

Financial Statements of

OREX EXPLORATION INC.

Years ended June 30, 2006 and 2005

AUDITORS' REPORT

To the shareholders of
OREX EXPLORATION INC.

We have audited the balance sheet of **OREX EXPLORATION INC.** as at June 30, 2006 and the statements of deferred exploration expenditures, contributed surplus, earnings, 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 other auditors who expressed an opinion without reservation on those statements in their report dated December 2, 2005.

(S) Raymond Chabot Grant Thornton LLP

Chartered Accountants

Val d'Or (Québec)
October 10, 2006

OREX EXPLORATION INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

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BALANCE SHEETS

AS AT JUNE 30

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 116,554	\$ 91,055
Term deposit, 1.78% (2005, 1.5%) maturing October 2006	5,000	5,000
Marketable securities, market value, \$6,000 (2005, \$3,250)	3,250	3,250
Sales tax receivable	73,372	38,471
	<u>198,176</u>	<u>137,776</u>
MINING PROPERTY – GOLDBORO, GUYSBOROUGH COUNTY, NOVA-SCOTIA, 100% UNDIVIDED INTEREST	1,576,000	1,576,000
DEFERRED EXPLORATION EXPENDITURES - GOLDBORO	5,607,321	5,286,191
	<u>\$ 7,381,497</u>	<u>\$ 6,999,967</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities charges	\$ 95,936	\$ 112,382
Advances from directors, non-interest bearing	36,085	36,530
Advances from related companies, non-interest bearing	3,451	8,441
Loans payable, non-interest bearing	-	110,000
	<u>135,472</u>	<u>267,353</u>
LONG-TERM DEBT (note 3)	766,260	688,453
	<u>901,732</u>	<u>955,806</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 4)	9,672,082	8,743,082
Contributed surplus	227,710	237,310
Deficit	(3,420,027)	(2,936,231)
	<u>6,479,765</u>	<u>6,044,161</u>
	<u>\$ 7,381,497</u>	<u>\$ 6,999,967</u>

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

	2006		2005	
BALANCE, BEGINNING	\$	5,286,191	\$	4,766,139
EXPLORATION COSTS				
Consultants in geology	\$	100,822	\$	169,788
Drilling		-		298,497
Analysis		203,797		38,975
Equipment rental		-		375
Traveling expenses		16,511		12,417
Increase in deferred exploration expenditures		321,130		520,052
BALANCE, ENDING	\$	5,607,321	\$	5,286,191

See accompanying notes to financial statements

STATEMENTS OF CONTRIBUTED SURPLUS

YEARS ENDED JUNE 30

	2006		2005	
BALANCE, BEGINNING	\$	237,310	\$	63,960
Stock-based compensation		-		191,400
Amount credited to the capital stock on the exercise of stock options		(9,600)		(18,050)
BALANCE, ENDING	\$	227,710	\$	237,310

See accompanying notes to financial statements

STATEMENTS OF EARNINGS

YEARS ENDED JUNE 30

	2006	2005
REVENUES		
Interest	\$ 251	\$ 3,608
ADMINISTRATIVE EXPENSES		
General administrative expenses	45,180	26,661
Stock-based compensation	-	152,400
Professional fees	155,023	80,032
Research of financing	225,000	105,950
Information to shareholders	41,554	17,988
Listing and registration fees	17,290	26,449
Loss on write-down of marketable securities	-	4,000
Gain on cancellation of accounts payables	-	(17,680)
	484,047	395,800
NET LOSS	\$ (483,796)	\$ (392,192)
BASIC AND DILUTED NET LOSS PER SHARE (note 7)	\$ (0,01)	\$ (0,01)

See accompanying notes to financial statements

STATEMENTS OF DEFICIT

YEARS ENDED JUNE 30

	2006	2005
BALANCE, BEGINNING	\$ (2,936,231)	\$ (2,544,039)
Net loss	(483,796)	(392,192)
BALANCE, ENDING	\$ (3,420,027)	\$ (2,936,231)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30

	2006	2005
CASH FLOWS RELATED TO:		
OPERATING ACTIVITIES		
Net loss	\$ (483,796)	\$ (392,192)
Adjustments for:		
Stock-based compensation	-	152,400
Research financing fees paid under stock-based compensation	-	39,000
Loss on write-down of marketable securities	-	4,000
Net change in non-cash working capital items	(33,076)	40,154
CASH FLOWS RELATED TO OPERATING ACTIVITIES	(516,872)	(156,638)
FINANCING ACTIVITIES		
Advances from directors	(445)	1,044
Loans payable	-	110,000
Long-term debt	211,557	(178,086)
Issuance of common shares	638,700	563,800
Common share issuance expenses	(30,000)	-
CASH FLOWS RELATED TO FINANCING ACTIVITIES	819,812	496,758
INVESTING ACTIVITIES		
Term deposit	-	(5,000)
Deferred exploration expenditures	(277,441)	(500,692)
CASH FLOWS RELATED TO INVESTING ACTIVITIES	(277,441)	(505,692)
INCREASE (DECREASE) IN CASH	25,499	(165,572)
CASH, BEGINNING	91,055	256,627
CASH, ENDING	\$ 116,554	\$ 91,055

Additional informations on cash flows (note 8)

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

1. STATUS AND NATURE OF ACTIVITIES

The Company, incorporated under Part 1A of 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.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

2. ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash includes cash and demand deposits. Cash equivalents include very liquid investments that can be converted into a known cash amount and maturing within less than three months from the date of acquisition.

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.

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.

The corporation establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

2. ACCOUNTING POLICIES (CONTINUED)

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 posted to the earnings 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 financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and charges during the years. Significant estimates include the carrying value of mining properties and deferred exploration and development charges. Actual results could differ from those estimates.

SHARE ISSUE EXPENSES

Share issue expenses are applied against proceeds of the share issue.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

3. LONG-TERM DEBT

	2006	2005
Advances from companies controlled by the president of Orex Exploration Inc., non-interest bearing and with no foreseen term of repayment	\$ 766,260	\$ 688,453

4. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares, no par value, voting and participating

	2006		2005	
	Number of shares	Capital stock	Number of shares	Capital stock
ISSUED AND PAID				
Balance, beginning	57,359,866	\$ 8,743,082	51,799,866	\$ 8,161,232
Subscription in cash	2,068,966	270,000	5,000,000	500,000
With respect to the exercise of stock Options	735,000	170,850	300,000	48,050
With respect to the exercise of warrants	3,240,000	421,200	260,000	33,800
With debt redemption	446,333	66,950	-	-
Share issuance expenses	-	(30,000)	-	-
Balance, ending (b)	63,850,165	\$ 9,672,082	57,359,866	\$ 8,743,082

(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, 2006, all the warrants were exercised by their subscribers.

(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, 2006 AND 2005

4. CAPITAL STOCK (CONTINUED)

The fair value of options granted during the last 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%, expected volatility of 156% and no dividend expected. During the 2005 financial year, a stock-based compensation expense in the amount of \$152,400 and a stock-based research financing fees of \$39,000 were accounted to earnings 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, 2006 and 2005 and changes during the years ending on those dates is presented below:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,245,000	\$ 0.14	2,345,000	\$ 0.15
Exercised	(735,000)	0.22	(300,000)	0.10
Granted :				
- to directors and employees	-	-	1,950,000	0.12
- to suppliers	-	-	250,000	0.17
Expired	(200,000)	0.25	-	-
Outstanding, end of year	3,310,000	\$ 0.11	4,245,000	\$ 0.14
Options exercisable, end of year	3,310,000	\$ 0.11	4,245,000	\$ 0.14

During the year no option was granted by the company. The weighted average fair value of options granted during the year 2005 was \$0.09. On June 30, 2006, 1,355,000 additional options may be granted under the plan.

The following table summarizes information about stock options outstanding at June 30, 2006:

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	2,760,000	2.70	\$0.10	2,760,000	\$0.10
\$0.17	550,000	3.63	\$0.17	550,000	\$0.17
\$0.10 to \$0.17	3,310,000	2.85	\$0.11	3,310,000	\$0.11

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

5. INCOME TAXES

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 31.52% (2005, 35.52%) as a result of the following:

	2006	2005
Loss before taxes	\$ (483,796)	\$ (392,192)
Computed "expected" tax recovery	(152,492)	(139,307)
Increase in income taxes resulting from:		
Resource allowance	18,452	15,203
Non deductible expenses	1,857	65,537
Tax benefit for losses not recognized	132,183	58,567
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:

	2006	2005
Future income tax assets:		
Mining property and deferred exploration expenditures	\$ 2,052,855	\$ 2,135,246
Loss carried forward	446,016	399,149
Total gross future income tax assets	2,498,871	2,534,395
Less valuation allowance	(2,498,871)	(2,534,395)
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

As at June 30, 2006, 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:

2007	\$ 123,082
2008	164,446
2009	215,019
2010	157,549
2014	150,519
2015	207,685
2026	419,362
	<u>\$ 1,437,662</u>

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

6. RELATED PARTY TRANSACTIONS

During the financial year, the Company paid research of financing fees of \$225,000 (2005, \$0), equipment rental expenses of \$8 500 (2005, \$6,000) and professional fees of \$96,000 (2005, \$82,000 of which \$10,000 as consultants in geology is included in deferred exploration expenditures) to companies controlled by the president of Orex Exploration Inc. The balances payable to these companies arising from those transactions are included under "Advances from related companies" in the current liabilities and to the "Long-term debt".

Also, during the year, professional fees of \$17,500 (2005, \$0) have been paid to the secretary of the Company. Balance payable arising from this transaction is 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.

7. LOSS PER SHARE

Loss per share has been calculated using the weighted average number of 61,074,625 outstanding common shares during the year (2005, 54,046,934 shares). The dilutive loss per share, which is calculated using the treasury method, is equal to the basic net loss per share due to the anti-dilutive effect of the total share options and warrants outstanding indicated in note 4.

8. ADDITIONAL INFORMATIONS ON CASH FLOWS

Financing and investing non cash activities:

	2006	2005
Amount credited to the capital stock on the exercise of stock options	\$ 9,600	\$ 18,050
Deferred exploration expenditures financed by accounts payable	\$ 63,049	\$ 19,360
Debts settlement in counterpart of shares	\$ 66,950	\$ -
Debts redemption in counterpart of shares	\$ 110,000	\$ -
Long-term debt reduction in settlement of the exercise of stock options	\$ 133,750	\$ -

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

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 the advances from directors, of the advances from related companies and of the advances from companies controlled by the president of Orex Exploration Inc. can not be determined because of the impossibility to find on the market a financial instrument with the same economical conditions.

The fair market value of the marketable securities is equal to the exchange value at closing.

10. SUBSEQUENT EVENTS

- i) On August 3, 2006, the Company completed a private financing of \$200,000 with officer representing 1,000,000 common shares at the price of \$0.20. No purchase warrants were offered with this issuance.
- ii) On September 4, 2006, 150 000 stock options were exercised for an amount of \$25,500.