EXPLORATION OREX Inc.

General Delivery
Goldboro, Guysborough County
Nova Scotia, B0H 1L0

GOLDBORO PROJECT, NOVA SCOTIA PRODUCTION FEASIBILITY STUDY

REQUEST FOR FINANCIAL SUPPORT ATLANTIC CANADA OPPORTUNITIES AGENCY

AUGUST 1988

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1.0 HISTORICAL BACKGROUND

Exploration Orex was incorporated July 30, 1987. The company was registered for trade on the Montreal Stock Exchange under the symbol "OX" on March 31, 1988.

The main activities of the company consist in acquiring, exploring and developing properties which contain precious metals. Orex is a member of the Morisco Group and as such, has access to the mining exploration expertise of the members of this group.

Goldboro is the company's number one project at the moment. Orex supervises and manages the Goldboro project.

1.1 Goldboro Property

Goldboro property consists of a block of 37 mining claims covering a total area of 1,480 acres. There are several former gold mines on the property: Dolliver Mountain, West Goldbrook, Boston-Richardson and East Goldbrook. Two villages, Goldboro and Isaac's Harbour, are located in Guysborough Township close to the property.

Under an agreement between Onitap and Orex, Orex has the right to acquire a 50% interest in the property in exchange for exploration work.

Mineral showings were first found on the Goldboro property as early as 1861. The following year, the Canadian Geological Commission discovered a band of gold-bearing quartz veins. This was called the "Richardson Belt" and later became the site of the Boston-Richardson Mine, which was in operation until 1912. During this period, 414,887 tons of ore were extracted from the property, and total gold production attained approximately 54,871 ounces.

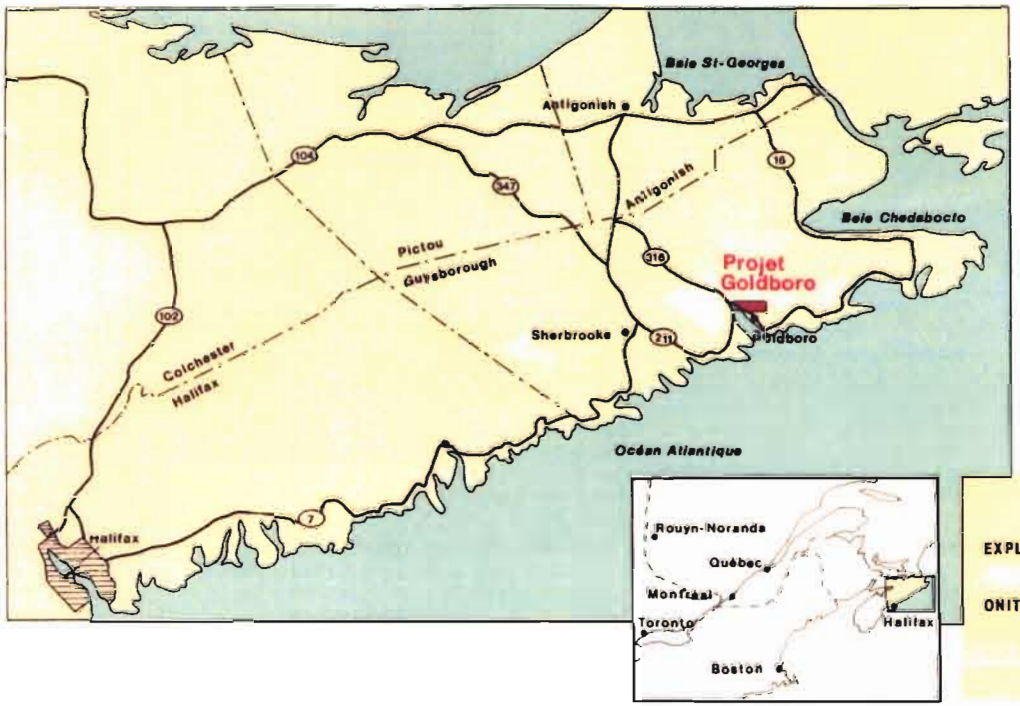
Between 1926 and 1927, three other deposits were discovered in the area, but were only partially developed.

Since the early 80's, Onitap Resources has been conducting exploration on the property. They started with field surveys and concluded with a 40-thousand foot drilling program that proved the existence of other mineralized gold belts below the Boston-Richardson.

Such was the situation when Orex began exploration work earlier this year.

LOCALISATION DU PROJET GOLDBORO

LOCATION OF THE GOLDBORO PROJECT



EXPLORATION OREX INC.

ONITAP RESOURCES INC.

ST-MICHEL

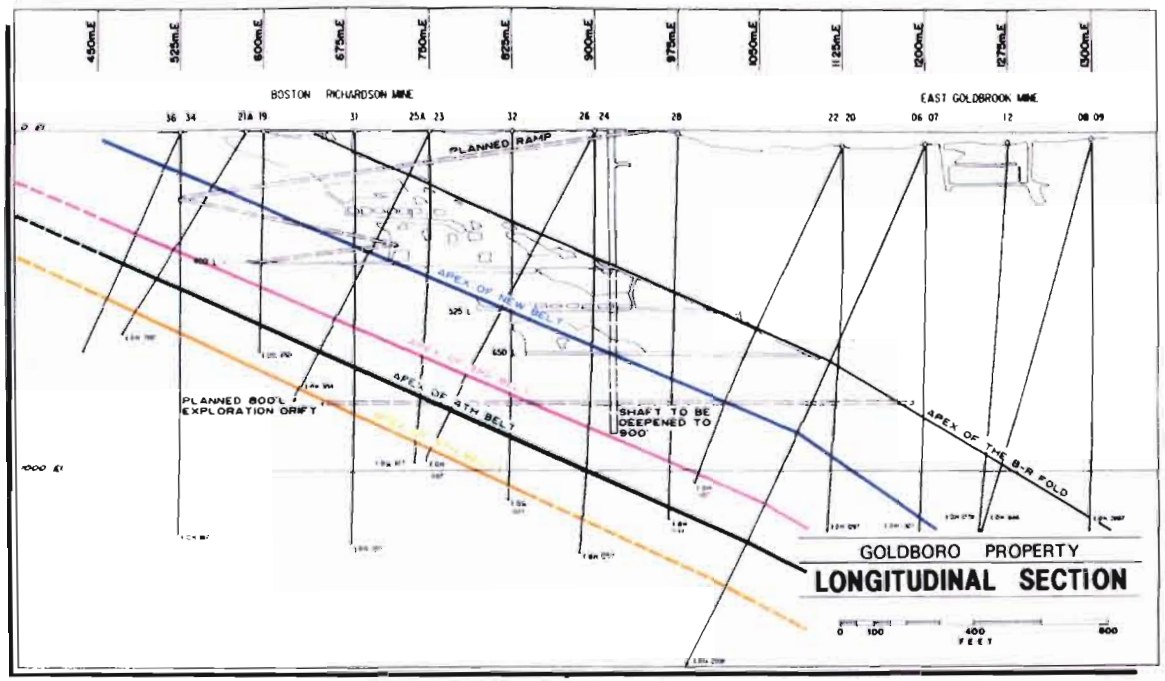
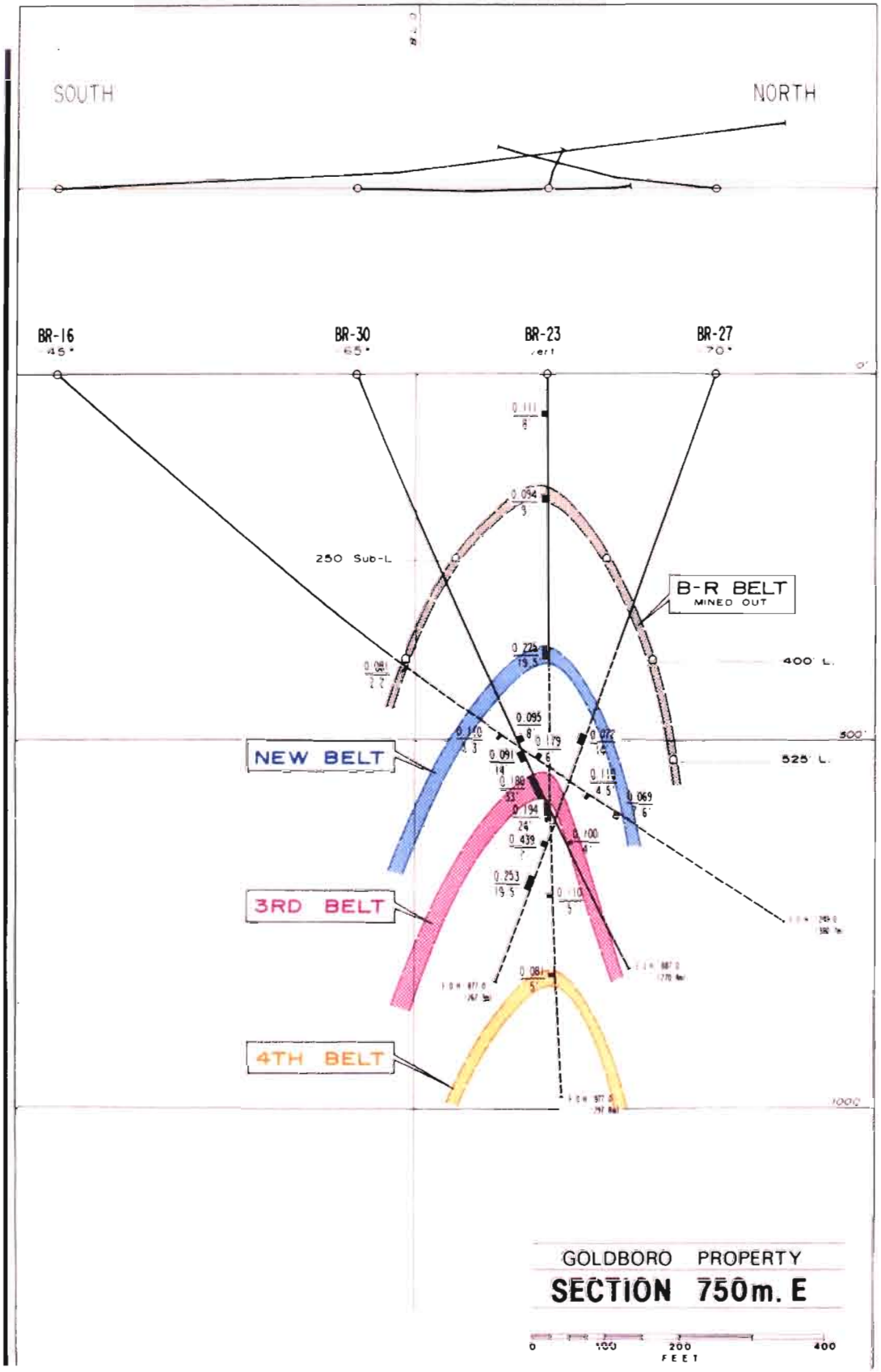


Figure 3: *Longitudinal section illustrating the apex of all newly discovered Belts with the planned ramp and shaft.*


SOUTH
NORTH
BR-16
45°
BR-30
65°
BR-23
vert
BR-27
70°
250 Sub-L
B-R BELT
MINED OUT
400' L.
525' L.
NEW BELT
3RD BELT
4TH BELT
GOLDBORO PROPERTY
SECTION 750m. E
0
100
200
400
FEET

2.0 PRESENT SITUATION

1987

In 1987, some 40,000 feet of diamond drilling led to the discovery of new mineralized zones under the Boston-Richerdson Belt. Visible gold was observed in most of the holes.

This led to reserve estimates of 1,106,036 short tons with a grade of 0.194 ounce per short ton.

1988

Drilling:

In 1988, Orex undertook a 40,000-foot drilling program in order to define the orebody.

After 12,000 feet of drilling, reserves were increased by 245,497 tons, for a total of 1,396,117 tons, with an improved grade of 0.202 ounces of gold per ton.

It should be pointed out that the probable reserve estimates were very conservative.

The drilling program is still underway and preliminary results indicate that the company's optimism was well-founded.

Access ramp:

At the same time, Orex is driving an access ramp to the 125 level in order to develop the mineralized zone.

Later this fall, the ramp will be excavated further down to the 250 level for the same purpose.

Shaft and headframe:

Present work includes rebuilding the shaft collar, which will permit dewatering of the shaft to the 450 level. At the same time, a 90-foot headframe will be built and a 6-foot hoist will be installed. The shaft will then be deepened to the 900 level.

Surface buildings:

All the main buildings were constructed recently. Electricity was installed, as well as running water and septic tanks.

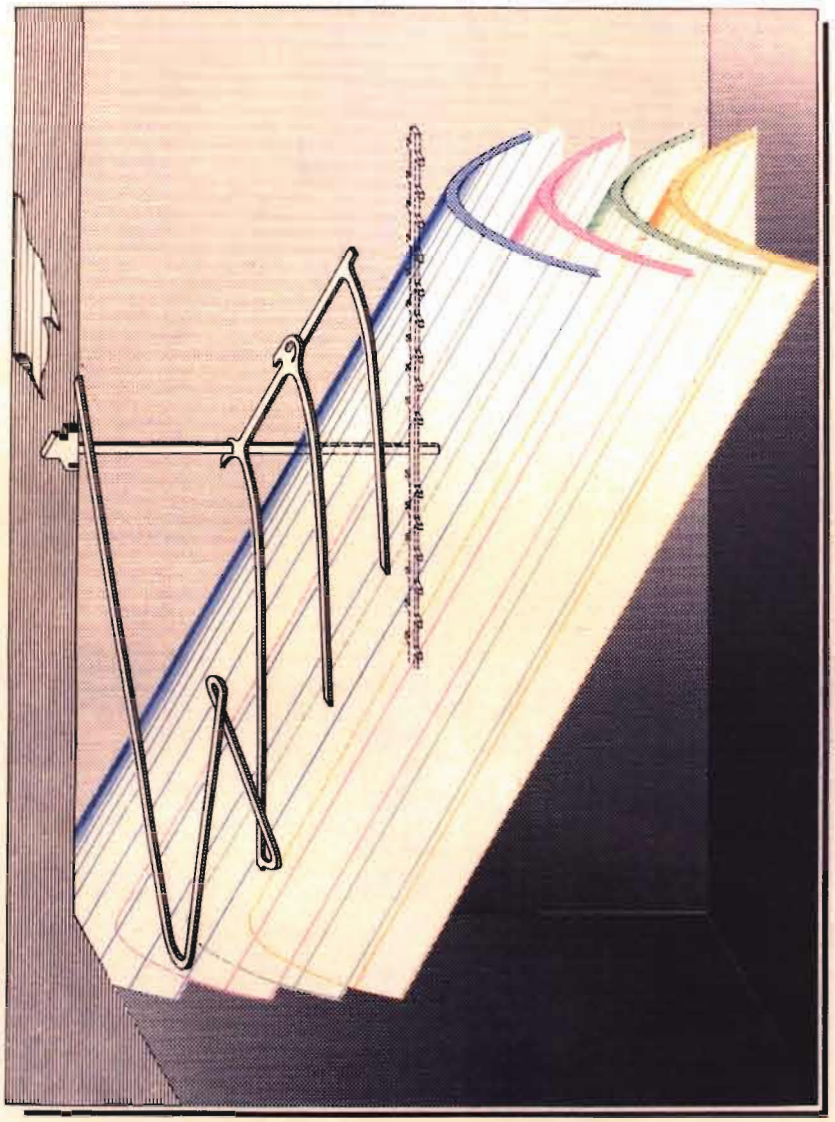
A garage was built for the contractor and office equipment put in.

Results:

By the end of 1988, Orex will have invested close to $9 million on the exploration programs and construction of the basic infrastructure.

The aim of the company is to bring the orebody to the production stage in the coming year.

The project is now reaching the feasibility study stage.



3.0 ECONOMIC EVALUATION OF THE PROJECT

The parameters of the economic model were calculated in a conservative but realistic manner. All the mining costs are derived from CANMET publication SP86-11F "Underground Exploitation of Mines", by extrapolation on anticipated production . The mining methods proposed are based on discussions within the management committee.

3.1 *Explanation of the economic model*

The orebody characteristics are based on:

- **Recuperation** from a special report by Lakefield Research Laboratory.
- **Grade and tonnage** on an internal study of all the intercepts including the low grade ones since the normal practice, when the gold is relatively coarse, is to mine the ore lenses as whole units.
- **Daily production** by applying Taylor's rule to the anticipated reserves.
- The **number of work days** per year is standard to minimize overtime. The economic parameters are based on:
- The **price of gold** is actual since even the best economist cannot forecast it with certainty.
- The **debt** consists of $15,000,000 for the mill, $7,000,000 for the feasibility studfy and $3,000 000 for the pre-production development.
- **Duration and interest for the debt** are relatively standard.
- The **tax rate** is calculated at 31% for the first $200,000 of net profits and 51% for the remainder.
- The **investment that can be amortized** is all the money spent on the project less the flow-through or subsidy funded expenditures (see economic model with government support).
- **Inflation** is deemed equal to the gold price increase since both are very difficult to predict.

- The **internal rate of return required** is set at 20% which is minimal for medium sized mining projects, considering the risk factor.

- Finally, the costs were corrected to reflect the costs of working in Nova Scotia instead of northern Ontario.

The remaining important factors are:

- The **sale value of all assets** at the end of the project is equal to the costs of rehabilitating the area.

- The **net present value, internal rate of return and cash flow** calculations are based on the cash flow tables.

- The **cash flow tables** demonstrate the viability of the project by showing its yearly economic evolution.

- In the cash flow presentation, **total income, operating costs, gross profits, interest on the debt, income tax, debt service and net profits** can all be deducted from the above explanations.

- **Equipment and development** includes annual costs of work done to reach the mining areas underground plus the cost of maintenance and replacement of the equipment.

- **Amortization** is calculated by using 25% of the total amortizable amount as immediately applicable, 50% as deductible in the first three years (25%, 50%, 25%) and the other 25% as deductible at a rate of 5% per year.

3.2 *Comparison of the economic scenarios*

Two scenarios have therefore been studied. The first assumes that the project financing is assumed entirely by the companies and the second, that 75% of the feasibility study and 50% of the mill are financed by subsidies from ACOA, all other parameters being equal. The whole story can be resumed by looking at the net present value of the project in both cases: -$4,006,659 for the first and + $5,717,883 for the second. No serious institution would risk money to finance a project if its net present value is negative; so such a project would have major start-up problems, from a financial point of view, even if it were relatively easy to succeed technically.

GOLDBORO PROJECT - ECONOMIC MODEL

WITHOUT GOVERNMENT SUPPORT

ASSUMED PARAMETERS

MINE AND COMPANY DATA	
Forecasted recuperation	96%
Average grade (oz/ton)	0.170
Planned reserves (sh tons)	2,200,000
Daily production	952
Work days per year	300
Gold price in $C	$ 525

ECONOMIC DATA	
Total debt	$ 25,000,000
Debt duration (years)	5
Yearly interest on debt	13%
Tax rate (federal and provincial)	51%
Total investment (to amortize)	$ 25,000,000
Inflation	5%
Gold yearly price increase	5%
Minimum rate of return required	20%
Cost correction for the area	0.94

The sale value of all assets, at the end of the project, is assumed to be equal to the costs of site rehabilitation

Net Present Value	$ -4,006,659
Internal Rate of Return	14.30%
Cash Flow	$ 22,780,171
Decision	NO GO

MINING COSTS

COST NATURE	Long holes	Shrinkage
Minning and blasting	$ 13.33	$ 25.55
Hoisting1.32	1.32	
Tramming on levels	3.00	3.00
Other costs	1.32	1.32
Surface: Manpower	2.40	2.40
Supplies	1.20	1.20
Electricity	3.60	3.60
Room and board	3.00	3.00
Road maintenance	0.01	0.01
Staff wages	2.40	2.40
Milling of the ore	13.20	13.20
Correction for size	0.69	0.69
TOTAL	$ 45.47	$ 57.69

PRODUCTION COSTS PER TON	
Thick stopes at 30°	$ 45.47
Production from these	30%
Sub-vertical stopes	$ 57.69
Production from these	70%
Average for the mine	$ 54.03

OTHER COSTS	
Annual development	$ 952,063
Equipment costs	$ 1,904,126

CASH FLOW PROJECTIONS (dollars)

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total income	6,117,958	25,695,423,	26,980,194	28,329,204	29,745,664	31,232,947	32,794,595	34,434,324	16,363,147
Operating costs	3,626,215	15,230,105	15,991,610	16,791,190	17,630,750	18,512,287	19,437,902	20,409,797	9,698,709
Equipment and development	0	999,666	1,099,633	1,234,588	1,366,294	1,534,575	865,632	0	0
Gross profit	2,491,742	9,465,652	9,888,951	10,303,426	10,748,620	11,186,085	12,491,061	14,024,528	6,664,438
Interest on debt	1,625,000	3,250,000	2,748,478	2,181,758	1,541,364	817,719	0	0	0
Amorti-zation	866,742	6,215,652	7,140,474	5,686,468	254,533	241,807	229,716	218,230	207,319
Federal and provincial income tax	0	0	0	1,201,952	4,525,889	5,124,545	6,213,286	7,001,212	3,253,131
Debt service	0	3,857,864	4,359,386	4,926,106	5,566,500	6,290,145	0	0	0
Net profits	866,742	2,357,789	2,781,088	1,993,610	-885,132	-1,046,324	6,277,775	7,023,316	3,411,307

GOLDBORO PROJECT - ECONOMIC MODEL

WITH GOVERNMENT SUPPORT

ASSUMED PARAMETERS

MINE AND COMPANY DATA	
Forecasted recuperation	96%
Average grade (oz/ton)	0.170
Planned reserves (sh tons)	2,200,000
Daily production	952
Work days per year	300
Gold price in $C	$ 525

ECONOMIC DATA	
Total debt	$ 12,500,000
Debt duration (years)	5
Yearly interest on debt	13%
Tax rate (federal and provincial)	51%
Total investment (to amortize)	$ 12,500,000
Inflation	5%
Gold yearly price increase	5%
Minimum rate of return required	20%
Cost correction for the area	0.94

The sale value of all assets, at the end of the project, is assumed to be equal to the costs of site rehabilitation

Net Present Value	$ 5,717,883
Internal Rate of Return	34.26%
Cash Flow	$ 32,969,888
Decision	GO

MINING COSTS

COST NATURE	Long holes	Shrinkage
Minning and blasting	$ 13.33	$ 25.55
Hoisting 1.32	1.32	
Tramming on levels	3.00	3.00
Other costs	1.32	1.32
Surface: Manpower	2.40	2.40
Supplies	1.20	1.20
Electricity	3.60	3.60
Room and board	3.00	3.00
Road maintenance	0.01	0.01
Staff wages	2.40	2.40
Milling of the ore	13.20	13.20
Correction for size	0.69	0.69
TOTAL	$ 45.47	$ 57.69

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Production from these	70%
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OTHER COSTS	
Annual development	$ 952,063
Equipment costs	$ 1,904,126

CASH FLOW PROJECTIONS (dollars)

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total income	6,117,958	25,695,423,	26,980,194	28,329,204	29,745,664	31,232,947	32,794,595	34,434,324	16,363,147
Operating costs	3,626,215	15,230,105	15,991,610	16,791,190	17,630,750	18,512,287	19,437,902	20,409,797	9,698,709
Equipment and development	0	999,666	1,099,633	1,234,588	1,366,294	1,534,575	865,632	0	0
Gross profit	2,491,742	9,465,652	9,888,951	10,303,426	10,748,620	11,186,085	12,491,061	14,024,528	6,664,438
Interest on debt	812,500	1,625,000	1,374,239	1,090,879	770,682	408,859	0	0	0
Amortization	1,679,242	6,437,945	1,703,516	133,965	127,267	120,903	114,858	109,115	103,659
Federal and provincial income tax	0	675,381	3,433,710	4,590,077	4,983,843	5,394,724	6,271,863	7,056,860	3,305,997
Debt service	0	1,928,932	2,179,693	2,463,053	2,783,250	3,145,072	0	0	0
Net profits	1,679,242	5,236,340	2,901,309	2,159,417	2,210,846	2,237,429	6,219,197	6,967,667	3,358,441

4.0 SOCIAL AND ECONOMIC BENEFITS EXPECTED

A summary evaluation of the social and economic impacts of the Goldboro project was done for this qualification report.

Tens of millions of dollars will be invested in the exploration and development phases. Development includes pre-production, construction of the mill and the succeeding production phase. The project will in turn generate huge amounts. Table I below shows the annual operating cost of each of these phases, as well as the deadlines.

TABLE I

OPERATING COSTS OF THE GOLDBORO PROJECT

	88-89	89-90	90-91	91-92	Subse-quent years (annual)
Exploration-development	X	X			
Pre-production (mining)	X	X	X	X	
Milling		X	X	X	
TOTAL	$14M	$27M*	$16M	$17M	$18M

* Cost for mill construction included.

4.1 *Job creation*

Table II below shows the nature of the work to be done over the next four years and the employment generated by these projects.

TABLE II

ANNUAL MANPOWER REQUIREMENTS

	88-89	89-90	90-91	91-92	Subsequent years (annual)
Accounting	3	9	5	5	5
Exploration					
- Supervision	9	9			
- Surface	4	4	4	4	4
- Underground	40	40			
- Construction	30	20			
Pre-production					
- Supervision		2	14	14	14
- Mining		40	50	50	50
Mill Construction		80			
- Pre-production		4	30	30	30
- Supervision		6			
TOTAL	86	214	103	103	103

TOTAL 1988 to 1992: 506 jobs

YEARLY AVERAGE: 126 jobs

Over the next four years, including the present year, the manpower necessary for the development and operation of the project is estimated at 506 person/years, or an average of 126 jobs per year. In the subsequent years, over one hundred jobs will be directly created.

The average annual salary per job is approximately $45,000, which represents an average direct aggregate remuneration of $4,635,000 for each year of operation. The construction of the mill will add a $5,000,000 salary benefit. Which means that by 1992, over $22,775,000 will have been injected as aggregate remuneration into the regional economy of Nova Scotia. With an annual salary increase of 4%, it is evident that by 1992, when the infrastructures will be in place, the mining operation alone will generate direct employment revenues of over 5.5 million dollars a year.

According to the economic statistics consulted, it seems plausible that the indirect and induced effects of investments in salaries would produce an increase of 1.5 job per direct employment created. This would mean an annual average of about 189 new indirect and induced jobs (see Table Ill).

TABLE III

YEARLY MANPOWER REQUIREMENTS

Jobs	88-89	89-90	90-91	91-92	Subsequent years (annual)
Direct	86	214	103	103	103
Indirect and induced	129	321	155	155	155
TOTAL	215	535	258	258	258

Four-year average indirect and induced job creation: 189 jobs/year

For purposes of preliminary accounting, the salaries produced by the indirect and induced effects was estimated at $25,000 per year. Thus an additional amount of $4,725,000 per year will be injected into the regional economy by the Goldboro project (see Table IV).

As for manpower, the Goldboro project will create 315 new jobs and generate an annual aggregate remuneration of more than $10,000,000 in the area.

TABLE IV

ANNUAL REMUNERATION BENEFITS
AVERAGE OF 126 JOBS PER YEAR*
1988-1992

Jobs **Remuneration**	**Number of jobs** **Annual average** **(Including construction of mill)**	**Aggregate**
Direct jobs	126	$ 5,670,000
Indirect and induced jobs (coefficient 1.5)	189	$ 4,725,000
TOTAL	315	$ 10,395,000

* Annual average, direct jobs = $\frac{\text{Total direct jobs 1988 - 89 to 1991 - 92}}{\text{Number of years}} = \frac{506}{4} = \mathbf{126}$

4.2 *Impact on goods and services*

Between now and 1992, including the construction of the mill, an annual average of $12,800,000 worth of goods and services will have been purchased directly in the Goldboro, Antigonish and Halifax areas. This represents a direct investment of over $51,200,000 during this four-year period.

After 1992, purchases of goods and services for the mining operations will represent an additional $12,500,000 a year in the community.

4.3 *Total economic impact*

Our summary evaluation shows that the direct economical benefits of the Goldboro project (salaries and expenses) over the next four years (including mill construction) will be in the order of $74,000,000, with an annual average of $18,500,000. The indirect and induced benefits will add another $18,900,000 in investments in the area over the same period.

The Goldboro project would therefore generate regional investments in the order of $92,500,000 between 1988 and 1992 (see Table V).

We also know that purchases related to operating expenses would generate an additional investment of approximately $18,000,000 per subsequent year in Nova Scotia, and this would lead to spin-offs in the order of $21,365,000 for the region.

TABLE V

SUMMARY OF ECONOMIC BENEFITS/YEAR OF OPERATION
(including indirect and induced benefits)

	88-89	89-90	90-91	91-92	Subsequent years (annual)
Salaries:					
- Direct	$ 3,870,000	$ 9,630,000	$ 4,635,000	$ 4,635,000	$ 4,635,000
- Indirect and induced	$ 3,225,000	$ 8,025,000	$ 3,875,000	$ 3,875,000	$ 3,875,000
Goods and services	$10,130,000	$ 17,370,000	$ 11,365,000	$12,365,000	$13,365,000
TOTAL	$17,225,000	$ 35,025,000	$ 19,875,000	$20,365,000	$21,365,000

Total economic benefits (direct, induced and indirect) from 1988 to 1992: $92,500,000.
*** Benefits calculated in 1988 dollars.**

5.0 REQUEST FOR FINANCIAL SUPPORT

Exploration Orex Inc. is a junior company who raised all sums necessary to support its exploration activities by flow-through financing. This is how the Goldboro deposit was defined.

Goldboro project is now at the stage where it is necessary to produce a **feasibility study.**

This is the last step before going into production. The results of this study will determine the opportunity of creating a mine by defining the profitability of the project.

It will also be used to draw up the preliminary plans for the mill and will help the company in obtaining all necessary operating permits from the Department of the Environment.

The cost of the feasibility study amounts to close to $7,000,000. It is obvious that Orex must obtain a governement contribution through the ACOA in order to carry out this project.

5.1 *Identification of the necessary studies*

The studies are amply described in the proposals made by the contractors, but here is a list taken from the proposal by DDM and St-Michel which gives the lowest costs for the study as a whole:

Study			Cost
1.	Market study for gold	$	9,075
2.	Opportunity of building a mill	$	14,960
3.	Definition drilling	$	1,555,125
4.	Bulk sampling	$	4,352,288
5.	Recuperation tests	$	250,000
6.	Reserves calculation	$	30,000
7.	General planning for the mill	$	136,323
8.	Description of the recommended work	$	180,254
9.	Financial feasibility	$	35,365
10.	Environmental studies	$	301,262
11.	Social and economic impacts	$	33,770
Total		**$**	**6,898,422**

5.2 *Justification for funding*

Two types of studies are included in the general feasibility. Some are the normal ones always included in a feasibility and the others will gather the data necessary to complete the first. Unfortunately, no serious feasibility study could be completed unless all the items mentionned in the previous point are completed.

Their justification should be obvious for mining analysts since they follow the normal pattern of the industry, but differ from studies in other industries. First, an area of the deposit, representative of the whole, has to be defined by definition diamond drilling. Then a bulk sample is extracted, yielding two types of data, the first relating to the costs of extraction and milling and the second to the gold content and possible recuperation from a commercial mill. Prior to milling the bulk, recuperation tests will be done in a laboratory and environmental studies completed in the field to optimize the milling circuit. This will define the adjustments needed for the commercial mill, where the bulk sample is to be treated.

The data generated from the above will then be used to complete the feasibility study, in particular the technical and financial chapters that could not be written without this information. This will determine the viability of the project, the level of investment and socio-economic impact.

5.3 *Importance of government funding*

The mining industry has always been perceived as a high risk investment by the economic community as a whole. Consequently, in the best of times, it is difficult to raise the monies necessary for the development of mining projects on a large scale, unless you can prove beyond reasonable doubt that the project is viable.

This is especially the case right now because of adverse conditions on the money market and the general lack of enthousiasm of the average investor since October 1987. But that doesn't mean the project is impossible, and an excellent prospect can still be financed if the promotors have good technical support and credibility.

However, Seabright's recent problems added a new parameter to the equation: "the opinion of financial circles is that no gold project can be economic in Nova Scotia". The resurgence of this old prejudice was caused by the apparent failure of Seabright's project and the negative publicity that has surrounded it.

We obviously disagree totally with this way of thinking, but have to live with it. We intend to succeed and help reversing this tendancy so that, in the future, investors

will consider Nova Scotia gold deposits on par with gold deposits in other provinces. To achieve this objective, we will inject more than 9,000,000$ in exploration for the preliminary evaluation of the Goldboro project before reaching the feasibility study stage, when an extra 6,898,422$ will be needed.

This last amount will be extremely difficult, if not impossible, to find at a reasonable cost for the company. This is where ACOA could support our effort in the most efficient way, since their funding of 75% of our study would enable us to reach the production stage. Besides, their help, on that scale, would lend credibility to the project as well as the whole Nova Scotia gold exploration industry.

5.4 Details of financial participation

The feasibility study, an essential pre-production step for the Goldboro project, would constitute an expense of $6,898,422, according to the estimates of the consultants (offer of professional services and tender documents included as annexes).

According to our information, we believe that the ACOA Action Program is aimed at companies like ours, brought together under the heading Sector 08- Mining and Related Services.

This program would support feasibility study costs to a maximum of 75% of total costs.

Contribution of the Action Program

Based on the cost of the feasibility study, our request is for a total amount of $5,173,816.50 ($6,898,422 X 75% = $5,173,816.50).

We understand that these costs would be reimbursed after Orex has paid for the study and when the studies have been accepted in writing by both parties.

It is also understood that the company will have to justify all spending.

Contribution of the company

For its part, Orex agrees to pay 25% of the cost of these studies for a total of $1,724,605.50 ($6,898,422 X 25% = $1,724,605.50).

Financing

Interim financing of $5,173,816.50 (government's share) will be picked up by the Banque Nationale subject to an agreement between Orex and ACOA.

The company's share ($1,724,605.50) will be paid by Exploration Orex Inc. and underwritten by Saumier, Morrisson and Davidson Partners Inc., brokers.

Temporary financing costs

According to our evaluation, the study will cost about $400,000 in temporary financing costs.

We propose that these costs be shared by both parties in the same proportion as the studies: 75% for the governement ($400,000 X 75% = $300,000) and 25% for the company ($400,000 X 25% = $100,000).

Summary

	ACOA	OREX
Total cost of the study	$ 6,898,422.00	$ 6,898,422.00
	X	X
	75%	25%
Basic contribution	$ 5,173,816.50	$ 1,724,605.50
Financing costs	$ 300,000	$ 100,000
Total contribution	**$ 5,473,816.50**	**$ 1,824,605.50**
Underwriter	Banque Nationale	Saumier, Morrisson and Davidson Partners Inc.

6.0 FINANCING

Letters of intent from the Banque Nationale and Saumier, Morrisson and Davidson Partners Inc. concerning the financing of the studies are included with the present document.

BANQUE NATIONALE DU CANADA
161, rue Principale, Rouyn (Quebec) J9X 4P6

Le 26 septembre 1988

Exploration Orex Inc.
67, Perreault est
Rouyn-Noranda (Québec)
J9X 3C1

Compétence de: Monsieur Alain Morissette

Monsieur,

La présente est pour confirmer notre intérêt à étudier une demande de financement intérimaire que vous nous aviez demandé concernant le projet Goldboro, en Nouvelle-Ecosse.

Il est cependant convenu que votre financement intérimaire n'excèdera pas les montants de la subvention du Gouvernement Fédéral et ne pourra être applicable avant qu'un protocole d'entente entre votre compagnie et le Gouvernement Fédéral ait été signé, garantissant la subvention à l'entière satisfaction de la Banque.

Espérant le tout à votre entière satisfaction, veuillez agréer, Monsieur Morissette, l'expression de nos sentiments les meilleurs.

ROLAND CAMPAGNA
DIRECTEUR DE COMPTES

RC/ls

Saumier Morrisson & Davidson Partners Inc.

Suite 4528
Square Victoria
P.O. Box 394
Montreal
Canada
H4Z 1J2
514/393-2600

Investment dealers

Affiliated with Davidson Partners Inc

Member of The Montreal Exchange

SMD

Montréal, 31 August 1988,

Mr. Yves Morrissette
President
Ressources Orex Inc.
67 est, rue Perreault
Rouyn Noranda Québec
J9X 3C1

Ref: Public issue of additional Treasury common shares

Dear Mr. Morrissette,

With reference to our earlier conversations, we are pleased to confirm our interest in principle in managing a syndicate of investment dealers to provide financing in favour of your company by way of an issue of additional Treasury common shares for an amount of up to $ 1,500,000.00.

This indication of interest on our part is subject to the drafting of a prospectus and all other documentation satisfactory to our sollicitors, Messrs. Lafleur, Brown, de Grandpré of Montreal. It is also conditional on the maintenance of orderly market conditions as well as production of documentation showing encouraging results from the exploration program currently taking place as a result of your recent flow-Through sharefinancing. The prospectus could be filed in other jurisdiction than Québec. The offering would be conducted on a best efforts basis. A gross commission at a rate of 10% would be paid to us at the time of each closing(s).

.../2

Assuming the foregoing is satisfactory, we look forward to meeting with you at the earliest opportunity so as to conclude a definitive offer for this financing.

Yours truly,

SAUMIER MORRISSON DAVIDSON INC.

per:

Alain Cousineau
Vice-president & Director

7.0 CONCLUSION

The Goldboro project is aimed at bringing a gold deposit into production. At present, Orex must undertake an important feasibility study, last step before the production stage. If taken further, Goldboro project will create hundreds of jobs and attract hundreds of millions of dollars to the Nova Scotia economy.

We believe that Godlboro would breath new life into the Nova Scotia mining economy and reaffirm the credibility of this sector in the eyes of investors.

A project of this order of magnitude, however, requires huge investments. Orex has already invested more than six million dollars in the Goldboro project and will have spent over nine million by December 1988. The company obviously could not undertake the feasibility studies without the help of the government. Without government support, the future of the project would be greatly compromised.

The ACOA Action Program is an appropriate source of funding for the Goldboro project. We believe that an association with the government at the feasibility stage will ensure that everything possible will have been done to develop the Goldboro project.

ANNEX : INVITATION TO TENDER ON FEASIBILITY STUDY FOR GOLDBORO PROJECT

INVITATION TO TENDER

FOR A FEASIBILITY STUDY OF THE GOLDBORO PROJECT

PRESENTED BY

EXPLORATION OREX INC.

AUGUST 5, 1988

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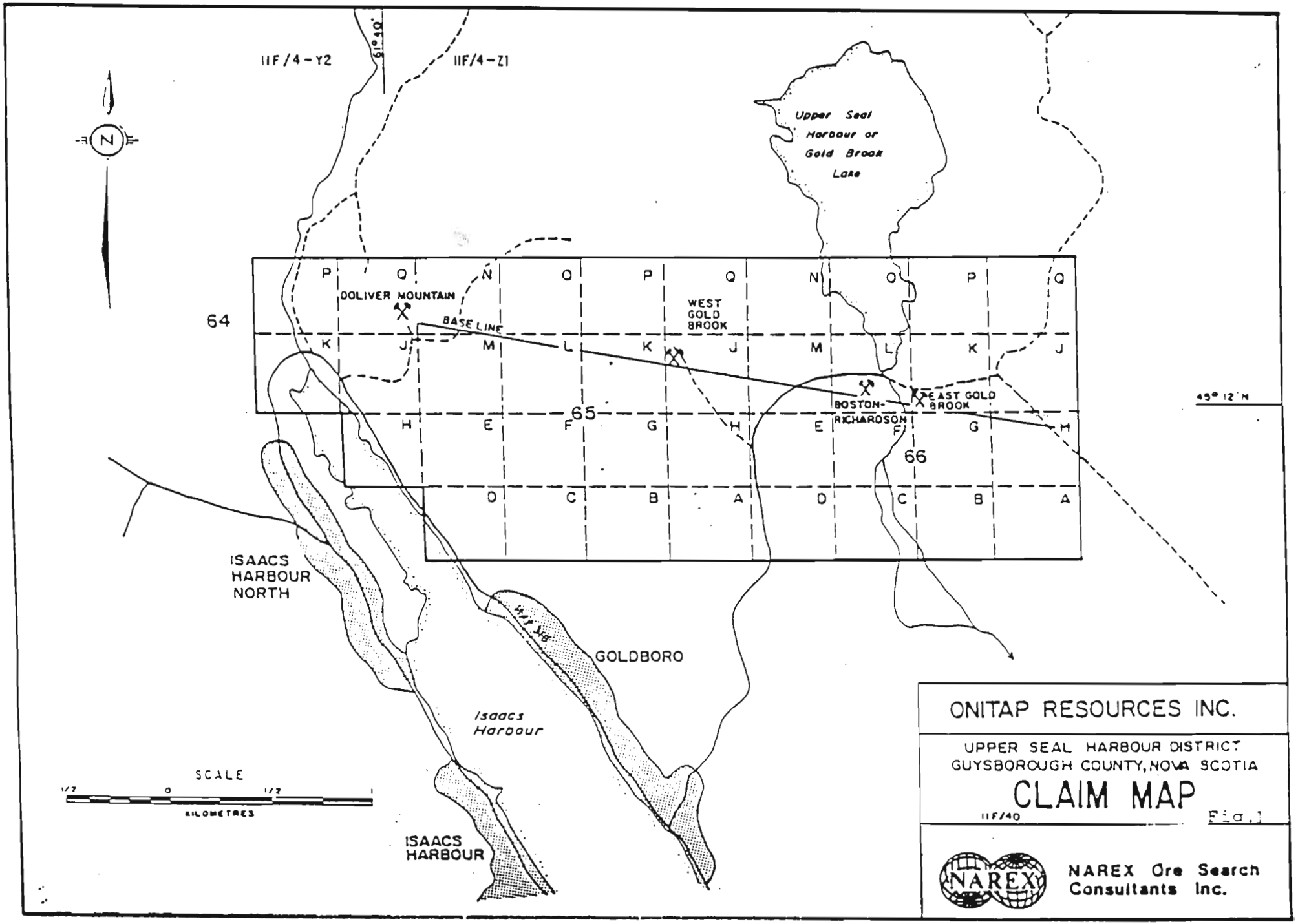
1. General Outline of the Goldboro Project

Exploration Orex Inc. was instituted as a company on July 30, 1987. The head office is situated at 67 Perreault St. East, Rouyn-Noranda, province of Québec, J9X 3C1. The activities of the company consist in acquiring mining properties in order to explore, develop and bring them into production. Exploration Orex owns several mining properties, including the Goldboro property, in Nova Scotia.

The Goldboro property is composed of 37 mining claims spread over a total of 1,480 acres (see Figure 1). This block of claims includes several former gold mines: Dolliver Mountain, West Goldbrook, Boston-Richardson and East Goldbrook. The property is located close to the villages of Goldboro and Isaac's Harbour in Guysborough County, Nova Scotia.

Gold-bearing mineralization was first discovered in the Goldboro aera in 1861. Activities undertaken by the Canadian Geological Commission led in 1892 to the discovery of a band of gold-bearing quartz veins. This band, the "Boston-Richardson Belt", comprised the Boston-Richardson Mine, which was in operation until 1912. About 375,000 tons of ore were extracted, and a total of 50,000 ounces of gold were recuperated. Between 1926 and 1927, three other gold deposits were discovered in the same region and were partially developed. The latest exploration work done on the property helped locate new mineralized belts beneath the Boston-Richardson Belt. Visible gold was observed in most of the holes. Probable reserves, estimated after the latest exploration work, amount to 396,117 short tons, with a grade of 0.202 oz/t Au.


11F/4-Y2
11F/4-Z1
61°10'
Upper Seal Harbour or Gold Brook Lake
DOLIVER MOUNTAIN
BASE LINE
WEST GOLD BROOK
EAST GOLD BROOK
BOSTON-RICHARDSON
64
65
66
45° 12' N
ISAACS HARBOUR NORTH
GOLDBORO
Isaacs Harbour
ISAACS HARBOUR
SCALE
1/2 0 1/2 1
KILOMETRES
ONITAP RESOURCES INC.
UPPER SEAL HARBOUR DISTRICT
GUYSBOROUGH COUNTY, NOVA SCOTIA
CLAIM MAP
11F/10
Fig. 1
NAREX Ore Search Consultants Inc.

2. Work program

2.1 Introduction

In 1988, Narex Ore Search Consultants Inc. and St-Michel Géoconseil inc. have proposed surface exploration work and an underground exploration program for the Goldboro property. Both programs are now underway and are aimed at bringing the project to the feasibility study stage as quickly as possible. The total cost of the work is $7,500,000. A work schedule is shown at Table 1.

The surface exploration program, at a cost of $1,320,000, includes 40,000 feet of drilling along sections situated 25 meters apart. The underground exploration programme includes driving a decline to speed up access to the mineralized zones and dewater, rehabilitate and deepen the Boston-Richardson shaft.

2.2 Decline Development

The first part of the program consists in driving a decline at an angle of –15° in the northern sector. The entrance is shown on the surface plan included at Appendix 1. The decline will permit access to the 125 and 250-foot levels. These levels will be used for exploration and definition drilling and for mapping out the mineralized structures.

Table 1 : GOLDBORO PROJECT : GENERAL WORK SCEDULE

	1988 MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	1989 JANUARY	FEBRUARY	MARCH	APRIL	MAY
SITE PREPARATION Access road Slashing Settling pond													
SURFACE STRUCTURES Camp site and offices													
SERVICES INSTALLATION Power line Sewage disposal system Drinkable water Telephone line													
DECLINE DEVELOPMENT Decline portal Decline development (0-250)													
LEVEL DEVELOPMENT (Levels 125 & 250)													
EXPLORATION DRILLING (Level 125)													
SHAFT REHABILITATION Dewatering and rehabilitation													
HEADFRAME CONSTRUCTION Shaft and hoist installation													
SHAFT SINKING													
BULK SAMPLE EXTRACTION													

The 125-foot level will be developed over a distance of 300 feet in the New Belt. The 250-foot level will be developed over a distance of 1,400 feet and will open up access to the New Belt and the Third Belt. The cost of the work is $6,180,000.

A bulk sample of approximately 20,000 short tons will be taken in 1989 between the 125-foot and the 250-foot levels, in the New Belt and Third Belt. In order to take this sample, two drifts will be required, as well as more definition drilling.

2.3 Shaft Deepening and Drift Development

The second part of the program includes dewatering and rehabilitating the Boston-Richardson shaft. This will enable sampling and mapping of the existing works and will lead the way to deepening the shaft to a depth of 900 feet for February 1989.

Stations will be developed at the 530-foot, 660-foot and 880-foot levels. An ore pass, a waste pass and a loading station will also be developed. The cost of this work is $2,750,000.

A drift at the 800-foot level will eventually be developed from the shaft, which will permit detailed exploration work to define the Boston-Richardson Belt, the New Belt and the Third Belt between the 250-foot and 800-foot levels.

The underground program will be completed at the end of February 1989. The underground drilling, the bulk sampling and a revised reserve calculation will bring the property to the feasibility stage at the end of 1989 at the latest.

2.4 Surface Development

2.4.1 Surface Structures

The construction of the surface structures (headframe, hoist and base, hoistroom, collar housing, buildings, etc.) is presently underway. A plan of the surface structures for Goldboro property is presented at Appendix 1.

2.4.2 Setting Pond

A setting pond which will drain the water from the dewatering of the Boston-Richardson shaft and surface water will be constructed at the south end of the property, in a natural basin. The location of this pond can be seen at Appendix 1. Another setting pond which will receive the water from the ore and waste pads will eventually be constructed on the property.

3. Objectives of the Feasibility Study

The main objective of this feasibility study is to minimize the risks involved in the project. We want to evaluate the impact of decisions to make sure that they do not endanger the project as a whole and that they fit in with our objectives. To attain our main objective, we have set out several secondary objectives.

- Obtain a detailed technical evaluation of the project;
- Check the financial risks of the project:
- Evaluate the environmental risks of the project;
- Evaluate the social and economic impacts of the project;
- Evaluate the market potential for a new mill;
- Reduce the uncertainty of the project.

4. Tender conditions

For each of the items described in the present invitation to tender, your proposal must include two distinct sections:

- a technical proposition describing in detail the work which you intend to undertake;
- a financial proposition.

The technical proposition must be short and include the following points, although the list is not exclusive:

a) describe your approach and the method you propose in order to satisfy the requirements, reach the level of success expected and major difficulties you anticipate. We suggest that you include enough details to show that you understand the problems and know how to overcome them;

b) identify the personnel who will be assigned to the tasks, showing their experience, their level of schooling and their qualifications;

c) describe the experience acquired by your organization and inparticular, experience related to the present project;

d) indicate deadlines, personnel assignments and budgets.

The financial proposition must give a detailed ventilation of the total cost quotation. The following points should be described (if relevant): manpower, equipments, materials and supplies needed for the project, sub-contracts, travelling and other costs.

5. Description of Items Included in the Tender

This is a description of all the items included in the present invitation to tender. It is possible to bid on one, several or all of the items described, depending of course on your expertise. Table 2, shown on page 17, presents a summary of the work schedules for the conclusion of each of the items described below.

5.1 Market Feasibility Study

A market feasibility study must be made of the Goldboro project. Each point described for each of the items must be taken up. Note that these points are an absolute minimum.

Item 1: Gold market feasibility

- Background and gold market perspectives;
- Price anticipated for the ore, depending on market.

This study must be carried out between May 1, 1989 and June 30, 1989.

Item 2: Feasibility study for the construction of a mill

- identification of market and diagnosis;
- analysis of market potential (bulk treatment);
- characteristics of existing mills;
- characteristics of mill required.

This study must be carried out between May 1, 1989 and June 30, 1989.

5.2 Technical Feasibility Analysis

The technical feasibility analysis must contain a detailed description of the work done to date, work in progress and future work plans. The results of all projects described below must be subjected to technical analyses. Depending on your evaluation, we suggest that you also include value analyses. The plans and specifications must be included. Moreover, a study of the installation and operating costs and of the anticipated revenues of the project must be presented.

Items 3 and 8 of the technical feasibility study will enable us to collect all pertinent information.

Item 3: Definition drilling

A maximum of 40,000 feet of definition drilling is to be done on the Goldboro property. Drilling will be spread over a 25-meter grid and done by a contractor. The work consists in ensuring the supervision and execution of the drilling program, the assignment of the personnel and the production of the final report.

The final report must include the compilation and the interpretation of the results and any map required, as well as the drill logs.

This work must be carried out between November 1 and April 30, 1989.

Item 4: **Bulk sampling**

A bulk sampling must be done in two of the mineralized belts. 20,000 short tons of ore will be taken between 125-foot and 250-foot levels and treated at a mill in Nova Scotia. The results of this bulk sampling will be used to determine an adequate mining method, the operating costs and show the results of the metallurgical assays. The results obtained from the definition drilling will be available for the bulk sampling. The work therefore boils down to ensuring the supervision of the bulk sampling, assigning professional and technical personnel as well as writing the final report. This final report must include the interpretation of the results and all required maps.

This study must be carried out between January 1, 1989 and May 31,1989.

Item 5: **Recuperation tests**

A first recuperation test must be done for the mineralized rock. The assays will be used for the establishment of the preliminary physical flow of the mill for gold recuperation.

Another recuperation test must be done on the tailings of the former mine situated on the site.

This study must be done between September 1, 1988 and December 1, 1988.

Item 6: Reserve calculations and characteristics of the mineralized rock

A reserve calculation satisfying industry standards must be drawn up. This will be done after the definition drilling and bulk sampling.

This study must be carried out between January 1, 1989 and May 31, 1989.

Item 7: General concept for the construction of the mill

When the results of the bulk sampling and the recuperation test will have been collected, the plans, specifications and schedules related to the construction of the mill must be elaborated, as well as a cost estimate. The mill is expected to have a capacity of 1,000 metric tons per day.

This study must be carried out between May 1, 1989 and June 30, 1989.

Item 8: Description of the project phases and cost estimate

This part of the technical feasibility study deals with the four phases of the project and must include at least the points described below.

- Phase 1: Site preparation;
  - choice of infrastructures;
  - general layout;
  - value analysis;
  - installation cost;

- Phase 2: Development of the underground structures
  - finished work and work expected;
  - maps, plans and specifications;
  - cost estimates;
- Phase 3: Pre-production
  - finished work and work expected;
  - maps, plans and specifications;
  - cost estimates;
- Phase 4: Mill construction
  - finished work and work expected;
  - maps, plans and specifications;
  - cost estimates;
- Projected revenues.

This project must be carried out between January 1, 1989 and June 30, 1989.

5.3 Financial Feasibility Analysis

The financial feasibility analysis is designed to verify the financial profitability of the Goldboro project. For this part of the study, we suggest that methods such as the internal profit rate and the present net value be used.

Item 9: Financial feasibility of the project

The following points must be taken up. Note that these points are a minimum.

- Project horizon;
- Capital cost establishment;
- Amortization categories establishment;
- Chose method of analysis and hypotheses;
- Project revenue budget;
- Project expense budget;
- Pro-forma statement of revenues and expenditures;
- Cash budget for the project;
- Determination of the cash flow of the project.

This study must be carried out between January 1, 1989 and June 30, 1989.

5.4 Environmental Feasibility Analysis

The environmental feasibility analysis is done in order to ensure that the project will have no major negative impact on the environment or impose constraints on the surrounding population.

Item 10: **Environmental feasibility**

The following points must be studied as a minimum.

- Geotechnical study;
- Design study for the tailings site;
- Environmental impact study;
- - description of the project;
  - description of the biophysical and human environments;
  - impacts and mitigation measures;
  - environmental follow-up;
- Requests for permits.

This study must be carried out between September 1, 1988 and June 30, 1989.

5.5 Social and Economic Impacts of the Project

The objective of this part of the study is to verify the nature of the social and economic impact of the project on the region where it will take place. To do this, it is necessary to define the context and the social and economic indicators. The socio-economic structure of the region will have to be described in detail and interpreted in light of the project. Manpower predictions may have to be made.

Item 11: **Social feasibility**

The following points must be studied. Note that they are only a minimum.

- Geography;
- Social and economic indicators:
  - characteristics of the population;
  - level of schooling of the population;
  - employment and manpower;
- Social and economic structure:
  - primary activity;
  - the manufacturing industry;
  - the building industry;
  - transportation, communication, services;
  - social, cultural, commercial and personal services;
  - trade and commerce;
  - finance, insurances and real estate;
  - public administration;
- Manpower predictions.

This item must be undertaken between September 1, 1988 and June 30, 1989.

TABLE 2: GOLDBORO PROJECT: DETAILED SCHEDULE FOR FEASIBILITY STUDY

	1988 September	October	November	December	1989 January	February	March	April	May	June
Gold market feasibility									.....	
Opportunity study for constructing a mill									.....	
Definition drilling			.....	.....	.....	.....	.....	.....		
Bulk sampling					.....	.....	.....	.....	.....	
Recuperation tests	.....	.....	.....							
Reserve calculations and characteristics of the mineralized rock					.....	.....	.....	.....	.....	
General concept for the construction of the mill									.....	
Description of project phases and cost estimates					.....	.....	.....	.....	.....	.....
Financial feasibility					.....	.....	.....	.....	.....	.....
Environmental feasibility	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Social feasibility	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

6. Tender deadline

All bids must be sent before 5 p.m., September 19, 1988, to the following address:

Exploration Orex Inc.

Attention: Mr. Michel Roy

General Delivery

Goldboro, Guysborough County

Nova Scotia B0H 1L0

Tel.: (902)-387-2754

Appendix 1

Surface Map

GOLD BROOK
LAKE

Ditch

Parking

Pond

Cove

Cove

BASE LINE

BASE LINE

GOLD BROOK

Tailings

Tailings

Portal

16% Decline

Ore Pad

Ditches

Waste Pad

Settling Pond

Polishing Lagoon

Final Effluent

50.00 Metres

LEGEND

1- Bunkhouse
2- Cookhouse
3- Pumphouse
4- Guard office
5- Office
6- Dry
7 Eletric sub-station
8- Garage
9- Warehouse
10- Compressor room
11- Generator room
12- Fuel tank
13- Shaft
14- Hoistroom
15- Shafthouse
16- Ore bin
17- Conveyor
18- Crusher Plant
19- Workshops
20- Core shack
21- Concentrator Building
22- Thickener

Decline
25 KV powerline
Road
Pad contour
Water Line
Proposed diversion road

ONITAP RESOURCES Inc.
EXPLORATION OREX Inc.
PROJET GOLDBORO

SITE PLAN
PR88-013

Dessiné M. Vandal
Vérifié M.D
Approuvé M.D.

Echelle 1=1000
Date April 1988

PLAN No 01 REV 3