

Financial Statements of

OREX EXPLORATION INC.

Years ended June 30, 2007 and 2006

AUDITORS' REPORT

To the shareholders of
OREX EXPLORATION INC.

We have audited the balance sheets of **OREX EXPLORATION INC.** as at June 30, 2007 and 2006 and the statements of deferred exploration expenditures, contributed surplus, 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(s) *Raymond Chabot Grant Thornton, LLP*
Chartered Accountants

Val d'Or (Québec)
September 12, 2007

OREX EXPLORATION INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

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BALANCE SHEETS

AS AT JUNE 30

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,865	\$ 116,554
Term deposit, 3.00% (2006, 1.78%) maturing October 2007	5,000	5,000
Marketable securities, market value, \$14,000 (2006, \$6,000)	3,250	3,250
Sales tax receivable	12,709	73,372
	<u>26,824</u>	<u>198,176</u>
FUNDS RESERVED FOR EXPLORATION	750,000	-
MINING PROPERTY – GOLDBORO, GUYSBOROUGH COUNTY, NOVA-SCOTIA, 100% UNDIVIDED INTEREST	1,576,000	1,576,000
DEFERRED EXPLORATION EXPENDITURES - GOLDBORO	5,648,968	5,607,321
	<u>\$ 8,001,792</u>	<u>\$ 7,381,497</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities charges	\$ 125,972	\$ 95,936
Advances from directors, non-interest bearing	44,077	36,085
Advances from company controlled by president, non-interest bearing	10,600	3,451
Advances from company controlled by a director, non-interest bearing	12,178	-
	<u>192,827</u>	<u>135,472</u>
LONG-TERM DEBT (note 3)	865,771	766,260
	<u>1,058,598</u>	<u>901,732</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 4)	10,617,417	9,672,082
Contributed surplus	272,709	227,710
Deficit	(3,946,932)	(3,420,027)
	<u>6,943,194</u>	<u>6,479,765</u>
	<u>\$ 8,001,792</u>	<u>\$ 7,381,497</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

	2007		2006	
BALANCE, BEGINNING	\$	5,607,321	\$	5,286,191
EXPLORATION COSTS				
Consultants in geology		39,344		100,822
Analysis		-		203,797
Equipment rental		1,200		-
Traveling expenses		1,103		16,511
Increase in deferred exploration expenditures		41,647		321,130
BALANCE, ENDING	\$	5,648,968	\$	5,607,321

See accompanying notes to financial statements

STATEMENTS OF CONTRIBUTED SURPLUS

YEARS ENDED JUNE 30

	2007	2006
BALANCE, BEGINNING	\$ 227,710	\$ 237,310
Stock-based compensation	25,512	-
Amount debited to the capital stock with respect to share issuance expenses following the grant of common shares stock purchase	42,887	-
Amount credited to the capital stock on the exercise of stock options	(23,400)	(9,600)
BALANCE, ENDING	\$ 272,709	\$ 227,710

See accompanying notes to financial statements

STATEMENTS OF EARNINGS

YEARS ENDED JUNE 30

	2007	2006
REVENUES		
Interest	\$ 1,245	\$ 251
ADMINISTRATIVE EXPENSES		
General administrative expenses	39,520	45,180
Stock-based compensation	25,512	-
Professional fees	129,571	155,023
Research of financing	-	225,000
Information to shareholders	15,986	41,554
Listing and registration fees	16,436	17,290
Settlement of litigation (note 6)	301,125	-
	528,150	484,047
NET LOSS	\$ (526,905)	\$ (483,796)
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

	2007	2006
BALANCE, BEGINNING	\$ (3,420,027)	\$ (2,936,231)
Net loss	(526,905)	(483,796)
BALANCE, ENDING	\$ (3,946,932)	\$ (3,420,027)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30

	2007	2006
CASH FLOWS RELATED TO:		
OPERATING ACTIVITIES		
Net loss	\$ (526,905)	\$ (483,796)
Adjustments for:		
Stock-based compensation	25,512	-
Settlement of litigation	301,125	-
Net change in non-cash working capital items and in the advances from companies controlled by the president	(75,706)	178,036
CASH FLOWS RELATED TO OPERATING ACTIVITIES	(275,974)	(305,760)
FINANCING ACTIVITIES		
Issuance of common shares	975,500	638,700
Common share issuance expenses	(10,678)	(30,000)
CASH FLOWS RELATED TO FINANCING ACTIVITIES	964,822	608,700
INVESTING ACTIVITIES		
Funds to be expended in exploration	(750,000)	-
Deferred exploration expenditures	(49,537)	(277,441)
CASH FLOWS RELATED TO INVESTING ACTIVITIES	(799,537)	(277,441)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,689)	25,499
CASH AND CASH EQUIVALENTS, BEGINNING	116,554	91,055
CASH AND CASH EQUIVALENTS, ENDING	\$ 5,865	\$ 116,554

Additional informations on cash flows (note 8)

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

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 included 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.

EXPLORATION FUNDS

Exploration funds consist of proceeds of flow-through financing not yet disbursed. Under the terms of the financing, the Company is committed to spend the funds on exploration.

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, 2007 AND 2006

2. ACCOUNTING POLICIES (CONTINUED)

INCOMES TAXES

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to difference between the carrying amounts and tax bases of assets and liabilities. They are measured by applying substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company 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 tax assets will not be realized.

CAPITAL STOCK

Capital stock issued for non-monetary consideration is recorded at the market value on the date the shares were issued, or on the date the agreement to issue the shares was entered into.

The resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through shares are renounced in favour of investors in accordance with tax legislation. Under the liability method of accounting, according to EIC-146, future income taxes related to the temporary differences are recorded on the date of the renunciation to investors together with a corresponding charge to share issue expenses.

STOCK-BASED COMPENSATION PLAN AND OTHER STOCK-BASED PAYMENTS

The Company records in earnings stock-based compensation provided to its employees, officers and directors, and other stock based payments to consultants, using the fair value-based method. The fair value of stock options at the grant date is determined using the Black-Scholes option-pricing model. When holders exercise their options, any consideration received and any contributed surplus related to these options is credited to capital stock. Compensation expense is recognized over the vesting period of the stock options.

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, 2007 AND 2006

3. LONG-TERM DEBT

	2007	2006
Advances from companies controlled by the president of Orex Exploration Inc., non-interest bearing and with no foreseen term of repayment	\$ 865,771	\$ 766,260

4. CAPITAL STOCK

AUTHORIZED

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

	2007		2006	
	Number of shares	Capital stock	Number of shares	Capital stock
ISSUED AND PAID				
Balance, beginning	63,850,165	\$9,672,082	57,359,866	\$8,743,082
Private placements	1,000,000	200,000	2,068,966	300,000
In counterpart of share issuance expenses	428,570	75,000	-	-
Flow-through private placements (b)	4,285,712	750,000	-	-
With respect to the exercise of stock options	150,000	48,900	735,000	170,850
With respect to the exercise of warrants	-	-	3,240,000	421,200
With respect to debt redemption	-	-	446,333	66,950
Share issuance expenses	-	(128,565)	-	(30,000)
Balance, ending (a)	<u>69,714,447</u>	<u>\$10,617,417</u>	<u>63,850,165</u>	<u>\$9,672,082</u>

- (a) 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.
- (b) On June 19, 2007, the Company closed a private placement of 4,285,714 units of the Company at a price of \$0.175 per unit for a total of \$750,000. A unit consists of one flow-through share and one warrant giving the right to buy one non-flow-through share at a price of \$0.30 per share up to June 19, 2008 and at \$0.40 per share up to June 19, 2009. Each flow-through share will entitle the holder to both the 100% CEE deduction and 15% federal tax credit for gross roots exploration expenses. Finder's fees on closing of 5% in non-flow-through shares (214,285 shares), due diligence fees of 5% in non-flow-through shares (214,285 shares) for a total amount of \$75,000 and options equal to 10% of the number of units subscribed for on the same terms as the units, at an exercise price of \$0.175 per unit for a period of 24 months, were paid by the Company. The proceeds from this issue will be used for the Phase 2 Exploration Program at the Company's wholly owned Goldboro property located in Nova Scotia.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

4. CAPITAL STOCK (CONTINUED)

COMMON SHARE STOCK PURCHASE OPTION PLAN

Under its common stock purchase option plan, the Company may issue a maximum of 6,000,000 common shares to its directors, officers, employees, suppliers and consultants. 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, the shares acquired under the plan are subject to a 4 month hold period commencing on the date the options were granted.

The weighted average 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 3 years for these options, risk-free interest rate of 4.502%, expected volatility of 120.48%, no dividend expected and weighted average fair value of \$0.109 per option. During the 2007 financial year, stock-based compensation expenses in the amount of \$25,512 were accounted to earnings for with a corresponding credit to contributed surplus and share issuance fees of 42,887 were debited to capital stock 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, 2007 and 2006 and changes during the years ending on those dates is presented below:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,310,000	\$0.11	4,245,000	\$0.14
Exercised	(150,000)	0.17	(735,000)	0.22
Granted :				
- to directors	200,000	0.15	-	-
- to consultants	428,570	0.175	-	-
Expired	(250,000)	0.17	(200,000)	0.25
Outstanding, end of year	<u>3,538,570</u>	<u>\$0.11</u>	<u>3,310,000</u>	<u>\$0.11</u>
Options exercisable, end of year	<u>3,538,570</u>	<u>\$0.11</u>	<u>3,310,000</u>	<u>\$0.11</u>

During the year, 628,570 (2006, 0) options were granted by the Company at a weighted average price of \$0.167 (2006, 0).

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

4. CAPITAL STOCK (CONTINUED)

The following table summarizes information about stock options outstanding as at June 30, 2007:

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	1.70	\$0.10	2,760,000	\$0.10
\$0.15	200,000	4.76	\$0.15	200,000	\$0.15
\$0.17	550,000	2.63	\$0.17	150,000	\$0.17
\$0.175	428,570	0.197	\$0.175	428,570	\$0.175
\$0.10 to \$0.175	3,538,570	1.95	\$0.11	3,538,570	\$0.11

WARRANTS

During the year, the Company issued 4,285,712 share purchase warrants at an exercise price of \$0.30 up to June 19, 2008 and at \$0.40 per share up to June 19, 2009, as part of private placements. Each warrant entitles the holder to one common share of the Company.

5. INCOME TAXES

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 32.02% (2006, 31.52%) as a result of the following:

	2007	2006
Loss before taxes	\$ (526,905)	\$ (483,796)
Computed "expected" tax recovery	(168,715)	(152,492)
Increase in income taxes resulting from:		
Resource allowance	2,789	18,452
Shares issue expenses	(10,440)	
Non deductible expenses	1,307	1,857
Income tax rates variation	127,000	-
Valuation allowance	48,059	132,183
Total income tax expenses	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

5. INCOME TAXES (CONTINUED)

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

	2007	2006
Future income tax assets:		
Mining property and deferred exploration expenditures	\$ 2,000,762	\$ 2,052,855
Deductible share issue expenses	36,885	975
Loss carried forward	550,245	445,041
Total gross future income tax assets	2,587,892	2,498,871
Less valuation allowance	(2,587,892)	(2,498,871)
Net future income tax assets	\$ -	\$ -

As at June 30, 2007, 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:

2008	\$ 164,446
2009	215,019
2010	157,549
2014	150,519
2015	207,685
2026	422,355
2027	544,868
	\$ 1,862,441

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

6. RELATED PARTY TRANSACTIONS

During the financial year, the Company paid research of financing fees of \$0 (2006, \$225,000), equipment rental expenses of \$12,000 (2006, \$8,500) and services and location of office and equipments of \$96,000 (2006, \$96,000) 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 related companies » in the current liabilities and to the « Long-term debt ». The Company also incurred fees as consultation in geology of \$10,688 (2006, 0) to company controlled by a director. The balance payable to this company is included under « Advances from a company controlled by a director ».

The Company and his president received during the year an action in damages and interest of \$262,500 plus interest and additional indemnity. Following this settlement, companies controlled by the president has transferred 2,200,000 shares of Orex Exploration Inc. to the other Party. The Company decided to assume a part of the settlement by accounting an overdue of \$301,125 to companies controlled by the president in counterpart of 1,825,000 Orex Exploration Inc. shares at \$0,165 per share.

Also, during the year, professional fees of \$8,270 (2006, \$17,500) have been incurred with the corporate secretary, a related person to the president of the Company. Balance payable arising from this transaction is included under « Accounts payable and accrued liabilities charges ».

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 64,975,390 outstanding common shares during the year (2006, 61,074,625 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.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

8. ADDITIONAL INFORMATIONS ON CASH FLOWS

Financing and investing non cash activities:

	2007	2006
Amount credited to the capital stock on exercise of stock options	\$ 23,400	\$ 9,600
Share issue expenses in counterpart of shares	\$ 75,000	\$ -
Share issue expenses in counterpart of warrants	\$ 42,887	\$ -
Litigation settlement in counterpart of advances from companies controlled by president	\$ 301,125	\$ -
Deferred exploration expenditures financed by accounts payable	\$ 55,159	\$ 63,049
Debts settlement in counterpart of shares	\$	\$ 66,950
Debts redemption in counterpart of shares	\$	\$ 110,000
Long-term debt reduction in settlement of exercise of stock options	\$	\$ 133,750

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 a company controlled by a director 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. COMPARATIVE FIGURES

The presentation or certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.