

Financial Statements of

OREX EXPLORATION INC.

Years ended June 30, 2005 and 2004

AUDITORS' REPORT

To the shareholders of
OREX EXPLORATION INC.

We have audited the balance sheet of **OREX EXPLORATION INC.** as at June 30, 2005 and the statements deferred exploration expenditures, contributed surplus, earnings 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, 2005 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, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated August 26, 2004.

(s) ALLARD LEVESQUE, C.A.

General Partnership
Chartered Accountants

Val d'Or (Québec)
December 2, 2005

OREX EXPLORATION INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

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BALANCE SHEETS

AS AT JUNE 30

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	\$ 91,055	\$ 256,627
Term deposit, 1.5% maturing October 2005	5,000	-
Marketable securities, market value, \$3,250 (2004, \$7,250), at devalued cost	3,250	7,250
Sales tax receivable	38,471	16,012
	137,776	279,889
MINING PROPERTY - GOLDBORO	1,576,000	1,576,000
DEFERRED EXPLORATION EXPENDITURES - GOLDBORO	5,286,191	4,766,139
	\$ 6,999,967	\$ 6,622,028
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities charges (note 11 i)	\$ 112,382	\$ 38,850
Advances from directors, non-interest bearing	36,530	35,486
Advances from related companies, non-interest bearing	8,441	-
Loans payable, non-interest bearing (note 11 ii)	110,000	-
	267,353	74,336
LONG-TERM DEBT (note 4)	688,453	866,539
	955,806	940,875
SUBSEQUENT EVENTS (note 11)		
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	8,743,082	8,161,232
Contributed surplus	237,310	63,960
Deficit	(2,936,231)	(2,544,039)
	6,044,161	5,681,153
	\$ 6,999,967	\$ 6,622,028
CONTINGENCY (note 12)		

See accompanying notes to financial statements

ON BEHALF OF THE BOARD

(S) Jacques Levesque
 Jacques Levesque, Director

(S) Claude Poulin
 Claude Poulin, Director

STATEMENTS OF DEFERRED EXPLORATION EXPENDITURES

YEARS ENDED JUNE 30

	2005	2004
EXPLORATION COSTS		
Consultants	\$ 169,788	\$ 39,733
Drilling	298,497	-
Analysis	38,975	-
Equipment rental	375	-
Traveling expenses	12,417	-
Increase in deferred exploration expenditures	520,052	39,733
BALANCE, BEGINNING	4,766,139	4,726,406
BALANCE, ENDING	\$ 5,286,191	\$ 4,766,139

See accompanying notes to financial statements

STATEMENTS OF CONTRIBUTED SURPLUS

YEARS ENDED JUNE 30

	2005		2004	
BALANCE, BEGINNING	\$	63,960	\$	-
Stock-based compensation		191,400		63,960
Amount credited to the capital stock on the exercise of stock options		(18,050)		-
BALANCE, ENDING	\$	237,310	\$	63,960

See accompanying notes to financial statements

STATEMENTS OF EARNINGS

YEARS ENDED JUNE 30

	2005	2004
REVENUES		
Interest	\$ 3,608	\$ 1,168
ADMINISTRATIVE EXPENSES		
General administrative expenses	26,661	15,915
Stock-based compensation	152,400	63,960
Professional fees	80,032	106,162
Research of financing	105,950	-
Information to shareholders	17,988	8,038
Listing and registration fees	26,449	16,790
Loss on write-down of marketable securities	4,000	1,250
Gain on cancellation of accounts payables	(17,680)	-
	395,800	212,115
NET LOSS	\$ (392,192)	\$ (210,947)
BASIC AND DILUTED LOSS PER SHARE (note 8)	\$ (0,00)	\$ (0,00)

See accompanying notes to financial statements

STATEMENTS OF DEFICIT

YEARS ENDED JUNE 30

	2005		2004	
BALANCE, BEGINNING	\$	(2,544,039)	\$	(2,333,092)
Net loss		(392,192)		(210,947)
BALANCE, ENDING	\$	(2,936,231)	\$	(2,544,039)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30

	2005	2004
CASH FLOWS RELATED TO:		
OPERATING ACTIVITIES		
Net loss	\$ (392,192)	\$ (210,947)
Adjustments for:		
Stock-based compensation	152,400	63,960
Stock-based research financing fees	39,000	-
Loss on write-down of marketable securities	4,000	1,250
Net change in non-cash working capital items	31,713	(17,127)
CASH FLOWS RELATED TO OPERATING ACTIVITIES	(165,079)	(162,864)
FINANCING ACTIVITIES		
Advances from directors	1,044	35,486
Advances from related companies	8,441	79,278
Loans payable	110,000	-
Decrease of long-term debt	(178,086)	-
Issuance of shares	563,800	350,000
Share issuance expenses	-	(6,815)
CASH FLOWS RELATED TO FINANCING ACTIVITIES	505,199	457,949
INVESTING ACTIVITIES		
Term deposit	(5,000)	-
Deferred exploration expenditures (note 9)	(500,692)	(39,733)
CASH FLOWS RELATED TO INVESTING ACTIVITIES	(505,692)	(39,733)
INCREASE (DECREASE) IN CASH	(165,572)	255,352
CASH, BEGINNING	256,627	1,275
CASH, ENDING	\$ 91,055	\$ 256,627

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

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 its property contains ore reserves that are economically recoverable.

The recoverability of amounts shown for the mineral property 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. CHANGE IN ACCOUNTING POLICIES

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 2005.

3. ACCOUNTING POLICIES

ASSET RETIREMENT OBLIGATIONS

On July 1, 2004, the Company adopted the new accounting standard related to asset retirement obligations. This standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations. Basically, the liability represents the fair value of the obligations. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. The adoption of these recommendations had no impact on the financial statements.

MARKETABLE SECURITIES

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

MINING PROPERTY AND DEFERRED EXPLORATION EXPENDITURES

The mining property is 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 based on the unit of production of the year and the proven and probable ore reserves. When a project is abandoned, the related costs are charged to current operations.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

3. ACCOUNTING POLICIES (CONTINUED)

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. 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.

STOCK-BASED COMPENSATION PLAN

The Company's common stock purchase option plan provides for granting of stock options to directors, officers and employees. The Company uses the fair value method for valuing stock option grants. Compensation costs attributed to stock options granted are measured at fair value at the grant date and expensed or to the deferred exploration expenditures at the time they become exercisable with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to capital stock.

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.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

4. LONG-TERM DEBT

	2005	2004
Advances from companies controlled by the president of Orex Exploration Inc., non-interest bearing and with no foreseen term of repayment	\$ 688,453	\$ 866,539

5. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares, no par value

	2005		2004	
	Number of shares	Capital stock	Number of shares	Capital stock
ISSUED AND PAID				
Balance, beginning	51,799,866	\$ 8,161,232	48,299,866	\$ 7,818,047
Subscription in cash	5,000,000	500,000	3,500,000 ^(a)	350,000
With respect to the exercise of stock Options	300,000	48,050	-	-
With respect to the exercise of warrants	260,000	33,800	-	-
Share issuance expenses	-	-	-	(6,815)
Balance, ending (b)	57,359,866	\$ 8,743,082	51,799,866	\$ 8,161,232

(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, 2006. On June 30, 2005, 3,240,000 warrants were still outstanding.

(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 PURCHASE OPTION PLAN

Under its common stock purchase option plan, the Company may grant a maximum of 6,000,000 common stock purchase options 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 TSX Venture Exchange on the day preceding the date of the grant and an option's maximum term cannot exceed 10 years. Options may be exercised at any time.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

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 years for these options, risk-free interest rate of 4.30% (2004, 3.88%), expected volatility of 156% (2004, 132%) and no dividend expected. During the 2005 financial year, a stock-based compensation expense in the amount of \$152,400 (2004, \$63,960) and a stock-based research financing fees of \$39,000 were accounted for with a corresponding credit to contributed surplus.

A summary of the status of the Company's stock purchase option plan as of June 30, 2005 and 2004 and changes during the years ending on those dates is presented below:

	2005		2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,345,000	\$ 0.15	3,130,000	\$ 0.18
Exercised	(300,000)	0.10	-	-
Granted :				
- to directors and employees	1,950,000	0.12	1,560,000	0.10
- to suppliers	250,000	0.17	-	-
Forfeited	-	-	(705,000)	0.17
Expired	-	-	(1,640,000)	0.15
Outstanding, end of year	4,245,000	\$ 0.14	2,345,000	\$ 0.15
Options exercisable, end of year	4,245,000	\$ 0.14	2,345,000	\$ 0.15

The weighted average fair value of options granted during the year is \$0.09 (2004, \$0.04). On June 30, 2005, 1,155,000 additional options may be granted under the plan.

The following table summarizes information about stock options outstanding at June 30, 2005:

Range of exercise price	Outstanding options			Exercisable options	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.10	2,910,000	3.72	\$0.10	2,910,000	\$0.10
\$0.17	550,000	4.63	\$0.17	550,000	\$0.17
\$0.25	785,000	0.57	\$0.25	785,000	\$0.25
\$0.10 to \$0.25	4,245,000	3.26	\$0.14	4,245,000	\$0.14

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

6. INCOME TAXES

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 35.52% (2004, 36.52%) as a result of the following:

	2005	2004
Loss before taxes	\$ (392,192)	\$ (210,947)
Computed "expected" tax recovery	(139,307)	(77,038)
Increase in income taxes resulting from:		
Resource allowance	15,203	10,977
Non deductible expenses	65,537	23,815
Tax benefit for losses not recognized	58,567	42,246
Total income 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:

	2005	2004
Future income tax assets:		
Mining property and deferred exploration expenditures	\$ 2,135,246	\$ 1,944,123
Loss carried forward	399,149	343,289
Total gross future income tax assets	2,534,395	2,287,412
Less valuation allowance	(2,534,395)	(2,287,412)
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

As at June 30, 2005, the Company has the following tax losses available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the financial statements.

Losses carried forward for tax purposes will expire as follows:

2006	\$ 105,844
2007	123,082
2008	164,446
2009	215,019
2010	157,549
2014	150,519
2015	186,786
	<u>\$ 1,103,245</u>

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

7. RELATED PARTY TRANSACTIONS

During the financial year, the Company paid rental expenses and professional fees for a total amount of \$78,000 (2004, \$78,000) and \$10,000 as consulting fees included in deferred exploration expenditures 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.

During the year, professional fees of \$0 (2004, \$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, entered into the normal course of operations, are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

During the financial year, the Company engaged consultants for an amount of \$225,000 for the research of financing. A company controlled by the president made the disbursement for the Company, with obligation for the Company to reimburse this amount. Considering the incapacity of this company to produce the appropriate vouchers required by the management of the Company, this company has agreed not to claim the reimbursement of this amount to the Company and no amount relatively to this transaction appears to the financial statements of the Company.

8. LOSS PER SHARE

Loss per share has been calculated using the weighted average number of 54,046,934 outstanding common shares during the year (2004, 49,498,496 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. ADDITIONAL INFORMATIONS ON CASH FLOWS

Financing and investing non cash activities:

	2005	2004
Amount credited to the capital stock on the exercise of stock options	\$ 18,050	\$ -
Deferred exploration expenditures financed by accounts payable	\$ 19,360	\$ -

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

10. 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 has no foreseen term of repayment.

11. SUBSEQUENT EVENTS

- i) On August 2, 2005, the Company signed an agreement providing for the settlement of a debt with a supplier in consideration of the issuance of 446,333 common shares at a price of \$0.15 per share in settlement of a \$66,950 account payable included in the 2005 financial statements.
- ii) On August 25, 2005, the Company completed a private financing of \$300,000 with seven shareholders representing 2,068,966 common shares at the price of \$0.145 per share of which 758,621 common shares in reimbursement of loans of \$110,000 included in the 2005 financial statements. No purchase warrants were offered with this issuance.
- iii) On September 8, 2005, the Company announced that two private investors have agreed to invest \$US 26,944,066 in consideration of 67,360,165 common shares of the Company at a price of \$US 0.40 per share, subject to a 60 day due diligence period. The proceeds will be used by the Company for its working capital and for exploration leading to, and eventually including, a feasibility study on the Goldboro Mining Property, in Nova Scotia. Furthermore, the private investors have agreed to take the necessary steps in order to finance any future mining development on the Goldboro Mining Property. This private placement is conditional to the obtention by the Company of the regulatory authorities approvals. The due diligence delay has been extended and the negotiation and due diligence process is following its due course.
- iv) Between June 30, 2005 and December 2, 2005, 480,000 warrants have been exercised for an amount of \$62,400.

12. CONTINGENCY

The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. At the date of the financial statements, and to the best knowledge of its management, the Company is, at the present, in conformity with the laws and regulations. Restoration costs will be accrued in the financial statements only when they can be reasonably estimated and will be charged to the earnings at that time.