

**METALEX VENTURES LTD.**

Consolidated Financial Statements

October 31, 2008

(Unaudited – Prepared by Management)

# **METALEX VENTURES LTD.**

## **UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SIX MONTH PERIOD ENDED OCTOBER 31, 2008**

### **NOTICE TO READER**

Management has compiled the unaudited consolidated financial statements of Metalex Ventures Ltd. for the six month period ended October 31, 2008 (along with the comparative interim period in 2007). The Company's external auditors have not reviewed these statements.

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

	October 31, 2008	April 30, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 772,193	\$ 1,477,634
Receivables	3,998,671	2,306,960
Prepaid expenses	<u>14,125</u>	<u>3,450</u>
	4,784,989	3,788,044
<b>Mineral properties</b> (Note 3)	48,175,065	44,792,674
<b>Equipment</b> (Note 4)	492,526	710,036
<b>Exploration advances</b>	<u>131,417</u>	<u>118,191</u>
	<u>\$ 53,583,997</u>	<u>\$ 49,408,945</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 7,043,613	\$ 3,081,850
Current portion of capital lease obligations (Note 6)	<u>329,013</u>	<u>403,781</u>
	7,372,626	3,485,631
<b>Capital lease obligations due to related party</b> (Note 6)	63,562	190,685
<b>Future income taxes</b>	<u>5,560,950</u>	<u>5,477,881</u>
	<u>12,997,138</u>	<u>9,154,197</u>
<b>Shareholders' equity</b>		
Capital stock (Note 5)	46,316,125	46,316,125
Contributed surplus (Note 5)	7,737,194	7,717,863
Deficit	<u>(13,466,460)</u>	<u>(13,779,240)</u>
	<u>40,586,859</u>	<u>40,254,748</u>
	<u>\$ 53,583,997</u>	<u>\$ 49,408,945</u>

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

**Subsequent events** (Note 11)

**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 Period Ended October 31, 2008	Three Month Period Ended October 31, 2007	Six Month Period Ended October 31, 2008	Six Month Period Ended October 31, 2007
<b>Expenses</b>				
Amortization	\$ 14,454	\$ 17,572	\$ 28,872	\$ 35,164
Consulting fees	-	45,145	-	45,145
Management fees	37,975	60,875	84,975	150,275
Office and administrative	81,384	50,600	151,871	157,576
Professional fees	14,512	8,966	69,929	81,019
Property investigation	192	55	40,279	22,191
Stock based compensation (Note 5)	-	17,306	19,331	17,306
Transfer agent and filing fees	7,407	9,181	12,384	15,414
Travel and promotion	<u>30,877</u>	<u>60,813</u>	<u>51,204</u>	<u>178,111</u>
<b>Loss before other items</b>	(186,801)	(270,513)	(458,845)	(702,201)
<b>Other items</b>				
Administration fees	473,185	-	783,012	-
Interest income	15,471	51,967	26,641	71,320
Foreign exchange gain (loss)	<u>(18,049)</u>	<u>(27,594)</u>	<u>45,041</u>	<u>(33,178)</u>
	<u>470,607</u>	<u>24,373</u>	<u>854,694</u>	<u>38,142</u>
<b>Earnings (loss) before income taxes</b>	283,806	(246,140)	395,849	(664,059)
<b>Future income tax (expense) recovery</b>	<u>(51,335)</u>	<u>386,727</u>	<u>(83,069)</u>	<u>486,769</u>
<b>Net earnings (loss) and comprehensive earnings (loss) for the period</b>	232,471	140,587	312,780	(177,290)
<b>Deficit, beginning of period</b>	<u>(13,698,931)</u>	<u>(10,406,611)</u>	<u>(13,779,240)</u>	<u>(10,088,734)</u>
<b>Deficit, end of period</b>	<u>\$(13,466,460)</u>	<u>\$(10,266,024)</u>	<u>\$(13,466,460)</u>	<u>\$(10,266,024)</u>
<b>Basic and diluted earnings (loss) per share</b>	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.00)
<b>Weighted average number of shares outstanding</b>	93,391,073	85,282,558	93,391,073	72,949,551

See accompanying notes to consolidated financial statements.

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

	Three Month Period Ended October 31, 2008	Three Month Period Ended October 31, 2007	Six Month Period Ended October 31, 2008	Six Month Period Ended October 31, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net earnings (loss) for the period	\$ 232,471	\$ 140,587	\$ 312,780	\$ (177,290)
Items not affecting cash:				
Amortization	14,454	17,572	28,872	35,164
Stock based compensation	-	17,306	19,331	17,306
Future income tax expense (recovery)	51,335	(386,727)	83,069	(486,769)
Change in non-cash working capital items:				
(Increase) decrease in receivables	(205,869)	31,059	(382,681)	111,060
(Increase) decrease in prepaid expenses	5,650	1,135	(10,675)	(18,875)
Increase (decrease) in accounts payable and accrued liabilities	<u>232,786</u>	<u>(76,527)</u>	<u>482,216</u>	<u>211,446</u>
Net cash provided by (used in) operating activities	<u>330,827</u>	<u>(255,595)</u>	<u>532,912</u>	<u>(307,958)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Mineral property expenditures	(4,970,927)	(2,471,706)	(7,439,813)	(4,522,335)
Mineral property cost recoveries	3,573,815	-	6,182,911	256,722
Acquisition of equipment	(476)	-	(476)	-
Exploration advances	(13,226)	-	(13,226)	-
Payments on capital lease	<u>(100,945)</u>	<u>(74,767)</u>	<u>(201,891)</u>	<u>(74,767)</u>
Net cash used in investing activities	<u>(1,511,759)</u>	<u>(2,546,473)</u>	<u>(1,472,495)</u>	<u>(4,340,380)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Advances from related party	234,142	-	234,142	-
Proceeds from issuance of capital stock	-	2,791,250	-	8,432,250
Share issue costs	<u>-</u>	<u>(687,805)</u>	<u>-</u>	<u>(688,354)</u>
Net cash provided by financing activities	<u>234,142</u>	<u>2,103,445</u>	<u>234,142</u>	<u>7,743,896</u>
<b>Increase (decrease) in cash during the period</b>	<b>(946,790)</b>	<b>(698,623)</b>	<b>(705,441)</b>	<b>3,095,558</b>
<b>Cash, beginning of period</b>	<u><b>1,718,983</b></u>	<u><b>5,506,325</b></u>	<u><b>1,477,634</b></u>	<u><b>1,712,144</b></u>
<b>Cash, end of period</b>	<u><b>\$ 772,193</b></u>	<u><b>\$ 4,807,702</b></u>	<u><b>\$ 772,193</b></u>	<u><b>\$ 4,807,702</b></u>
<b>Cash paid for interest during the period</b>	<u><b>\$ 6,356</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 12,712</b></u>	<u><b>\$ -</b></u>
<b>Cash paid for income taxes during the period</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>

Supplemental disclosure with respect to cash flows (Note 10)

See accompanying notes to consolidated financial statements.

**METALEX VENTURES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 shown for mineral properties, including acquisition costs and related exploration costs, are 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. 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.

Effective May 1, 2008, the Company adopted the following new standards issued by the Canadian Institute of Chartered Accountants (“CICA”). These policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

*Assessing Going Concern*

The Canadian Accounting Standards Board (“AcSB”) amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern.

**2. BASIS OF PRESENTATION** (cont'd...)

*Financial Instruments*

The AcSB issued CICA Handbook Section 3862, Financial Instruments – Disclosures, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, Financial Instruments – Recognition and Measurement, Section 3863, Financial Instruments – Presentation, and Section 3865, Hedges (see Note 8).

The AcSB issued CICA Handbook Section 3863, Financial Instruments – Presentation, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

*Capital Disclosures*

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note 7).

*International Financial Reporting Standards (“IFRS”)*

In 2006, the 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.

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**3. MINERAL PROPERTIES**

<b>Six Month Period Ended October 31, 2008</b>	Attawapiskat, Ontario	James Bay, Quebec	Kyle Lake, Ontario	James Bay, Ontario	Wawa, Ontario	Mali	Angola	Greenland	Total
<b>Acquisition costs:</b>									
Balance, beginning of period	\$ 395,335	\$ 80,000	\$ -	\$ -	\$ 228,070	\$ 8,916	\$ -	\$ 22,729	\$ 735,050
Additions	-	35,445	-	-	-	3,986	-	-	39,431
Balance, end of period	395,335	115,445	-	-	228,070	12,902	-	22,729	774,481
<b>Exploration costs:</b>									
Balance, beginning of period	8,495,625	1,028,962	22,813,132	-	1,039,302	73,624	7,404,126	3,202,853	44,057,624
<b>Additions</b>									
Airborne geophysical survey	-	44,639	-	-	-	-	-	-	44,639
Aircraft field transport	-	204,067	184,148	2,752,633	-	-	118,177	-	3,259,025
Camp and field supplies	-	8,311	67,762	403,932	-	-	386,573	-	866,578
Consulting fees	333	26,388	3,025	594,510	-	5,187	72,130	-	701,573
Drilling	-	327	41,665	329,381	-	-	27,650	-	399,023
Equipment rental and amortization	-	17,833	87,685	170,533	-	-	160,027	-	436,098
Fuel	-	24,127	9,449	956,813	-	-	74,017	-	1,064,406
Insurance, legal and licenses	1,864	-	-	2,000	-	-	26,521	-	30,385
Labour	-	63,619	215,578	2,216,578	458	-	578,824	-	3,054,914
Mapping	954	72,219	4,866	15,321	109	-	3,039	382	96,890
Rent	-	-	-	-	-	-	30,438	-	30,438
Sample laboratory analysis	-	178,683	-	127,424	63,596	-	313,802	-	683,505
Shipping and freight	-	5,614	25,676	26,811	-	-	123,796	-	181,897
Telephone and communications	-	538	30,211	65,986	-	-	18,839	-	115,574
Travel and accommodation	-	38,360	35,418	145,926	-	266	34,816	-	254,786
Total additions	3,151	664,725	705,483	7,807,725	64,163	5,453	1,968,649	382	11,219,731
Cost recoveries	-	-	(69,046)	(7,807,725)	-	-	-	-	(7,876,771)
Balance, end of period	8,498,776	1,693,687	23,449,569	-	1,103,465	79,077	9,372,775	3,203,235	47,400,584
<b>Total costs, end of period</b>	<b>\$ 8,894,111</b>	<b>\$ 1,809,132</b>	<b>\$ 23,449,569</b>	<b>\$ -</b>	<b>\$ 1,331,535</b>	<b>\$ 91,979</b>	<b>\$ 9,372,775</b>	<b>\$ 3,225,964</b>	<b>\$ 48,175,065</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.

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**3. MINERAL PROPERTIES (cont'd...)**

In addition to the properties referred to in the table above, the Company is pursuing the acquisition of certain claims in Brazil.

The Company has entered into an agreement with Kel-Ex Development Ltd (“Kel-Ex”) to acquire certain mineral claims in Brazil in consideration for the issuance of 10,000,000 common shares of the Company. The mineral claims are subject to a 10% Net Profits Interest (“NPI”) retained by Kel-Ex and two 5% NPI’s held by two individuals. The Company has also entered into agreements with each of the two individuals to acquire their 5% NPI’s in consideration for the issuance of 500,000 common shares of the Company to each individual.

All three of the above-noted agreements are conditional upon the Company entering into an agreement with a third party under which the third party would have an option to acquire an interest in these claims by incurring certain exploration expenditures. The Company is currently finalizing an agreement with a third party under which the third party is required to pay a \$250,000 deposit (received).

The above-noted agreements have been submitted for regulatory approval.

**4. EQUIPMENT**

		October 31, 2008			April 30, 2008
	Expected useful life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Field equipment	2-3 years	\$ 880,309	\$ 438,631	\$ 441,678	\$ 630,792
Automotive	3 years	196,178	158,785	37,393	62,335
Computer equipment	3 years	43,106	31,953	11,153	14,079
Furniture and fixtures	5 years	5,194	2,892	2,302	2,830
		<u>\$ 1,124,787</u>	<u>\$ 632,261</u>	<u>\$ 492,526</u>	<u>\$ 710,036</u>

Field equipment at October 31, 2008 with a cost of \$880,309 (2007 - \$371,816) and net book value of \$441,678 (2007 - \$247,849) is held under two capital leases (Note 6). During the six month period ended October 31, 2008, amortization on this field equipment of \$189,114 (2007 - \$61,986) has been charged to mineral properties.

**5. 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, 2008	93,391,073	\$ 46,316,125	\$ 7,717,863
Stock based compensation	-	-	19,331
Balance as at October 31, 2008	<u>93,391,073</u>	<u>\$ 46,316,125</u>	<u>\$ 7,737,194</u>

**METALEX VENTURES LTD.**  
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**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

The Company has entered into conditional agreements that, if finalized, will result in the issuance of an additional 11,000,000 common shares (see Note 3).

**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. Upon termination from the Board, the directors, at their discretion, can elect to receive either cash or shares for the deferred compensation (see Note 11). As of October 31, 2008, \$229,750 (April 30, 2008 – \$180,250) of deferred compensation has been accrued which equates to 1,181,940 shares (April 30, 2008 – 432,133) at a weighted average price of \$0.19 per share (April 30, 2008 – \$0.42 per share).

**Stock-based compensation**

During the period, the Company recognized stock-based compensation of \$19,331 (2007 - \$17,306) in the statement of operations as a result of the granting and vesting of incentive stock options. The weighted average fair value of options granted was \$0.13 per option (2007 - \$0.17) using the Black-Scholes option pricing model with an expected volatility of 89%, a risk free interest rate of 3.13%, an expected life of 5 years and an expected dividend yield of 0%.

**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 (see Note 11). Under the plan, the exercise price of each option may not be less than 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.

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, 2008	5,150,000	\$ 0.66	10,127,000	\$ 0.71
Granted	150,000	0.45	-	-
Exercised	-	-	-	-
Expired/cancelled	-	-	-	-
Outstanding, October 31, 2008	5,300,000	\$ 0.65	10,127,000	\$ 0.71
Number currently exercisable	5,133,333	\$ 0.65	10,127,000	\$ 0.71

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**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options and warrants (cont'd...)**

The following incentive stock options were outstanding at October 31, 2008:

	Number	Exercise Price	Expiry Date
<b>Options</b>	1,700,000	\$ 0.70	February 24, 2010
	500,000	0.88	January 13, 2011
	1,600,000	0.70	November 1, 2011
	100,000	0.70	September 17, 2012
	1,250,000	0.45	March 5, 2013
	<u>150,000</u>	0.45	May 7, 2013
	5,300,000		
<b>Warrants</b>	3,810,000	\$ 0.75	August 3, 2009
	4,712,500	0.75	August 3, 2009
	762,000	0.55	August 3, 2009
	<u>842,500</u>	0.45	August 3, 2009
	10,127,000		

**6. RELATED PARTY TRANSACTIONS**

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

- Paid or accrued either, directly or indirectly, sampling, laboratory and mineralogical costs of \$327,095 (2007 - \$181,800) to a company controlled by a director; and a 10% administration fee of \$92,631 (2007 - \$69,265), geological consulting fees of \$113,175 (2007 - \$72,963) and drilling and equipment rental charges of \$110,146 (2007 - \$81,701) to companies controlled by directors.
- Paid or accrued management fees of \$35,475 (2007 - \$104,900) to a company controlled by a director.
- Paid or accrued office expenses of \$Nil (2007 - \$500) to a company controlled by a director.
- Paid or accrued a 10% administration fee of \$4,834 (2007 - \$3,060), interest on equipment leases of \$6,356 (2007 - \$Nil) and shared office and administrative costs of \$10,680 (2007 - \$7,269) to a company controlled by a director.
- Recorded recoveries, which were netted against various expenses, for shared office and administrative costs of \$34,106 (2007 - \$12,227) and for shared field expenditures of \$142,346 (2007 - \$13,228) from a company controlled by a director and from a company with common directors and management.

Included in accounts payable is \$575,113 (April 30, 2008 - \$231,664) for laboratory and mineralogical costs, \$1,880,019 (April 30, 2008 - \$874,327) for project payroll and camp supplies costs, \$62,370 (April 30, 2008 - \$25,121) for management fees, \$98,930 (April 30, 2008 - \$25,493) for shared office and administrative costs, \$393,016 (April 30, 2008 - \$39,305) for exploration work completed on certain properties and \$234,142 (April 30, 2008 - \$Nil) for cash advances for exploration work owing to companies controlled by directors.

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**6. RELATED PARTY TRANSACTIONS (cont'd...)**

Included in receivables is \$35,331 (April 30, 2008 - \$327) for shared equipment and camp supplies costs and \$24,178 (April 30, 2008 - \$14,269) for shared office and administrative costs due from a company controlled by a director and 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 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:

	October 31, 2008	April 30, 2008
Total minimum lease payments	\$ 448,604	\$ 448,604
Less: payments made	<u>(373,837)</u>	<u>(299,069)</u>
Balance of obligation	74,767	149,535
Less: current portion	<u>(74,767)</u>	<u>(149,535)</u>
Non-current portion	\$ -	\$ -

Effective February 2008, the Company entered into another 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:

	October 31, 2008	April 30, 2008
Total minimum lease payments	\$ 533,917	\$ 533,917
Less: imputed interest	(25,425)	(25,425)
Less: payments made	<u>(190,684)</u>	<u>(63,561)</u>
Balance of obligation	317,808	444,931
Less: current portion	<u>(254,246)</u>	<u>(254,246)</u>
Non-current portion	\$ 63,562	\$ 190,685

## **7. CAPITAL RISK MANAGEMENT**

The Company includes cash and cash equivalents and 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 related parties to fund its operations and expects continued financial support through the current fiscal year. 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.

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

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and capital lease obligations due to related party. 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, the Franc and the Krone. 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 and cash equivalents are 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.

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**8. 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 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 7.

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.

**9. SEGMENTED INFORMATION**

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

	October 31, 2008	April 30, 2008
Mineral properties and equipment:		
Canada	\$ 35,621,680	\$ 34,283,199
Angola	9,727,968	7,911,389
Greenland	3,225,964	3,225,582
Mali	91,979	82,540
	\$ 48,667,591	\$ 45,502,710

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the six month period ended October 31, 2008 included:

- a) Incurring mineral property expenditures of \$189,114 with respect to amortization of field equipment.
- b) Recognizing mineral property recoveries of \$3,933,402 through receivables.
- c) Incurring mineral property expenditures of \$5,925,782 through accounts payable and accrued liabilities and \$384,830 paid by exploration joint venture partners and applied against related receivables.

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the six month period ended October 31, 2007 included:

- a) Incurring mineral property expenditures through exploration advances paid previously of \$331,317.
- b) Incurring mineral property expenditures of \$61,986 with respect to amortization of field equipment.
- c) Recognizing mineral property recoveries of \$177,271 through receivables.
- d) Incurring mineral property expenditures of \$429,389 through accounts payable.
- e) Issuing 1,604,500 agent's warrants with a total value of \$282,992 as finder's fees for a private placement.

**11. SUBSEQUENT EVENTS**

Subsequent to October 31, 2008, the Company

- a) granted an aggregate of 5,088,000 options to certain officers, directors, employees and consultants (subject to regulatory approval). Each of these options vest immediately and allow the holder to purchase one common share in the Company at a price of \$0.10 until November 13, 2013. As a condition of these new grants, an aggregate of 3,820,000 options, originally granted to those certain officers, directors, employees and consultants with a weighted average exercise price of \$0.65, were cancelled.
- b) issued 402,505 common shares, with a deemed price of approx \$0.153 per share, to a past director as compensation which was accrued under the deferred share unit plan as described in Note 5.