

METALEX VENTURES LTD.

FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED APRIL 30, 2007

The following discussion and analysis, prepared as of August 10, 2007, of the results of operations and financial position of Metalex Ventures Ltd. (the "Company") for the year ended April 30, 2007 should be read together with the audited consolidated financial statements for the year ended April 30, 2007 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited consolidated financial statements for the years ended April 30, 2006 and April 30, 2005 and the Management Discussion and Analysis for those years as well as the unaudited consolidated financial statements for the periods ended July 31, 2006, October 31, 2006 and January 31, 2007 along with the Management Discussion and Analysis for those periods.

Additional information related to the Company is available for view on SEDAR at www.sedar.com.

The Company's Management has confirmed that they are satisfied with the design and effectiveness of the Company's disclosure controls and procedures as at April 30, 2007, based upon their evaluation of the effectiveness of such disclosure controls and procedures.

The Company's Management has confirmed that they have designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Forward Looking Statements

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Description of Business

The Company's principal business activity is the acquisition, exploration and development of mineral properties for diamond mineralization and it is considered to be at the exploration stage. The Company has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties, including acquisition costs and related exploration costs, in the financial statements is dependant on the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to discover and complete the development of those reserves and upon future profitable production. The Company trades on the TSX Venture Exchange under the symbol MTX.

The Company's main areas of work are in the Kyle Lake area of Northern Ontario where the Company has an approximate 91.5% interest in certain mineral claims and in the Attawapiskat area of Northern Ontario where the Company has a 60% contributing interest in the Big Red Diamond Joint Venture and a 50% contributing entitlement in the Dumont Joint Venture. In Wawa, Ontario the Company initially had the right to earn a 60% interest in certain claim units. The Company subsequently assigned 50% of its rights and obligations under the Wawa agreement to Dianor Resources Inc ("Dianor") and in return Dianor will pay 50% of the Company's costs pertaining to the agreement. In the New Liskeard area of Ontario, the Company had acquired a 100% interest in certain mineral claims but, during the current year elected to exit the project and return the claims to the original land holders. In Quebec, the Company has a 33.3% contributing interest in diamond exploration and a 50% contributing interest in base metal exploration on various mineral claims. The Company also explores in Morocco, where it has completed preliminary exploration and is finalizing a joint venture agreement for further exploration, and in Angola where it has certain rights for alluvial and kimberlite diamond exploration. In West Greenland, the

Company was granted one exploration license and two additional licenses were transferred to the Company by Cantex Mine Development Corp (“Cantex”). In exchange for transferring exploration rights in its licenses, Cantex has the right to purchase a 25% interest in the Greenland licenses by payment to the Company of \$120,000 at any time between January 1, 2008 and January 20, 2008. The Company has also conducted some exploration work and is currently applying for additional mineral exploration licenses in the Republic of Mali. Most recently, the Company has entered into a letter of intent to acquire certain mineral claims located in the State of Mato Grosso, Brazil. The reader is referred to the relevant sections in this, and previous MD and A’s for further details on these projects.

Performance Summary

The following is a summary of significant events and transactions that occurred during fiscal 2007:

Private Placements

In May 2006, the Company completed a private placement consisting of 4,551,200 flow-through shares at \$0.70 per share for gross proceeds of \$3,185,840 and 1,423,100 non-flow-through units at \$0.70 per unit for gross proceeds of \$996,170. Each non-flow-through unit consists of one common share and one half of one share purchase warrant, each whole warrant exercisable for the purchase of one common share in the Company at a price of \$0.88 per share until June 19, 2007 (expired unexercised).

In August 2007, the Company completed a private placement consisting of 7,620,000 flow-through units at \$0.55 per unit for gross proceeds of \$4,191,000 and 9,425,000 non-flow-through units at \$0.45 per unit for gross proceeds of \$4,241,250. Each unit consists of one common share and one half of one share purchase warrant, each whole warrant exercisable for the purchase of one common share of the Company at a price of \$0.75 per share for a period of two years from the date of issuance.

The reader is referred to the Management Discussion and Analysis for the years ended April 30, 2006 and April 30, 2005 for details of private placements made during those periods.

Mineral Properties

Mineral property costs, net of cost recoveries, incurred (paid or payable) during the year ended April 30, 2007 were as follows:

Attawapiskat	\$	39,914
Wemindji, James Bay		459,287
Kyle Lake		8,773,458
New Liskeard		77,268
Wawa		512,318
Mali		80,939
Angola		2,420,998
Morocco		903,665
Greenland		<u>470,235</u>
Total	\$	<u>13,738,082</u>

Details of activities on the properties are provided in the following commentary:

Attawapiskat Property, Ontario

Big Red Diamond Joint Venture

During fiscal 2002, Kel-Ex Development Ltd. (“Kel-Ex”) formed an exploration joint venture with Big Red Diamonds Ltd. (“Big Red”), (the Big Red Diamond Joint Venture) with respect to certain mineral claims in the Attawapiskat area of Ontario, with Kel-Ex having an 80% interest and Big Red, a 20% interest. Also during this period, the Company entered into an agreement with Kel-Ex to acquire Kel-Ex’s 80% interest in these claims in consideration for \$300,000 and the issuance of 1,000,000 common shares of the Company valued at \$225,000. Kel-Ex is controlled by an individual who became a director of the Company subsequent to this agreement.

During fiscal 2003, the Company sold, to Arctic Star Diamond Corp. (“Arctic Star”), a 20% undivided interest in certain mineral claims for proceeds of \$300,000.

As at April 30, 2007 the Company has a 60% working interest in certain mineral claims. These claims are subject to a 7.5% carried interest in favour of Kel-Ex, and the Company is obligated to contribute to the costs of the development program in proportion to its working interest.

Dumont Joint Venture

Pursuant to an agreement between Kel-Ex and Dumont Nickel Inc. (“Dumont”), Kel-Ex and Dumont formed a joint venture to explore certain mineral claims located in the vicinity of the Attawapiskat property. Kel-Ex was granted an option to earn up to a 90% interest in certain mineral claims held by Dumont and a 100% interest in any new claims staked by the joint venture subject to Dumont's right to receive a 5% interest in the new claims once commercial production is achieved. Under this agreement, Kel-Ex earned a 50% interest by incurring expenditures totaling \$1,500,000. Kel-Ex can earn a further 25% by producing a feasibility study and a final 15% (20% on new claims) by bringing the property to commercial production.

The Company, along with Arctic Star and Oasis Diamond Corp. (“Oasis”), entered into an agreement dated October 23, 2003 with Kel-Ex, whereby the parties acquired Kel-Ex’s interest in the Dumont joint venture in exchange for assuming Kel-Ex’s obligations under the Dumont agreement and reimbursing Kel-Ex for its costs incurred. Under this agreement, the Company acquired 70% of Kel-Ex’s interest in the Dumont joint venture with Arctic Star and Oasis acquiring 20% and 10% interests, respectively. Kel-Ex retains a 10% free carried interest of which the Company’s share is 7.78%. Pursuant to an agreement dated September 21, 2004, Big Red was assigned a 20% working interest of the Kel-Ex interest from the Company in consideration for payment to the Company of \$909,747 comprised of a mineral property expense recovery of \$892,001 and interest of \$17,746. As a result, the Company’s working interest was reduced to 50% of Kel-Ex’s right to earn 90% (95% on new claims) in the Dumont joint venture. It remains to be negotiated between the parties as to which of the Company or Big Red shall be liable for payment of the proportionate share of the Kel-Ex free carried interest.

Work Carried out and Results

The following summary was published in a press release dated October 26, 2004 and provides a project status as of this date:

“Since August 2003, work on the Company’s Attawapiskat project has focused on follow up of the locations where high counts of diamond indicator minerals were found in the D6 glacial fan. This fan is located less than 10 kilometres from De Beers Victor diamond deposit, lies within the Attawapiskat kimberlite trend and straddles ground subject to both the Big Red and Dumont Joint Ventures. To date, some 552 power auger holes totalling 5,358 metres and 67 core holes totalling 2,370 metres have been drilled. Some 1,385 power auger samples have been collected and results are available for 940 of them. A combined aeromagnetic and electromagnetic survey was flown over 6,000 line kilometres and ground electromagnetic with or without gravity surveys have been carried out over approximately 23 line kilometres. Some 122 samples of kimberlitic material and glacial till have been analyzed for diamonds.

Results from the power auger sampling show that the D6 diamond indicator fan is more than 3.6 km long and 3.5 km wide. Within the D6 fan there are 18 separate interpreted glacial trains of diamond indicator minerals within the joint venture claims, which do not appear to originate from any of the known kimberlite pipes. The presence of multiple sources within the D6 fan is further supported by the high counts ($\leq 6 - 564$ grains (Av 19) per 20 kg) of diamond indicator minerals present in 856 samples occurring throughout the D6 fan. These trains are characterized by varying amounts of fresh (near source) grains of pyrope and eclogitic garnets, chrome diopside, picroilmenite and olivine contained within glacial deposits. The freshness of many of the grains suggests that their source is nearby and this is supported by the discovery of an angular

fragment of kimberlite, containing purple pyrope garnets, in one of the trains. As many of the diamond indicator grains have chemistries analogous to those minerals that grow with diamonds in commercial diamond deposits (e.g. Orapa), it is inferred that the source of the grains may contain significant diamond grades. The main method used to date to locate these postulated sources has been by systematic backtracking of the diamond indicator minerals up the inferred ice direction by power auger sampling, supplemented by core drilling at selected localities.

Kimberlite, and possible kimberlite, has been field logged in power auger holes in four areas (K1, K2, K3 and K4) which occur over an area of at least 900 by 200 metres within the D6 fan. In each case the kimberlite, and possible kimberlite, occurs between 11 and 18 metres depth and is overlain by glacial till. The kimberlitic rocks are extremely weathered and identification is based on appearance and texture and high counts (111 – 657 (Av 348) grains per 20 kg) of kimberlite indicator minerals. Of the 26 kimberlite or possible kimberlite samples processed, diamond indicator mineral counts ranged from 2 – 29 (Av 14) grains per 20kg.

K1, which is associated with a ground electromagnetic anomaly 150 metres in diameter, and K2 have been tested by core drilling with 11 holes totalling 430 metres being drilled. The holes bottomed in limestone and it is concluded that the kimberlite does not continue at depth. At K3, located 700 metres west northwest of K1, kimberlite and possible kimberlite, was encountered in 7 power auger holes over an area of 170 metres by 70 metres. Although three core holes, totalling 143 metres, drilled in the eastern part of the anomaly bottomed in limestone these holes do not adequately test the kimberlite occurrence and further core drilling is planned. A macrodiamond, of maximum dimension 0.819 mm, was recovered from a sample of glacial till weighing 19 kg down ice from K3. At K4, located approximately 150 metres to the northwest of K3, kimberlite was encountered in two power auger holes 50 metres apart. This occurrence which is open on three sides, contains strong counts, (13 – 23 per 20 kg), of diamond indicator minerals and a microdiamond was recovered from a 12 kg sample. K4 is currently being delineated by power auger sampling and will be tested, along with K3, by core drilling when this work is complete.

A ground electromagnetic anomaly (“EM2”) measuring at least 700 metres by 400 metres was tested by power auger sampling and core drilling. Power auger sampling located variable amounts of green kimberlitic clay and strong counts of unabraded diamond indicator minerals within glacial deposits at the anomalous site. A single microdiamond was also found. Two core holes (totalling 189 metres) drilled in the anomaly bottomed in Paleozoic sediments and it is concluded that the electromagnetic anomaly reflects near surface conductors here, consisting of till and green kimberlitic clay, and that the source of the diamond indicator minerals lies up ice.

There are several sites within the D6 indicator fan containing strong diamond indicator count (e.g. OT 134 which contains 44 diamond indicator and 466 kimberlite indicator grains per 20 kg) that have not yet been followed up. These are additional priority targets for ongoing work.

In addition to the 16 samples of kimberlite and green clays, a further 83 samples of glacial till containing high counts of diamond indicator minerals were analyzed for diamonds by caustic fusion. A macrodiamond was found in glacial till down ice from K3, a microdiamond was found in kimberlite encountered in a power auger hole in K4, a microdiamond was found in till at EM2 and a fourth diamond was found in glacial till within another fan 1.8 km from K3. The remaining samples are negative.

The helicopter geophysical survey yielded three anomalies and these are scheduled for testing by core drilling.

Whilst the glacial geology in the area is complex, and locating the kimberlite sources of the diamond indicator minerals is proving difficult, the Company is confident that it is just a question of time until the source rocks of the angular (near source) indicator minerals containing diamond inclusion compositions are found. Further work will consist of continued systematic back tracking of the best diamond indicator minerals up ice in the D6 fan by power auger sampling and core drill testing of discovered kimberlite and possible kimberlite occurrences. In addition, drill testing of the 3 helicopter geophysical targets as well as follow up of several other areas of strong diamond indicator counts and testing of several untested aeromagnetic anomalies will also be carried out”

During the period November 1, 2004 to January 31, 2005, a further 46 power auger holes, totaling 236 metres were drilled. The purpose of this work was mainly to follow up very strong diamond indicator results in the D6 fan as well as to “cut off” several fans. Results for 557 samples of basal till show that 514 contain diamond indicator (“DI”) minerals (i.e. minerals that grow with diamond). The average DI count is 18 grains per 20 kg and some samples contain more than 50 DI grains per 20kg. Many of the diamond indicator grains are fresh and occasionally angular and friable showing they are close to their source. Moreover, some of the garnets have kelyphite rims and some of the picroilmenite grains (picroilmenite is considered

a kimberlite indicator not a diamond indicator although it can be used to forecast preservation of diamonds within a kimberlite pipe) have leucoxene coatings, again indicting a proximal source.

All outstanding samples have now been processed. Future work will be determined from a review of these results, and research currently in progress to classify the sources of the diamond indicator minerals. Fieldwork will focus on power augering and drilling aimed at locating the source(s) of the best of these trains.

Wemindji James Bay Property, Quebec

During fiscal 2003, the Company acquired a 33.3% interest in various mineral claims located in the Wemindji James Bay region of Quebec, Canada from Kel-Ex in consideration for 200,000 common shares of the Company valued at \$80,000.

During the current fiscal year, the Company received notification from one joint venture party that they did not wish to participate in non-diamond related exploration on these claims. The Company is finalizing a joint venture agreement with the other party for the exploration of various base metals within the same claim area in the Wemindji James Bay region. The Company will hold a 50% interest in this joint venture while retaining its 33.3% share in the original project which will explore solely for diamonds. Accordingly, certain non-diamond exploration costs have been recorded to reflect the Company's increased interest.

A total of 1,068 drainage and till samples have been collected over an area of 360,000 km² and have been analyzed for diamond indicator minerals as well as a range of precious and other metals. Diamond indicator minerals have been found in a number of areas and these areas have been the focus of a follow up sampling program. No results have been announced.

On August 9, 2005, the Quebec Joint Venture announced that it had discovered anomalous concentrations of 28 metals within the reconnaissance area. In addition to analysis for diamond indicator minerals, the heavy mineral concentrates were also geochemically analyzed for copper, cobalt, nickel, silver, zinc and molybdenum by atomic absorption and for gold, silver, arsenic, barium, bromine, calcium, cobalt, chromium, cesium, iron, hafnium, mercury, iridium, molybdenum, sodium, nickel, rubidium, antimony, scandium, selenium, strontium, tantalum, thorium, uranium, tungsten, zinc and eight rare earth elements by neutron activation.

Anomalous gold concentrations have been found in more than 400 samples. Of these, 74 samples contain gold values between from 7,700 to 66,300 parts per billion ("ppb") (7.7 to 66.3 g/t). When compared with the upper limit of the range of background values of 60 ppb (the threshold value) these 74 samples are classified as "exceptionally anomalous." About 1/3 of the exceptionally anomalous samples contain anomalous amounts of silver, antimony plus/minus arsenic. This anomalous metal association suggests that the gold in these samples is derived from hard rock (not placer) sources. Whilst several of the exceptionally anomalous samples occur down ice, or close to, known gold deposits, most of them are unexplained and are thought to be derived from undiscovered mineralization.

Anomalous copper values have been found in 109 samples. Seventeen samples contain copper values between 120 and 374 parts per million ("ppm"). When compared with a threshold value of 40 ppm, these samples are classified as "strongly anomalous". One additional sample contains 3.36 percent copper and is exceptionally anomalous. Eleven of these latter 18 samples also contain anomalous cobalt values and two contain anomalous nickel values suggesting that some of the anomalous values may be derived from copper - nickel - cobalt mineralization. Apart from the exceptionally anomalous value, which is located in an area of known copper mineralization, the 17 strongly anomalous are unexplained and may reflect undiscovered mineralization.

Anomalous uranium values occur in 173 samples. Twenty-seven samples contain uranium values between 336 and 996 ppm. When compared with the threshold value of 165 ppm, these 27 samples are classified as strongly anomalous. These strongly anomalous samples are accompanied by anomalous lead (1210 - 2870 ppm) in twenty samples and thorium (5,000 - 14,900 ppm) in thirteen samples. The association of uranium and lead may point to Proterozoic or Archaean age uranium deposits. None of the strongly anomalous samples appear to be derived from known uranium occurrences and they are thought to reflect undiscovered mineralization.

As the Archaean shield of eastern Canada contains a number of world-class metal mines, e.g. gold in the Val d'Or region of Quebec, nickel - copper - cobalt at Sudbury and Voisey Bay, and Uranium at Blind River, the geochemical results obtained above are regarded as most encouraging; particularly since they are spread throughout the regional area. A follow up program of priority results has been conducted during 2006.

Kyle Lake Project

The Kyle Lake area is located approximately 200 km west of James Bay in Northern Ontario and about 100 km west of the Company's Attawapiskat project.

The Company acquired, by staking, a 100% interest in certain mineral claims located in the Kyle Lake area of Ontario, Canada. The Company then entered into an agreement effective June 30, 2004 with Arctic Star to sell a 20% contributing interest in the property to Arctic Star for proceeds of \$100,000, reimbursement of 20% of previous staking and exploration costs incurred on the property and an agreement to pay 20% of on-going exploration costs.

During fiscal 2005, Arctic Star advised the Company that it declined to contribute financially to exploration of the Kyle Lake project and the Company elected to increase its interest in the project by funding Arctic Star's contribution. At April 30, 2007, the working interest of the Company in the project was approximately 91.5%.

The property is subject to a 10% free carried interest in favour of Kel-Ex. This interest is financed on a pro-rata basis by the Company and Arctic Star and will be carried through to commercial production. Funds expended by the Company and Arctic Star in financing this interest will be repaid out of 90% of Kel-Ex's share of mine profits.

Technical Rationale

The Kyle lake region is considered prospective for commercial diamond bearing kimberlite pipes as all five of the previously known kimberlite pipes in the area contain diamonds. This percentage (100%) of diamond bearing to non-diamond bearing kimberlite pipes is much higher than the global average of 14% and indicates that this part of the Superior craton is extremely fertile for diamonds. The kimberlites are spread over a north – south distance of more than 100 km and, based on empirical observation of kimberlite fields elsewhere, this indicates potential for discovery of additional diamond bearing kimberlites. The known kimberlites were discovered by drilling aeromagnetic anomalies and are overlain by a layer of Paleozoic sedimentary rocks.

Aeromagnetics and Drill Testing of Aeromagnetic Anomalies

Following acquisition of previous aeromagnetic data over the Kyle region, 44 aeromagnetic targets were identified and staked. As sedimentary cover overlies the source of these anomalies, the anomalies cannot be screened by sampling for diamond indicator minerals (in contrast to the Attawapiskat area), and it was elected to test the anomalies by drilling. To keep costs down a small heliportable drill was acquired. Prior to drilling, a helimagnetic survey was carried out over 22 anomalies to prioritize them and to locate drill sites. As of December 31, 2004, eleven of these original targets had been drilled. At one anomaly, measuring 420 metres by 180 metres, a green brecciated rock was intersected in two core holes located 260 metres apart. This rock contains abundant chromite, olivine and clinopyroxene with lesser amounts of pyrope and picroilmenite, i.e. minerals typically found in kimberlite; however the mineral chemistry of these minerals indicate a source above the diamond stability field and thus the rock is considered of no commercial interest. Testing of 16 diamonds recovered from the drill core showed them to be of synthetic origin and it is considered that they are derived from the drill bit and are not significant. (Metalex uses drill bits containing only synthetic diamonds in its drilling operations. Synthetic diamonds can be distinguished from natural diamond on the basis of their morphology, internal structure and their nitrogen aggregation state.)

There have been significant advances in aeromagnetic technology since the early Kyle survey was flown, and in January 2005 the Company commissioned a new triaxial magnetic gradiometer survey over a prospective area of about 14,500 km². Lines were flown 200 metres apart and were located in between flight lines of the earlier Kyle aeromagnetic survey. These two aeromagnetic surveys were subsequently integrated resulting in a dataset with 100 metre line spacing.

Interpretation of the new survey was carried out almost concurrently with its acquisition and on May 19, 2005 the Company announced that a total of 500 aeromagnetic targets had been identified. 118 of these targets were regarded as high priority. Additional priority targets were identified subsequent to integrating the two aeromagnetic data sets. It was also announced that, as of May 19, 2005, twenty-four aeromagnetic targets had been tested by drilling and that drill testing of the remaining targets was ongoing.

Discovery of T1

On April 29, 2005 the Company announced that it had drilled into a diatreme breccia, subsequently called T1, at a vertical depth of 138.6 metres continuing to the end of the hole at 167.1 metres. Subsequently the breccia was identified as kimberlite. Forty-eight kg of kimberlite from this 35 mm core hole was analyzed and details of the diamonds recovered at various stages of the processing were reported in press releases dated May 16, May 19, and June 17, 2005. Details of the diamond recovered from the 48 kg are presented below:

Stone#	Carats**	Octa Carats	Macro	X-dimen*	Y-dimen*	Form***	Colour****	Inclusions
1	0.000058	5800		244.08	288.33	C	W	0
2	0.0000345	3450		146.73	131.76	C	W	4
3	0.000066	6600		225.16	199.33	B	W	3
4	0.0003175	31750		375.44	450.75	B	W	2
5	0.0014435	144350	Yes	589.16	858.86	B	W	3
6	0.0003895	38950		415.85	295.63	A	W	1
7	0.0000765	7650		93.94	406.69	C	W	1
8	0.000059	5900		172.94	217.75	C	E	3
9	0.000027	2700		142.76	105.60	C	W	4
10	0.0000955	9550		172.04	219.86	B	W	1
11	0.0000865	8650		171.83	243.31	B	E	1
12	0.0000935	9350		196.33	289.01	B	W	3
13	0.0000945	9450		277.77	172.80	B	W	1
14	0.0007505	75050	Yes	518.55	523.31	B	W	3
15	0.001349	134900	Yes	548.43	715.67	B	W	3
16	0.000059	5900		193.26	174.00	B	W	2
17	0.0000905	9050		196.79	251.81	B	W	2
18	0.0001615	16150		262.55	243.00	B	B	3
19	0.0001735	17350		264.01	257.61	B	W	4
20	0.000071	7100		260.74	190.00	C	W	1
21	0.000124	12400		331.43	245.93	B	W	4
22	0.0014355	143550	Yes	655.63	767.81	B	W	3
23	0.0004365	43650		458.80	361.52	B	W	3
24	0.000788	78800	Yes	481.00	540.00	B	W	1
25	0.0002705	27050		263.00	228.40	A	W	4
26	0.001334	133400	Yes	698.86	613.81	B	W	4
27	0.000021	2100		119.40	249.62	C	W	1
28	0.0000455	4550		304.11	368.11	C	W	1
29	0.0000145	1450		172.00	141.99	B	W	1
30	0.0000995	9950		268.90	238.74	B	W	3
31	0.0000185	1850		170.43	202.00	C	B	0
32	0.001999	199900	Yes	899.74	742.03	B	W	3
33	0.0000135	1350		140.06	142.72	C	W	0
34	0.0000055	550		22.00	41.00	B	B	1
35	0.0003665	36650		400.22	398.25	B	E	2

* The width and breadth (“X” and “Y”) of each of the diamond were measured using an electron microprobe.

** The weight of each diamond is determined using a diamond balance that reads to 8 decimal places.

*** Form: A = A single crystal equally developed along all three axes (e.g. an octahedron, cube or tetrahedron).
 B = the stone is a macle, an aggregate of several crystals, or a distorted stone (unlike A).
 C = the stone is very flat (i.e. a chip or a thin macle).

**** Colour W = white, Y = yellow, G = green, E = grey, B = brown

Seven out of the 35 diamonds exceed 0.5 mm in one dimension and are classified as macrodiamonds. Six stones exceed 0.5 mm in two dimensions. All of the macrodiamonds are white stones.

The distribution of the 35 diamonds, determined by sieving in accordance with CIMM guidelines, is given on the table below:

		Number of diamonds within certain sieve sizes in mm						
Weight of	<0.105	plus 0.105	plus 0.15	plus 0.212	plus 0.30	Plus 0.425	plus 0.6	Total
sample (kg)		minus 0.15	Minus 0.212	minus 0.30	Minus 0.425	minus 0.6	minus 0.85	Number
44	3	3	10	6	6	6	1	35

T1 Mini Bulk Sampling

In view of the encouraging results obtained from the discovery drill hole mentioned above, it was elected to collect a series of minibulk samples. Five of these samples were collected from holes collared in the geophysical center of the body, with one of these 5 holes drilled vertically and the remaining holes being inclined and drilled north, west, south and east respectively. These holes also broadly delineate the deposit at depth as well as providing minibulk samples. On August 10, 2005 it was announced that two of these holes had been completed and that the third hole was in progress. The first vertical hole intersected kimberlite at 133 metres and continued in kimberlite until it was abandoned at 306 metres. The second hole was an inclined hole and was drilled eastwards. It intersected kimberlite at 139 metres inclined depth and continued in kimberlite to 249 metres when it passed out of the pipe and into granite wall rock. The third hole, drilled westwards, intersected kimberlite at an inclined depth of 145 metres, passed through a granite xenolith from 152 to 171 metres, and was still in kimberlite at 194 metres. It was not possible to calculate the east – west dimension of the pipe at that time as it was not known whether the collars of the two inclined holes are located in the geographic centre of the pipe. The pipe has been modeled, on the basis of aeromagnetic data, as measuring 200 by 180 metres at its surface.

On November 3, 2005 the Company reported that 1,573 kg of kimberlite had been processed from the first two minibulk holes and 288 diamonds had been recovered (i.e. an average of 18 diamonds per hundred kg). The size distribution of the diamonds, determined by sieving in accordance with CIM guidelines, is given on the table below:

Sample	Number of diamonds within certain sieve sizes in mm								
	Weight (kg)	minus 0.105	0.105 - 0.15	0.15 - 0.212	0.212-0.30	0.30 - 0.425	0.425 - 0.60	0.60 - .85	0.85 - 1.18
1573.66	30	28	38	65	69	35	15	7	1

Forty-five diamonds exceed 0.5 mm on one dimension, and are classified as macrodiamonds, whilst 33 diamonds exceed 0.5 mm in two dimensions. The sample is dominated by white diamonds, (188 stones - 65%), with no inclusions.

On February 8, 2006 it was announced that a total of 339 diamonds had been recovered from 1,745 kg of kimberlite (19.4 diamonds per 100 kg). White diamonds comprise 73.7% of the sample. The size distribution of these 339 diamonds is given on the table below:

size (mm)	0.074 - 0.106	0.106 - 0.15	0.15 - 0.212	0.212 - 0.30	0.30 - 0.425	0.425 - 0.60	0.60 - 0.85	0.85 - 1.18	1.18 - 1.70
No of diamonds	39	38	47	72	78	41	16	7	1

On April 7, 2006 it was reported that 243 natural diamonds had been recovered from processing 190.49 kg of kimberlite drill core from drill hole T1-4. The size distribution and combined weights in each size fraction is tabulated below:

Sieve Size (mm)	< 0.106	0.106 to 0.15	0.15 to 0.212	0.212 to 0.3	0.3 to 0.425	0.425 to 0.6	0.6 to 0.85	0.85 to 1.18
No of diamonds	43	43	59	40	29	17	7	5
Weight (cts)	0.000154	0.000992	0.003401	0.007458	0.014818	0.025062	0.023499	0.042859

This diamond result equates to 127 diamonds per 100 kg and is much higher than the average of 19.4 diamonds per 100 kg from 1,745 kg of kimberlite reported in the press release dated February 8, 2006 or the value of 73 diamonds per 100 kg reported from 45 kg of kimberlite on June 17, 2005. Drill hole T1-4 was drilled due north at an angle of 76 degrees to determine the northern boundary of the T1 kimberlite pipe. It intersected kimberlite from 260 to 291 metres.

On April 27, 2006 the company reported that processing of a second sample from drill hole T1-4 had recovered 289 natural diamonds from 271.62 kg of kimberlite. The size distribution of these diamonds is given on the table below:

Sieve Size (mm)	less than 0.106	0.106 to 0.15	0.15 to 0.212	0.212 to 0.3	0.3 to 0.425	0.425 to 0.6	0.6 to 0.85	0.85 to 1.18
No of diamonds	70	53	55	45	30	21	12	3
Weight (cts)	0.0004	0.001247	0.003502	0.007524	0.015508	0.033509	0.042255	0.020618

Two of the three largest diamonds recovered, measuring 1.5 x 1.3 and 0.6 mm and 1.4 x 1.3 x 0.5 mm are chip fragments from larger stones, probably broken during core drilling. 201 of the 289 (69.55%) diamonds are white diamonds. When normalized to 100 kg, this result is very similar to the first sample reported from T1-4 and appears to demonstrate continuity of grade and stone size in this part of T1. The very high proportion of white diamonds is entirely consistent with other minibulk holes drilled in T1.

T1 Mineral Chemistry

On February 8, 2006 the Company reported the microprobe analyses of 2,912 mineral grains recovered from kimberlite drill core collected from T1. The purpose of the microprobe analyses are to identify minerals that grow with diamond (“diamond indicator minerals”) as well as to determine the diamond potential of T1.

The diamond indicator results are summarized below:

Mineral	Number of analyses
G10 peridotitic garnets	306
Diamond stability field chromite	194
Diamond stability field olivine	219
Diamond stability field clinopyroxene	2
Diamond stability field orthopyroxene	2

The G10 garnets, which comprise a highly anomalous proportion (29.5%) of the garnet analyses, include five G10 tens and seven G10 nines. These G10 ten and G10 nine garnets indicate exceptionally favourable physical conditions for the formation of diamonds and are therefore normally associated with kimberlites that contain high diamond grades. The clinopyroxenes include a grain whose composition equates to the composition of clinopyroxenes found in large (greater than 100 carat) diamonds from the Ekati and Premier Diamond Mines.

The above conclusion is reinforced from a study of the geotherm as determined by analysis of chrome diopside and the temperatures of formation of the diamond indicator minerals, as determined by the nickel content of harzburgitic garnets and the zinc content of chromites. These results confirm that many of the diamond indicator minerals originate at temperatures and pressures at which diamond is stable.

The absence of eclogitic garnets indicates that T1 is peridotitic in nature and that the contained diamonds will be derived from peridotite rather than from group 1 eclogite.

The above microprobe results are obtained from four drill holes, two drilled vertically in the centre of the aeromagnetic anomaly (holes T1-1 and T1-b reported on July 6, 2005 and April 27, 2005) and two inclined holes (T1-2 and T1-3 drilled inclined to the east and west respectively and reported on August 10, 2006). The results for T1-3 are for the section between 145 and 152 metres as the entire section from this hole had not yet been analyzed. The diamond indicator minerals reported above are distributed more or less equally throughout these drill holes suggesting that diamonds might also be similarly distributed.

CF Mineral Research Ltd carried out the sample processing of the drill core and recovered the indicator minerals. The analyses were also conducted by CF Minerals using two Cameca SX 50 electron microprobes. The analytical results were then compared with a database of over 15,000 analyses from indicator minerals included within or intergrown with diamond as well as indicator minerals from sources barren of diamonds.

On April 7, 2006 the Company reported that two high chrome G10 ten and 8 other G10 peridotitic garnets were also recovered along with numerous grains of diamond stability field chromite from drill hole T1-4.

T1 Bulk Sampling

On January 18, 2006 the Company announced that it had commissioned the collection and processing of a 200-tonne bulk sample from T1. The purpose of the bulk sample was to determine the likely diamond grade and indicative diamond values of T1.

The high proportion (65 – 70%) of pristine white micro and macrodiamonds recovered in T1 from a 1,573 kg minibulk sample (see press release dated November 3, 2005) appear similar in colour to a 243.52 carat parcel of commercial size diamonds recovered from the Victor kimberlite, 80 km east of T1 and exhibited at the Prospectors and Developers Association of Canada by De Beers Canada in March 2005. If the quality of the T1 diamonds obtained so far from T1 are representative of those that would be obtained in a production situation, then the value of the T1 diamonds might be similar to the Victor diamonds at US\$300 - \$400/ct. Currently the Victor diamonds are thought to have the highest average price ("run of mine") for kimberlite diamonds in the world.

In addition to a favourable size distribution of the diamonds as well as favourable numbers of pristine diamonds recovered from T1, the chemical compositions of diamond indicator minerals, including diamond stability field chromites, olivines, G10 garnets and chrome diopsides, are similar to the chemical compositions of the same minerals found in commercial kimberlites. The G10 garnets include seven G10-9's and a G10-10. These are the very best of the G10 garnets and, according to geologist Charles Fipke, occur in peridotitic kimberlite pipes containing high diamond grades. These are favourable factors and led the directors of Metalex and Arctic Star to commission the 200 tonne sample, which is the minimum size necessary to determine the grade of production diamonds and their indicative value. Should potentially commercial diamond grades and values be found from the bulk sample, then additional delineation drilling and further sampling will be carried out as part of a staged evaluation program which may lead to mine feasibility studies.

Due to delays for a variety of reasons, but mainly a mild winter and an early break-up, drilling did not start until mid April. On April 17, 2006 the Company announced that the first of 16 bulk sample holes has been completed. This vertical drill hole intersected kimberlite at 137 metres (450 feet) and, after passing through a granite xenolith, bottomed in kimberlite at 295 metres (990 feet). A total of 5,942 kg (13,074 pounds) of plus 0.425 mm kimberlite was collected. This kimberlite was shipped to the CF Mineral Research Laboratory for recovery of diamonds and assessment of the metallurgical characteristics of the kimberlite so that optimal treatment protocol for the remaining samples can be determined.

On June 27, 2006 the Company announced that six of the 16 planned holes have been completed and 81.918 tonnes of kimberlite have been collected. Drilling was behind schedule due to the late start and a compressor breakdown. This has been fixed and Hole 7 is in progress.

Metallurgical testing of the 6 tonne sample from the first hole has been completed by CF Mineral Research Ltd and the optimal diamond recovery circuit developed. Processing of this sample will commence shortly when two new ball mills have been commissioned.

On August 17, 2006, the Company provided the following update on T1:

“Processing of 1992.8 kg of kimberlite drill core from mini-bulk sample holes T1-5, T1-6 and the lower part of T1-3, drilled in diamondiferous kimberlite T1, has been completed and the CF Minerals Laboratory report that 896 natural diamonds were recovered. Approximately 70% of these are white diamonds.

To date 8 holes have been drilled in T1 of which diamond results are available for 6. A total of 4,201 kg of kimberlite core has been processed and 1,768 diamonds have been recovered. The size distribution of these diamonds is given on the table below (note this includes previously reported data for holes T1-B, T1-1, T1-2, T1-4 and the upper part of T1-3).

Drill Hole	Sample Weight (kg)	<0.106	0.106 - 0.15	0.15 - 0.212	0.212 - 0.3	0.3 - 0.425	0.425 - 0.6	0.6 - 0.85	0.85 - 1.18	1.18 - 1.7	Totals	% White Diamonds
T1 & T1B	62.12	4	3	10	6	6	7	1	0	0	37	81.1
T1-1	1,042.90	15	15	20	35	29	18	3	4	1	140	78.6
T1-2	584.58	15	14	19	32	42	17	12	3	0	154	53.3
T1-3	162.10	2	3	6	4	6	4	0	0	0	25	56.0
T1-4	462.56	113	96	114	85	59	38	19	8	0	532	58.5
T1-5	879.66	51	94	88	92	74	36	13	3	0	451	46.3
T1-6	1,007.56	65	54	95	84	70	35	16	9	0	428	57.7
Totals	4,201.48	265	279	352	338	286	155	64	27	1	1,767	58.4

Drill holes T1B and T1-1 are vertical holes drilled in the magnetic centre of the body (not necessarily the geographic centre) and holes T1-2 to T1 -5 are drilled from the same location but inclined at 74 degrees to the east, west, south and north respectively. T1 – 6 is located south of drill hole T1 and is drilled northwards at 60 degrees to locate the southern margin of the pipe.

The high proportion of white diamonds within T1 and the average diamond count of 420 diamonds per 1000 kg are most encouraging.

Collection of the 200 tonne bulk sample from T1 has been temporarily suspended pending extension of the bulk sampling permit granted by the Ministry of Northern Development and Mines (“MNDM”). Metalex has been advised by the MNDM that they (the MNDM) have a duty to consult with the affected First Nations and that they have met with the Marten Falls First Nation and the Attawapiskat First Nation on September 6, 2006.

The Ministry is continuing discussions with both Attawapiskat First Nation and Marten Falls First Nation. Discussions have centered on what is reasonable consultation for the Metalex project as related to the communities to assist them with an appropriate and meaningful consultation process. Metalex has initiated consultation with the affected First Nations on its own initiative in parallel with those of the MNDM.

The bulk sample will be processed in a timely manner once the full tonnage has been recovered and a heavy media plant has been commissioned.

First Nation Policy

The Company has a policy of working with relevant First Nation members. The Company started discussions in regard to the T1 bulk sample with the Attawapiskat First Nation in February 2006 and with the Marten Falls First Nation in March 2006. As of August 1, 2007, no agreement with either First Nation party has been reached. The Company remains committed to ongoing discussions provided all parties respect the rights of the other party and that each party brings reasonable expectations to the table.

Conclusion

The Company is most encouraged by the quality and appearance of the diamonds it has recovered so far although it is too early to tell if this quality is indicative of the quality of diamonds that will be recovered in a production situation. The Company is also most encouraged by the excellent mineral chemistry of the G10 ten and G10 nine garnets as these indicate exceptionally favourable physical conditions for the formation of diamonds and are therefore normally associated with kimberlites that contain high diamond grades. The clinopyroxenes include a grain whose composition equates to the composition of clinopyroxenes found in large (greater than 100 carat) diamonds from the Ekati and Premier Diamond Mines. The Company eagerly awaits the results of the 200 tonne bulk sample.

Discovery of New Kimberlites at the Kyle Project

A 28,620 line kilometre airborne geophysical survey was flown in late 2006. A total of 34 targets were identified by the survey and have been staked. Priority targets are in the process of being drilled.

On December 13, 2006 the Company reported the drill intersection of a new kimberlite (U1) on its T1 project. The new kimberlite is located in between the soon to be Victor Diamond Mine and the Company's prospective T1 diamond project.

Drilling intersected kimberlite at a depth of approximately 10 metres. Geophysical surveys indicate that U1 is a small pipe (less than one hectare). Continued drilling to a depth of 90 metres recovered a sample of about 108.42 kilograms which was air freighted to the CF Mineral Research laboratory for extraction of contained diamonds and analysis of indicator minerals. The diamond indicator minerals found within the sample are similar to those of samples from De Beers' Victor Mine 40 kilometers away. Diamond indicator minerals recovered include 59 Group I eclogitic garnets, 17 olivines, 6 clinopyroxenes, 3 chromites and 1 peridotitic G10 garnet. Three microdiamonds were recovered.

On January 30, 2007 the Company reported the drill intersection of a second new kimberlite, U2. Based on a ground geophysical survey the U2 kimberlite is estimated at 7 hectares and was intersected at a depth of 17 meters. A 87.88 kilogram sample of kimberlite was processed for indicator minerals and microdiamonds by attrition milling. Two micro-diamonds were recovered. Diamond indicator minerals recovered from this sample include 67 Group I eclogitic garnets, 20 clinopyroxenes, 16 olivines, 9 orthopyroxenes, 5 chromites and 3 peridotitic G10 garnets.

The diamondiferous nature of U2 was confirmed on May 23, 2007 when 17 diamonds were recovered from 142.82 kg of drill core from 71.3 to 99.1 meters in hole U2-2. The diamonds have a coarse size distribution and are predominantly gem quality, similar to those recovered from DeBeers' Victor Mine.

The Company has completed the 4 proposed NQ (4.76 cm diameter) inclined delineation holes in U2 to intersect additional kimberlite phases that occur as breccia clasts in the discovery hole.

New Liskeard Project

During fiscal 2005, the Company entered into an option agreement to acquire a 100% interest in certain mineral claims located in the New Liskeard area of Ontario, Canada for which the Company paid \$20,000 cash. Pursuant to the agreement, the Company also paid \$60,000 and issued 102,645 common shares valued at \$80,000 in fiscal 2006.

During the current fiscal year, the Company decided not to proceed with further exploration on this property and, accordingly, capitalized costs of \$306,835 were written off to operations.

Wawa Project

In July 2005, the Company executed an agreement with Mori Diamonds Inc ("Mori") that allows the Company to earn a 60% interest in certain claim units by solely funding the first diamond deposit discovered in the claim units to bankable feasibility. The Company paid \$229,500 to Mori during fiscal 2006 and agreed to pay \$100,000 annually until it earns its interest or withdraws from the venture. The minimum spending requirement of \$400,000 to have been incurred by May 31, 2006 was met. The claim units are subject to a 2% net smelter royalty.

In August 2005 the Company assigned certain rights and obligations under the Mori agreement to Dianor Resources Inc. ("Dianor"). Under the agreement, Dianor will pay 50% of all of the Company's costs pertaining to the Mori agreement and will receive 50% of the Company's entitlements and obligations. Dianor will also allow the Company access to its technical data base covering certain claims at Wawa.

On August 10, 2005 the Company announced that reconnaissance sampling has been completed over the Wawa claims with 130 drainage and rock samples having been collected. These samples were analyzed by the CF Mineral Research laboratory.

A press release from the Company dated December 4, 2006 announced the results of 5 conglomerate grab samples. These results are summarized in the following table:

Sample No.	Weight Kgs	Bottom Sieve aperture in microns*										Total Diamonds
		+75	+106	+150	+212	+300	+425	+600	+850	+1180	+1700	
RS40151	11.78	5	1	1	8	3	1	0	0	0	1	20
RS40152	10.22	4	1	1	2	1	0	0	0	0	0	9
RS40173	12.24	1	0	0	0	0	0	0	0	0	0	1
RS40174	19.45	10	24	30	27	4	2	3	0	0	0	100
RS40175	20.90	18	16	9	14	4	1	2	1	0	0	65

*1000 microns = 1 millimetre

The largest diamond recovered was a 0.093 carat, brown crystal measuring 2.87 x 2.51 x 1.85 millimetres. It was also reported that the diamondiferous conglomerate had been geologically mapped and had a strike length of three kilometres and a breadth of up to 180 meters.

Results of a further nine conglomerate grab samples were reported on April 27, 2007. In the eastern part of the conglomerate 119 diamonds were recovered from 79.60 kg. 112.63 kg of conglomerate from the western part returned 18 diamonds.

A 13 hole drill program has been completed on the joint venture ground to determine the subsurface extent of the outcropping diamond bearing conglomerates. The core has been logged and will be processed to determine the diamond content of the conglomerate.

Mali Project

In fiscal 2004, the Company was granted two Authorities to Prospect ("A to P") to conduct exploration activities in north-western Mali. The Company allowed these original A to P's to lapse and in February, 2005, was granted a single A to P having a term of 90 days with an option to extend it for a further 90 days in order to continue exploration activities in the area. This A to P lapsed in fiscal 2006 and accordingly, capitalized costs of \$472,113 were written off to operations during fiscal 2006.

In January 2007 an exploration license was granted covering 490 square kilometers. The license covers a period of three years and is renewable twice for a total of nine years.

The annual exploration commitment in CFA Francs ("CFA"), with Canadian Dollar equivalents using exchange rates at April 30, 2007 is as follows:

Fiscal		
2008	45,000,000 CFA	\$103,680
2009	121,000,000 CFA	\$278,784
2010	103,000,000 CFA	\$237,312

The Company has found exceptionally anomalous gold values (6 to 77 ppm) in reconnaissance heavy mineral concentrates and the Company announced that approximately 1,000 follow up samples have been collected from anomalous areas and have been sent to Australia for gold analysis by bulk cyanide leach.

Angola

Alluvial diamond exploration

The Company participates, as a member of a joint venture, in alluvial diamond exploration in Angola through its interest in Project Chitamba which owns an alluvial diamond license which comprises the project area. Pursuant to the agreement, the Company contributes 100% of all costs incurred by the project up to the end of feasibility studies. These costs are repaid out of future profits and during the period the costs are being repaid, the Company's interest in the project is 51%. After the Company's costs have been repaid, the Company's interest in the project will be 33%.

Although the alluvial rights to the Chitamba license were granted to the Company, the underlying agreement with a consortium of four private companies (the "Consortium") provided for the Consortium to retain an interest in alluvial diamonds and to fund all alluvial work in this license. As the Consortium was not been able to fund any exploration, the Company agreed to fund US\$400,000 of alluvial exploration in return for earning a 51% interest, of the Consortium's interest, in the alluvial license.

On June 1, 2005 the Company completed a settlement agreement with two members of the Consortium with respect to disputes which had arisen between those parties and the Company in relation to earlier joint efforts to secure certain diamond exploration concessions in Angola. Under the terms of the agreement, these two members relinquished any rights they might otherwise have had to the Angolan concessions in consideration for which the Company issued each of them 206,587 common shares at a total combined value of \$300,000.

On June 30, 2006, the Company completed a settlement agreement with a third member of the Consortium. Under the terms of the agreement, this member of the Consortium relinquished any rights it might otherwise have had to the Angolan concessions in consideration for which the Company agreed to pay that member \$200,000 in cash, in four equal instalments over a period of one year (paid). The Company also purchased all rights and title to the Chitamba project from the fourth member of the Consortium for \$44,444 in cash plus reimbursement of previous expenditure incurred by that member of US\$10,000. Thus the Company has no further obligations, outside of two remaining instalments, to any members of the Consortium and the members of the Consortium have no further interest in the Chitamba Project. Under the terms of the Chitamba alluvial license, the Company must spend US\$3,000,000 by July 31, 2008.

The 3,000km² alluvial license covers the western part of the Chitamba – Lulo kimberlite field and a 30 km stretch of the Cuango River and its tributaries. Prolific alluvial diamonds have been mined from the north flowing Cuango River downstream from the Chitamba license since 1971. For example, in 2004 SDM recovered diamonds worth US\$106 million, at an average stone value of about US\$200 per carat, about 80 km downstream from the Chitamba license. As most kimberlites in northern Angola appear to be constrained between the continental projections of two parallel transform faults. The most likely source area of the Cuango diamonds is considered to be the Chitamba – Lulo kimberlite cluster. This theory is supported by a trail of alluvial diamonds that occurs in the Cuango River sediments up to the northern border of the Chitamba permit as well as a trail of alluvial diamonds in the Lulo River which drain the eastern part of the said kimberlite cluster.

There are more than 170 known kimberlites in the Chitamba – Lulo kimberlite cluster, 13 of which are located within the Chitamba license. More than half of the kimberlites within this large cluster are contained within the watershed of the Cuango River and are drained by westerly flowing tributaries to the Cuango. The most important tributary, from the point of view of the Chitamba license, is the Cucumbi River. The Cucumbi River drains an area that contains more than 100 kimberlites, or kimberlites inferred from magnetic anomalies, and it is expected that diamonds eroded from these kimberlites will travel down the present and ancient courses of the Cucumbi River. Some of these diamonds will be deposited in areas where the carrying capacity of the river is reduced, for example where the Cucumbi River enters the almost flat Cuango River flood plain. Endiama, the Angola State diamond arm, have told the Company that 12,000 carats were recovered from the Cucumbi River at this location over a three week period by a certain General and that a 216 ct diamond was recovered by garimpeiros nearby.

In order to get an overview of the alluvial diamond potential of the Chitamba license the Company carried out a heavy mineral survey over the entire license area. Samples were analyzed for kimberlite and diamond indicator minerals at the CF Mineral Research laboratory in Canada. This survey demonstrated that streams in the area east of the Cuango River, and its flood plain, are of greatest interest. It also demonstrated that there appear to be two types of kimberlite in the area, one dominated by eclogitic and peridotitic garnets; the other by peridotitic garnets. If this is the case, these different types of kimberlite may impact the distribution of alluvial diamonds. The primary importance of the eastern part of the permit is also supported by the fact that most of the aeromagnetic anomalies occur in this area.

Metalex attempted to explore for gravels at the dump zone of the Cucumbi River using a small hand held power auger. This work was not successful as the maximum depth that could be reached before the auger holes collapsed was 5 metres. However, sand, and thin gravels found in the auger holes were panned on site and 83 concentrates recovered were sent to the CF Mineral Research Laboratory for analysis. Picroilmenite, and other kimberlite indicator minerals, were found in some of the samples indicating that this river drains deposits of kimberlite. If heavy minerals are deposited, diamonds will be too.

On June 27, 2006 it was announced that road construction to the Cucumbi River had been completed and that the dredge, processing plant and camp were being mobilized to the Cucumbi River and that the dredge would shortly be operational. The dredge was used to implement a systematic exploration program whose objective is to discover and evaluate a commercial alluvial diamond resource. This work was managed by Johan Milho, a South African dredging expert and a South African security expert was hired to assist with security of diamond recovery.

Prior to the onset of the wet season in late 2006 dredging was undertaken at 7 sites along the Cucumbi River and 12 sites along the Cuango River in search of sheet gravels, potholes and bedrock depressions. Whilst no sheet gravels were found a possible pothole, more than 20 metres deep, was found in the Cucumbi River where it flows over a 0.52 hectare aeromagnetic anomaly. As most of the annual US\$ 100 million SDM production, some 80 km downstream, is derived from mining diamonds from potholes and rock bars this possible pothole is regarded as a very high priority target to be tested during the 2007 dry season. Other alluvial targets identified include rock bars, rapids and sediments over a 20 hectare aeromagnetic anomaly bisected by the Cuango River.

Kimberlite Diamond Exploration

The Company also entered into an agreement for kimberlite diamond exploration in Angola pursuant to an agreement executed by the Angolan Council of Ministers in April 2005. Under the terms of the agreement, the Company contributes 100% of all costs incurred by the project up to the end of feasibility studies. These costs are repaid out of future profits and during the period the costs are being repaid, the Company's interest in the project is 55-60%. After the Company's costs have been repaid, the Company's interest in the project is 25%. Under the terms of the Chitamba kimberlite license, the Company must spend US \$10,000,000 by April 29, 2008. The Company's ability to meet this expenditure criteria will be dependent upon its success in raising additional financing.

There were thirteen known kimberlites within the Chitamba licence at the start of the joint venture. The eastern part of the area is overlain with Quaternary deposits and is not amenable to exploration by heavy mineral sampling - the previous exploration method used. To explore for new kimberlites, as well as to locate the known discoveries, the Company purchased approximately 11,000 line km of aeromagnetic data flown over the entire Chitamba permit. This data was flown on a 250 metre line spacing and 80 metre terrain clearance.

On September 7, 2005 it was announced that, after further study, Scott Hogg and Associates Geophysics had identified more than 100 aeromagnetic anomalies indicative of steeply dipping volcanic vents indicative of kimberlite. Fifty six of these anomalies were modeled and the results indicated potential for the discovery of kimberlites ranging from dykes to bodies of up to 500 meters in diameter. All but one of the aeromagnetic anomalies are clustered within an area of 760 km² in the eastern part of the 3,000 km² license and are drained by the Cuango River.

On November 22, 2005 the Company announced that it had discovered three new bodies of kimberlite on its license. The kimberlites were found by follow up of aeromagnetic anomalies (see press release dated September 7, 2005) using ground magnetic surveys and shallow auger drilling. The modelled sizes of the kimberlites, based on a re-interpretation of aeromagnetic data in 2006, are 164 by 248 metres (1.64 ha); 150 by 150 metres (1.76 ha) and 200 by 82 metres (1.3 ha). Auger samples were collected and sent to the CF Mineral Research laboratory for analysis for diamonds.

A further 5 targets were also investigated but the overburden was too deep or too hard in three of them and these are to be drill tested at a later date. Red sediments were intersected in the fourth and as these sediments could be crater infill over kimberlite this target also warrants drilling. The fifth anomaly is interpreted to be due to magnetic country rocks and is not of interest.

Processing of an 11.3 kg grab sample of kimberlite breccia taken from a garimpeiro pit in the Caicala kimberlite, discovered by the Company last year, returned one gem quality octahedral microdiamond diamond measuring 2.05 mm x 2.09 mm x 1.43 mm. Abundant eclogitic garnets, purple pyrope, picroilmenite and chrome diopside, as well as minor chromite, were also recovered and these minerals were sent for analysis at the CF Mineral Research laboratory. The modelled size of Caicala, based on aeromagnetics, is 460 x 230 metres (8.3 ha) and further work is proposed to identify and sample each of the phases of kimberlite present.

As previously mentioned, the results of the kimberlite indicator mineral sampling suggest that kimberlites in the northeastern part of the license contain both peridotitic and eclogitic garnets whilst in the southeastern part of the license the peridotitic anomalies predominate. Seven of the 10 largest aeromagnetic targets occur in this area whereas the 13 known kimberlites occur in the area dominated by eclogitic and peridotitic garnets.

On April 10, 2006 the Company announced that interpretation of aeromagnetic data over the 3,000 km² Angola kimberlite license had been completed by Scott Hogg and Associates, geophysicists, and 127 anomalies were identified. These anomalies were interpreted to reflect pipe like bodies which range in size from less than one hectare to greater than 39 hectares. The size of the four largest bodies, as interpreted from aeromagnetism, were anomaly 14352A at 700 by 700 metres (39 ha); 31530A at 500 by 500 metres (20 ha); 31590A at 375 by 375 metres (11 ha) and Caicala at 460 by 230 metres (8.3 ha). As follow up of four similar anomalies located three new kimberlites, the Company is confident that many new kimberlite pipes remain to be discovered within the Chitamba license, some of which may be of substantial size.

As reported previously a heavy mineral survey has been carried out over the entire Chitamba license. Kimberlite indicator minerals with diamond inclusion composition occur at seven drainage sites and three auger sites. At one drainage site six diamond inclusion composition G10 garnets were found and this result upgrades the priority of nearby aeromagnetic anomalies.

All four of the kimberlites discovered by Metalex to date are either diamondiferous or show potential for being diamondiferous. Two microdiamonds were found in 26.7 kg of weathered rock taken from the Caicala kimberlite, one of minus 0.15 mm plus 0.106 mm, the other minus 0.106 mm plus 0.074mm. A 10.5 kg sample of kimberlite 14032A contained one minus 0.15 mm plus 0.106 mm microdiamond and one diamond inclusion composition garnet. The Company proposes to collect a 200 kg sample from each kimberlite phase within these deposits to determine their commercial diamond potential.

All of the aeromagnetic anomalies referred to above, and about 70 other kimberlites within and to the east of the Chitamba license (the Chitamba – Lulo kimberlite cluster), are drained by the Cuango River and its tributaries. Alluvial diamonds, with a value probably exceeding US\$1 billion, have been mined from the Cuango River during the last 30 years downstream from the Chitamba license. The source of these alluvial diamonds is considered to be the Chitamba – Lulo kimberlite cluster and, as previous test work in 1974 failed to locate any confirmed diamondiferous kimberlite within this cluster, the source of the Cuango diamonds remains to be determined. Metalex is well placed to discover such a source by follow up of the aeromagnetic anomalies referred to above.

The Company is flying infill aeromagnetism to locate and further prioritize the discovered aeromagnetic anomalies. Priority anomalies will be tested by carrying out a helicopter supported drilling programme.

Morocco

In May 2004, the Company entered into an agreement with the Office National de Hydrocarbures et des Mines (“ONHYM”) to conduct preliminary exploration work in Southern Morocco in order to identify areas to undertake further exploration work. In May 2005, the Company added additional areas for exploration work on the same terms and conditions as the first agreement. The agreements were governed by the laws and regulations of the Kingdom of Morocco and were valid until November 2006. The reconnaissance mineral sampling program over these areas is complete and, based on the positive results of this work, the parties are finalizing a joint venture agreement for further exploration of the claim areas, under which the Company will hold a 60% contributing interest.

The concessions cover part of an Archaean craton and are considered highly prospective for diamond bearing kimberlite, base and precious metals.

Reconnaissance sampling of the first area was completed in June 2004, with 946 samples being collected and analyzed for kimberlite indicator minerals and diamond indicator minerals. Kimberlite indicator minerals were found in 410 samples. Diamond indicator minerals were found at 16 sites, thus substantially narrowing down the area to be followed up. These (944) samples were sent for geochemical analysis for base and precious metals as well as iron ore.

On December 5, 2005 the Company announced that reconnaissance sampling was complete over the second concession of 11,293 km², with 696 samples having been collected. These samples were sent to the CF Mineral Research Laboratory for analysis for diamond indicator minerals and base and precious metals.

The 946 samples collected from the first concession area of 13,514 km² were analyzed for base and precious metals. Strongly anomalous metal values were found and the number of priority samples for follow up is tabulated below:

Metal Group	Number of High Priority Samples
Gold	28
Copper – Lead – Zinc	13
Nickel – Copper – cobalt	18
Uranium	4

Provisional interpretation of aeromagnetic data flown by the BRPM (now ONHYM) and covering approximately 40% of the first concession area and 10% of the second concession area was by completed by Scott Hogg and Associates. Thirty one anomalies, indicative of pipe like bodies, have been identified in the first area and 19 anomalies have been identified in the second area.

Follow up work of the geochemical and geophysical anomalies, as well as the previously discussed 16 diamond indicator anomalies, commenced in late 2005 with 389 heavy mineral samples, 50 bleg samples and 60 rock samples having been collected for analysis. On June 27, 2006 the Company decided to collect another 1,000 follow up samples from this first area.

In relation to the second area, the Company announced on June 27, 2006 that it contained two regions with positive diamond indicator results. In one region G10 peridotitic garnets occur in 6 drainage/loam samples collected over an area of approximately 1,000 km². One of these samples contained an outstanding result of three G10 garnet grains comprising one G10 - 9, one G10 - 5 and one G10 - 3. Many of the G10 grains are fresh, and they are interpreted to be derived from nearby diamond bearing kimberlite(s).

In another region within the second area, 17 sample sites contain picroilmenite grains clustered over an area of 1,000 km². Several samples sites also contain pyrope garnet and a diamond stability field olivine has been found at one location. These results are interpreted to reflect an undiscovered kimberlite field.

First pass field follow up of the encouraging diamond indicator results in the second area was complete in mid 2006 and the samples collected were sent to the CF Mineral Research Laboratory for analysis. The Company is particularly encouraged by both the diamond indicator results and metal results of the Morocco project.

Greenland

In December 2003, the Company applied for an exploration license in the Umiiviit area of West Greenland. The License was granted in May 2004 and is effective to December 31, 2008.

In January 2005, the Company entered into an agreement with Cantex Mine Development Corp. (“Cantex”), whereby two exploration licenses held by Cantex in Greenland were transferred and assigned to the Company. In return, the Company will solely fund exploration of these licenses until January 20, 2008 and Cantex is granted an option to purchase a 25% interest in these licenses, and the Company’s Umiiviit license, for \$120,000. The option is exercisable between January 1 and 20, 2008 and, if exercised, both parties will contribute to ongoing exploration costs in proportion to their interests. Cantex is related to the Company by virtue of directors in common.

The Company granted Kel-Ex a 10% free carried interest.

In December 2006, portions of the exploration licenses were relinquished and the remaining ground was amalgamated into a single license.

The annual exploration commitment in Danish Kroners (“DKK”), with Canadian Dollar equivalents using exchange rates at April 30, 2007 is as follows:

Calendar		
2007	6,878,080 DKK	\$1,394,875
2008	6,878,080 DKK	\$1,394,875

The expenditure commitments are based on a fixed amount plus a sliding scale based on the surface area of the licenses. The commitment will be reduced if certain ground is relinquished. As of April 30, 2007, the Company has incurred approximately 13,113,543 DKK in expenditures towards this commitment.

Cantex has discovered large boulders of kimberlite in one of its licenses and 458 kg of this kimberlite was analyzed at the CF Mineral Research Laboratory.

On March 14, 2005 the company reported that two samples, collected 430 metres apart, contained exceptional concentrations of fresh diamond indicator minerals in glacial till as summarized below:

	Sample 1	Sample 2
Weight (kg)	7.4	11.0
G10 garnets	83	342
Group 1 eclogitic garnets	1	1
Titanium chromite	9	6
Chrome diopside	83	4
Diamond inclusion olivine	2	4
Picroilmenite	276	341

The G10 garnets from both samples plot in the same part of the Cr₂O₃ – CaO diamond stability field as some G10 garnets that occur as inclusions within diamonds at the Finsch, Bultfontein, Roberts Victor, Dokolowayo, Koffiefontein, Mwadui, New Elands, Premier and Orapa mines in Africa as well as from G10 garnets from commercial diamond deposits in Russia, Venezuela, Namibia and Sable (Ekati) Canada. Most of the G10 garnets are enclosed, or partially enclosed, in friable kelyphite alteration rims or have angular broken near-source textures. Geologist Charles Fipke commented that “that no previous exploration samples seen by him, including more than 9,000 samples from the Ekati claim block, has produced as many high quality subcalcic G10 garnets as either of the two Greenland samples”.

About 110 picroilmenite microprobe analyses from each sample indicate that the two samples are likely derived from the same kimberlite source and that conditions within this source allowed good preservation of any contained diamonds.

In a press release dated June 24, 2005 the Company announced that ground geophysical work was complete over part of the lake, a program of heavy mineral sampling had been carried out and that 16 drill holes had been drilled across the shallow lake. It also announced that glacial studies were in progress to determine the ice direction.

In its press release dated November 29, 2005, the Company announced that:

“The glacial studies indicated that there were two ice directions. The first, and dominant, direction was that of an ice sheet moving in an approximate east to west direction. The second direction was that of a small valley glacier moving from the west to the east. This latter glaciation had the effect of redistributing minerals dispersed by the earlier ice sheet. This means that the likely source of the diamond indicator minerals is either in the lake or to the immediate west or southwest of the anomalous sites. Additional ground geophysical surveying is planned to explore previously unsurveyed prospective areas.

Diamond indicator sampling around the shores of the lake returned largely negative results and this is entirely consistent with a diamond source being located within the 5 km by 500 – 1000 metre lake.

Interpretation of the ground geophysics, carried out by Scott Hogg and Associates, has identified 14 magnetic targets ranging in size from 50 metres to 250 metres in diameter. Two of these, located in the lake, are coincident with ground gravity anomalies.

Sixteen shallow drill holes were drilled in a broadly north-south section across the lake to collect basal till samples to assist in determining the ice direction. Processing of these till samples is still in progress. The drill holes continued into bedrock and several holes intersected thin kimberlite like sills. However, as no significant amounts of pyrope garnet have been found in these rocks the sills are not the source of the exceptional diamond indicator minerals discovered”.

It was concluded that the coincident magnetic and gravity anomalies are very high priority drill targets because they are up ice (first glaciation) from the two samples containing exceptional diamond indicators considered to be derived from nearby diamond bearing kimberlite pipes. In this regard it is noted that some of the kimberlite pipes at Ekati also have coincident magnetic and gravity responses.

Brazil

In May 2007, the Company announced that it has entered into a letter of intent with Kel-Ex Development Ltd. to acquire certain mineral claims located in the State of Mato Grosso, Brazil in consideration for the issuance of 10,000,000 common shares of the Company (subject to regulatory and shareholder approval).

General

Certain Metalex exploration projects are managed by Kel-Ex Development Ltd., a company owned by Dr. Charles Fipke, an internationally recognized diamond geologist. Dr. Fipke is the Chairman of Metalex. Kel-Ex provides Metalex with access to its advanced proprietary databases and interpretational techniques. In return Kel-Ex receives a 10% administration fee on certain projects to cover costs and, in the case of Canadian projects, a 10% interest in certain projects carried to production. Dr. Fipke also owns the CF Mineral Research laboratory where samples collected in the exploration programs are analyzed. Metalex's management is satisfied that all such related party transactions are entered into at a rate that is reflective of current market rates.

Selected Annual Information

The following table provides a brief summary of the Company's financial data for the three most recent fiscal years. For more detailed information, refer to the Financial Statements.

	Year Ended April 30, 2007	Year Ended April 30, 2006	Year Ended April 30, 2005
Total revenues	\$ -	\$ -	\$ -
Loss before other items	(1,571,532)	(1,797,461)	(1,640,446)
Loss for the year	(844,316)	(266,406)	(1,663,969)
Basic and diluted loss per share	(0.01)	(0.01)	(0.06)
Total assets	45,348,725	45,730,623	21,443,275
Long-term debt	149,532	-	-
Cash dividends	-	-	-

The main reasons for the increase in the loss from 2006 to 2007 were a decrease in the future income tax recovery of \$1,233,934 offset in part by a decrease in other expenses of \$225,929 and mineral property write-offs of \$165,278 and an increase in interest income of \$264,817. The main reasons for the decrease in the loss from 2005 to 2006 were an increase in the future income tax recovery of \$1,528,166 and a decrease in stock-based compensation of \$427,791, offset in part by increases in other expenses of \$558,394.

Total assets decreased in 2007 by \$381,898 primarily as a result of applying cash to the reduction of accounts payable and amounts due to related parties. The cash raised from common shares issued under private placements during the previous year were invested in mineral properties, exploration advances and equipment. Total assets increased from 2005 to 2006 by \$24,287,348 primarily as a result of cash raised from common shares issued under private placements, increases in accounts payable and by loans from related parties.

The Company's accounting policy is to record its mineral properties at cost. Exploration and development expenditures relating to mineral properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

Results of Operations

Year ended April 30, 2007

The Company's principal source of income during the year was from interest on bank deposits which amounted to \$312,706 compared to \$47,889 in 2006. The increase in interest income reflects the higher average cash balances during the current year. Substantial financing through private placements occurred during the last four months of fiscal 2006 and in the first month of fiscal 2007.

The net loss for the year ended April 30, 2007 amounted to \$844,316 (\$0.01 per share) compared to \$266,406 (\$0.01 per share) for the year ended April 30, 2006.

The loss before income taxes decreased by \$656,024, or 29.5%, to \$1,565,661 in the year ended April 30, 2007. This difference is largely due to significantly less travel costs and management fees paid as senior management spent less time on capital raising activity and more time in the field on project work. Also, increases in amortization, consulting, professional fees and office and administrative expenses were offset by reductions in mineral property write-offs, property investigation and stock-based compensation and an increase in interest income.

Consulting fees increased from \$104,789 in 2006 to \$300,475 in 2007 as a result of additional independent financing consultants.

Management fees, representing payments to a director and to two companies controlled by directors, decreased from \$424,675 in 2006 to \$252,206 in 2007 due to more project oriented work being undertaken by senior management with the applicable portions of their compensation being charged to mineral property expenditures as consulting fees.

Office and administrative expenses increased from \$273,567 in 2006 to \$411,381 in 2007 due to taxes on flow-through funds raised, the purchase of D&O liability insurance as well as increases in staff, office size and general office activity.

Professional fees increased from \$112,828 in 2006 to \$164,763 in 2007 as a result of timing differences in interim audit billings and fees related to the incorporation of subsidiaries.

Transfer agent and filing fees remained constant at \$35,779 in 2007 compared to \$37,934 in 2006.

Travel expenses decreased from \$389,572 in 2006 to \$74,030 in 2007 primarily due to decreased capital raising activity.

Mineral property costs, net of cost recoveries, incurred (paid or payable) during the years ended April 30, 2007 and April 30, 2006 were as follows:

	2007	2006
Attawapiskat	\$ 39,914	\$ 600,870
Wemindji, James Bay	459,287	90,289
Kyle Lake	8,773,458	5,337,886
New Liskeard	77,268	148,647
Wawa	512,318	241,533
Mali	80,939	14,681
Angola	2,420,998	2,031,003
Morocco	903,665	615,582
Greenland	<u>470,235</u>	<u>1,207,447</u>
Total	\$ 13,738,082	\$ 10,287,938

Summary of Quarterly Results

	Three Months Ended April 30, 2007	Three Months Ended January 31, 2007	Three Months Ended October 31, 2006	Three Months Ended July 31, 2006
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss before other items	(247,638)	(544,992)	(434,942)	(343,960)
Earnings (Loss) for the period	75,242	(579,016)	24,416	(364,958)
Basic and diluted earnings (loss) per share	0.01	(0.01)	0.00	(0.01)

	Three Months Ended April 30, 2006	Three Months Ended January 31, 2006	Three Months Ended October 31, 2005	Three Months Ended July 31, 2005
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss before other items	(362,926)	(822,339)	(323,074)	(289,122)
Earnings (Loss) for the period	1,014,831	(502,052)	(594,214)	(184,971)
Basic and diluted loss per share	0.03	(0.01)	(0.02)	(0.01)

The earnings for the 4th quarter of 2007 resulted solely from the recording of a future income tax recovery in the amount of \$278,512. The loss for the 3rd quarter included the write-off of mineral properties in the amount of \$306,835 with respect to exploration costs in New Liskeard, Ontario. The earnings for the 2nd quarter also resulted solely from the recording of a future income tax recovery in the amount of \$344,029. With the exception of the items noted above, other fluctuations in operating results for the four quarters in 2007 reflect the timing of various normal business transactions.

The earnings for the 4th quarter of 2006 resulted solely from the recording of a future income tax recovery in the amount of \$1,381,440. The loss for the 3rd quarter included stock-based compensation of \$329,397 with respect to the granting of 500,000 stock options. The loss for the 2nd quarter included the write-off of mineral properties in the amount of \$472,113 with respect to exploration costs in Mali.

Liquidity and Capital Resources

The Company has financed its operations to date primarily through the issuance of common shares and the exercise of stock options. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

As at April 30, 2007, the Company had cash of \$1,712,144 and had made exploration advances of \$679,438, representing funds to be applied to future exploration work. As at April 30, 2006, the Company had cash of \$14,392,563 and had made exploration advances of \$1,542,817.

Working capital and exploration advances at April 30, 2007 amounted to \$28,765 compared to \$10,909,869 at April 30, 2006.

Liquidity has been provided primarily as a result of private placement equity financings completed in January 2006, April 2006 and May 2006. These private placements are summarized as follows:

	Price Per Share	Flow-Through Shares		Non-Flow-Through Units	
		Number of Shares	Gross Proceeds	Number of Units	Gross Proceeds
January, 2006	0.70	6,866,285	\$ 4,806,399	1,442,642	\$ 1,009,849
April, 2006	0.70	1,198,928	839,250	1,088,428	761,900
April, 2006	0.70	10,570,571	7,399,400	7,989,285	5,592,500
May, 2006	0.70	<u>4,551,200</u>	<u>3,185,840</u>	<u>1,423,100</u>	<u>996,170</u>
		23,186,984	\$ 16,230,889	11,943,455	\$ 8,360,419

Each non-flow-through unit consists of one common share and one half of one share purchase warrant. Each whole warrant is exercisable for the purchase of one common share in the Company at a price of \$0.85 per share (January, 2006 issue) or \$0.88 per share (April, 2006 and May, 2006 issues), for a period of one year from the date of issuance. A total of 1,668,587 agents' warrants were issued as finder's fees in connection with these private placements and are exercisable at \$0.88 per share for a period of one year from the date of issuance.

During the year ended April 30, 2007, the Company expended \$288,796 (2006 – \$322,889) for the acquisition of equipment and received proceeds of \$448,604 (2006 – \$Nil) on the disposition of equipment.

Contractual obligations

Effective November 2006, the Company completed a sales-leaseback transaction with a company controlled by a director involving field equipment with an original cost of \$448,604 and net book value of \$371,816. The field equipment was sold for proceeds of \$448,604 and then leased back under a capital lease obligation of \$448,604. The lease obligation is non-interest bearing and for a term of 30 months.

Future minimum lease payments under the capital lease are as follows:

	2007	2006
Total minimum lease payments	\$ 448,604	\$ -
Less: payments to April 30, 2007	<u>(149,535)</u>	<u>-</u>
Balance of obligation	299,069	-
Less: current portion	<u>(149,537)</u>	<u>-</u>
Non-current portion – due Fiscal 2009	\$ 149,532	\$ -

Since this transaction is a related party transaction, the resulting gain of \$76,788 (being the difference between the sales proceeds and net book value of the assets) has been credited to contributed surplus. On the subsequent leaseback, the difference between the lease obligation and original carrying value of the equipment of \$76,788 has been charged against contributed surplus. The net effect to contributed surplus is \$Nil.

Off-Balance Sheet Arrangements

The Company has not entered into and off-balance sheet transactions.

Related Party Transactions

During the year period ended April 30, 2007, the Company entered into the following transactions involving related parties:

- a) Paid or accrued either, directly or indirectly, sampling, laboratory and mineralogical costs of \$1,370,279 (2006 - \$2,009,768) to a company controlled by a director; and a 10% administration fee of \$160,262 (2006 - \$109,488), consulting fees of \$237,134 (2006 - \$126,382) and drilling and equipment rental charges of \$294,427 (2006 - \$268,481) to another company controlled by a director.
- b) Paid or accrued management fees of \$218,498 (2006 - \$399,675) to two companies controlled by directors.
- c) Paid or accrued office expenses of \$10,150 (2006 - \$39,193) to a company controlled by a director.
- d) Paid or accrued a 10% administration fee of \$6,157 (2006 - \$1,330) and shared office and administrative costs of \$2,543 (2006 - \$1,374) to a company controlled by a director and to a company with common directors and management.
- e) Recorded recoveries, which were netted against various expenses, for shared office and administrative costs of \$126,715 (2006 - \$7,926) and for shared field expenditures of \$104,375 (2006 - \$40,208) from a company controlled by a director and from a company with common directors and management.

Included in exploration advances is \$285,530 (April 30, 2006 - \$889,399) which represent funds advanced to Kel-Ex, a company controlled by a director of the Company, towards the exploration of certain mineral properties. Kel-Ex is the operator of these properties and is holding these funds on behalf of the Company towards future exploration work. During fiscal 2006, Kel-Ex and the Company agreed to convert various exploration payments made on behalf of the Company totaling \$526,477 and included in net exploration advances, to a loan payable.

Included in accounts payable is \$600,164 (April 30, 2006 - \$253,874) for laboratory and mineralogical costs, \$44,435 (April 30, 2006 - \$137,582) for project payroll and camp supplies costs, \$6,492 (April 30, 2006 - \$7,500) for management fees and \$11,713 (April 30, 2006 - \$9,637) for shared office and administrative costs owing to companies controlled by directors and a company with common directors and management.

Included in accounts receivable is \$90,133 (April 30, 2006 - \$40,209) for shared equipment and camp supplies costs incurred in a joint exploration program in Greenland and \$17,483 (April 30, 2006 - \$11,033) for shared office and administrative costs due from a company controlled by a director and a company with common directors and management.

Amounts due to related party, which were owing to a director of the Company, were paid in full (April 30, 2006 - \$157,994),

These transactions were in the normal course of operations and measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

Loan payable to related parties

A forbearance of indebtedness agreement was completed effective April 30, 2006 whereby accounts payable and advances of \$2,536,707 due to a director and companies controlled by a director were exchanged for the loan payable. The loan is non-interest bearing, matures on April 1, 2008, and is secured by a general security agreement on the Company's assets.

During the year ended April 30, 2007, payments totaling \$1,104,831 and exploration advances totaling \$412,824 were applied to reduce the loan, which has a balance remaining of \$1,019,052.

Outstanding share data

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

As at August 10, 2007, the Company had outstanding 85,838,374 common shares, 3,910,000 stock options with a weighted average exercise price of \$0.72 per share and 8,522,500 share purchase warrants with a weighted average exercise price of \$0.75 per share.

Risks and uncertainties

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. Certain of the Company's mineral properties are also located in emerging nations and consequently may be subject to a higher level of risk compared to developed countries. Operations, the status of mineral property rights, title to the properties and the recoverability of amounts shown for mineral properties in emerging nations can be affected by changing economic, regulatory and political situations. Other risks facing the Company include competition, environmental and insurance risks, fluctuations in metal prices, share price volatility and uncertainty of additional financing.

Financial instruments

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, capital lease obligation and loan payable to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Change in accounting policy

Financial instruments

Effective May 1, 2007 the Company will adopt the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company is required to classify its cash, receivables, accounts payable and accrued liabilities, amounts due to related parties, loans payable, and capital lease obligations.