

Consolidated Financial Statements

Ontex Resources Limited

December 31, 2006 and 2005

NEAL, PALLETT & TOWNSEND LLP



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**Professional Corporation*

AUDITORS' REPORT

To the Shareholders of
Ontex Resources Limited (a Development Stage Enterprise)

We have audited the consolidated balance sheets of **Ontex Resources Limited (a Development Stage Enterprise)** as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

London, Canada
February 27, 2007

Neal, Pallett & Townsend LLP

Chartered Accountants
Licensed Public Accountants

Ontex Resources Limited
[A Development Stage Enterprise]

CONSOLIDATED BALANCE SHEETS

As at December 31

	2006	2005
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 2]</i>	782,995	7,060
Accounts receivable	30,970	17,976
Capital taxes recoverable	-	24,956
Due from Echo Energy Canada Inc. <i>[note 9]</i>	35,906	-
Due from Echo Power Generation Inc. <i>[note 9]</i>	6,095	7,186
Prepaid expenses	13,554	16,015
	869,520	73,193
Equipment <i>[note 5]</i>	14,253	18,164
Investments <i>[note 6]</i>	41,093	52,293
Mineral exploration properties <i>[note 7]</i>	9,763,843	9,384,218
Investment in Echo Energy Canada Inc. <i>[notes 8 and 9]</i>	470,139	650,178
	11,158,848	10,178,046
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	61,721	46,279
Due to Echo Energy Canada Inc. <i>[note 9]</i>	-	711,770
	61,721	758,049
Commitments <i>[note 12]</i>		
Shareholders' equity		
Share capital		
Authorized		
Unlimited Class A shares		
Unlimited common shares		
Issued		
Common shares <i>[note 3]</i>	22,641,205	20,338,685
Contributed surplus <i>[notes 3b and 3e]</i>	633,500	457,500
Deficit	(12,177,578)	(11,376,188)
	11,097,127	9,419,997
	11,158,848	10,178,046

See accompanying notes to consolidated financial statements

On behalf of the Board

"Salvatore Fuda"

Director

"Gary Conn"

Director

Ontex Resources Limited
[A Development Stage Enterprise]

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the year ended December 31,

	2006	2005
	\$	\$
INCOME		
Natural gas royalties	24,355	10,570
Interest and dividends	4,960	1,320
Gain on sale of investments	14,250	-
	43,565	11,890
EXPENSES		
General and administrative	145,618	137,247
Management and professional fees	535,720	400,044
Amortization	4,913	6,290
	686,251	543,581
Less: legal cost recovery <i>[note 4]</i>	197,335	-
	488,916	543,581
Loss before the undernoted	(445,351)	(531,691)
Share compensation expense	(176,000)	-
Equity in earnings (loss) of Echo Energy Canada Inc.	(180,039)	58,173
Loss for the year	(801,390)	(473,518)
Deficit, beginning of year	(11,376,188)	(10,902,670)
Deficit, end of year	(12,177,578)	(11,376,188)
Basic and diluted loss per share <i>[note 3f]</i>	(0.014)	(0.010)

See accompanying notes to consolidated financial statements

Ontex Resources Limited
[A Development Stage Enterprise]

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31,

	2006	2005
	\$	\$
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net loss for the year	(801,390)	(473,518)
Items not involving cash		
Amortization	4,913	6,290
Gain on sale of investments	(14,250)	-
Share compensation expense	176,000	-
Equity loss (earnings) from Echo Energy Canada Inc.	180,039	(58,173)
Change in non-cash working capital balances <i>[note 10]</i>	29,865	3,738
	(424,823)	(521,663)
FINANCING ACTIVITIES		
Advances from (repayments to) Echo Energy Canada Inc.	(747,676)	550,954
Issuance of common shares	2,302,520	-
	1,555,935	550,954
INVESTING ACTIVITIES		
Mineral exploration properties	(379,625)	(17,533)
Proceeds from sale of investments	25,450	-
Equipment	(1,002)	(4,698)
	(355,177)	(22,231)
Increase in cash and cash equivalents	775,935	7,060
Cash and cash equivalents, beginning of year	7,060	-
Cash and cash equivalents, end of year	782,995	7,060

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

1. BASIS OF PRESENTATION

Ontex Resources Limited (the "Company") is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable and is considered to be in the development stage. The Company has incurred recurring losses that raise doubt about its ability to continue as a going concern. The recoverability of the amounts shown for mineral exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development and future profitable production or proceeds from the disposition of such properties.

In addition, the Company will be influenced by a number of factors including environmental risks, and legal and political risks. The consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. These consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

The accompanying consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles.

2. SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of consolidation

The consolidated financial statements included the accounts of the Company's subsidiary, Cherbourg Gold Inc. (85.7% owned).

Where the Company believes it exerts significant influence over another entity, it accounts for its investment by the equity method. Under this method, the Company includes its share of the results of operations of the investee as earnings.

[b] Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property costs. Actual results will differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

[c] Cash and cash equivalents

Cash and cash equivalents consist of short-term deposits with original maturities of less than three months at the date of purchase.

[d] Investments

Investments in marketable securities are recorded at the lower of cost and market value. The market values of investments are determined based on the closing prices reported on recognized securities exchanges and over-the-counter markets. Such individual market values do not necessarily represent the realizable value of the total holding of any security, which may be more or less than that indicated by market quotations.

Investments in companies over which the Company has significant influence are accounted for on the equity basis.

[e] Equipment

Equipment is carried at cost less amortization. Equipment is amortized on the declining balance method over its estimated useful life commencing in the year of acquisition using the following rates:

Office equipment	30%
Vehicles	20%

An impairment loss is recognized when the carrying value will not be recovered through use.

[f] Mineral exploration properties

The Company considers its exploration costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties until those properties are brought into production, at which time, they will be amortized on a unit-of-production basis based on proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

The recoverability of the amounts shown for mineral exploration properties is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and to meet its obligations under various agreements and the success of future operations or dispositions.

[g] Income taxes

The Company accounts for income taxes under the liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

[h] Stock based compensation

The Company has a stock option plan described in Note 3 which is used to compensate Directors, Officers, employees of the Company, and consultants to the Company. The Company recognizes stock based compensation expense when stock options vest using the fair value method. The recognized stock based compensation is credited to “Contributed Surplus”. Any consideration paid upon the exercise of stock options or purchase of shares is credited to share capital.

[i] Financial instruments

The carrying values of cash and cash equivalents, accounts receivable, legal costs recoverable, accounts payable and accrued liabilities and due to Echo Energy Canada Inc. reflected in the balance sheet, approximate their respective fair values due to the short-term nature of these investments.

[j] Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provision of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for eligible exploration and development expenditures and other requirements are met, these expenses may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company.

[k] Earnings (loss) per common share

Basic earnings (loss) per share is computed by dividing net income (loss) for the year by the weighted average number of common shares outstanding in each respective year. Diluted earnings (loss) per share reflects the potential dilution of securities by adding other common stock equivalents in weighted average number of common shares outstanding during the period, if dilutive, and calculated using the treasury stock method.

3. SHARE CAPITAL

[a] The Company issued common shares as follows:

	Shares #	Amount \$
Balance, December 31, 2004	49,000,189	20,338,685
Issued for cash during the year	—	—
Balance, December 31, 2005	49,000,189	20,338,685
Issued pursuant to a debt to shares conversion agreement	4,509,833	811,770
Issued pursuant to a rights offering	13,377,499	1,337,750
Exercise of options	200,000	23,000
Issued pursuant to flow through agreements	928,569	130,000
Balance, December 31, 2006	68,016,090	22,641,205

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

[b] Stock options

Under the stock option plan, eligible directors, officers, employees and consultants may be granted options to acquire common shares at a price which is not less than the closing price of the Company's common shares on the Toronto Stock Exchange (the "Exchange") on the trading day immediately preceding the date of grant less any discounts permitted by the rules of the Exchange. The options are not transferable and may be subject to any vesting the Board of Directors determines and may not exceed a term of 10 years. Changes in stock options for the years ended December 31, 2006 and 2005 are as follows:

	Options outstanding and exercisable #	Weighted average exercise price \$
Balance, December 31, 2004	2,196,154	0.325
Expired May 2005	(1,896,154)	0.325
Expired October 2005	(300,000)	0.360
Balance, December 31, 2005	—	—
Granted October 2006	8,800,000	0.115
Exercised	(200,000)	0.115
Balance, December 31, 2006	8,600,000	0.115

At the beginning of the year, 9,621,154 options were available under the approved plan. During October 2006, 8,800,000 of those available options were granted to directors, officers and contractors and are exercisable in whole or in part at any time prior to October 13, 2008 at the exercise price of \$0.115 per common share. On October 25, 2006, 200,000 of the options were exercised.

On December 1, 2006, 330,000 options, exercisable at a price of \$0.12, were granted to Agoracom Investor Relations Corp under an investor relations agreement with vesting of one-quarter of the options on each of February 28, 2007, May 31, 2007, August 31, 2007 and November 30, 2007. The fair value of the option compensation will be recognized on the vesting dates. 491,154 options remain available for issuance under the plan as at December 31, 2006.

[c] Escrow shares

Pursuant to an escrow agreement dated October 6, 1997, 394,182 common shares of the Company were originally deposited in escrow. Under the terms of the escrow agreement, these shares are releasable upon approval from the Ontario Securities Commission based upon certain expenditures on mineral exploration properties, the achievement of a specific five-year cumulative cash flow and the attainment of commercial production.

[d] Issuance of Shares

On March 16, 2006, the Company issued 4,509,833 common shares to Echo Energy Canada Inc. ("Echo") at a price of \$0.18 per share pursuant to a debt to shares conversion agreement under which Ontex settled a \$811,770 debt owed to Echo. The debt comprised a number of cash advances made by Echo to Ontex. The shares were subject to a four month hold period which expired July 16, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

On October 6, 2006, the Company issued 13,377,505 common shares at an issue price of \$0.10 per share pursuant to a rights offering raising gross proceeds of approximately \$1,337,750.

During December 2006, the Company issued 928,569 common shares at an issue price of \$0.14 per share pursuant to flow through agreements for gross proceeds of approximately \$130,000.

[e] Share compensation expense

The fair value of the options granted and vested in 2006 was estimated at the date of vesting using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 6.5%, expected dividend yield of 0%, expected volatility of 26.6% and expected option life of two years. The weighted-average fair value of the options vested during the fourth quarter of 2006 were \$0.02 each as follows:

Number of options vested	Fair value per option	Total fair value
8,800,000	\$0.02	\$176,000

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, were developed to estimate fair value of freely tradeable, fully transferable options without vesting restrictions. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

[f] Loss per share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

	2006	2005
	\$	\$
Basic and diluted loss per share computation		
Numerator:		
Loss for the period	(801,390)	(473,518)
Denominator:		
Weighted average common shares outstanding	55,787,514	49,000,189
Escrowed shares	(394,182)	(394,182)
	55,393,332	48,606,007
Basic and diluted loss per share	(0.014)	(0.010)

The determination of the weighted average number of shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding share options and warrants, if any, since they are anti-dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

4. LEGAL COSTS RECOVERY

In 2002, the Company entered a claim for outstanding lease payments from Bioforest Pacific Inc. and Mr. Ross McGroarty in the amount of approximately \$16,250. Subsequently Mr. McGroarty filed a counterclaim against the Company for allegedly unpaid Officers and Directors fees from 1993 to 1999 and for severance fees payable subsequent to 1999 in the amount of \$1,016,497. Mr. McGroarty then amended his counterclaim to rely on the doctrine of quantum meruit in support of his damages claim.

On March 9, 2006, the Ontario Superior Court of Justice awarded judgment in favour of the Company dismissing Mr. McGroarty's counterclaim with costs payable to the Company. The amount of costs to be recovered were fixed by the Court at \$190,000 in July 2006 and received by the Company in August 2006. In addition, the Company obtained judgment on its claim for rental arrears plus interest and costs. Mr. McGroarty's motion for leave to appeal was dismissed November 24, 2006 with costs.

5. EQUIPMENT

	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office equipment	63,521	56,259	7,262
Vehicles	29,089	22,098	6,991
	92,610	78,357	14,253

	2005		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office equipment	62,519	53,147	9,372
Vehicles	29,089	20,297	8,792
	91,608	73,444	18,164

Ontex Resources Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

6. INVESTMENTS

	2006		2005	
	Quoted market value \$	Carrying value \$	Quoted market value \$	Carrying value \$
Metalore Resources Limited:				
11,000 shares (2005 - 14200)	101,750	38,500	100,110	49,700
Micromem Technologies Inc.:				
19,327 shares	9,084	2,593	12,756	2,593
	110,834	41,093	112,866	52,293

During the quarter ended March 31, 2006, the Company sold 1,000 Metalore Resources Limited ("Metalore") shares for proceeds of \$7,940 resulting in a gain of \$4,440. During the quarter ended June 30, 2006, the company sold a further 2,200 Metalore shares for proceeds of \$17,510. Micromem Technologies Inc. is related to the Company through a common director.

7. MINERAL EXPLORATION PROPERTIES

	\$
Balance, December 31, 2004	9,366,685
Expenditures	17,533
Balance, December 31, 2005	9,384,218
Expenditures	379,625
Balance, December 31, 2006	9,763,843

[a] Brookbank claims, Beardmore, Ontario

In 1998, the Company paid Metalore Resources Limited ("Metalore") \$2.66 million in cash as aggregate consideration for:

- (i) Metalore relinquishing its right, pursuant to the agreement (the "1981 Agreement") dated July 1, 1981 between Metalore and Brookbank-Sturgeon (a predecessor of The Company), to acquire a 60% undivided leasehold interest in certain claims in Irwin Township, Ontario. The claims contain the Brookbank gold deposit (the "Brookbank Property"). Metalore will receive a 1% net smelter return royalty ("NSR") on the Brookbank Property;
- (ii) the acquisition of a 10% net profits interest in certain properties owned by Metalore in Irwin and Sandra Townships (the "Cherbourg-Fox Ear Property") and for Metalore granting the Company the right (the "Cherbourg-Fox Ear Option") to earn an additional 50% or 60% participating interest as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

- (a) The Company can earn a further 50% participating interest (for an aggregate 60%) by spending \$750,000 in exploration of the property over four years from December 14, 1998; and
- (b) The Company can earn an additional 10% participating interest (for an aggregate 70%) by spending an additional \$250,000 (for an aggregate \$1.0 million) in exploration of the property over the four-year period.

By December 31, 2003, the Company had incurred the required expenditures and had earned the 70% interest in the property. The Company can also earn an incremental 1% interest for each \$20,000 expended, where, Metalore does not reimburse its proportional interest. During 2003, the Company earned an additional 4% interest in the property. As at December 31, 2006, the Company holds a 74% interest in the property. Metalore retains 26%.

- (iii) Metalore granting to the Company an option (the "Staked Claim Option") to earn a 70% interest in certain claims owned by Metalore in Leduc and Walters Townships by expending \$500,000 in exploration of the property over four years commencing December 15, 1998. By December 31, 2003, the Company exercised its option and had earned the 70% interest in the property. The Company can also earn an incremental 1% interest for each \$20,000 expended, where Metalore does not reimburse its proportional interest. During 2003, the Company earned an additional 4% interest in the property. As at December 31, 2006, the Company holds a 74% interest in the property. Metalore retains 26%; and,
- (iv) Metalore granting to The Company a right of first refusal with respect to the mineral rights to six leased claims in Walters Township owned by Metalore (the "Paint Lake Leased Claims").

[b] Deloro Township, Ontario

The Company holds certain claims in Deloro Township, Ontario. The claims are subject to a 1% NSR. During the year ended December 31, 2003, the Company decided not to actively pursue further mineral exploration on its Deloro Township claim. Accordingly, capitalized expenditures to date were expensed on the Company's consolidated statements of loss and deficit in that year. During the year ended December 31, 2006, the company completed the minimum necessary filings to keep claims current.

8. INVESTMENT IN ECHO ENERGY CANADA INC.

The Company's investment in Echo is comprised as follows:

	2006	2005
	\$	\$
Balance, beginning of the year:	650,178	592,005
Equity earnings (loss) in Echo	(180,039)	58,173
Equity investment, end of year	470,139	650,178

At December 31, 2006, the Company held 13.3% or 7,037,436 of the outstanding common shares of Echo.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

9. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2006, the Company paid certain of its directors and executive officers \$289,175 [2005 - \$275,800] in consulting fees. All related party transactions have been recorded at the exchange amount. The amount due from Echo of \$35,906 [2005 – due to Echo of \$711,770] is non-interest bearing and payable on demand. The amounts due from Echo Power Generation Inc. of \$6,095 [2005 - \$7,186] are non-interest bearing, unsecured and repayable on demand.

The Company has contractual obligations in the aggregate amount of \$208,000 per year under agreements expiring December 15, 2008 to compensate its Chairman and Executive Vice-President for management services provided by them. The company also has a contractual obligation to a company owned by its Chief Operating Officer for fees of \$80,000 to October 2007 for services to identify a suitable joint venture partner for its Brookbank property and a \$100,000 bonus in the event that the Company enters into a formal joint venture agreement with the identified party.

10. STATEMENT OF CASH FLOWS

[a] Changes in non-cash working capital consist of the following:

	2006	2005
	\$	\$
Accounts receivable	(12,994)	11,241
Capital taxes recoverable	24,956	2,352
Prepaid expenses	2,461	1,845
Accounts payable and accrued liabilities	15,442	(11,700)
	29,865	3,738

[b] Supplemental cash flow information

	2006	2005
	\$	\$
Interest received	2,245	184

Ontex Resources Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

11. INCOME TAXES

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates in 2006 of approximately 38% and 2005 of approximately 40% to loss before income taxes as follows:

	2006	2005
	\$	\$
Expected income tax recovery using statutory income tax rates	(305,500)	(190,000)
Resource allowance	21,000	32,100
Equity in loss (income) of affiliate not subject to income tax	68,600	(23,300)
Non-deductible expenses	69,400	15,900
Future income tax expense (benefit) resulting from reduction in tax rate	7,700	6,600
Tax benefit of losses not currently recognized	138,800	—
Tax benefit of losses not previously recognized	—	158,700
Income tax expense (recovery)	—	—
Future tax assets		
Non-capital losses	1,121,000	1,203,900
Investments	41,400	16,300
Mineral exploration on properties	(93,800)	(97,500)
	1,068,600	1,122,700
Valuation allowance	(1,068,600)	(1,122,700)
Net future tax assets	—	—

The Company has approximately \$3,157,000 of operating losses that expire between 2007 and 2016.

12. COMMITMENTS

The Company is committed to spending \$130,000 on exploration costs during 2007 as part of the flow-through funding agreements that were completed during calendar 2006.

The Company has contractual obligations to compensate its Chairman, Executive Vice-President and Chief Operating Officer as discussed in Note 9.

13. SEGMENTED INFORMATION

The Company currently operates in Canada in one reportable operating segment, being the acquisition and exploration of resource property.