

SOLEX RESOURCES CORP.
(An Exploration Stage Company)

Consolidated Financial Statements
Three Months Ended September 30, 2007

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NOTICE TO READER

These consolidated financial statements have been prepared by management of the Company. We have compiled the interim balance sheet of Solex Resources Corp. as at September 30, 2007 and the interim statements of loss and deficit and cash flows for the three months then ended. Independent accountants have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

SOLEX RESOURCES CORP.
(An Exploration Stage Company)
Consolidated Balance Sheets
September 30

	September 30, 2007	June 30, 2007
	Unaudited	Audited
		(note 2)
ASSETS		
Current		
Cash and cash equivalents	\$ 9,240,047	\$ 11,285,983
Accounts receivable	68,795	68,795
Other receivables	109,617	118,582
Prepaid expenses	58,069	43,898
Advances for exploration	227,756	201,777
	<u>9,704,284</u>	<u>11,719,035</u>
Long-term investment (note 6)	435,000	436,000
Property and equipment (note 8)	188,362	196,359
Resource properties (note 7)	7,032,577	5,200,538
	<u>\$ 17,360,223</u>	<u>\$ 17,551,932</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 395,040	\$ 355,871
SHAREHOLDERS' EQUITY		
Share capital (note 9(b))	21,471,418	21,331,717
Contributed surplus (note 9 (c))	2,946,151	2,917,702
Accumulated other comprehensive loss (note 9 (g))	(1,000)	-
Deficit	(7,451,386)	(7,053,358)
	<u>16,965,183</u>	<u>17,196,061</u>
	<u>\$ 17,360,223</u>	<u>\$ 17,551,932</u>

Nature and continuance of operations (note 1)
 Commitment (notes 12)
 Subsequent events (note 14)

APPROVED BY THE DIRECTORS:

"Jonathan Challis", President and Director

"Robert Boaz", Independent Chairman and Director

SOLEX RESOURCES CORP.
(An Exploration Stage Company)
Consolidated Statements of Operations and Deficit
For the three months ended September 30

	Three Months Ended September 30, 2007 Unaudited	Three Months Ended September 30, 2006 Unaudited
		(note 2)
Administrative costs		
Amortization	\$ 13,608	\$ 6,360
Bank charges and interest	2,742	974
Consulting fees	149,593	58,428
Filing and transfer agent fees	5,357	18,176
Foreign exchange	(9,317)	(2,453)
Investor relations	43,542	79,507
Management fees	-	45,000
Office, rent and miscellaneous	43,404	57,373
Professional fees	76,346	16,183
Stock option compensation (note 9(e))	74,150	70,242
Travel and entertainment	3,990	28,467
Wages and salaries	106,019	94,821
	<hr/>	<hr/>
Loss before other items	509,434	473,078
Other items		
Interest income	(111,406)	(16,101)
	<hr/>	<hr/>
Net loss for the period	398,028	456,977
Deficit, beginning of period	<u>7,053,358</u>	<u>2,700,319</u>
	<hr/>	<hr/>
Deficit, end of period	\$ <u>7,451,386</u>	\$ <u>3,157,296</u>
	<hr/>	<hr/>
Loss per share	\$ <u>0.01</u>	\$ <u>0.01</u>
	<hr/>	<hr/>
Weighted average number of common shares outstanding	<u>57,143,003</u>	<u>37,750,626</u>

Consolidated Statements of Comprehensive Income
For the three months ended September 30

	Three Months Ended September 30, 2007 Unaudited	Three Months Ended September 30, 2006 Unaudited
		(note 2)
Net loss for the period	\$ 398,028	\$ 456,977
Available-for-sale financial assets:		
Net unrealized loss	1,000	-
	<hr/>	<hr/>
Other comprehensive loss	\$ <u>399,028</u>	\$ <u>456,977</u>

See notes to consolidated financial statements.

SOLEX RESOURCES CORP.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the three months ended September 30

	Three Months Ended September 30, 2007 Unaudited	Three Months Ended September 30, 2006 Unaudited (note 2)
Operating activities		
Net loss for the period	\$ (398,028)	\$ (456,977)
Add items not involving cash		
Amortization	13,608	6,360
Stock option compensation	74,150	70,242
	<u>(310,270)</u>	<u>(380,375)</u>
Changes in non-cash working items (operations)		
Accounts receivable	-	(40,989)
Other receivables	8,965	-
Prepaid expenses	(14,171)	3,003
Accounts payable and accrued liabilities	(262,964)	(39,753)
	<u>(578,440)</u>	<u>(458,114)</u>
Financing activities		
Issue of common shares	94,000	2,492,640
Obligation to issue shares	-	20,000
	<u>94,000</u>	<u>2,512,640</u>
Investing activities		
Advances for exploration	(25,979)	(412,940)
Resource property expenditures	(1,529,906)	(388,101)
Acquisition of property and equipment	(5,611)	(3,300)
	<u>(1,561,496)</u>	<u>(804,341)</u>
Increase in cash	(2,045,936)	1,250,185
Cash and cash equivalents, beginning of period	11,285,983	1,807,413
	<u>9,240,047</u>	<u>3,057,598</u>
Cash and cash equivalents, end of period	\$ <u>9,240,047</u>	\$ <u>3,057,598</u>

Supplemental disclosure with respect to cash flows (note 11)

1. NATURE AND CONTINUANCE OF OPERATIONS

Sorex Resources Corp. (the "Company") is an exploration stage company engaged in the acquisition, exploration and development of mineral properties.

The recovery of amounts shown as acquisition costs of mineral properties and the related deferred exploration costs for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development, and upon future profitable operations from the properties or proceeds from the disposition thereof.

These financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company's ability to continue as a going-concern is dependent on the Company being able to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral interests, the attainment of profitable mining operations, and, or the receipt of proceeds from the disposition of its mineral property interests. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going-concern.

2. COMPARATIVE FIGURES

Certain of the comparative figures are reclassified to conform to the current year's presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Sorex Del Peru Sociedad Anonima Cerrada ("Sorex Del Peru"). All intercompany balances and transactions have been eliminated. Sorex Del Peru was incorporated in Peru on October 25, 2005.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with maturities at point of purchase of 90 days or less. The Company places its cash and cash equivalents with institutions of high credit worthiness.

(c) Long-term investment

Long-term investments are recorded at cost and are written down if assessed by management that there is a permanent decline in value.

(d) Resource properties

The Company defers all costs related to investments in mineral interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred resource property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, a provision is made for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

A portion of the Company's exploration activities is conducted jointly with others when the Company enters into agreements that provide for specified percentage interests in mineral properties. Joint venture accounting, which reflects the Company's proportionate interest in mineral properties is applied by the Company only when the parties enter into formal comprehensive agreements for ownership and mining participation terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Amortization

Property and equipment are recorded at cost. Amortization is provided using the following methods and annual rates:

Furniture and fixtures	20% declining balance
Computer equipment (Canada)	30% declining balance
Computer equipment (Peru)	Straight-line over four years
Field equipment	30% declining balance
Computer software	100% declining balance
Leasehold improvements	Straight-line over term of lease

Additions during the year are amortized on a pro-rata basis based on the annual amortization amount.

(f) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the average rate of exchange for the period.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

(g) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assumed. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(h) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environment obligations, asset retirement obligations, accrued liabilities, rates for amortization, the impairment of mineral property interests, valuation allowance for future tax assets and the estimates used in the calculation of stock-based compensation. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(k) Asset retirement obligation

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in the financial statements.

(l) Presentation for joint ventures

A portion of the Company's exploration activities is conducted jointly with others when the Company enters into agreements that provide for specified percentage interests in mineral properties. Joint venture accounting, which reflects the Company's proportionate interest in mineral properties is applied by the Company only when the parties enter into formal comprehensive agreements for ownership and mining participation terms.

4. CHANGES IN ACCOUNTING POLICIES

On July 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506 – Accounting Changes. This standard established criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimate, and correction of errors.

Effective July 1, 2007, the Company adopted the CICA Handbook Section 3855 - Financial Instruments, Recognition and Measurement and Section 1530 – Comprehensive Income. These new standards require us to revalue certain financial assets and liabilities at fair value on the date of implementation.

(a) Section 3855 - Financial instruments, recognition and measurement

The new standards also require us to classify these financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of subsequent accounting. Classification choices for financial assets include: (a) Held for Trading; (b) Held to Maturity; (c) Available for Sale; and (d) Loans and Receivables. Classification choices for financial liabilities include: (a) Held for Trading; and (b) Other. Subsequent accounting for these assets and liabilities will be based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Financial assets and financial liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.

Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

4. CHANGES IN ACCOUNTING POLICIES (Continued)

The Company has implemented the following classification:

- Cash and cash equivalents, accounts receivable and other receivables are classified as “held-for-trading”. These financial assets are measured at fair market value and the gain/loss resulting from the evaluation at the end of each period is recorded in net income.
- Long-term investment is classified under “available-for-sale financial assets”. It is measured at fair market value and the gain/loss resulting from the evaluation at the end of each period is recorded as Comprehensive income.
- Accounts payable and accrued liabilities are classified as “held-for-trading”. These financial liabilities are measured at fair market value and the gain/loss resulting from the evaluation at the end of each period is recorded in net income.

(b) Effect of the changes in accounting policies

Following the adoption of new standards, long-term investment has been classified under “available-for-sale financial assets”. As at July 1, 2007, the carrying value and fair value of long-term investment were \$436,000 and \$592,500 respectively. The initial valuation resulted in a net unrealized gain of \$156,500. This net unrealized gain is presented as an adjustment to long-term investment and accumulated other comprehensive income.

(c) Section 1530 – Comprehensive income

Comprehensive income is comprised of net earning (loss) and other comprehensive Income (“OCI”), which represents changes in shareholders’ equity during a period arising from transactions and other events with non-owner sources. OCI would generally include unrealized gains and losses on financial assets classified as available-for-sale. The Company’s consolidated financial statements include a consolidated statement of other comprehensive Income while the cumulative amount and accumulated other comprehensive income (“AOCI”), are presented as a separate item of shareholders’ equity.

5. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying values of cash and cash equivalents, accounts receivable, other receivables, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments.

The fair value of the long-term investment approximates its quoted market value.

(b) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities.

(c) Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents and accounts receivable; however, this is minimized as cash and cash equivalents are placed with major financial institutions.

(d) Currency risk

The Company is exposed to currency risk as the Company’s exploration expenditures are incurred predominately in US dollars and management does not utilize derivatives or apply other techniques to manage the foreign currency risk.

(e) Derivatives

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties, the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral interests to which they relate are not sufficiently developed to reasonably determine value.

SOLEX RESOURCES CORP.
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Notes to the Consolidated Financial Statements
For the three months ended September 30, 2007

6. LONG-TERM INVESTMENT

Frontier Pacific Mining Corporation	September 30, 2007		June 30, 2007	
750,000 Shares	\$	436,000	\$	436,000
Unrealized loss		(1,000)		-
	\$	435,000	\$	436,000

7. RESOURCE PROPERTIES

(a) Princesa-Pilunani Belt properties, southeastern Peru

The Princesa-Pilunani Belt properties consist of 16 contiguous or closely adjacent claims totalling 13,100 hectares, containing the following:

Princesa-Pilunani Belt Property Claim List		
Pilunani claim	One claim 1,000 hectares	Acquired by agreement (note 6(a)(i))
Princesa claims	Five claims 2,500 hectares	Acquired by staking (note 6(a)(ii))
Other Princesa-Pilunani belt properties	Ten claims 9,600 hectares	Acquired by staking

(i) Pursuant to an acquisition agreement dated April 26, 2004, the Company purchased a 100% undivided interest in a 1,000 hectare mineral property, located in the Puno Mining District, southeastern Peru. As consideration, the Company paid US \$50,000 cash and issued 5,000,000 Series P special warrants subsequently converted to 5,000,000 common shares.

(ii) In August 2005, the Company increased its holdings in the Pilunani area by staking the Princesa properties in an area northwest of the main Pilunani claim.

(iii) In August 2005, the Company acquired an option to own up to a 100% interest in the Asnune and Carcuta properties totalling 1,000 hectares with option payments of \$195,000 and 3,000,000 common shares payable over five years. In June 2007, Management decided not to proceed further with the option agreements, resulting in a write-off of \$338,952, including \$159,000 attributable to the issuance of 300,000 shares.

(b) Cullquimayo properties, southern Peru

The Cullquimayo properties consist of 13 claims, totalling 8,400 hectares. Of this amount, four claims totalling 3,300 hectares were acquired by staking during the year ended June 30, 2007.

Pursuant to a May 2005 agreement, a further three properties totalling 1,600 hectares were acquired under an option requiring an initial payment of US \$5,000 per property (paid), payments of US \$10,000 per property in years two (paid) and three (paid), and US \$50,000 per property in year four.

In 2006, the Company also acquired two properties totalling 1,700 hectares by staking.

The initial four claims totalling 1,800 hectares were acquired by staking in 2005.

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For the three months ended September 30, 2007

7. RESOURCES PROPERTIES (Continued)

- (c) Macusani East Joint Ventured properties, southern Peru

During and after the year ended June 30, 2005, 72 properties were staked covering a 47,820 hectare area.

On May 31, 2005, the Company entered into an option management agreement with Frontier Pacific (TSX.V - FRP) whereby, Frontier Pacific can earn a 50% interest in certain of the exploration mineral concessions for periodic payments totalling US \$50,000 cash, 1,500,000 shares and US \$4,000,000 in expenditures over a five-year period.

The Company has been informed by Frontier Pacific that they have deemed to have completed US \$4,000,000 in expenditures. Currently, the joint venturers are finalizing the 50% earn-in process, and in the interim the Company has commenced contributing 50% of the operational costs on Macusani East Joint Ventured properties.

Joint Venture Earn-in Schedule

Time	Payment (US \$)	Expenditure (US \$)	Earn-in
	200,000 Shares *		
April 26, 2005	and US \$50,000 *	N/A	
April 26, 2006	250,000 Shares *	\$ 400,000 **	
April 26, 2007	300,000 Shares *	350,000 **	
April 26, 2008	350,000 Shares	500,000 **	
April 26, 2009	400,000 Shares	900,000 **	
April 26, 2010	Nil	1,850,000 **	
Total	1,500,000 Shares	\$ 4,000,000	50%

*Received ** Expenditure completed

- (d) Macusani West, southern Peru

The Macusani West properties consist of 50 claims, totalling 42,600 hectares.

During the year ended June 30, 2006, 37 claims totalling 32,300 hectares were staked.

During the year ended June 30, 2007, 13 properties totalling 10,300 hectares were acquired by staking.

- (e) Picotani properties, southern Peru

The Picotani properties lie to the east of the Princesa-Pilunani Belt. During 2006, two claims totalling 1,706 hectares were acquired through staking.

SOLEX RESOURCES CORP.
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Notes to the Consolidated Financial Statements
For the three months ended September 30, 2007

7. RESOURCES PROPERTIES (Continued)

(f) Resource property expenditures for the three months ended September 30, 2007:

	Pilunani-Princesa Belt	Cullquimayo	Macusani East	Macusani West	Macusani South	Picotani	Totals
Balances, June 30, 2007	\$ 4,181,897	\$ 331,079	\$ -	\$ 510,035	-	\$ 177,527	\$ 5,200,538
Acquisition costs	2,105	-	31,269	-	-	169	33,543
Deferred Exploration Costs							
Assaying	62	-	45,808	-	495	955	47,320
Geology/Engineering	63,679	-	56,436	75,347	137,582	16,379	349,423
Geophysics	-	-	120,221	-	-	-	120,221
Drilling	-	-	770,052	-	-	-	770,052
Field works	3,331	56	43,002	2,048	12,618	4,910	69,965
Logistics	183,264	-	125,147	6,502	16,263	9,722	340,898
Consulting	8,069	-	37,652	7,402	3,420	6,098	62,641
Travel and accommodation	2,840	-	14,509	19,720	3,213	1,694	41,976
Total Spending	263,350	56	1,244,096	111,019	173,591	39,927	1,832,039
Balances, September 30, 2007	\$ 4,445,247	\$ 331,135	\$ 1,244,096	\$ 621,054	\$ 173,591	\$ 217,454	\$ 7,032,577

Resource property expenditures for year ended June 30, 2007:

	Pilunani-Princesa Belt	Cullquimayo	Macusani East	Macusani West	Picotani	Totals
Balances, June 30, 2006	\$ 1,070,835	\$ 116,750	\$ -	\$ 135,433	\$ 66,678	\$ 1,389,696
Acquisition costs	260,263	88,170	15,329	185,397	17,442	566,601
Deferred Exploration Costs						
Assaying	29,211	8,758	-	2,134	-	40,103
Geology/Engineering	44,390	65,778	2,803	58,621	8,351	179,943
Geophysics	155,193	-	-	-	12,026	167,219
Drilling	1,142,489	-	-	-	-	1,142,489
Field works	606,278	10,410	748	19,452	2,747	639,635
Logistics	528,726	-	-	-	-	528,726
Consulting	579,282	29,788	49,309	88,073	64,556	811,008
Travel and accommodation	104,182	11,425	1,066	20,925	5,727	143,325
Total Spending	3,450,014	214,329	69,255	374,602	110,849	4,219,049
Cost recovery	-	-	(69,255)	-	-	(69,255)
Write-off resource property	(338,952)	-	-	-	-	(338,952)
Balances, June 30, 2007	\$ 4,181,897	\$ 331,079	\$ -	\$ 510,035	\$ 177,527	\$ 5,200,538

SOLEX RESOURCES CORP.
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Notes to the Consolidated Financial Statements
For the three months ended September 30, 2007

7. RESOURCES PROPERTIES (Continued)

(g) Realization of assets

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

(h) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

(i) Title to mineral property interests

Although the Company has taken steps to verify the 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 or transfers and title may be affected by undetected defects.

8. PROPERTY AND EQUIPMENT

	September 30, 2007			June 30, 2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Furniture and fixtures	\$ 56,600	\$ 7,649	\$ 48,951	\$ 51,834	\$ 5,198	\$ 46,636
Computer equipment	25,445	8,181	17,264	24,601	6,811	17,790
Field equipment	142,644	33,995	108,649	142,644	25,186	117,458
Computer software	3,215	2,393	822	3,215	2,120	1,095
Leasehold improvements	14,084	1,408	12,676	14,084	704	13,380
	\$ 241,988	\$ 53,626	\$ 188,362	\$ 236,378	\$ 40,019	\$ 196,359

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9. SHARE CAPITAL

- (a) Authorized
 Unlimited common shares without par value
- (b) Issued

	September 30, 2007		June 30, 2007	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	57,034,199	\$ 21,331,717	35,035,001	\$ 5,731,412
Pursuant to private placements (notes 8 (b), (i), (ii), (iii) and (iv))	-	-	13,545,454	12,350,000
Pursuant to exercise of warrants	-	-	6,678,744	3,350,487
Share issuance costs	-	-	-	(998,497)
Shares issued from exercise of options	210,000	94,000	1,475,000	495,600
Shares cancelled	-	-	-	-
Shares issued pursuant to property acquisitions	-	-	300,000	159,000
Reclassification of contributed surplus on exercise of options	-	45,701	-	243,715
Balance, end of period	57,244,199	\$ 21,471,418	57,034,199	\$ 21,331,717

- (i) On February 27, 2007, the Company raised aggregate gross proceeds of \$10,350,000 and issued a total of 9,000,000 units at \$1.15 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share of the Company at \$1.60 for a period of 18 months from closing. The Company has the right to accelerate the expiry date of the warrants should the common shares of the Company trade at or above a price of \$2.25 per share for 20 consecutive trading days at any time after four months and one day after the closing date.

The agents have been paid a cash commission of 6.5% of the gross proceeds from the sale of the units and have been issued 540,000 broker warrants. Each broker warrant entitles the holder to purchase one common share of the Company at \$1.20 for a period of 12 months from closing. The agents' warrants were fair valued as a share issuance cost of \$286,200, using the Black-Scholes option pricing model with the following assumptions: no dividends are paid, a volatility of the Company's share price of 91%, and expected life of the warrants of twelve months and an annual risk free rate of 3.93%. Legal and other share issuance costs of \$39,547 were incurred.

- (ii) On August 22, 2006, the Company completed a private placement issuing 4,545,454 units for a total of \$2,000,000. Each unit consists of one common share and one-half of one non-transferable share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.75 per share for 18 months. In the event that the common shares of the Company trade on the TSX Venture Exchange ("TSX") at a price of \$1.00 or higher for 21 consecutive trading days, the placee will be obligated to exercise the warrant within 30 calendar days or the warrant will be cancelled.

On January 22, 2007, following a period where the Company's shares traded above \$1.00 for 21 consecutive days, 2,197,927 warrants for proceeds of \$1,648,445 were exercised.

- (iii) On March 2, 2006, the Company closed a non-brokered private placement for the purchase of 1,000,000 units, at a price of \$0.50 per unit for gross proceeds of \$500,000. Each unit consists of one common share and one-half of one warrant. Each full warrant entitles the holder to acquire one common share at a price of \$0.75 for a period of 18 months. There were 60,000 agents' warrants issued, which are exercisable at \$0.75 for a period of 18 months. The agents' warrants were fair valued as a share issuance cost of \$13,494, using the Black-Scholes option pricing model and debited against share capital as share issue costs. In the event that the common shares of the Company trade on the TSX at a price of \$1.00 or higher for 21 consecutive trading days, the placee will be obligated to exercise the warrant within 30 calendar days or the warrant will be cancelled.

On January 22, 2007, following a period where the Company's shares traded above \$1.00 for 21 consecutive days, 560,000 warrants for gross proceeds of \$420,000 were exercised.

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9. SHARE CAPITAL (Continued)

(b) Issued (Continued)

(iv) On December 29, 2005, the Company closed a non-brokered private placement for the purchase of 3,337,500 units at a price of \$0.28 per unit for gross proceeds of \$934,500. Each unit consists of one common share and one-half of one warrant. Each full warrant entitles the holder to acquire one common share at a price of \$0.40 for a period of 18 months. In the event that the common shares of the Company trade on the TSX at a price of \$0.55 or higher for 21 consecutive trading days, the placee will be obligated to exercise the warrant within 30 calendar days or the warrant will be cancelled.

On November 28, 2006, following a period where the Company's shares traded above \$0.55 for 21 consecutive days 1,376,250 warrants for gross proceeds of \$550,500 were exercised. An additional 260,000 warrants were exercised for \$104,000 during the year ended June 30, 2007.

(v) In addition to the above, during the year ended June 30, 2007, 564,000 warrants were exercised at a price of \$0.35 per share for proceeds of \$197,400 and 1,720,567 warrants were exercised at a price of \$0.25 per share for proceeds of \$430,142.

(c) Contributed surplus

Contributed surplus from exercise of options	
Balance, June 30, 2006	\$ 543,732
Stock-based compensation	2,331,485
Reclassification of contributed surplus on exercise of options	(243,715)
Share issuance cost	286,200
Balance, June 30, 2007	2,917,702
Stock-based compensation	74,150
Reclassification of contributed surplus on exercise of options	(45,701)
Balance, September 30, 2007	\$ 2,946,151

(d) Warrants

The following summarizes the warrants that have been granted, exercised and expired during the three months ended September 30, 2007 and the year ended June 30, 2007:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2006	4,480,817	\$ 0.37
Granted	7,312,727	\$ 1.31
Exercised	(6,678,744)	\$ 0.50
Expired	(74,800)	\$ 0.75
Balance, June 30, 2007	5,040,000	\$ 1.55
Granted	-	-
Exercised	-	-
Balance, September 30, 2007	5,040,000	\$ 1.55

The Company had share purchase warrants outstanding as follows:

Expiry Date	Exercise Price	Number of Shares	
		September 30, 2007	June 30, 2007
August 27, 2008	\$ 1.60	4,500,000	4,500,000
February 27, 2008	\$ 1.20	540,000	540,000
		5,040,000	5,040,000

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9. SHARE CAPITAL (Continued)

(e) Stock options

The following summarizes the options that have been granted, exercised, cancelled or expired during the three months ended September 30, 2007 and the year ended June 30, 2007:

	Number of Shares	Weighted Average Exercise Price Per Share
Balance, June 30, 2006	3,055,000	\$ 0.41
Options granted	3,215,000	\$ 1.19
Options exercised	(1,475,000)	\$ 0.34
Options cancelled	(165,000)	\$ 0.89
Balance, June 30, 2007	4,630,000	\$ 0.96
Options granted	-	-
Options exercised	(210,000)	\$ 0.45
Options cancelled	(140,000)	\$ 0.47
Balance, September 30, 2007	4,280,000	\$ 1.00

Other than investor relations personnel, whose options vest in four equal instalments over the first 12 months, stock options vest 100% upon grant.

Stock-based awards are measured and recognized using a fair value based method. During the three months ended September 30, 2007, the Company did not grant any options. However, 25% of 350,000 options granted in last fiscal year to investor relations personnel vested, with an estimated combined fair value of \$74,150 as determined using the Black-Scholes option pricing model.

The fair value of each option grant is calculated using the following assumptions:

	2007
Expected life (years)	2.00
Interest rate	3.87% - 4.19%
Volatility	87% - 138%
Dividend yield	0.00%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

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9. SHARE CAPITAL (Continued)

(e) Stock options (Continued)

As at September 30, 2007, the following share purchase options were outstanding:

Expiry Date	Exercise Price	Number of Shares	
		September 30, 2007	June 30, 2007
February 15, 2007	\$ 0.13	-	-
October 7, 2007	\$ 0.40	905,000	1,005,000
November 17, 2007	\$ 0.28	-	-
January 30, 2008	\$ 0.49	-	100,000
March 27, 2008	\$ 0.68	400,000	400,000
April 26, 2008	\$ 0.50	30,000	80,000
August 11, 2008	\$ 0.46	85,000	185,000
September 30, 2008	\$ 0.46	100,000	100,000
November 1, 2008	\$ 0.58	200,000	200,000
February 9, 2009	\$ 1.20	150,000	150,000
February 9, 2009	\$ 1.27	150,000	150,000
March 7, 2009	\$ 1.35	1,760,000	1,760,000
March 13, 2009	\$ 1.35	250,000	250,000
March 27, 2009	\$ 1.35	250,000	250,000
Total options outstanding	\$ 1.00	4,280,000	4,630,000
Total options exercisable	\$ 0.99	4,192,500	4,455,000

(f) Escrow shares

A total of 4,550,000 common shares were subject to an escrow agreement signed in 2004. Shares are subject to a time release over a three-year period as follows:

- (i) 10% - October 28, 2004 (released);
- (ii) 15% - 6 months after October 28, 2004 (released);
- (iii) 15% - 12 months after October 28, 2004 (or October 28, 2005) (released);
- (iv) 15% - 18 months after October 28, 2004 (or April 28, 2006) (released);
- (v) 15% - 24 months after October 28, 2004 (or October 28, 2006) (released);
- (vi) 15% - 30 months after October 28, 2004 (or April 28, 2007) (released); and
- (vii) 15% - 36 months after October 28, 2004 (or October 28, 2007) (released subsequent to the period end)

On October 26, 2006, there were an additional 157,500 escrow shares added from an exercise of warrants.

- (i) 33% - October 28, 2006 (released);
- (ii) 33% - 6 months after October 28, 2006 (or April 28, 2007) (released); and
- (iii) 33% - 12 months after October 28, 2006 (or October 28, 2007) (released subsequent to the period end)

As of September 30, 2007, the Company had released a total of 3,972,500 shares from escrow, leaving a balance of 735,000 shares still in escrow.

(g) Accumulated other comprehensive income:

	Three months ended September 30, 2007
Long-term investment available-for-sale:	
On adoption of new accounting policy (Note 4)	156,500
Unrealized loss	(157,500)
Accumulated other comprehensive loss	(1,000)

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10. RELATED PARTY TRANSACTIONS

The Company has incurred charges from directors and officers of the Company and companies in which a director or an officer acts as a manager of the Company. These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

	September 30, 2007	September 30, 2006
Consulting fees paid to Jonathan Challis, president of the Company	\$ 50,000	\$ 50,000
Management fees paid to Sebastian Reidl, officer and director of the Company (resigned on February 1, 2007)	-	30,000
Consulting fees paid to a company controlled by Deborah Thiel, officer of the Company	21,250	-
	\$ 71,250	\$ 80,000

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Investing and financing activities that do not affect cash flows are excluded from the statements of cash flows.

During the three months ended September 30, 2007, the following transaction was excluded:

- (a) \$42,761 accounts payable to various suppliers on resource property expenditures; and
- (b) \$259,372 accrued liabilities to Frontier Pacific on 50% joint ventured operation expenditures.

12. COMMITMENT

The Company is committed to pay monthly office lease payments of \$5,408 from May 1, 2007 to April 30, 2009, \$5,599 from May 1, 2009 to April 30, 2011, and \$5,814 from May 1, 2011 to April 30, 2013.

13. SEGMENTED DISCLOSURE

The following geographic data references assets based on their physical location. The Company has interests in Peru and Canada:

	September 30, 2007		
	Peru	Canada	Total
Current assets	\$ 39,851	\$ 9,664,433	\$ 9,704,284
Resource properties	7,032,577	-	7,032,577
Property and equipment	810	187,552	188,362
Other long-term assets	-	436,000	436,000
	\$ 7,073,238	\$ 10,287,985	\$ 17,361,223

	June 30, 2007		
	Peru	Canada	Total
Current assets	\$ 75,754	\$ 11,643,281	\$ 11,719,035
Resource properties	5,200,538	-	5,200,538
Property and equipment	-	196,359	196,359
Other long-term assets	-	436,000	436,000
	\$ 5,276,292	\$ 12,275,640	\$ 17,551,932

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14. SUBSEQUENT EVENTS

- (a) 735,000 shares were released from escrow. As of October 28, 2007, all 4,707,500 shares in escrow have been released over three-year period;
- (b) 315,000 options were exercised for proceeds of \$126,000;
- (c) 590,000 options expired on October 7, 2007 and 165,000 options expired due to termination of employment or consulting services; and
- (d) 2,085,000 options were granted to directors, employees and consultants on October 08, 2007 at \$0.50 expiring in five years.