

MERREX GOLD INC.
(Formerly Merrex Resources Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005



AUDITORS' REPORT

To the Shareholders of
Merrex Gold Inc.
(Formerly Merrex Resources Inc.)

We have audited the consolidated balance sheets of Merrex Gold Inc. (formerly Merrex Resources Inc.) as at August 31, 2006 and 2005, and the consolidated statements of loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 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.

Vancouver, Canada

December 7, 2006

"Morgan & Company"

Chartered Accountants

MERREX GOLD INC.
(Formerly Merrex Resources Inc.)

CONSOLIDATED BALANCE SHEETS

	AUGUST 31	
	2006	2005
ASSETS		
Current		
Cash and cash equivalents	\$ 1,128,572	\$ 5,942
Prepaid expenses	18,750	-
GST recoverable	127,470	15,432
	1,274,792	21,374
Capital Assets (Note 4)	71,358	761
Deferred Exploration Expenditures And Property Costs (Note 5)	4,913,673	-
	\$ 6,259,823	\$ 22,135
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 456,986	\$ 196,736
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share Capital (Note 6)	16,781,673	10,090,126
Contributed Surplus	362,600	-
Deficit	(11,341,436)	(10,264,727)
	5,802,837	(174,601)
	\$ 6,259,823	\$ 22,135

Approved on Behalf of the Board of Directors:

"Gregory Isenor"
Director

"Gary MacKenzie"
Director

The accompanying notes are an integral part of these financial statements.

MERREX GOLD INC.
(Formerly Merrex Resources Inc.)

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	YEARS ENDED AUGUST 31	
	2006	2005
Administrative Expenses		
Amortization	\$ 7,136	\$ 135
Filing and transfer fees	71,575	21,954
Finder's fees and commissions	83,718	-
Indemnity bond	8,550	-
Interest and bank charges	26,637	226
Management fees	85,100	30,000
Marketing and public relations	37,819	-
Office and rent	100,943	12,709
Printing and postage	8,880	-
Professional fees	166,582	36,942
Stock based compensation	362,600	-
Travel and business development	117,169	2,430
Net Loss For The Year	(1,076,709)	(104,396)
Deficit, Beginning Of Year	(10,264,727)	(10,160,331)
Deficit, End Of Year	\$ (11,341,436)	\$ (10,264,727)
Loss Per Share, Basic and diluted	\$ (0.06)	\$ (0.02)
Weighted Average Number Of Shares	17,510,219	5,537,857

The accompanying notes are an integral part of these financial statements.

MERREX GOLD INC.
(Formerly Merrex Resources Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED AUGUST 31	
	2006	2005
Cash Flows From Operating Activities		
Net loss for the year	\$ (1,076,709)	\$ (104,396)
Items not involving cash:		
Amortization	7,136	135
Stock based compensation	362,600	-
Finder's fees	14,390	-
	<u>(692,583)</u>	<u>(104,261)</u>
Changes in non-cash working capital items:		
Prepaid expenses	(18,750)	
GST recoverable	(112,038)	(6,898)
Accounts payable and accrued liabilities	236,095	42,188
	<u>(587,276)</u>	<u>(68,971)</u>
Cash Flows From Investing Activities		
Purchase of capital assets	(77,733)	(896)
Deferred exploration and property costs	(3,009,902)	-
	<u>(3,087,635)</u>	<u>(896)</u>
Cash Flows From Financing Activities		
Issuance of share capital	4,938,291	75,000
Share issue costs	(140,750)	-
	<u>4,797,541</u>	<u>75,000</u>
Net Increase In Cash	1,122,630	5,133
Cash And Cash Equivalents, Beginning Of Year	5,942	809
Cash And Cash Equivalents, End Of Year	\$ 1,128,572	\$ 5,942

Supplemental Disclosure Of Non-Cash Financing And Investing Activities

During the year ended August 31, 2006, the Company:

1. issued 12,245,000 common shares, with a deemed value of \$1,648,000, for mineral properties,
2. issued 1,553,201 common shares, with a deemed value of \$163,507, for finder's fees and guarantee fees, and
3. issued 1,466,667 common shares in settlement of debt in the amount of \$110,000.

During the year ended August 31, 2005, the Company issued 100,000 common shares with a deemed value of \$7,500 for finder's fees.

The accompanying notes are an integral part of these financial statements.

MERREX GOLD INC.
(Formerly Merrex Resources Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

1. NATURE OF BUSINESS

Merrex Gold Inc. (the "Company") is incorporated under the *Business Corporations Act* of British Columbia. At the March 7, 2006 Annual & Special General Meeting of the Company a change of name from Merrex Resources Inc. to Merrex Gold Inc. was approved. On May 24, 2006 a Certificate of Change of Name was issued by the Registrar of Companies, Province of British Columbia. The Company's principal business activity is the acquisition and exploration of resource properties.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain economically recoverable ore reserves. The recoverability of the amounts shown for mineral properties and related deferred exploration expenditures is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds of disposition thereof.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

a) Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Jubilee Minerals Limited, incorporated under the laws of Nova Scotia. All significant inter-company transactions and balances have been eliminated.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short term deposits with maturities of no more than ninety days when acquired.

c) Mineral Property Costs

The Company records its interest in mineral properties at cost, less option income realized. The cost of mineral properties and related exploration costs are deferred until the properties are brought into production, sold or abandoned. These deferred costs will be amortized on the unit-of-production basis over the estimated useful life of the properties following the commencement of production or will be written off if the properties are sold, allowed to lapse or abandoned.

Option payments received are treated as a reduction of the carrying value of the related deferred costs until the Company's costs are recovered. Option payments received in excess of costs incurred are credited to revenue.

MERREX GOLD INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Mineral Property Costs (Continued)

The amount shown for mineral property interests represents costs incurred to date, represented by amounts paid in cash and the fair market value of common shares issued, and does not necessarily reflect present or future value. Administrative expenditures are expensed in the year incurred. Property investigation costs, where a property interest is not acquired, are expensed as incurred.

Although the Company has taken steps to verify title to mineral properties, these procedures do not guarantee the Company's title. Property title may be subject to un-registered prior agreements or other impediments.

On an annual basis or when impairment indicators arise, the Company evaluates the future recoverability of its mineral property costs. Impairment losses or write downs are recorded in the event the net book value of such assets exceeds the estimated indicated future cash flows attributable to such assets.

d) Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

e) Capital Assets and Amortization

Capital assets are recorded at cost and amortized over their economic life using the declining balance method at the following rates:

Computer hardware	30%
Office furniture and equipment	20%
Leasehold improvements	Over the remaining term of the lease

f) Financial Instruments

The Company's financial instruments include cash, GST recoverable and accounts payable and accrued liabilities.

Unless otherwise noted, it is management's opinion that this Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Loss Per Share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares issued and outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share are equal for the years ended August 31, 2006, and 2005 as outstanding stock options and warrants were all anti-dilutive.

h) Use of Estimates

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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates and would impact future results of operations and cash flows. Significant estimates and assumptions include those related to the recoverability of mineral properties and deferred exploration expenditures, estimated useful lives of capital assets, determination as to whether costs are expensed or deferred, asset retirement obligations and stock based compensation valuations.

i) Stock Based Compensation

The Company measures all stock based payments using the fair value method of accounting and recognizes the compensation expense in their financial statements. The Company implemented this policy in their fiscal year ended August 31, 2004 on a prospective basis in accordance with the early adoption provisions of the CICA Handbook Section 3870 – “Stock Based Compensation and Other Stock Based Payments”. According to the transitional provisions, early adoption requires that compensation expense be calculated and recorded in the statement of operations for options granted on or after September 1, 2003.

The Company accounts for compensation expense based on the fair value of options granted, determined using the Black-Scholes option-pricing model. Compensation costs are expensed over the vesting period(s) with a corresponding increase to contributed surplus. Upon exercise of the stock options consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income Taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. Future income tax liabilities or assets are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

k) Foreign Currency Translation

Transactions recorded in CFA Francs have been translated into Canadian dollars using the Temporal Method as follows:

- i) monetary items at the rate prevailing at the balance sheet date;
- ii) non-monetary items at the historical exchange rate;
- iii) revenue and expense at the average rate in effect during the applicable accounting period.

Gains or losses arising on translation are included in the results of operations.

3. ACQUISITION

The Company entered into an option agreement with the shareholders of Jubilee Minerals Limited ("the Jubilee Shareholders") on August 12, 2005 ("the Jubilee Option"). Under the terms of the Jubilee Option the Jubilee Shareholders granted the Company the right to acquire 100% of the issued and outstanding shares of Jubilee Minerals Limited. Pursuant to the terms and conditions of the agreement, in order to exercise its option, the Company agreed to issue 10,000,000 of its common shares to the Jubilee Shareholders as consideration. The Jubilee Option received requisite shareholder and regulatory approval on March 7, 2006 and May 24, 2006 respectively and on May 24, 2006 the Company exercised its option.

The acquisition was accounted for by the purchase method. The shares issued were valued at the trading price on the date of the Jubilee Option. The results of operations of Jubilee Minerals Limited are included in the consolidated statements of operations from the exercise date.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

Mineral properties	\$ 752,000
Accounts payable	<u>(2,000)</u>
Value of shares issued	<u>\$ 750,000</u>

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3. ACQUISITION (Continued)

An additional 850,000 common shares were issued to a third party in respect of finders' fees associated with the acquisition of the shares of Jubilee Minerals Limited. The value of the shares issued, being \$63,750, was capitalized as cost of mineral properties.

4. CAPITAL ASSETS

	2006			2005
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Furniture and fixtures	\$ 5,800	\$ 580	\$ 5,220	\$ -
Computer hardware	5,762	978	4,784	761
Leasehold improvements	66,932	5,578	61,354	-
	<u>\$ 78,494</u>	<u>\$ 7,136</u>	<u>\$ 71,358</u>	<u>\$ 761</u>

5. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS

	ACQUISITION COST	OPTION PAYMENT	EXPLORATION EXPENDITURES	2006 TOTAL	2005 TOTAL
High River Properties	\$ 1,317,282	\$ -	\$ 1,261,267	\$ 2,578,549	\$ -
Jubilee mineral claims	813,750	-	248,837	1,062,587	-
Mali Properties					
Siribaya	-	10,000	1,139,370	1,149,370	-
Kakadian	-	10,000	67,838	77,838	-
Other	-	-	45,329	45,329	-
	<u>\$ 2,131,032</u>	<u>\$ 20,000</u>	<u>\$ 2,762,641</u>	<u>\$ 4,913,673</u>	<u>\$ -</u>

a) High River Properties

The Company has acquired varying interests in certain exploration properties (including a 50% interest in 451 claims in West Voisey's Bay) from High River Gold Mines Ltd. for \$361,415 and the issuance of 2,245,000 common shares valued at \$0.40 per share (\$898,000). As a condition of the acquisition, three directors of the Company plus a fourth party guaranteed that a minimum of \$217,000 would be repaid to High River by the guarantors if the Corporation failed to pay to High River the required \$361,415. In consideration of the granting of these guarantees, the Corporation issued to the four named guarantors a total of 144,667 common shares valued at \$57,867.

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5. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS (Continued)

b) Jubilee Mineral Claims

On May 24, 2006, the Company exercised its options to acquire 100% of the issued shares of Jubilee Minerals Ltd. ("Jubilee") for the performance of no less than \$100,000 in exploration expenses on Jubilee's mineral claims (which was complete) and the issuance of 10,000,000 common shares of the Company valued at \$750,000. Jubilee holds interest in 205 mineral claims located in Inverness and Victoria counties of Central Cape Breton, Nova Scotia. In conjunction with this transaction, the Company issued 1,041,867 common shares valued at \$78,140 as finders' fees, of which \$14,390 was expensed before the option was exercised.

c) Mali Properties

The Company has entered into an agreement to acquire up to a 95% interest in certain mining concessions (the 'Siribaya Permit') located in the West African nation of Mali for payments aggregating \$376,000 over three years (of which \$83,000 has been paid by August 31, 2006) and exploration expenses aggregating \$750,000 over three years (which has been incurred by August 31, 2006).

The Company has entered into an agreement to acquire up to a 100% interest in the Kakadian Permit of approximately 109 square kilometres located in Mali for cash payments over two years of approximately \$80,000 (of which \$12,000 has been incurred by August 31, 2006).

6. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value.

b) Issued and Outstanding

	SHARES	AMOUNT
Balance, August 31, 2004	4,823,610	\$ 10,015,126
Issued during the year:		
For cash:		
Private placement	1,000,000	75,000
For finder's fee	100,000	7,500
Share issue costs	-	(7,500)
	5,923,610	10,090,126

MERREX GOLD INC.
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6. SHARE CAPITAL (Continued)

b) Issued and Outstanding (Continued)

	SHARES	AMOUNT
Balance, August 31, 2005	5,923,610	10,090,126
Issued during the year:		
For cash:		
Private placements	11,512,129	4,444,540
Warrants exercised	3,291,667	493,750
Share issue costs	-	(168,250)
For finder's fees	1,408,534	105,640
For settlement of debt	1,466,667	110,000
For resource properties	12,245,000	1,648,000
For guarantee fees	144,668	57,867
	35,992,275	\$ 16,781,673

On November 18, 2005 the Company issued 3,666,667 common shares pursuant to a unit offering at a price of \$0.075 per unit for cash of \$275,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.15 per share for a period of one year. The share issuance and warrants exercised are one half flow-through and one half not flow-through. The Company also issued 366,667 common shares as a finder's fee for the offering at a deemed cost of \$27,500.

On November 18, 2005 the Company issued 191,867 common shares as a finder's fee valued at \$14,390 for the option to purchase Jubilee Minerals Ltd.

On November 18, 2005 the Company issued 1,466,667 units to settle accounts payable, advances payable, loans payable and amounts due to related parties totalling \$110,000. Each unit consists of one common share and one share purchase warrant, and one-half of each is flow-through. Each warrant entitles the holder to purchase one additional common share at a price of \$0.15 per share for a period of one year.

On May 24, 2006 the Company issued 6,000,000 common shares pursuant to a unit offering at a price of \$0.50 per unit for cash of \$3,000,000. One-half of each unit is flow-through.

On May 24, 2006 the Company issued 10,850,000 common shares pursuant to acquiring the shares of Jubilee Minerals Ltd.

MERREX GOLD INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

6. SHARE CAPITAL (Continued)

b) Issued and Outstanding (Continued)

On May 24, 2006, the Company issued 2,245,000 common shares pursuant to acquiring the High River mineral claims and 144,667 common shares as a guarantee fee.

On July 6, 2006, the Company issued 1,222,833 units consisting of one common share and one-half of one share purchase warrant, at a price of \$0.60 per unit for cash of \$733,700.

On July 6, 2006, the Company issued 622,629 common shares pursuant to a unit offering at a price of \$0.70 per unit for cash of \$435,840. The shares issued under this offering are flow-through.

During the year ended August 31, 2006, the Company issued 3,291,667 shares of common stock for \$493,750 on the exercise of warrants at \$0.15 per share.

As at August 31, 2006 there were 11,156,250 shares subject to a Value Securities Escrow Agreement. These shares will be released on the following basis:

Release Dates	Number of Escrowed Securities to be Released
November 24, 2006	1,859,375
May 24, 2007	1,859,375
November 24, 2007	1,859,375
May 24, 2008	1,859,375
November 24, 2008	1,859,375
May 24, 2009	1,859,375
Total	11,156,250

c) Stock Options

The Board of Directors of the Company has established a rolling stock option plan under which options to acquire common shares of the Company are granted to directors, officers, employees and consultants of the Company. The maximum number of options permitted is limited to ten percent (10%) of the issued capital of the corporation from time to time. During the year ended August 31, 2006, the following options were issued and as at August 31, 2006 none of the options had been exercised:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

6. SHARE CAPITAL (Continued)

ISSUED	EXERCISE PRICE PER SHARE	EXPIRY
590,000	\$ 0.11	August 29, 2010
100,000	\$ 0.45	December 5, 2010
2,100,000	\$ 0.75	June 1, 2011 (*)
2,790,000	\$ 0.60	Weighted Average Exercise Price

(*) Options expiring on June 1, 2011 vest as follows – 700,000 on the grant date, 700,000 on October 1, 2006 and 700,000 on January 1, 2007.

The fair values of options granted during 2006 have been estimated using an option-pricing model. Assumptions used in the pricing model are as follows: Average risk-free interest rate - 4%, expected life – 2.5 years, expected volatility - 115% and expected dividend - \$Nil.

d) Warrants

As at August 31, 2006, the following warrants were outstanding:

	2006		2005	
	WARRANTS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WARRANTS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Beginning of year	1,000,000	\$ 0.15	-	-
Granted	5,744,750	\$ 0.21	1,000,000	\$ 0.15
Exercised	(3,291,667)	\$ 0.15	-	-
End of year	3,453,083	\$ 0.26	1,000,000	\$ 0.15

Share purchase warrants outstanding at August 31, 2006:

WARRANTS OUTSTANDING		
EXERCISE PRICE	NUMBER OF SHARES	EXPIRY DATE
\$0.15	2,841,666	November 18, 2006
\$0.75	611,417	July 17, 2007
	<u>3,453,083</u>	

MERREX GOLD INC.
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7. RELATED PARTY TRANSACTIONS

During the year the Company entered into the following transactions with related parties:

- a) The Company acquired 100% of the issued shares of Jubilee Minerals Limited from a group of individual shareholders which included three directors of the Company. The parties were at arm's length at the time the option to acquire the shares was negotiated and signed.
- b) The Company paid or accrued the following amounts to related parties:
 - For management fees \$99,100 (2005 - \$7,500) to a director and officer of the Company, to a corporation of which a director and officer is a shareholder, and to a member of the immediate family of a director and officer of the Company;
 - For office rent and related overhead expenses \$15,000 (2005 - \$1,625) to a corporation of which a director is a shareholder; and
 - For legal services \$92,290 (2005 - \$7,500) to a director and officer of the Company and to a legal firm in which a director is a partner.
- c) The Company issued 1,466,667 units to settle accounts payable, advances payable, loans payable and amounts due to two directors, totalling \$110,000. Each unit consists of one common share and one share purchase warrant, and one-half of each is flow-through. Each warrant entitles the holder to purchase one additional common share at a price of \$0.15 per share for a period of one year.
- d) The Company issued 144,667 common shares to four directors as a guarantee fee in respect of the acquisition of the High River properties.
- e) The Company borrowed and repaid a short term loans totaling \$70,500 from two directors. The loans were without interest and without specific terms of repayment.

Included in accounts payable and accrued liabilities are amounts owed to directors and officers in the amount of \$259,944 (2005 - \$77,920).

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8. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported income taxes is as follows:

	<u>2006</u>	<u>2005</u>
Combined statutory tax rate	34.24%	35.62%
Computed tax recovery	\$ (368,700)	\$ (37,200)
Changes in temporary differences	(9,100)	-
Unrecognized items for tax purposes	124,200	-
Benefit resulting from reductions in tax rates	14,700	-
Benefit of income tax losses not recognized	238,900	37,200
Total income taxes	\$ -	\$ -

Significant components of the Company's future income tax assets are as follows:

	<u>2006</u>	<u>2005</u>
Capital assets	\$ 1,200	\$ 400
Exploration and development deductions	139,100	150,500
Non-capital losses carried forward	211,300	149,700
Share issue costs	46,100	-
	397,700	300,600
Valuation allowance	(397,700)	(300,600)
Net future income tax assets	\$ -	\$ -

The realization of benefits related to these future potential tax deductions is uncertain and cannot be viewed as more likely than not. Accordingly, no net future income tax asset has been recognized for accounting purposes.

As at August 31, 2006, the Company has available non-capital losses for income tax purposes of approximately \$1,803,000 which may be carried forward and applied against future taxable income when earned.

If not utilized, the non-capital losses expire as follows:

2007	\$ 242,000
2008	342,000
2009	214,000
2010	79,000
2014	81,000
2015	104,000
2026	741,000
	<u>\$ 1,803,000</u>

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8. INCOME TAXES (Continued)

The Company has capital losses carry forward of approximately \$150,000 which is available indefinitely to reduce future capital gains for income tax purposes and Canadian and foreign exploration resource deductions in the approximate amount of \$6,100,000. With certain restrictions, these resource deductions may be used against certain taxable income without expiry.

9. COMMITMENT

As at August 31, 2006, the Company has a lease commitment for office space expiring on March 31, 2011. Minimum lease payments, including estimated taxes and operating expenses for each of the next five years are as follows:

August 31, 2007	\$ 28,775
August 31, 2008	\$ 28,775
August 31, 2009	\$ 28,775
August 31, 2010	\$ 28,775
August 31, 2011	\$ 16,786

10. SUBSEQUENT EVENTS

a) West Voisey's Bay

Subsequent to August 31, 2006, the Company and its joint venture partner Celtic Minerals Ltd. entered into an option agreement to acquire a 100% interest in the VB-2 property, a 60-claim (15 sq km) block in West Voisey's Bay. Under the terms of the agreement, Celtic and the Company will make the following payments over four years: cash payments of \$250,000, share issuances of 125,000 shares each, and incur exploration expenditures of \$1.6 million. If the option is exercised, the vendors will receive a 2% Net Smelter Royalty of which the joint venture can purchase half for \$2.0 million.

b) Jubilee Property

Subsequent to August 31, 2006, the Company entered into an agreement with Aur Resources Inc. ("Aur") to acquire 100% of the Jubilee zinc deposit not already owned by the Company. Under the agreement, the Company may earn a 100% interest in the 23 mineral claims owned by Aur (and contiguous to the Company's 205 claims) for annual cash payments of \$80,000 and by incurring either \$1.0 million in exploration expenditures on the Aur claims or \$2.0 million in exploration expenditures on the combined claims of Aur and the Company (with a minimum of \$500,000 on the Aur claims), all over a three year period. Aur retains a 90-day back-in right for a 50% interest in the combined Jubilee property, subject to Aur incurring exploration expenditures equal to 200% of the Company's expenditures on the combined property. Collectively, the Company's claims and the Aur claims are the "Jubilee Property" and the property includes the mineralized area known as the Jubilee Deposit.

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10. SUBSEQUENT EVENTS (Continued)

c) Private Placement

On December 6, 2006, the Company completed a brokered private placement for 1,948,031 units at a price of \$0.70 per unit, and 5,000,000 flow-through shares at a price of \$0.80 per flow-through share, for total gross proceeds of approximately \$5,300,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each full purchase warrant entitles the holder to purchase one additional common share at \$0.90 per share for a period of one year, subject to certain accelerated expiry terms. Agents were paid commissions of \$375,453 and were granted agents' compensation options of 486,363 units, with the warrants exercisable at \$0.70 per share. All securities issued are subject to a hold period until April 7, 2006.

d) Grant of Stock Options

Subsequent to August 31, 2006, the Company granted 350,000 stock options to directors, officers and consultants, exercisable for five years at \$0.75 per share.

e) Exercise of Warrants

Subsequent to August 31, 2006, 2,841,666 warrants with an exercise price of \$0.15, scheduled to expire on November 18, 2006, were exercised for total proceeds of \$426,250.

f) Director Loan

Subsequent to year end, the Company borrowed \$400,000 from a director and officer of the Company. The amount was borrowed without interest and without specific terms of repayment.