

Financial Statements of

OREX EXPLORATION INC.

Years ended June 30, 2004 and 2003

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Orex Exploration Inc. as at June 30, 2004 and 2003 and the statements of deferred exploration expenditures, earnings, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(S) Samson Bélair/Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants

Rouyn-Noranda, Quebec

August 26, 2004

OREX EXPLORATION INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

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BALANCE SHEETS

JUNE 30

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash	\$ 256,627	\$ 1,275
Marketable securities	7,250	8,500
Accounts receivable	16,012	5,534
	279,889	15,309
MINING PROPERTY - GOLDBORO	1,576,000	1,576,000
DEFERRED EXPLORATION EXPENDITURES - GOLDBORO	4,766,139	4,726,406
	<u>\$ 6,622,028</u>	<u>\$ 6,317,715</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges	\$ 38,850	\$ 45,499
Advances from directors, non-interest bearing	35,486	-
	74,336	45,499
LONG-TERM DEBT (note 4)	866,539	787,261
	940,875	832,760
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	8,161,232	7,818,047
Contributed surplus	63,960	-
Deficit	(2,544,039)	(2,333,092)
	5,681,153	5,484,955
	<u>\$ 6,622,028</u>	<u>\$ 6,317,715</u>

See accompanying notes to financial statements

ON BEHALF OF THE BOARD

(S) Jacques Levesque

Director

(S) Claude Poulin

Director

STATEMENTS OF DEFERRED EXPLORATION EXPENDITURES

YEARS ENDED JUNE 30

	2004	2003
EXPLORATION COSTS		
Consultants and subcontractors	\$ 39,733	\$ -
Increase in deferred exploration expenditures	39,733	-
BALANCE, BEGINNING	4,726,406	4,726,406
BALANCE, ENDING	\$ 4,766,139	\$ 4,726,406

See accompanying notes to financial statements

STATEMENTS OF EARNINGS

YEARS ENDED JUNE 30

	2004		2003	
REVENUES				
Interest	\$	1,168	\$	550
ADMINISTRATIVE EXPENSES				
General administrative expenses		15,915		17,019
Stock-based compensation		63,960		-
Professional fees		106,162		107,136
Information to shareholders		8,038		6,442
Listing and registration fees		16,790		16,675
Loss on write-down of marketable securities		1,250		2,500
		212,115		149,772
NET LOSS	\$	(210,947)	\$	(149,222)
BASIC AND DILUTED LOSS PER SHARE	\$	(0,00)	\$	(0,00)

See accompanying notes to financial statements

STATEMENTS OF DEFICIT

YEARS ENDED JUNE 30

	2004	2003
BALANCE, BEGINNING	\$ (2,333,092)	\$ (2,183,870)
Net loss	(210,947)	(149,222)
BALANCE, ENDING	\$ (2,544,039)	\$ (2,333,092)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30

	2004	2003
CASH FLOWS RELATED TO:		
OPERATING ACTIVITIES		
Net loss	\$ (210,947)	\$ (149,222)
Adjustments for:		
Stock-based compensation	63,960	-
Loss on write-down of marketable securities	1,250	2,500
Net change in non-cash working capital items affecting operations	(17,127)	13,918
CASH FLOWS RELATED TO OPERATING ACTIVITIES	(162,864)	(132,804)
FINANCING ACTIVITIES		
Advances from directors (repayment of)	35,486	(3,812)
Advances from related companies	79,278	58,614
Issue of shares and warrants	350,000	-
Share issue expenses	(6,815)	-
CASH FLOWS RELATED TO FINANCING ACTIVITIES	457,949	54,802
INVESTING ACTIVITIES		
Deferred exploration expenditures	(39,733)	-
CASH FLOWS RELATED TO INVESTING ACTIVITIES	(39,733)	
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	255,352	(78,002)
CASH AND EQUIVALENTS, BEGINNING	1,275	79,277
CASH AND EQUIVALENTS, ENDING (A)	\$ 256,627	\$ 1,275

(A) Cash and equivalents include cash.

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

1. STATUS AND NATURE OF ACTIVITIES

The Company, incorporated under the Quebec Companies Act, is in the process of exploring mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The recoverability of amounts shown for mineral properties and related deferred exploration expenditures and the capacity of the Company to meet all its commitments are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

2. CHANGES IN ACCOUNTING POLICIES

STOCK-BASED COMPENSATION

Effective July 1st, 2002, the Company adopted, on a prospective basis, the Canadian Institute of Chartered Accountants' ("CICA") recommendations on Stock-based Compensation and Other Stock-based Payments. These recommendations require that compensation for all awards made to non-employees and certain awards made to employees, including stock appreciation rights, direct awards of stock and awards that call for settlement in cash or other assets, be measured and recorded in the financial statements at fair value. These recommendations were later revised and require that compensation cost be recorded in the statement of earnings for all employee stock-based compensation. In accordance with the CICA's recommendations described above, any consideration paid by employees on the exercise of stock options granted is credited to capital stock. For stock options granted before July 1st, 2002, there are no requirements to disclose or to record the related compensation cost and comparative figures have not been restated.

The compensation cost related to stock options granted to employees after July 1st, 2003 are recorded in the statement of earnings. The prospective adoption of the fair-value-based method of accounting has resulted in the recognition of \$63 960 of stock-based compensation expense with a corresponding credit to contributed surplus.

IMPAIRMENT OF LONG-LIVED ASSETS

The company prospectively adopted the recommendations of CICA Handbook Section 3063 "Impairment of long-lived assets" as of July 1st, 2003. These recommendations require that an impairment loss on long-lived assets to be held and used be recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. The adoption of these recommendations had no impact on the results of operations for the year 2004.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

3. ACCOUNTING POLICIES

MARKETABLE SECURITIES

Marketable securities are stated at the lower of cost and market value.

MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

Mining properties are recorded at cost. Exploration and development costs are deferred. When a decision is made to bring an orebody into production, the costs related to an orebody, recorded in mining properties and deferred exploration expenditures, are transferred to fixed assets; they will then be amortized over the estimated life of the mine on a unit of production basis. When a project is abandoned, the related costs are charged to current operations.

INCOMES TAXES

The Company accounts for income taxes under the assets and liabilities method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

CASH AND EQUIVALENTS

Cash and equivalents comprise cash and short-term investments with original maturity dates of less than three months.

USE OF ESTIMATES

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

FUTURE ACCOUNTING CHANGES

The CICA issued a new standard entitled "Assets retirements obligations". The new standard focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The Company will adopt this standard effective July 1st, 2004.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

4. LONG-TERM DEBT

	2004	2003
Advances from companies controlled by the president of Orex Exploration Inc., non-interest bearing and with no term of repayment	\$ 866,539	\$ 787,261

5. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares, no par value

	2004		2003	
	Number of shares	Capital stock	Number of shares	Capital stock
ISSUED AND PAID				
Balance, beginning	48,299,866	\$ 7,818,047	48,299,866	\$ 7,818,047
Subscription in cash (a)	3,500,000	350,000	-	-
Share issue expenses	-	(6,815)	-	-
Balance, ending (b)	51,799,866	\$ 8,161,232	48,299,866	\$ 7,818,047

- (a) In February 2004, the Company issued 3,500,000 common shares and 3,500,000 warrants allowing the subscribers to purchase one common share at \$0.13 per share up to February 25, 2005. On June 30, 2004, the 3,500,000 warrants were still outstanding.

The offering memorandum indicates that an amount of \$280,000 will be expended in exploration works on the Goldboro property, of which an amount of \$39,733 was engaged during the period.

- (b) 585,000 common shares are escrowed and cannot be transferred, mortgaged, pledged or otherwise disposed of without the consent of the Autorité des marchés financiers du Québec or any other entity to which it may have delegated that power.

COMMON SHARE STOCK OPTION PLAN

Under its common share stock option plan, the Company may grant a maximum of 6,000,000 common share stock option to its directors, officers, employees and suppliers. The exercise price of each option cannot be less than the closing price of the Company's shares on the NEX Exchange on the day preceding date of the grant and an option maximum term cannot exceed 10 years.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

5. CAPITAL STOCK (CONTINUED)

The fair value of options granted during the year was estimated using the Black & Scholes stock option evaluation model with the following assumptions (weighted average): estimated duration of 5.0 years for these options, risk-free interest rate of 3.88%, expected volatility of 132% and no dividend expected. During the year, a compensation expense in the amount of \$63,960 were accounted for with corresponding credit to contributed surplus.

A summary of the status of the Company's stock option plan as of June 30, 2004 and 2003 and changes during the years ending on those dates is presented below:

	2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,130,000	\$ 0.18	4,690,000	\$ 0.17
Granted	1,560,000	0.10	-	-
Forfeited	(705,000)	0.17	-	-
Expired	(1,640,000)	0.15	(1,560,000)	(a) 0.15
Outstanding, end of year	2,345,000	\$ 0.15	3,130,000	\$ 0.18
Options exercisable, end of year	2,345,000	\$ 0.15	3,130,000	\$ 0.18

(a) The exercise of these options was subject to the regularitory authorities approval, which was not obtained.

The weighted average fair value of options granted during the year is \$0.04.

The following table summarizes information about stock options outstanding at June 30, 2004:

Range of exercise of price	Outstanding options			Exercisable options	
	Number outstanding	Weighted average remaining life (year)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.10 to 0.25	2,345,000	3.41	\$ 0.15	2,345,000	\$ 0.15

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

6. INCOME TAXES

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 36.52% (2003, 37.66%) as a result of the following:

	2004	2003
Loss before taxes	\$ (210,947)	\$ (149,222)
Computed "expected" tax recovery	(77,038)	(56,197)
Increase in income taxes resulting from:		
Ressource allowance	10,977	13,123
Non deductible expenses	23,815	
Tax benefit for losses not recognized	42,246	43,074
Total income and mining tax expenses	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences that give rise to significant portions of future tax assets are as follows:

	2004	2003
Future income tax assets:		
Mining properties and deferred exploration expenditures	\$ 1,944,123	\$ 1,878,564
Loss carried forward	343,289	276,087
Total gross future income tax assets	2,287,412	2,154,651
Less valuation allowance	(2,287,412)	(2,154,651)
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

As at June 30, 2004, the Company has the following tax losses available to reduce future years' income for tax purpose, the tax effect of which has not been recorded in the financial statements.

Losses carried forward for tax purposes will expire as follows:

2005	\$ 185,464
2006	105,844
2007	123,082
2008	123,857
2009	165,916
2010	121,867
2011	113,975
	<u>\$ 940,005</u>

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

7. RELATED PARTY TRANSACTIONS

During the financial year, the Company paid rental expenses and professional fees for a total amount of \$78,000 (2003, \$78,000) 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 a related company" in the current liabilities.

During the year, professional fees of \$35,000 have been paid to the secretary of the Company. Balance payable arising from those transactions are included under "Advances from directors".

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.

8. LOSS PER SHARE

Loss per share has been calculated using the weighted average number of 49,498,496 outstanding common shares during the year (2003, 48,299,866 shares). The dilutive loss per share, which is calculated using the treasury method, is equal to the basic loss per share due to the anti-dilutive effect of the total share options and warrants outstanding.

9. FINANCIAL INSTRUMENTS*Fair value:*

The carrying amount of the financial instruments classified in the working capital approximates their fair market value due to the relatively short period to maturity of the instruments. Fair value of long-term debt cannot be determined as it is non-interest bearing and has no specific term of repayment.