

**METALEX VENTURES LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JULY 31, 2009**

(Unaudited – Prepared by Management)

# **METALEX VENTURES LTD.**

## **UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTH PERIOD ENDED JULY 31, 2009**

### **NOTICE TO READER**

Management has compiled the unaudited consolidated financial statements of Metalex Ventures Ltd. for the three month period ended July 31, 2009 (along with the comparative interim period in 2008). The Company's external auditors have not reviewed these statements.

**METALEX VENTURES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited – Prepared by Management)

|  | July 31,<br>2009    | April 30,<br>2009   |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| <b>Current</b>   |                     |                     |
| Cash   | \$ 656,779          | \$ 866,414          |
| Receivables  | 230,028             | 243,664             |
| Prepaid expenses   | <u>78,752</u>       | <u>19,357</u>       |
|  | 965,559             | 1,129,435           |
| <b>Mineral properties</b> (Note 3)                       | 369,750             | 369,750             |
| <b>Equipment</b> (Note 5)                                | <u>208,896</u>      | <u>321,061</u>      |
|  | <u>\$ 1,544,205</u> | <u>\$ 1,820,246</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b> |                     |                     |
| <b>Current</b>   |                     |                     |
| Accounts payable and accrued liabilities                 | \$ 7,381,136        | \$ 6,308,075        |
| Exploration advance deposit                              | 250,000             | 250,000             |
| Current portion of capital lease obligations (Note 7)    | <u>127,123</u>      | <u>190,685</u>      |
|  | 7,758,259           | 6,748,760           |
| <b>Shareholders' equity (deficiency)</b>                 |                     |                     |
| Capital stock (Note 6)                                   | 46,377,500          | 46,377,500          |
| Contributed surplus (Note 6)                             | 7,832,795           | 7,832,795           |
| Deficit  | <u>(60,424,349)</u> | <u>(59,138,809)</u> |
|  | <u>(6,214,054)</u>  | <u>(4,928,514)</u>  |
|  | <u>\$ 1,544,205</u> | <u>\$ 1,820,246</u> |

**Nature and continuance of operations** (Note 1)

**Contingencies** (Note 11)

**Subsequent event** (Note 12)

**On behalf of the Board:**

\_\_\_\_\_  
*"Lorie Waisberg"* Director      \_\_\_\_\_  
*"Chad Ulansky"* Director

See accompanying notes to consolidated financial statements.

**METALEX VENTURES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited – Prepared by Management)

|  | Three Month<br>Period Ended<br>July 31,<br>2009 | Three Month<br>Period Ended<br>July 31,<br>2008<br><small>(re-stated Note 2)</small> |
|--|---|--|
| <b>Expenses</b>                                      |   |  |
| Amortization   | \$ 17,608                                       | \$ 14,418  |
| Exploration expenditures (Note 4)                    | 1,122,297                                       | 1,853,463  |
| Management fees                                      | 15,000  | 22,250   |
| Office and administrative                            | 74,573  | 94,177   |
| Professional fees                                    | 47,215  | 55,417   |
| Property investigation                               | -   | 31,556   |
| Stock-based compensation                             | -   | 19,331   |
| Transfer agent and filing fees                       | 3,063   | 4,977  |
| Travel and promotion                                 | <u>35,049</u>                                   | <u>21,387</u>  |
| <b>Loss before other items</b>                       | <u>(1,314,805)</u>                              | <u>(2,116,976)</u>   |
| <b>Other items</b>                                   |   |  |
| Administration fees earned                           | 5,621   | 309,827  |
| Interest income                                      | 1,105   | 11,170   |
| Foreign exchange gain                                | <u>22,539</u>                                   | <u>63,090</u>  |
|  | <u>29,265</u>                                   | <u>384,087</u>   |
| <b>Loss and comprehensive loss for the period</b>    | (1,285,540)                                     | (1,732,889)  |
| <b>Deficit, beginning of period</b>                  | <u>(59,138,809)</u>                             | <u>(52,724,283)</u>  |
| <b>Deficit, end of period</b>                        | <u>\$ (60,424,349)</u>                          | <u>\$ (54,457,172)</u>   |
| <b>Basic and diluted loss per share</b>              | <u>\$ (0.14)</u>                                | <u>\$ (0.19)</u>   |
| <b>Weighted average number of shares outstanding</b> | <u>9,379,160</u>                                | <u>9,339,107</u>   |

See accompanying notes to consolidated financial statements.

**METALEX VENTURES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)

|   | Three Month<br>Period Ended<br>July 31,<br>2009 | Three Month<br>Period Ended<br>July 31,<br>2008<br><small>(re-stated Note 2)</small> |
|---|---|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |   |  |
| Loss for the period                                     | \$ (1,285,540)                                  | \$ (1,732,889)   |
| Items not affecting cash:                               |   |  |
| Amortization  | 112,165   | 108,975  |
| Stock-based compensation                                | -   | 19,331   |
| Change in non-cash working capital items:               |   |  |
| (Increase) decrease in receivables                      | 13,636  | (398,324)  |
| Increase in prepaid expenses                            | (59,395)  | (4,636)  |
| Increase in accounts payable and<br>accrued liabilities | <u>289,636</u>                                  | <u>2,349,838</u>   |
| Net cash provided by (used in) operating activities     | <u>(929,498)</u>                                | <u>342,295</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>             |   |  |
| Net cash used in investing activities                   | <u>-</u>  | <u>-</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>             |   |  |
| Advances from related party                             | 783,425   | -  |
| Payments on capital lease                               | <u>(63,562)</u>                                 | <u>(100,946)</u>   |
| Net cash provided by (used in) financing activities     | <u>719,863</u>                                  | <u>(100,946)</u>   |
| <b>Decrease in cash during the period</b>               | (209,635)                                       | 241,349  |
| <b>Cash, beginning of period</b>                        | <u>866,414</u>                                  | <u>1,477,634</u>   |
| <b>Cash, end of period</b>                              | <u>\$ 656,779</u>                               | <u>\$ 1,718,983</u>  |
| <b>Cash paid for interest during the period</b>         | <u>\$ 3,178</u>                                 | <u>\$ 3,178</u>  |
| <b>Cash paid for income taxes during the period</b>     | <u>\$ -</u>                                     | <u>\$ -</u>  |

See accompanying notes to consolidated financial statements..

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company's principal business activity is the acquisition and exploration of mineral properties. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage.

The Company has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of the amounts is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on its ability to develop its mineral properties, receive continued financial support, complete equity financings, or generate profitable operations in the future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

**2. BASIS OF PRESENTATION**

The interim period financial statements of Metalex Ventures Ltd., (the “Company” or “Metalex”), have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”). All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual filing. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

During fiscal 2009, the Company consolidated its outstanding common shares on the basis of ten existing shares to one new share. All references to number of shares and per share amounts have been retroactively restated to reflect the consolidation.

During the final quarter of fiscal 2009, the Company changed its accounting policy regarding mineral properties. Previously the Company capitalized all acquisition costs and exploration expenditures directly related to specific mineral properties, net of recoveries received. Under the new policy, property exploration costs incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred. All direct costs related to the acquisition of mineral property interests will continue to be capitalized.

As provided by Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1506, the Company accounted for this change in accounting policy on a retrospective basis with prior period restatement. As such, certain comparative figures in these financial statements have been reclassified to reflect the change in accounting policy.

**METALEX VENTURES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**JULY 31, 2009**

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**2. BASIS OF PRESENTATION (con't...)**

Effective May 1, 2009, the Company adopted the following new standards and accounting policies issued by the CICA on a prospective basis with no restatement of prior period financial statements:

*Goodwill and intangible assets*

In February 2008, the CICA issued Handbook Section 3064 “Goodwill and intangible assets”, replacing Section 3062, “Goodwill and other intangible assets and Section 3450, “Research and development costs”. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after October 1, 2008. This standard is not expected to have any effect on the Company’s financial statements.

**Recent accounting pronouncements**

*Business combinations*

In January 2009, the CICA issued the new Handbook Section 1582 “Business Combinations”, effective for fiscal years beginning on or after January 1, 2011. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company’s financial statements to evaluate the nature and financial effects of its business combinations. This standard is not expected to have any effect on the Company’s financial statements unless and until one or more business combination transactions occur.

*International Financial Reporting Standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending April 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**3. MINERAL PROPERTIES**

The carrying values of the Company’s mineral properties are as follows:

|                                | July 31,<br>2009  | April 30,<br>2009 |
|--------------------------------|-------------------|-------------------|
| Property acquisition costs:    |                   |                   |
| Attawapiskat, Ontario          | \$ 225,000        | \$ 225,000        |
| James Bay, Quebec              | 80,000            | 80,000            |
| Wawa, Ontario                  | <u>64,750</u>     | <u>64,750</u>     |
| <b>Total acquisition costs</b> | <b>\$ 369,750</b> | <b>\$ 369,750</b> |

**METALEX VENTURES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. EXPLORATION EXPENDITURES**

|   | Attawapiskat,<br>Ontario | James Bay,<br>Quebec | Kyle Lake,<br>Ontario | James Bay,<br>Ontario | Wawa,<br>Ontario    | Mali             | Angola               | Morocco             | Greenland           | Total                |
|---|--------------------------|----------------------|-----------------------|-----------------------|---------------------|------------------|----------------------|---------------------|---------------------|----------------------|
| Cumulative expenditures, April 30, 2008           | \$ 8,665,960             | \$ 1,028,962         | \$ 22,813,132         | \$ -                  | \$ 1,202,622        | \$ 82,540        | \$ 9,620,832         | \$ 2,551,890        | \$ 3,225,582        | \$ 49,191,520        |
| <b>Additions</b>                                  |                          |                      |                       |                       |                     |                  |                      |                     |                     |                      |
| Aircraft field transport                          | -                        | 257,916              | 186,233               | 2,918,978             | -                   | -                | 118,177              | -                   | -                   | 3,481,304            |
| Camp and field supplies                           | -                        | 9,430                | 71,861                | 440,737               | -                   | -                | 608,202              | -                   | -                   | 1,130,230            |
| Drill supplies and repairs                        | -                        | -                    | 61,665                | 384,970               | 39,612              | -                | 40,016               | -                   | -                   | 526,263              |
| Equipment rental and amortization                 | -                        | 16,813               | 555,713               | 206,902               | -                   | -                | 307,879              | -                   | -                   | 1,087,307            |
| Fuel  | -                        | 27,560               | 10,147                | 1,022,943             | -                   | -                | 142,719              | -                   | -                   | 1,203,369            |
| Licenses, Rent and other                          | 31,052                   | 58,673               | 6,814                 | 2,000                 | 50,000              | 3,986            | 120,451              | -                   | 1,062               | 274,038              |
| Labour  | 7,885                    | 176,604              | 59,465                | 2,950,844             | 3,377               | 6,268            | 1,425,894            | 13,698              | 4,749               | 4,648,784            |
| Sample laboratory analysis                        | -                        | 259,741              | 16,290                | 148,186               | 150,210             | -                | 557,622              | 6,257               | -                   | 1,138,306            |
| Shipping and freight                              | -                        | 18,278               | 46,286                | 31,113                | 2,302               | -                | 392,534              | -                   | -                   | 490,513              |
| Telephone and communications                      | -                        | 676                  | 34,028                | 68,468                | -                   | -                | 38,980               | -                   | -                   | 142,152              |
| Travel and accommodation                          | 296                      | 46,334               | 217,015               | 159,308               | 133                 | 266              | 131,265              | 1,806               | -                   | 556,423              |
| <b>Total additions</b>                            | <b>39,233</b>            | <b>872,025</b>       | <b>1,265,517</b>      | <b>8,334,449</b>      | <b>245,634</b>      | <b>10,520</b>    | <b>3,883,739</b>     | <b>21,761</b>       | <b>5,811</b>        | <b>14,678,689</b>    |
| Cost recoveries                                   | (6,600)                  | -                    | (29,668)              | (8,334,449)           | -                   | -                | -                    | -                   | -                   | (8,370,717)          |
| <b>Net exploration expenditures during year</b>   | <b>32,633</b>            | <b>872,025</b>       | <b>1,235,849</b>      | <b>-</b>              | <b>245,634</b>      | <b>10,520</b>    | <b>3,883,739</b>     | <b>21,761</b>       | <b>5,811</b>        | <b>6,307,972</b>     |
| Cumulative expenditures, April 30, 2009           | 8,698,593                | 1,900,987            | 24,048,981            | -                     | 1,448,256           | 93,060           | 13,504,571           | 2,573,651           | 3,231,393           | 55,499,492           |
| <b>Additions</b>                                  |                          |                      |                       |                       |                     |                  |                      |                     |                     |                      |
| Aircraft field transport                          | -                        | -                    | -                     | 16,828                | -                   | -                | 26,035               | -                   | -                   | 42,863               |
| Camp and field supplies                           | -                        | -                    | 1,074                 | 30,943                | -                   | -                | 188,136              | 39                  | -                   | 220,192              |
| Drill supplies and repairs                        | -                        | -                    | -                     | -                     | -                   | -                | 12,678               | -                   | -                   | 12,678               |
| Equipment rental and amortization                 | -                        | -                    | 90,993                | -                     | -                   | -                | 63,564               | -                   | -                   | 154,557              |
| Fuel  | -                        | -                    | -                     | -                     | -                   | -                | 28,770               | -                   | -                   | 28,770               |
| Licenses, Rent and other                          | 1,116                    | -                    | -                     | -                     | -                   | -                | 30,117               | -                   | 15,414              | 46,647               |
| Labour  | 1,501                    | 2,519                | 5,565                 | -                     | -                   | -                | 462,144              | 914                 | 149                 | 472,792              |
| Sample laboratory analysis                        | -                        | -                    | -                     | 13,010                | -                   | -                | -                    | -                   | -                   | 13,010               |
| Shipping and freight                              | -                        | -                    | 10,305                | -                     | -                   | -                | 105,754              | -                   | -                   | 116,059              |
| Telephone and communications                      | -                        | -                    | -                     | 242                   | -                   | -                | 16,238               | -                   | -                   | 16,480               |
| Travel and accommodation                          | -                        | -                    | 126                   | -                     | -                   | -                | 59,146               | -                   | -                   | 59,272               |
| <b>Total additions</b>                            | <b>2,617</b>             | <b>2,519</b>         | <b>108,063</b>        | <b>61,023</b>         | <b>-</b>            | <b>-</b>         | <b>992,582</b>       | <b>953</b>          | <b>15,563</b>       | <b>1,183,320</b>     |
| Cost recoveries                                   | -                        | -                    | -                     | (61,023)              | -                   | -                | -                    | -                   | -                   | (61,023)             |
| <b>Net exploration expenditures during period</b> | <b>2,617</b>             | <b>2,519</b>         | <b>108,063</b>        | <b>-</b>              | <b>-</b>            | <b>-</b>         | <b>992,582</b>       | <b>953</b>          | <b>15,563</b>       | <b>1,122,297</b>     |
| <b>Cumulative expenditures, July 31, 2009</b>     | <b>\$ 8,701,210</b>      | <b>\$ 1,903,506</b>  | <b>\$ 24,157,044</b>  | <b>\$ -</b>           | <b>\$ 1,448,256</b> | <b>\$ 93,060</b> | <b>\$ 14,497,153</b> | <b>\$ 2,574,604</b> | <b>\$ 3,246,956</b> | <b>\$ 56,621,789</b> |

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

**METALEX VENTURES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
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**5. EQUIPMENT**

|                        | Expected useful life | July 31, 2009 |                          |                | April 30, 2009 |                          |                |
|------------------------|----------------------|---------------|--------------------------|----------------|----------------|--------------------------|----------------|
|                        |                      | Cost          | Accumulated Amortization | Net Book Value | Cost           | Accumulated Amortization | Net Book Value |
| Field equipment        | 2-3 years            | \$ 880,309    | \$ 722,302               | \$ 158,007     | \$ 880,309     | \$ 627,745               | \$ 252,564     |
| Automotive             | 3 years              | 241,176       | 199,928                  | 41,248         | 241,176        | 183,727                  | 57,449         |
| Computer equipment     | 3 years              | 17,174        | 9,043                    | 8,131          | 17,174         | 7,900                    | 9,274          |
| Furniture and fixtures | 5 years              | <u>5,194</u>  | <u>3,684</u>             | <u>1,510</u>   | <u>5,194</u>   | <u>3,420</u>             | <u>1,774</u>   |
|                        |                      | \$ 1,143,853  | \$ 934,957               | \$ 208,896     | \$ 1,143,853   | \$ 822,792               | \$ 321,061     |

Field equipment at July 31, 2009 with a cost of \$880,309 (April 30, 2009 - \$880,309) and net book value of \$158,007 (April 30, 2009 - \$252,564) is held under two capital leases (Note 7). Amortization on this field equipment has been charged to exploration expenditures.

**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

|   | Number of Shares | Amount        | Contributed Surplus |
|---|------------------|---------------|---------------------|
| Authorized  |                  |               |                     |
| Unlimited number of common shares without par value |                  |               |                     |
| Issued  |                  |               |                     |
| Balance as at April 30, 2009                        | 9,379,160        | \$ 46,377,500 | \$ 7,832,795        |
|   | <u>-</u>         | <u>-</u>      | <u>-</u>            |
| Balance as at July 31, 2009                         | 9,379,160        | \$ 46,377,500 | \$ 7,832,795        |

**Deferred share unit plan**

The Company has a deferred share unit plan whereby directors can receive compensation in the form of a deferred share unit. Under the plan, directors will earn compensation quarterly at which time the number of deferred share units will be determined based on the Company's share price at the end of the quarter. Upon leaving the Board, directors, at their discretion, can elect to receive either cash or shares for the deferred compensation. As of July 31, 2009, \$214,167 of deferred compensation (April 30, 2009 - \$199,167) has been accrued in accounts payable which equates to 144,470 shares (April 30, 2009 – 128,680 shares) if the directors elected to receive shares under the plan.

**Stock options and warrants**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years with vesting provisions determined by the Board of Directors.

**METALEX VENTURES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (con't...)**

Stock option and share purchase warrant transactions are summarized as follows:

|                              | Stock Options |                                 | Warrants  |                                 |
|------------------------------|---------------|---------------------------------|-----------|---------------------------------|
|                              | Number        | Weighted Average Exercise Price | Number    | Weighted Average Exercise Price |
| Outstanding, April 30, 2009  | 516,800       | \$ 1.08                         | 1,012,700 | \$ 7.10                         |
| Granted                      | -             | -                               | -         | -                               |
| Expired/cancelled            | -             | -                               | -         | -                               |
| Outstanding, July 31, 2009   | 516,800       | \$ 1.08                         | 1,012,700 | \$ 7.10                         |
| Number currently exercisable | 516,800       | \$ 1.08                         | 1,012,700 | \$ 7.10                         |

The following incentive stock options and warrants were outstanding at July 31, 2009:

|                 | Number                  | Exercise Price | Expiry Date       |
|-----------------|-------------------------|----------------|-------------------|
| <b>Options</b>  | 5,000                   | \$ 7.00        | November 1, 2011  |
|                 | 3,000                   | 4.50           | March 5, 2013     |
|                 | <u>508,800</u>          | 1.00           | November 18, 2013 |
|                 | 516,800                 |                |                   |
| <b>Warrants</b> | 381,000                 | \$ 7.50        | August 3, 2009    |
|                 | 471,250                 | 7.50           | August 3, 2009    |
|                 | 76,200                  | 5.50           | August 3, 2009    |
|                 | <u>84,250</u>           | 4.50           | August 3, 2009    |
|                 | 1,012,700 (see Note 12) |                |                   |

**METALEX VENTURES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties not disclosed elsewhere in these financial statements:

- a) Paid or accrued either, directly or indirectly, sampling, laboratory and mineralogical costs of \$Nil (2008 - \$8,241) to a company controlled by a director; and a 10% administration fee of \$13,667 (2008 - \$33,391), geological consulting fees of \$71,383 (2008 - \$78,375), drilling and equipment rental charges of \$Nil (2008 - \$22,791), interest on equipment leases of \$3,178 (2008 - \$3,178) and shared office and administrative costs of \$3,559 (2008 - \$5,325) to two companies controlled by directors.
- b) Recorded recoveries, which were netted against various expenses, for shared office and administrative costs of \$7,899 (2008 - \$11,079) and for shared field expenditures of \$Nil (2008 - \$108,697) from a company controlled by a director and from a company with common directors and management.

Included in accounts payable is \$1,063,329 (April 30, 2009 - \$1,063,329) for laboratory and mineralogical costs, \$1,675,743 (April 30, 2009 - \$1,517,271) for project payroll and camp supplies costs, \$86,529 (April 30, 2009 - \$88,446) for consulting fees, \$190,479 (April 30, 2009 - \$159,164) for shared office and administrative costs, \$510,476 (April 30, 2009 - \$507,860) for exploration work completed on certain properties owing to companies controlled by directors and a company with common directors and management. In addition, \$2,487,225 (April 30, 2009 - \$1,703,800) of cash advances has been received from a company controlled by a director and are included in accounts payable. The advances are with no fixed terms of repayment and without interest.

Included in receivables is \$10,171 (April 30, 2009 - \$13,713) for shared office and administrative costs due from a company controlled by a director and from a company with common directors and management.

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.

*Leases payable to related party*

Effective November 2006, the Company completed a sale-leaseback transaction with a company controlled by a director involving field equipment with an original cost of \$448,604. As of April 30, 2009 this lease obligation has been fully repaid.

Effective February 2008, the Company entered into a capital lease with a company controlled by a director involving field equipment with a cost of \$508,492. The lease obligation carries an imputed interest rate of 5% and a term of 24 months.

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

|                              | July 31,<br>2009 | April 30,<br>2009 |
|------------------------------|------------------|-------------------|
| Total minimum lease payments | \$ 533,917       | \$ 533,917        |
| Less: imputed interest       | (25,425)         | (25,425)          |
| Less: payments made          | <u>(381,369)</u> | <u>(317,807)</u>  |
| Balance of obligation        | 127,123          | 190,685           |
| Less: current portion        | <u>(127,123)</u> | <u>(190,685)</u>  |
| Non-current portion          | \$ -             | \$ -              |

## **8. CAPITAL RISK MANAGEMENT**

The Company includes equity, comprised of issued common shares, contributed surplus and deficit, in the definition of capital.

The Company's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company expects its current capital resources will not be sufficient to complete its exploration and development plans and operations through its current operating period and will be required to raise additional funds through future equity issuances or secure other financing. Recently, the Company has relied on extended credit terms and/or advances from a related party to fund its operations. The Company is currently not subject to externally imposed capital requirements. The Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in secure deposits in large Canadian financial institutions.

The Company's primary objective with respect to capital management is to ensure adequate liquid capital resources are in place to fund the exploration and development of its mineral properties while maintaining its ongoing operations. To secure the additional capital to pursue these plans, the Company may attempt to raise additional funds through the issuance of debt and or equity.

## **9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, exploration advance deposit and capital lease obligations. 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 a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and commodity price risk.

### **a) Currency risk**

While the Company's capital is raised in Canadian dollars, the Company is conducting business in Angola, Mali and Greenland whose currencies are the Rand, Franc and Krone, respectively. As such, the Company is subject to risk due to fluctuations in the exchange rates for those currencies as well as the United States and Canadian dollar. The Company does not use derivative financial instruments to reduce its exposure to foreign currency risk.

### **b) Credit risk**

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company's cash is in large Canadian financial institutions and it does not have any asset-backed commercial paper. The Company's receivables consist mainly of mineral property recoveries due from joint venture partners and GST receivable due from the Federal Government of Canada. The Company is subject to the risk that its joint venture partners will default on amounts owing for their portion of exploration expenditures (July 31, 2009 - \$203,129). Any such amounts defaulted would dilute that partners' interest in the exploration joint venture and would require the Company to pick up the proportionate share of future exploration expenditures.

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**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no material interest bearing financial obligations or assets.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 8.

e) Price risk

The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of diamonds and other minerals. The Company's input costs are also affected by the price of fuel. Management monitors diamond, precious metal and fuel prices to determine the appropriate course of action to be taken by the Company.

**10. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the acquisition and exploration of mineral properties. Geographic information is as follows:

|  | July 31,<br>2009  | April 30,<br>2009 |
|--|-------------------|-------------------|
| Capital Assets (Mineral properties and equipment): |                   |                   |
| Canada   | \$ 410,289        | \$ 442,690        |
| Angola   | 168,357           | 248,121           |
|  | <u>\$ 578,646</u> | <u>\$ 690,811</u> |

**11. CONTINGENCIES**

In June 2009, a legal action was commenced against the Company by a vendor that provided drilling rig equipment to the Company. The amount of the claim is for approximately \$310,000 (all of which the Company has accrued) with additional charges of \$20,000 per month going forward. The vendor is also seeking approximately \$6,000,000 for damages, immediate recovery of its equipment, and reimbursement for costs of the legal action.

The Company believes the lawsuit to be without merit and intends to defend against the lawsuit vigorously. At this time, the likelihood of the outcome is not determinable and no liability in excess of \$370,000 has been recorded in connection with this lawsuit.

The Company has responsibility for certain de-mobilization costs associated with the drill rig but the costs are not determinable at this time.

**12. SUBSEQUENT EVENT**

Subsequent to July 31, 2009 an aggregate of 1,012,700 warrants with a weighted average exercise price of \$7.10 expired unexercised.