ended December 31, 2004. Our financial statements and this MD&A are intended to provide investors with reasonable basis for assessing our result of operation and our financial performance.

Our financial statements, prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts in this MD&A are expressed in Canadian dollars.

### QUARTER - SIX-MONTH ENDED DECEMBER 31, 2004

#### STATEMENTS OF OPERATIONS

##### *Significant Financial Data (Unaudited)*

<b>SIX-MONTH PERIODS ENDED DECEMBER 31,</b>	<b>2004</b>	<b>2003</b>
<b>STATEMENTS OF OPERATION AND CASH FLOWS (\$)</b>		
Interest	1,458	-
Gain on debt settlement	17,680	-
Administrative expenses	(80,254)	(66,085)
Net loss	(61,116)	(66,085)
Net loss per share on a diluted basic	(0.00)	(0.00)
<b>BALANCE SHEET (\$)</b>	<b>As at December 31, 2004</b>	<b>As at June 30, 2004</b>
Cash and cash equivalents	111,959	256,627
Total assets	6,572,283	6,622,028
Total long-term debt	861,689	866,539
Shareholders' Equity	5,625,037	5,681,153

##### *Net Loss*

For the six-month period ended December 31, 2004, Orex presents a net loss of \$61,116 or \$0.00 per share compared to a net loss of \$66,085 or \$0.00 per share for the same period ended in 2003. These decrease was created by the gain on settlement of debt of \$17,680 realized during the six-month period ended December 31, 2004.

##### *Interests*

Interests for the six-month period ended December 31, 2004 totaled \$1,458 compared to \$0 for the same period ended in 2003. This increase of the interests in 2004 is due to the financing closed in February 2004.

##### *Gain on debt settlement*

For the six-month period ended December 31, 2004, Orex has writted off debts for \$17,680 compared to \$0 for the same period ended in 2003.

### *Administrative Expenses*

The administrative expenses went from \$66,085 for the six-month period ended December 31, 2003 to \$80,254 for the same period ended in 2004.

### CASH FLOWS STATEMENTS

#### *Operating*

Operating activities, before net changes in non-cash working capital items, generated negative cash flows of \$60,088 for the six-month period ended December 31, 2004, compared to negative cash flows of \$79,886 for the same period ended in 2003.

Net change in non-cash working capital items affecting operations is of \$1,028 for the six-month period ended December 31, 2004 compared to \$13,801 for the same period ended in 2003.

#### *Financing*

In accordance with its intention expressed in the private placement of \$350,000 closed in February 2004, Orex has initiated an exploration program on the Goldboro property in the third quarter of the financial year ended June 30, 2004. During the quarters ended December 31, 2004 and 2003, there was no financing operation.

#### *Investing*

During the six-month period ended December 31, 2004, cash and equivalents of \$92,218 were invested in exploration expenses on the Goldboro property, compared to \$3,961 for the same period ended in 2003.

Total cash and equivalents of \$144,668 were used during the six-month period ended December 31, 2004, whereas operations for the same period ended in 2003 generated a diminution of the cash and equivalents of \$795.

### BALANCE SHEETS

The Company's total assets amounted to \$6,572,283 as at December 31, 2004, compared to \$6,622,028 as at June 30, 2004.

Deferred exploration expenses went from \$4,766,139 as at June 30, 2004 to \$4,858,357 as at December 31, 2004 in reason of the exploration work realized after the private financing closed in February 2004.

Liabilities amounted to \$947,246 as at December 31, 2004 compared to \$940,875 as at June 30, 2004.

### GOLDBORO PROJECT, FINANCING AND EXPLORATION

In February 2004, Orex has completed a \$350,000 financing, of which \$250,000 is for exploration work on the Goldboro project, Orex's only mining project.

Exploration program		\$250,000
Expenses incurred during the period ended December 31, 2003.		<u>3,961</u>
		246,039
- January 1, 2004 as at March 31, 2004	\$14,630	
- April 1, 2004 as at June 30, 2004	<u>21,142</u>	<u>35,772</u>
		210,267
- July 1, 2004 as at September 30, 2004	44,820	
- October 1, 2004 as at December 31, 2004	<u>47,398</u>	<u>92,218</u>
Balance of exploration expenses to be done.		<u><u>\$118,049</u></u>

During the next quarter, Orex intends to finance the Phase I of the \$350,000 exploration program recommended in the 43-101 technical report on the Goldboro property, mainly to verify the geological model.

#### SIGNIFICANT ANNUAL FINANCIAL DATA

<b>DECEMBER 31</b>	2004	2003	2002
<b>STATEMENTS OF EARNINGS (\$)</b>			
Interest	1,458	-	386
Net loss	(61,116)	(66,085)	(95,169)
Net loss per share on a diluted basic	(0.00)	(0.00)	(0.00)
<b>BALANCE SHEET (\$)</b>			
Cash and cash equivalents	111,959	480	474,723
Total assets	6,572,283	6,330,786	6,370,608
Total long-term debt	861,689	678,036	678,036
Shareholders' Equity	5,625,037	5,418,870	5,539,048
<b>MINING EXPLORATION (\$)</b>			
Exploration Expenses	92,218	3,961	-

The net loss increased from \$66,085 for the six-month period ended December 31, 2003 to \$61,116 for the same period ended in 2004.

From December 31, 2003 to December 31, 2004, the assets increased from \$6,330,786 to 6,572,283, mainly due to the closing of a \$350,000 financing for the realization of exploration work on the Goldboro property.

#### QUARTERLY INFORMATION (Unaudited)

<b>QUARTERS</b>	December 2004	September 2004	June 2004	March 2004	December 2003	September 2003	June 2003	March 2003
<b>STATEMENT OF EARNINGS(\$)</b>								
Interest	684	774	972	196	0	0	61	103
Net loss	(33,497)	(27,619)	(122,444)	(22,418)	(39,048)	(27,037)	(24,437)	(26,656)
Net loss per share on a diluted basic	(0.0006)	(0.0005)	(0.0024)	(0.0005)	(0.0008)	(0.0006)	(0.0006)	(0.0006)
<b>BALANCE SHEET (\$)</b>								
Cash and cash equivalents	111,959	187,948	256,627	303,841	480	1,545	1,275	30,790
Total assets	6,572,283	6,608,884	6,622,028	6,644,879	6,330,786	6,318,791	6,317,715	6,352,871
Total long-term debt	861,689	863,415	866,539	787,261	787,261	787,261	787,261	678,036
<b>EXPLORATION EXPENSES (\$)</b>								
Exploration expenses	47,398	44,820	21,142	14,630	3,961	0	0	0

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

### *Long-Term Debt*

The long-term debt comes from advances of companies controlled by the president of Orex, non-interest bearing and with no term of repayment.

### *Royalties and Lien on the Goldboro Property*

The Company owns 100% of the Goldboro property without lien, hypothec or royalties held by third parties.

### *Environment*

On September 26, 1995, Orex obtained an environmental Release from the Nova Scotia Government providing that the Company will not be held responsible in respect of certain potential liabilities associated with existing environmental conditions which are not in any way affected during the course of implementation of the mining activities of Orex.

## RELATED PARTY TRANSACTIONS

During the six-month period ended December 31, 2004, the Company has paid rental expenses and professional fees for a total amount of \$19,500 (2003, \$19,500) to companies controlled by the president of Orex. The balance payable to these companies arising from those transactions is included under "Advances from a related company" in the current liabilities.

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

## RISKS AND UNCERTAINTIES

### *Exploration*

Exploration and mining involve a high degree of risk. Few exploration properties end up going into production. Other risks related to exploration and mining activities include unusual or unforeseen formations, fire, power failures, labour disputes, flooding, explosions, cave-ins, landslides and shortages of adequate or appropriate manpower, machinery or equipment.

The development of a resource property is subject to many factors, including the cost of mining, variations in the quality of the material mined, fluctuations in the commodity and currency markets, the cost of processing equipment, and others, such as aboriginal claims, government regulations including regulations regarding royalties, authorized production, import and export of natural resources and environmental protection. Depending on the price of the natural resources produced, the Company may decide not to undertake or continue commercial production. There can be no assurance that the expenses incurred by the Company to explore its properties will result in the discovery of a commercial quantity of ore. Most exploration projects do not result in the discovery of commercially viable mineral deposits.

### *Environmental and Other Regulations*

Current and future environmental laws, regulations and measures could entail unforeseeable additional costs, capital expenditures, restrictions or delays in the Company's activities. Environmental regulations and standards are subject to constant revision and could be substantially tightened, which could have a serious impact on the Company and its ability to develop its properties economically. Before it commences mining a property, the Company must obtain environmental permits and the approval of the regulatory authorities. There is no assurance that these permits and approvals will be obtained, or that they will be obtained in a timely manner. The cost of complying with government regulations may also impact the viability of an operation or altogether prevent the economic development of a property.

### *Financing and Development*

The Company does not presently have sufficient financial resources by itself to undertake its planned exploration and development programs. Development of the Company's properties therefore depends on its ability to raise the additional funds required. There can be no assurance that the Company will succeed in obtaining the funding required. The Company also has limited experience in developing resource properties, and its ability to do so depends on the use of appropriately skilled personnel or signature of agreements with other large resource companies that can provide the required expertise.

### *Commodity Prices*

The factors that influence the market value of gold and any other mineral discovered are outside the Company's control. The impact of these factors cannot be accurately predicted. Resource prices can fluctuate widely, and have done so in recent years.

### *Risks Not Covered by Insurance*

The Company may become subject to claims arising from cave-ins, pollution or other risks against which it cannot insure itself or chooses not to insure itself due to the high cost of premiums or other reasons. Payment of such claims would decrease and could eliminate the funds available for exploration and mining activities.

### INFORMATION ON OUTSTANDING SHARES

As at December 31, 2004, Orex's share capital is comprised of 51,849,866 common shares issued and outstanding.

3,500,000 warrants are outstanding as at December 31, 2004. Each warrant entitles its holder to purchase one common share at a price of \$0.13 per share. Those warrants expire on February 25, 2006.

The Company has a stock option plan for its directors, officers, employees and consultants. A maximum of 6,000,000 common shares may be issued pursuant to that stock option plan. As at December 31, 2004, options to purchase 3,945,000 common shares are issued and outstanding.

### STRATEGY AND GOALS

Our goal is to maximize the value for our shareholders and our strategy to achieve this goal is primarily to focus on the development of Goldboro property that we entirely own with no lien, hypothec or royalties held by third parties. The goals for the year 2005 is to continue current exploration programs on the Goldboro property, complete a financing for the execution of the Phase I of the works recommended on the National Instrument 43-101 report in order to properly assess the analytical problem of gold assays due to the presence of coarse grained gold and send a delegation of geoscientists to visit saddle reef type deposits that are currently in production such the New Bendigo deposit located in Australia. This will help to better understand the Goldboro deposit.

### *Additional Information and Continuous Disclosure*

This MD&A has been prepared as of February 7, 2005. Additional information on the Company is available through regular filings of press releases, quarterly financial statements and its Annual Information Form on SEDAR ([www.sedar.com](http://www.sedar.com)) and on its web site ([www.orexexploration.ca](http://www.orexexploration.ca)).

**OREX** Exploration Inc.

	Three-month Periods ended December 31		Six-month Periods ended December 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>STATEMENTS OF DEFERRED EXPLORATION EXPENDITURES</b> <i>(unaudited)</i>				
<b>EXPLORATION EXPENDITURES</b>				
Consultants and subcontractors	44,166	3,061	86,213	3,061
General exploration expenses	175	-	175	-
Travelling expenses	3,057	900	5,830	900
<b>INCREASE IN DEFERRED EXPENDITURES</b>	<b>47,398</b>	<b>3,961</b>	<b>92,218</b>	<b>3,961</b>
<b>BALANCE, BEGINNING</b>	<b>4,810,959</b>	<b>4,726,406</b>	<b>4,766,139</b>	<b>4,726,406</b>
<b>BALANCE, ENDING</b>	<b>4,858,357</b>	<b>4,730,367</b>	<b>4,858,357</b>	<b>4,730,367</b>

	Three-month Periods ended December 31		Six-month Periods ended December 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>STATEMENTS OF EARNINGS AND DEFICIT</b> <i>(unaudited)</i>				
<b>REVENUES</b>				
Interest	684	-	1,458	-
Gain on debt settlement	17,680	-	17,680	-
	<b>18,364</b>	<b>-</b>	<b>19,138</b>	<b>-</b>
<b>ADMINISTRATIVE EXPENSES</b>				
General administrative expenses	12,879	6,307	14,152	8,857
Professional fees	17,400	18,000	40,000	40,416
Information to shareholders	11,518	6,896	11,973	6,942
Listing and registration fees	10,064	7,845	14,129	9,870
	<b>51,861</b>	<b>39,048</b>	<b>80,254</b>	<b>66,085</b>
<b>NET LOSS</b>	<b>(33,497)</b>	<b>(39,048)</b>	<b>(61,116)</b>	<b>(66,085)</b>
<b>DEFICIT, BEGINNING</b>	<b>(2,571,658)</b>	<b>(2,360,129)</b>	<b>(2,544,039)</b>	<b>(2,333,092)</b>
<b>DEFICIT, ENDING</b>	<b>(2,605,155)</b>	<b>(2,399,177)</b>	<b>(2,605,155)</b>	<b>(2,399,177)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>0.0006</b>	<b>0.0008</b>	<b>0.0012</b>	<b>0.0014</b>

**OREX** Exploration Inc.

	Three-month Periods ended December 31		Six-month Periods ended December 31	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>CASH FLOW STATEMENTS</b> <i>(unaudited)</i>				
CASH FLOWS FROM:				
OPERATING ACTIVITIES				
Net loss	(33,497)	(39,048)	(61,116)	(66,085)
Items not requiring cash:				
Net change in non-cash working capital items affecting operations	68	(38,556)	1,028	(13,801)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(33,429)</b>	<b>(77,604)</b>	<b>(60,088)</b>	<b>(79,886)</b>
FINANCING ACTIVITIES				
Advances from directors (repayment)	1,564	1,836	586	2,662
Advances from related companies	-	78,664	6,902	80,390
Repayment the long-term debt	(1,726)		(4,850)	-
Issue of shares	5,000	-	5,000	-
Share issue expenses	-	-	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>4,838</b>	<b>80,500</b>	<b>7,638</b>	<b>83,052</b>
INVESTING ACTIVITIES				
Deferred exploration expenditures	(47,398)	(3,961)	(92,218)	(3,961)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(47,398)</b>	<b>(3,961)</b>	<b>(92,218)</b>	<b>(3,961)</b>
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>(75,989)</b>	<b>(1,065)</b>	<b>(144,668)</b>	<b>(795)</b>
CASH AND EQUIVALENTS, BEGINNING	187,948	1,545	256,627	1,275
<b>CASH AND EQUIVALENTS, ENDING (A)</b>	<b>111,959</b>	<b>480</b>	<b>111,959</b>	<b>480</b>

(A) Cash and equivalents include cash.

**OREX** Exploration Inc.

BALANCE SHEETS	December 31, 2004 (Unaudited)	June 30, 2004 (Audited)
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	111,959	256,627
Marketable Securities	7,250	7,250
Accounts receivable	18,717	16,012
	<u>137,926</u>	<u>279,889</u>
MINING PROPERTY - GOLDBORO	1,576,000	1,576,000
DEFERRED EXPLORATION EXPENDITURES - GOLDBORO	4,858,357	4,766,139
	<u>6,572,283</u>	<u>6,622,028</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued charges	42,583	38,850
Advances from directors, non-interest bearing	36,072	35,486
Advances from a related company, non-interest bearing	6,902	-
	<u>85,557</u>	<u>74,336</u>
LONG-TERM DEBT	861,689	866,539
	<u>947,246</u>	<u>940,875</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock		
Issued and paid		
51,799,866 common shares		8,161,232
51,849,866 common shares	8,166,232	
Contributed surplus	63,960	63,960
Deficit	(2,605,155)	(2,544,039)
	<u>5,625,037</u>	<u>5,681,153</u>
	<u>6,572,283</u>	<u>6,622,028</u>

**OREX** Exploration Inc.

## Notes to Interim Financial Statements

Note 1: These interim financial statements follow the same accounting policies and methods of computation as the most recent annual financial statements for the year ended June 30, 2004.

Note 2: Loss per common share is based on a weighted average number of shares outstanding of 51,802,332 common shares for the six-month period ended December 31, 2004 and 48,299,866 for the six-month period ended December 31, 2003.

Note 3: During the six-month period, the Company paid rental expenses and professional fees for a total amount of \$19,500 (2003, \$19,500) to companies controlled by the president of Orex Exploration Inc. The balance payable to these companies arising from those transactions is included under "Advances from related companies" in the current liabilities.

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