

## Management Discussion And Analysis

(Year ended June 30, 2005)

*December 5, 2005*

# Report on Exploration - Goldboro Property

The Goldboro project is historically known for its severe nugget effect and high grade zones. Previous metallurgical test work completed on Goldboro samples during the 1980's and 1990's indicated that 25% to 35% of gold in Goldboro samples occurs in freely-liberated grains greater than 0.5 millimetres in diameter with individual gold grains up to 1 centimetre in diameter. Consequently, it is very difficult to estimate with a high level of confidence the overall grade of the deposit based on the inaccuracy of the conventional fire assay analytical method in a coarse gold environment. A comparative review of conventional fire assay results and several metallurgical test programs from surface and underground exploration holes, and underground sampling programs completed in the 1980's and 1990's, indicates that the average grade of the Goldboro mineralization may be significantly higher grade than shown in the current resource estimate of 13.3 million tonnes grading 0.78 g/t Au in the Measured and Indicated Resources categories, and 15.6 million tonnes grading 0.63 g/t Au in the Inferred Resources category. Recent statistical studies at Goldboro have provided minimum sample size specifications in order of 85 kilograms to obtain representative grade determinations of mineralization based on the diameter of the largest gold grains in the mineralization.

In 2005, the Company initiated an exploration program recommended in the Technical Report dated August 31, 2004 on the Goldboro Property. Under the supervision of Jean Lafleur, P. Geo., a qualified person under NI 43-101, a Phase 1 drilling program was designed to determine a more realistic grade for the Goldboro mineralization. The program focused on re-drilling several of the near-surface new "belt zones" immediately below and west of the historically mined Boston-Richardson Belt on a series of sections over a 175 meter strike length. The drilling began in late February and was completed in early May, and comprised of 23 diamond drill holes for 2,436 metres of HQ calibre core. The drill core was logged at the Goldboro site by Bruce Mitchell, P. Geo.. After logging, the core was photographed and sealed with security bands in the original boxes in preparation for truck transport to Val-d'Or, Quebec. Under the supervision of Alex Horvath, P. Eng. and Martin Bourgoïn, P. Geo., all of the Goldboro HQ size drill core was processed by conventional sample preparation and sent for fire-assay at ALS-Chemex in Val-d'Or, Quebec. The core lengths analyzed varied in length from 0.6 to 1.8 meters averaging 1.5 meters, with the individual core sample weights ranging from 2.5 to 7 kilograms. Core samples were sawed in half, bagged, sealed and sent to the assay laboratory. The samples were subsequently crushed to -10 mesh size (2 millimetres), followed by pulverizing of a 250 gram split to -150 mesh size (0.125 millimetres), from which a 50 gram sample of the pulp was used for conventional fire-assay.

Preliminary observations of the drill core shows that all 23 drill holes intersected abundant "gold belts", averaging 5 belts greater than one meter per hole, ranging from under 0.5 to over 23 meters in core length, representing 20% of the total available footage drilled. The "gold belts" consist of argillites typical for the region, with minor inter-bedded greywackes. The drilling identified a 400 meter extension of the Boston-Richardson Belt west of the historic underground workings. Visible gold grains were seen in 18 of the 23 holes drilled in either quartz veins within "gold belts" or quartz veins outside of belts. Of significance is that visible gold also occurred in silicified greywackes, distant from any quartz veining or any sulphides. Some 66 quartz veins greater than one meter in core length were intersected. Of the total 137 "gold belt" intervals intersected in the 23 drill holes, more than 27% of the "belts" host quartz veins greater than 1 meter. A number of the greywackes host large quartz veins. Quartz veins greater than one meter in core length represent nearly 6% of the total footage drilled. Almost all of the "belts" have quartz veins and veinlets in the 1 to 50 centimeter range.

Fire-assay results from the 23 drill holes from 7 sections covering a strike length of 175 meters show extreme grade variability even in the presence of visible gold, and even with larger core samples, as historically observed at Goldboro, due to the gold nugget effect. The westerly extension of the south limb of the historically mined Boston-Richardson belt has been identified. The south limb of the Boston-Richardson Belt has averaged 2.22 g/t Au over an average width of 3.93 meters for a 175 meter strike length from the seven sections with assays available. Visible gold was identified in three of the eight drill holes intersecting the zone. Wider mineralized and continuous mineralized intervals that combine several of the gold belts are also being identified below the Boston-Richardson Belt. Slate belts 1, 2, 3 (and 4) form a single mineralized zone located approximately 50 metres beneath the Boston-Richardson Belt. Within the hinge and along the south limb of the Boston-Richardson Anticline, this zone has averaged 3.55 g/t over an average width of 16.59 metres from 18 of the 20 drill holes intersecting the zone over a 150 metre strike length. There is also evidence confirming additional wider mineral zones beneath the 1-2-3(-4) zone comprising slate belts 5-6 and 7-8, respectively. The zones appear continuous over the 175 metre length of the structure drilled in the 2005 program from the 2.5 kilometre full length of the Anticline.

Fire-assay results from the 2005 campaign are being reconciled with the detailed core logging and historical fire-assays, and are being used in defining the full extent of the mineralized intervals, including all historic surface and underground drilling. Drill core composites are being assembled from the complete mineralized intervals in individual drill holes and from combined drill holes in the same section and across two or more sections. The 2.0 to 6.5 kilogram coarse crushed rejects from each of the initial samples will be assembled into these larger composite or mini-bulk samples weighing up to 100 kilograms for total gold extraction metallurgical testing. All results from the metallurgical testing will be available by the second semester of 2006.

With a significant financing component in place, the Company has revised its business plan for the next two years in order to bring the Goldboro property towards the completion of a Feasibility Study by the end of 2007. Under the recommendations of **Jean Lafleur, P. Geo.**, the original \$4 million exploration program as recommended in the 2004 Technical Report has been expanded to include additional diamond drilling over the entire length of the Boston-Richardson anticline, a 2.5 kilometre distance, as well as additional surface and underground bulk sampling, test the full gold resource potential of the property and bring quality ounces in a reserve category for eventual development and mining, and finally erecting a pilot mill for in-depth metallurgical test work.

The new program consist of completing the Phase 1 component by year-end and adding three more phases for a total budget of \$20.95 million broken down as follows:

**(A) Phase 1 (Q1-2005 to Q4-2005) - \$600,000 (\$400,000 already spent in 2005) – on-going program slated for completion in December 2005**

The objectives of the program are to define a more realistic gold grade to the Goldboro mineralization that will include a validation of the new analytical protocol using total metallurgical extraction method of analysis and geological modeling of the mineralized lenses from the Boston-Richardson Mine area over a 225 metre length.

The program consisted of diamond drilling (23 holes / 2,425 metres) and conventional fire-assaying, and on-going metallurgical test work and a new interpretation of the mineralized gold belts.

**(B) Phase 2 (Q4-2005 to Q2-2006) - \$ 2,000,000**

The objectives are to validate the metallurgical test work with delineation and definition diamond drilling of high grade gold resources (at 3+ g/t Au) of the Boston-Richardson corridor over a 1 kilometre length, including extending the geological modeling of gold belts towards Dolliver Mountain and East Goldbrook (over a 2.5 kilometre length).

The program would consist of diamond drilling (20,000 metres), analytical work on the drill core, outcrop stripping and sampling, specialized studies (structure, litho-geochemistry) to assist the final interpretation in the geological modeling process.

**(C) Phase 3 (Q2-2006 to Q1-2007) - \$ 6,000,000**

The objectives will be to continue the delineation and definition via diamond drilling of gold resources in at least two sectors of the 2.5 kilometre long Boston-Richardson corridor, in order to define the ultimate Measured and Indicated Resources to sustain a open pit (example - 30+ million tonnes @ 3+ g/t Au) and/or an underground (5+ million tonnes @ 10+ g/t Au) operation.

The program would consist of diamond drilling (50,000 metres), analytical work on the drill core, a more in-depth metallurgical study, as well as a preliminary economic study (pre-feasibility).

**(D) Phase 4 (Q1-2007 au Q4-2007) - \$ 10,000,000**

The objectives will be to bring the resources to reserves by completing a Bankable Feasibility Study for and open pit and/or underground mining operation.

The program will consist of further definition diamond drilling (15,000 metres), analytical work on the drill core, surface and underground development work, bulk sampling (example - 10,000 tonnes in total - 200 x 5 tonnes, 100 x 10 tonnes, 30 x 100 tonnes et 5 x 1 000 tonnes), mine planning and costing, and possibly the construction of a pilot mill for metallurgical testing.

The Phase 1 program is critical for the Goldboro Property, since any increase in the gold grade brought about by the new analytical protocol will have a significant positive impact on the near future gold resources. Management is confident that the new analytical protocol will bring about the positive change to Goldboro, eventually defining significant high quality gold ounces to develop a mining project.

## Management Discussion And Analysis

(Year ended June 30, 2005)

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 year ended June 30, 2005 to those of the comparative year. This MD&A, prepared as of December 5, 2005, is intended to complement and supplement financial statements. It should also be read in conjunction with the MD&A for the year ended June 30, 2004, our audited annual financial statements and notes thereto. 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.

### STATEMENTS OF OPERATIONS

*Significant Financial Data (Audited)*

YEARS ENDED JUNE 30,	2005	2004
<b>STATEMENTS OF OPERATION AND CASH FLOWS (\$)</b>		
Interest	3,608	1,168
Administrative expenses	(395,800)	(212,115)
Net loss	(392,192)	(210,947)
Net loss per share on a diluted basic	(0.00)	(0.00)
<b>BALANCE SHEET (\$)</b>		
Cash	91,055	256,627
Total assets	6,999,967	6,622,028
Total long-term debt	688,453	866,539
Shareholders' Equity	6,044,161	5,681,153

For the year ended June 30, 2005, Orex presents a net loss of \$392,192 or \$0.00 per share compared to a net loss of \$210,917 or (\$0.00) per share for the same period in 2004. This variation is mainly due to the posting of a stock-based compensation for an amount of \$191,400 following the grant of stock purchase options, to the search of financing and to the increase of the Company's activities in 2005.

#### *Interest*

Interests for the financial year ended June 30, 2005 totaled \$3,608 compared to \$1,168 in 2004. This increase of the interest in 2005 is due to the financing closed in January 2005.

### *Administrative Expenses*

The administrative expenses for the financial year ended June 30, 2005, totaled \$395,800 compared to \$212,115 for the same period in 2004. As mentioned before, this increase of operating costs is mainly due to the posting of a stock-based compensation following the grant of stock purchase options, to the search of financing and to the increase of the Company's activities in 2005.

## **CASH FLOWS STATEMENTS**

### *Operating*

Operating activities, before net changes in non-cash working capital items, generated a negative cash flow of \$197,285 for the financial year ended June 30, 2005, compared to a positive cash flows of \$238,225 for the same period in 2004.

Net change in non-cash working capital items affecting operations is of \$31,713 in 2005 compared to (\$17,127) in 2004.

### *Financing*

In accordance with our intentions expressed in the private placement of \$500,000 by Offering Memorandum closed in January 2005, in the third and fourth quarter of 2005, we have initiated an exploration program on the Goldboro property. During the financial year ended June 2004, Orex closed a financing of \$350,000.

### *Investing*

During the financial year ended June 30, 2005, cash of \$500,692 were invested in exploration expenses on the Goldboro property, compared to \$39,733 for the same period in June 30, 2004.

Total cash of (\$165,572) were used during the financial year ended June 2005, whereas operations for the year ended June 30, 2004 generated an increase of the cash of \$255,352.

## **BALANCE SHEETS**

The Company's total assets amounted to \$6,999,967 as at June 30, 2005, compared to \$6,622,028 as at June 30, 2004. This variation of \$377,939 is attributable to the increase of \$520,052 in mining deferred exploration expenses, to the increase of \$22,459 of accounts receivable, to the diminution of (\$165,572) in cash, to the increase of 5 000 \$ of the term deposit and to the decrease of \$4,000 in the marketable securities. As at June 30, 2005, we had cash totaling \$91,055 compared to \$256,627 as at June 30, 2004.

Deferred exploration expenses went from \$4,766,139 as at June 30, 2004 to \$5,286,191 as at June 30, 2005, in reason of the exploration work realized after the private financing closed in January 2005.

Liabilities amounted to \$955,806 as at June 30, 2005 compared to \$940,875 as at June 30, 2004.

The increase in the shareholders' equity of \$363,008 during the financial year 2005 is the result of the private placement of \$500,000 realized in January 2005, the increase of the stock-based compensation account (contributed surplus) of \$173,350, the exercise of stock options for \$48,050, the exercise of share purchase warrants for \$33,800 and after deduction of the operating loss of \$392,192.

## GOLDBORO PROJECT, FINANCING AND EXPLORATION

In January 2005 and February 2004, Orex has completed two private financing for an aggregate amount of \$850,000, of which \$500,000 for exploration work on the Goldboro project, Orex's only mining project. An additional amount of \$200,000 was subscribed is projected after the end of the year 2005 to complete the exploration program.

### Exploration program - Financing

- February 2004	\$	200,000	
- January 2005		300,000	
- After June 30, 2005		<u>200,000</u>	\$ 700,000

### Expenses incurred during the period :

- Ended December 31, 2003.		3,961	
- January 1, 2004 to March 31, 2004		14,630	
- April 1, 2004 to June 30, 2004		<u>21,142</u>	<u>39,733</u>
			660,267
- July 1, 2004 to September 30, 2004		44,820	
- October 1, 2004 to December 31, 2004		47,398	
- January 1, 2005 to March 31, 2005		113,844	
- April 1, 2005 to June 30, 2005		<u>313,990</u>	<u>520,052</u>

Balance of exploration expenses to be done. \$ 140,215

During the next quarters Orex will complete the metallurgical testing on the composites and will complete a report NI 43-101 that will update the data on the Goldboro project.

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 and to all conditions they may require, including the Company's shareholders approval. The due diligence delay has been extended and the negotiation and due diligence process is following its due course.

## ACCOUNTING POLICIES

*Stock-Based Compensation* \*

*Impairment of Long-Lived Assets* \*

\* See notes 2 and 3 of the Company's financial statements for the years ended June 30, 2005 and 2004.

## SIGNIFICANT ANNUAL FINANCIAL DATA (Audited)

YEARS ENDED JUNE 30	2005	2004	2003
<b>STATEMENTS OF EARNINGS (\$)</b>			
Interest	3,608	1,168	550
Net loss	(392,192)	(210,947)	(149,222)
Net loss per share on a diluted basic	(0.00)	(0.00)	(0.00)
<b>BALANCE SHEET (\$)</b>			
Cash	91,055	256,627	1,275
Total assets	6,999,967	6,622,028	6,317,715
Total long-term debt	688,453	866,539	787,261
Shareholders' Equity	6,044,161	5,681,153	5,484,955
<b>MINING EXPLORATION (\$)</b>			
Exploration Expenses	520,052	39,733	0

## QUARTERLY INFORMATION (Unaudited)

QUARTERS	2005 June	2005 March *	2004 December	2004 September	2004 June	2004 March	2003 December	2003 September
<b>STATEMENT OF EARNINGS (\$)</b>								
Interest	374	1,776	684	774	972	196	0	0
Net loss	(298,194)	(32,882)	(33,497)	(27,619)	(122,444)	(22,418)	(39,048)	(27,037)
Net loss per share on a diluted basic	(0.0055)	(0.0006)	(0.0006)	(0.0005)	(0.0024)	(0.0005)	(0.0008)	(0.0006)
<b>BALANCE SHEET (\$)</b>								
Cash	91,055	313,482	111,959	187,948	256,627	303,841	480	1,545
Total assets	6,999,967	6,894,729	6,572,283	6,608,884	6,622,028	6,644,879	6,330,786	6,318,791
Total long-term debt	688,453	686,967	861,689	863,415	866,539	787,261	787,261	787,261
<b>EXPLORATION EXPENSES (\$)</b>								
Exploration expenses	313,990	113,844	47,398	44,820	21,142	14,630	3,961	0

\* On the advise of the Audit Committee, Management of Orex Exploration Inc. is of the opinion that the vouchers relative to professional fees incurred during the period ending March 31, 2005 are not in conformity with the accounting standards and has decided to cancel the transactions.

## 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 own 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 financial year ended June 30, 2005, the Company has 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. The balance payable to these companies arising from those transactions is included under "Advances from a related company" in the long term debt.

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 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.

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, 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.

## **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 June 30, 2005, Orex's share capital is comprised of 57,359,866 common shares issued and outstanding. On June 30, 2004, Orex's share capital was 51,799,866 common shares issued and outstanding.

In February 2004, the Company realized a private placement of \$350,000. As at June 30, 2005, 3,240,000 warrants issued under the term of this placement are outstanding. These warrants expire in February 2006 and their exercise price is \$0.13 per share.

The Company has a stock option plan for its employees, officers, consultants, directors. The plan provides for the grant of non-transferable options for the purchase of common shares. As at June 30, 2005, options to purchase 4,245,000 common shares are outstanding under that stock option plan.

### **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.

**REALIZATIONS FOR THE EXERCISE 2005**

1. Closing of a \$500 000 financing.
2. Exploration program - Phase 1 on the Goldboro property, in course of execution
  - 23 drilling holes with HQ caliber for 2,436 meters, completed
  - samples preparation for analysis, in course of execution
  - laboratory analysis, in course of execution
  - compilation of results, to be completed
  - preparation of composites for analysis, to be completed

**GOALS FOR THE YEAR 2006**

3. Continue current exploration program - Phase 1 on the Goldboro property and preparation of an up-dated NI 43-101 report.
4. To put in place a financing to complete the Phase 1 Program.
5. To put in place a global financing to begin an exploration program covering the entire property and eventually conduct to a feasibility study.

*Additional Information and Continuous Disclosure*

This MD&A has been prepared as of December 5, 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)).

(S) *Jacques Levesque*  
Président