

# METALEX VENTURES LTD.

## FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS Three and Six Month Periods Ended October 31, 2009

The following Management Discussion and Analysis (“MD&A”), prepared as of December 29, 2009, of the results of operations and financial position of Metalex Ventures Ltd. (the “Company”) for the three and six month periods ended October 31, 2009 should be read together with the unaudited consolidated financial statements for the three and six month periods ended October 31, 2009 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, 2009 and April 30, 2008 and the MD&A for those years as well as the unaudited consolidated financial statements for the three and six month periods ended October 31, 2008, along with the MD&A for those periods.

Additional related information is available on the Company’s website at [www.metalexventures.com](http://www.metalexventures.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### 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 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 areas of work are in the James Bay Lowlands area of Northern Ontario, where the company has entered into an option agreement with White Pine Resources Inc ( “WPR”, formerly WSR Gold Inc.) whereby WPR may earn up to a 50% interest in the claims; 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 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 negotiating a joint venture agreement for further exploration, and in Angola where it has certain rights for kimberlite diamond exploration. In Greenland, the Company has retained its interest in a mineral exploration license covering 477km<sup>2</sup>. The Company has also conducted some exploration work and recently received additional mineral exploration licenses in the Republic of Mali. Most recently, the Company has entered into an agreement (pending regulatory approval) 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 Management Discussion and Analysis for further details on these projects.

## Performance Summary

The following is a summary of significant events and transactions that occurred during the six months ended October 31, 2009:

### *Private Placements*

In October 2009, the Company completed a private placement consisting of 18,000,000 flow-through shares at \$0.85 per share for gross proceeds of \$15,300,000 and 18,375,000 non-flow-through units at \$0.80 per unit for gross proceeds of \$14,700,000. 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 \$1.30 per share for a period of two years from the date of issuance. Finders' fees in the amount of \$1,903,818 were paid in connection with this private placement. In addition, 3,637,500 agents' options were issued as finder's fees in connection with this placement. The agents' options are exercisable for the purchase of non-flow-through units of the Company at a price of \$0.80 per unit for a period of two years from the date of issuance. Each unit will consist 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 \$1.30 per share until October 6, 2011. The agents' options were valued at \$3,431,667 with a weighted average fair value of \$0.63 per option using the Black-Scholes option pricing model with an expected volatility of 135%, a risk free interest rate of 1.3%, an expected life of 2 years and an expected dividend yield of 0%.

The reader is referred to the Management Discussion and Analysis for the years ended April 30, 2009 and April 30, 2008 for details of private placements made during those periods.

### *Mineral Properties*

Mineral property expenditures, net of cost recoveries, incurred (paid or payable) during the six month period ended October 31, 2009 were as follows:

Attawapiskat, Ontario	\$	2,617
James Bay, Quebec		106,575
Kyle Lake, Ontario		750,610
James Bay, Ontario		-
Wawa, Ontario		308
Mali		784
Angola		2,367,647
Morocco		953
Greenland		89,732
Total	\$	3,319,226

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 100,000 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 October 31, 2009 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.

Since August 2003, work on the Attawapiskat project has focused on follow up of the locations where high counts of diamond indicator minerals were found in a 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.

Results from 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, microilmelite 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.

In June 2009, the results of nine shallow vertical core holes drilled within the D6 fan were complete. These holes intersected an average of 6-8 meters of glacial overburden, followed by approximately by 25 meters of material interpreted as tuffaceous kimberlite breccia. In each drill hole, these zones were followed at depth by intersections of limestone. Although core recovery in the tuffaceous material was poor, kimberlite indicators and minerals with compositions equivalent to those found as inclusions in diamonds were recovered. Work completed in July recovered diamonds in two of the holes. The discovery of kimberlite in the immediate vicinity of De Beers' Victor Diamond Mine is most encouraging.

All samples have now been processed. Future work will be determined from a review of these results, and research currently in progress to discriminate the sources of the diamond indicator minerals. Field work 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 20,000 common shares of the Company valued at \$80,000.

During fiscal 2007, 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 finalized a joint venture agreement with the remaining partner 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.

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 were found in more than 400 samples, anomalous copper values were found in 109 samples and anomalous uranium values were found in 173 samples. 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 was conducted during 2006.

On March 3, 2008 the Quebec Joint Venture announced the discovery of a diamond bearing conglomerate. The conglomerate appears to extend for four kilometres along strike and is up to 500 meters wide. 772 claims have been staked covering 39,472 hectares. One hundred and eleven samples collected from the conglomerate totalling kilograms have been processed and fifty four of these samples contained a total of 1,717 diamonds. One hundred and six rare purple diamonds were amongst these diamonds recovered. In the sampling completed to date the Ekomiak V conglomerate appears to have the greatest potential with 1,672 diamonds being recovered from 923 kilograms. Autogenous milling of selected conglomerate samples recovered diamond and kimberlite indicator minerals including olivine, chromite, picroilmenite, clinopyroxenes, pyrope and eclogitic garnets.

Future work will include more detailed sampling of the diamond bearing conglomerates and exploration for the primary kimberlite sources of the diamonds.

### **Kyle Lake Property, Ontario**

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 and De Beers' Victor Mine.

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 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 October 31, 2009, 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.

## *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 35 diamonds were recovered at various stages of the processing. 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.

## *T1 Mineral Chemistry*

Microprobe analysis was performed on 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:

<b>Mineral</b>	<b>Number of analyses</b>
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.

## *T1 Delineation Drilling*

In view of the encouraging results obtained from the discovery drill hole mentioned above, the pipe was delineated by core drilling. Initially 5 holes were drilled, all from the center of the geophysical anomaly. One hole was vertical and the remaining four holes were inclined towards the north, west, south and east respectively. In addition, a further 3 holes were drilled from the outside of the pipe angled towards the center. These holes broadly delineate the deposit at depth and provided information on the diamond distribution within the pipe.

Processing of the core from these delineation holes has returned diamond results that compare favourably to those of De Beers’ Victor kimberlite. To date, 6,957 kilograms of core has been processed recovering 3,126 diamonds larger than 0.106mm. The average diamond count of 449 diamonds per 1,000 kg is most encouraging.

The diamonds recovered from the delineation holes are of exceptional quality; approximately 60% of the diamonds are white and of gem quality. Importantly, the size distribution of diamonds contained within the core is similar to that from other Canadian diamond mines.

Additionally, 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 to 300 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.

### *T1 Bulk Sampling*

In April 2006, the Company commenced the collection of a 200 to 300 tonne sample from T1 by large diameter reverse circulation (“RC”) drilling. The purpose of the bulk sample was to determine the likely diamond grade and indicative diamond values of T1.

RC drilling continued until August of 2006 when work was suspended pending the extension of the bulk sampling permit granted by the Ministry of Northern Development and Mines (“MNDM”). The Company was advised that the MNDM have a duty to consult with the affected First Nations. The MNDM is continuing discussions with both Attawapiskat First Nation and Marten Falls First Nation. Discussions have centered on what is reasonable consultation for the T1 project as related to the communities to assist them with an appropriate and meaningful consultation process. The Company has initiated consultation with the affected First Nations on its own initiative in parallel with those of the MNDM.

In November 2009, the Company recommenced the RC drilling program and, to date, three of the four planned holes needed to complete the sample have been drilled. The bulk sample will be processed in a timely manner once the full tonnage has been recovered.

### *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. To date, no agreement with either First Nation party has been reached. However, favourable meetings have been held with both First Nations and a site visit was hosted by the Company. 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. The board has been augmented with the addition of Glenn Nolan, Chief of the Missinaibie First Nation. Chief Nolan’s extensive experience with relations between First Nations and industry will provide substantial assistance to the negotiations.

### *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 were drill tested.

In late 2006 and early 2007, three additional kimberlites were discovered between the T1 kimberlite and DeBeers’ Victor Diamond Mine: U1, U2 and U2NW. Although all three kimberlites are diamondiferous, work has focused on the U2 kimberlite due to its large size. At nine hectares, the U2 kimberlite is one of the largest kimberlites in the region, second only to the Victor Diamond Mine.

Shortly after the kimberlite was discovered by a vertical core hole, four inclined core holes were completed to delineate the pipe. The inclined holes were drilled from the center of the geophysical anomaly and were inclined to the north, west, south and east respectively.

The diamonds recovered from these holes have a coarse size distribution and are predominantly gem quality, similar to those recovered from DeBeers’ Victor Mine. Also similar to the Victor Mine, U2 contains varying diamond contents with portions of the pipe being nearly barren while other portions of the pipe have values approaching those expected from Victor.

The large size of the U2 kimberlite, its high proportion of white, gem quality stones, its similar age to the Victor Diamond Mine, its similar diamond indicator mineral content to the Victor Diamond Mine and coarse diamond distribution curve all support the decision to collect a large (200 to 300 tonne) sample from U2.

Due to the large size of the U2 kimberlite, additional delineation drilling is currently underway. Five holes are planned with the first being a deep vertical hole in the center of the geophysical anomaly. The next four holes are inclined holes being drilled from beyond the margin of the pipe inwards towards the center of the pipe. These holes are being drilled from the northwest, northeast, southwest and southeast.

Once the delineation holes are complete the RC drill from T1 will be moved to U2 to commence the collection of the 200 to 300 tonne sample.

## **James Bay Lowlands Property, Ontario**

During fiscal 2008, the Company acquired, by staking, an interest in claims located in the James Bay lowlands area of Northeastern Ontario. The Properties are strategically located on and around the “Ring of Fire” and cover approximately 36 square kilometres (8,944 acres) of ground.

In March 2008, the Company and Arctic Star entered into a farm-in agreement whereby White Pine Resources Inc. (“WPR”, formerly WSR Gold Inc.) can earn up to a 50% interest in certain mineral claims. Certain of these claims were previously included as part of the Kyle Lake project. Under the terms of the agreement, WPR has the right to earn up to a 50% interest in the project by funding up to \$20,000,000 in expenditures on the property over a 4 year period. For each \$5,000,000 in expenditures, WPR will acquire a 12.5% interest in the property (25% interest earned as at October 31, 2009).

By mid 2008, an aggressive exploration program was underway. An airborne helicopter magnetic and electromagnetic geophysical survey was completed over most of the joint venture’s claims. Ground geophysical studies over anomalies identified on the airborne survey have been conducted and 21 electromagnetic anomalies with a sympathetic magnetic response have been identified, as well as 19 with just electromagnetic anomalies.

Drilling commenced on the targets that have been refined by ground geophysics in mid-May 2008. Anomaly number 5.01 was the first tested and several holes have intersected significant widths of sulphide mineralization. The best intercept to date is in hole number six which intersected 95 meters of semi-to-near-massive sulphides from 72.7 meters. Visible copper, zinc, lead and iron sulphide mineralization is typical of the deposit.

Analysis of the mineralized core at ALS Chemex and ACTLabs confirmed the significant mineralization seen visually. Significant intersections include:

- DDH5.01-06 intersected near-massive to massive sulphides from 65-167m downhole for a length of 102m averaging 6.5% Zn, 0.44% Cu, 0.19% Pb, and 3 g/t Ag. Included within this section, from 99.7-125.7m, for a length of 26m, the zone averaged 13.8% Zn, 0.50% Cu, 0.05%Pb, and 2 g/t Ag.
- DDH5.01-14 intersected similar near-massive to massive sulphides from 83.0-120.0m downhole for a length of 37.0m, averaging 6.0% Zn, 0.34% Cu, 0.05% Pb and 6 g/t Ag. Included in this section, from 103.0-111.0m, for a length of 8m, the zone averaged 17.4% Zn, 0.24% Cu, 0.04% Pb and 5 g/t Ag.
- DDH5.01-15 intersected similar near-massive to massive sulphides from 158.8-184.2m downhole, for a length of 25.4m, averaging 7.6% Zn, 0.35% Cu, 0.36% Pb, and 8 g/t Ag.
- DDH5.01-16 intersected similar near-massive to massive sulphides from 167.4 – 186.7m downhole, for a length of 19.3m, averaging 10.02% Zn, 0.10% Cu, 1.85% Pb, and 41.5 g/t Ag. Included in this section, from 167.4 – 171.8m, for a length of 4.4m, the zone averaged 19.32% Zn, 0.12% Cu, 2.79% Pb and 63.1 g/t Ag.

To date 42 holes totaling 10,785.9 meters have been drilled on the 5.01 project.

Mineralization, alteration and the geological environment at the 5.01 anomaly appears to be typical of a Noranda-Mattabi-style VMS (Volcanogenic Massive Sulphide) deposit. The mineralized zone appears to subcrop beneath approximately 15 meters of glacial till. The high grade zinc – copper – lead – silver mineralized zone has been delineated over a north-south strike length of 200m and to a vertical depth of 275m from surface. The zone dips steeply at 75 degrees to the east and appears to have a steep 65 degree plunge to the south. Horizontal widths of the high grade zone can reach up to 22 meters.

In late 2009, a Geotech ZTEM airborne geophysical survey was completed over the 5.01 discovery. The ZTEM survey displayed a low resistivity anomaly directly over the zone which suggests that the mineralization could potentially continue to greater depth. On December 11<sup>th</sup>, 2009 it was announced that drill testing of this anomaly had commenced.

## **Wawa Property, Ontario**

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 \$129,500 to Mori upon signing the agreement and, commencing December 2005, agreed to pay \$100,000 annually until it earns its interest or withdraws from the venture. 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 collected. These samples were analyzed by the CF Mineral Research laboratory and 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 (Mori East Block), 119 diamonds were recovered from 79.60 kg. Analysis of 112.63 kg of conglomerate from the western part (Mori West Block) returned 18 diamonds.

In 2007, a 13 hole drill program was completed on the joint venture’s Mori East Block to determine the subsurface extent of the outcropping diamond bearing conglomerates. Results of the drill program recovered 5,234 diamonds from 8,078 kilograms of conglomerate drill core. Of interest is the discovery that over half of the diamonds in the core are coloured. The coloured diamonds range from brown (26.8%), grey (13.9%), yellow (5.7%), green (5.1%), orange (0.8%), purple (0.1%), amber (0.1%) and black (0.1%). One pink diamond was also recovered. Photos of some of these coloured stones are contained on Metalex’s website ([www.metalexventures.com](http://www.metalexventures.com)).

Although the quantities of diamonds present in the conglomerates of the Mori East Block are comparable to those from Dianor Resources Inc’s Leadbetter conglomerate, the Leadbetter conglomerate does not contain the abundant coloured stones. The Leadbetter conglomerate is the fault offset extension of the conglomerate on Dianor’s adjacent property where Dianor is about to undertake a 6,000 meter drill program and conduct a 34,000 tonne bulk sampling program.

A three hole drill program on the Mori West Block recovered 137 diamonds from 975 kilograms of conglomerate of core. This suggests that the conglomerate of the Mori West Block is more distal to the diamond source. This is further supported by the abundance and nature of the diamond indicator minerals found within the conglomerates.

## **Mali**

The Company acquired an Authority to Prospect in 2004 over a claim area in northeastern Mali. In exploring the area, exceptionally anomalous gold values (6 to 77 ppm) were found in reconnaissance heavy mineral concentrates. Approximately 1,000 follow up samples were collected from the anomalous areas and sent to Australia for gold analysis by bulk cyanide leach. Results of these samples indicated that a portion of the claim area was prospective for metal mineralization and the Company applied for two exploration permits to cover these anomalous areas.

In May 2007, the Company was granted the first exploration permit which covers 490 square kilometers and is valid for a period of three years; renewable twice for a total of nine years.

In February 2009, the Company was granted the second exploration permit which covers 500 square kilometers and is valid for a period of three years; renewable twice for a total of nine years.

The annual exploration commitments for both permits in CFA Francs (“CFA”), with Canadian Dollar equivalents using exchange rates at October 31, 2009 is estimated as follows:

Fiscal		
2008	45,000,000 CFA	\$109,035
2009	121,000,000 CFA	\$293,183
2010-12	175,000,000 CFA	\$424,025 (annually)

To date, the exploration commitments have not been met. However, a work program is planned for fiscal 2010 which will satisfy the commitments. The Company has received written confirmation from Malian government officials that the license remains in good standing.

## **Angola**

The Company 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 kimberlite license, the Company was required to spend US\$10,000,000 by April 29, 2008. This commitment has not been met however the license is renewable through to April 29, 2010. The Company has received official written confirmation that its renewal application has been approved and the license is valid through to April 29, 2010.

A heavy mineral survey has been carried out over the entire Chitamba license. The results of this survey indicate that the eastern portion of the exploration license has the potential to host diamondiferous kimberlites.

A fixed wing magnetic survey was then acquired. Interpretation of the aeromagnetic data over the 3,000 km<sup>2</sup> Angola kimberlite license was completed by Scott Hogg and Associates, geophysicists, and 127 anomalies were identified. The existing aeromagnetic data was found not to be detailed enough to position drill locations so a high resolution helicopter borne magnetic survey was undertaken in 2007. This survey refined the results of the previous survey and drilling of the resultant geophysical anomalies commenced early in 2008. To date, 51 kimberlites have been discovered on the property by drilling or pitting. Typically a sample of kimberlite greater than 200 kilograms has been collected from each of these discoveries and has been shipped to CF Mineral Research Ltd. for the recovery of diamond indicator minerals and microdiamonds. Results of the first 15 kimberlites discovered determined that 7 of the pipes are weakly diamondiferous while eight are barren.

In April 2009, the Company discovered a 24 hectare kimberlite. Nine delineation holes have been completed and show that although there are thick crater infill sediments in the center of the kimberlite (198.5m) the kimberlite comes near to surface (3 m) in the peripheral portions of the pipe. Core from the first two holes has been processed and although diamond indicator minerals are contained in the core the samples did not contain diamonds. The compositions of picroilmenites contained in the core indicate that the phase of kimberlite magma that was tested by the samples was at chemical disequilibrium to diamond. As a result diamonds sampled at depth (+/- 200km) would have been resorbed (destroyed) while being carried to the surface by the kimberlite magma.

Future work is planned to include the testing of two additional large anomalies (15 and 96 hectares). This work can only commence once the rainy season is finished as the anomalies are located in lowlands adjacent to the Cuango River which are currently flooded.

## **Morocco**

In May 2004, the Company entered into an agreement with the Office National de Hydrocarburiers et des Mines ("ONHYM") to conduct preliminary exploration work in Southern Morocco in order to identify areas on which 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 Company is currently negotiating a new joint venture agreement with the ONHYM for further exploration of the claim areas.

The concessions cover part of an Archaean craton and are considered highly prospective for diamond bearing kimberlite, base and precious metals. Follow up work of geochemical and geophysical anomalies discovered from earlier reconnaissance sampling commenced in late 2005 with 389 heavy mineral samples, 50 bleg samples and 60 rock samples having been collected for analysis. An additional 1,000 follow up samples were also taken in 2006.

Sample results announced on June 27, 2006 indicated that G10 peridotitic garnets occur in 6 drainage/loam samples collected over an area of approximately 1,000 km<sup>2</sup>. 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). Additionally, 17 sample sites contain picroilmenite grains clustered over an area of 1,000 km<sup>2</sup>. 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 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. Follow up work on these results will commence once the joint venture with ONHYM is finalized.

## Greenland

In December 2003, the Company applied for an exploration license in the Umiivit area of West Greenland. The license was granted in May 2004 was 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 solely funded exploration of these licenses until January 20, 2008 and Cantex was granted an option to purchase a 25% interest in these licenses, and the Company’s Umiivit license, for \$120,000. Cantex declined to execute the option in January 2008, relinquishing all interests in the project. Cantex is related to the Company by virtue of common directors and management.

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

In December 2008, the Company applied to renew the license but relinquish further ground on the claim area. This enabled the Company to reduce its expenditure commitment while keeping the area containing its remaining high priority drill targets. The license was renewed for a period of 5 years effective to December 2013.

The annual exploration commitments on the remaining license area, in Danish Kroners (“DKK”), with Canadian Dollar weighted equivalents using exchange rates at October 31, 2009 are estimated as follows:

Calendar		
2009	7,293,725 DKK	\$890,251
2010-13	7,857,337 DKK	\$959,044 (annually)

The annual expenditure commitments are calculated based on a fixed amount plus a sliding scale based on the surface area of the license. The commitments can be reduced if further ground were to be relinquished or annulled if the license were to be surrendered.

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, had 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. 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.

The coincident magnetic and gravity anomalies remain 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.

## **Brazil**

In May 2007, the Company entered into a letter of intent (the “Brazil Agreement”) with Kel-Ex Development Ltd. to acquire certain mineral claims located in the State of Mato Grosso, Brazil in consideration for the issuance of 1,000,000 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 also entered into agreements with each of the two individuals to acquire their 5% NPI’s in consideration for the issuance of 50,000 common shares of the Company to each individual.

Given the delay in completing the Brazil Agreement and the change in capital markets since the date of such agreement, the Company and Kel-Ex have determined to renegotiate the Brazil Agreement and are currently in discussions with Kel-Ex to finalize such an agreement (the “Renegotiated Agreement”). The Renegotiated Agreement remains subject to regulatory approval.

The above-noted agreements are also 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 towards future exploration work (received).

The claims area has been the focus of historical work conducted previously by several other companies. Prior work has discovered at least eight untested kimberlite pipes, of which, three have been recently sampled with results pending as well as numerous high quality diamond indicator mineral anomalies from alluvial heavy mineral samples derived from as of yet undiscovered source kimberlites.

An airborne survey completed by Kel-Ex covers the most significant diamond indicator anomalies received from bulk (~10kg of material smaller than 1 mm) stream sediment samples sieved from alluvial gravels that have contained many large diamonds reportedly up to 300 carats in size recovered by garimpeiros mining the gravels. These samples contained not only Group I eclogitic garnets but also diamond inclusion composition chrome diopsides with angular near source textures. Chrome diopside is a soft mineral that normally does not survive alluvial transport in tropical conditions more than 2 to 3 kilometers from source. Several of the near source chrome diopsides have compositions equivalent to those from large (50+ carat) diamonds from Ekati and from chrome diopsides from kimberlites which contain large diamonds such as Premier and Jagersfontein.

An airborne magnetic and electromagnetic geophysical survey has been completed using a helicopter over the postulated (3.4 by 3.7km) source area of these high quality indicator minerals. Interpretation of the magnetic portion of the survey is now complete and 5 targets potentially reflecting kimberlites have been modelled to have widths of up to 300 meters. These targets have been identified in areas upstream of the aforementioned diamond inclusion indicators.

Interpretation of the electromagnetic results of the survey is currently underway. Upon completion of this geophysical interpretation a program will be undertaken to test the anomalies.

## **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 certain projects, a 10% interest carried to production. Dr. Fipke also owns the CF Mineral Research (“CF Minerals”) laboratory where samples collected in certain exploration programs are analyzed. Metalex’s management is satisfied that all such related party transactions are entered into on terms that are reflective of current market conditions.

## 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, 2009	Year Ended April 30, 2008 (re-stated)	Year Ended April 30, 2007 (re-stated)
Total revenues	\$ -	\$ -	\$ -
Loss before other items	(7,330,044)	(10,037,891)	(15,109,614)
Loss for the year	(6,414,526)	(9,216,607)	(14,796,908)
Basic and diluted loss per share	(0.69)	(1.13)	(2.18)
Total assets	1,820,246	4,986,021	4,632,034
Long-term debt	-	190,685	149,532

Annual information for the years ended April 30, 2008 and 2007 have been restated in accordance with the Company's change in accounting policy regarding mineral property expenditures.

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.

See "Results of Operations" and the "Summary of Quarterly Results" for a discussion of the variations above.

## Results of Operations

### For the three and six month periods ended October 31, 2009

The Company's principal sources of income during the six month period ended October 31, 2009 were administration fees earned pursuant to the agreement with White Pine Resources Inc. as operator of the James Bay, Ontario project and from interest on bank deposits. Administration fees earned totalled \$11,573 (2008 - \$783,012) and bank interest amounted to \$1,740 (2008 - \$26,641). The decrease in interest income reflects the lower average cash balances during the current period.

Net loss for the six month period ended October 31, 2009 amounted to \$4,492,859 (\$0.38 per share) compared to \$3,011,175 (\$0.32 per share) for the comparable period in 2008. This difference is largely due to a decrease in administration fees earned and an increase in the stock-based compensation expense recognized during the current period.

Some of the significant expenses for the six month period ended October 31, 2009 are as follows:

Net exploration expenditures of \$3,319,226 (2008 - \$3,415,747) did not change significantly from the comparable period in 2008. Refer to Note 4 in the financial statements for additional detail on expenditures.

Management fees of \$30,000 (2008 - \$49,500), representing accrued deferred share plan compensation to directors, decreased with a reduction in Board of Directors members enacted at the Company's Annual General Meeting in November 2008.

Office and administrative expenses of \$158,039 (2008 - \$185,937) decreased as a result of taxes incurred in 2008 on flow-through funds raised in the prior year.

Professional fees of \$82,181 (2008 - \$69,929) increased due to legal fees associated with the legal action brought against the Company (see *Contingencies*).

Stock based compensation of \$803,956 (2008 - \$19,331), representing the value of stock options granted and vested, increased with the options granted and vested during the current period.

Travel and promotion expenses of \$96,669 (2008 - \$52,613) increased due to corporate fundraising activities.

## Summary of Quarterly Results

	Three Months Ended October 31, 2009	Three Months Ended July 31, 2009	Three Months Ended April 30, 2009	Three Months Ended January 31, 2009 (re-stated)
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss before other items	(3,214,175)	(1,314,805)	(1,765,760)	(1,698,415)
Loss for the period	(3,207,319)	(1,285,540)	(1,758,929)	(1,644,422)
Basic and diluted loss per share	(0.17)	(0.14)	(0.19)	(0.18)

  

	Three Months Ended October 31, 2008 (re-stated)	Three Months Ended July 31, 2008 (re-stated)	Three Months Ended April 30, 2008 (re-stated)	Three Months Ended January 31, 2008 (re-stated)
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss before other items	(1,748,893)	(2,116,976)	(2,327,451)	(2,097,205)
Loss for the period	(1,278,286)	(1,732,889)	(1,605,236)	(2,036,278)
Basic and diluted loss per share	(0.17)	(0.19)	(0.17)	(0.23)

The loss for the three month period ended October 31, 2009 includes stock-based compensation of \$803,956 recognized as a result of incentive stock options granted and vested during the period. The loss for the three month period ended January 31, 2009 includes stock-based compensation of \$95,061. Administration fees earned during the four quarters ending October 31, 2009 were significantly reduced compared with previous periods in correlation with the slow down in exploration activity on the James Bay joint venture project with White Pine Resources. With the exception of the items noted above, other fluctuations in operating results for the four quarters ending October 31, 2009 reflect the timing of various normal business transactions.

The losses for the periods ended October 31, 2008 and July 31, 2008 were partially offset by administration fees earned during the periods of \$473,185 and \$309,827 respectively. The loss for the three months ended April 30, 2008 includes stock-based compensation of \$338,010 recognized as a result of incentive stock options granted and vested during the period and a write-off of capitalized mineral property acquisition costs of \$911,000 which were offset by a recovery of future income taxes of \$1,393,382. With the exception of the items noted above, other fluctuations in operating results for the four quarters ending October 31, 2008 reflect the timing of various normal business transactions.

The Company charges all exploration costs to operations in the period incurred until such time that there is a determination of the feasibility of mining operations and a decision to proceed with development, in which case subsequent exploration and property development costs will be capitalized. All direct costs related to the acquisition of resource property interests have been capitalized as an asset. There were no mineral property additions during the six month period ended October 31, 2009.

## 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 October 31, 2009, the Company had cash of \$22,819,447 (April 30, 2009 – \$866,414) and a working capital surplus of \$18,999,032 (April 30, 2009 - \$5,619,325 deficit).

During the past 12 months, liquidity has been provided by cash advances received from a related party, financing received on behalf of the WPR joint venture and proceeds from a private placement equity financing completed in October 2009 (see

*Private Placements*). During the six month period ended October 31, 2009, the Company received advances from a related party of \$786,300 (2008 – \$234,142) used for mineral property expenditures.

During the six month period ended October 31, 2009, the Company expended \$706 (2008 – \$476) for the acquisition of equipment.

During the six month period ended October 31, 2009, the Company expended \$127,123 (2008 – \$201,891) for payments on capital leases and \$2,490,100 (2008 – \$Nil) for the repayment of advances from a related party.

During the six month period ended October 31, 2009, the Company expended \$4,311,520 on operating activities (2008 - \$737,216) which includes mineral property expenditures net of recoveries.

## Contractual obligations

Effective November 2006, the Company completed a sale-leaseback transaction with Kel-Ex Development Ltd (“Kel-Ex”), a company controlled by C.Fipke, 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 another capital lease with Kel-Ex involving field equipment with a cost of \$508,492.38. 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, 2009	April 30, 2009
Total minimum lease payments	\$ 533,917	\$ 533,917
Less: imputed interest	(25,425)	(25,425)
Less: payments made	(444,930)	(317,807)
Balance of obligation	63,562	190,685
Less: current portion	(63,562)	(190,685)
Non-current portion	\$ -	\$ -

## Off-Balance Sheet Arrangements

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

## Related Party Transactions

During the six month period ended October 31, 2009, the Company entered into the following transactions with related parties:

- a) Paid or accrued either, directly or indirectly, sampling, laboratory and mineralogical costs of \$482,636 (2008 - \$327,095) to CF Mineral Research Ltd. (“CF Minerals”), a company controlled by C.Fipke; and a 10% administration fee of \$28,498 (2008 - \$97,465), geological consulting fees of \$161,818 (2008 - \$148,650), drilling and equipment rental charges of \$23,594 (2008 - \$110,146), interest on equipment leases of \$6,356 (2008 – \$6,356) and shared office and administrative costs of \$7,117 (2008 - \$10,680) to Kel-Ex Development Ltd. (“Kel-Ex”), another company controlled by C.Fipke and to Copper Consulting, a company controlled by C.Ulansky.
- b) Recorded recoveries, which were netted against various expenses, for shared office and administrative costs of \$31,896 (2008 - \$34,106) and for shared field expenditures of \$Nil (2008 - \$142,346) from Kel-Ex and Cantex Mine Development Corp. (“Cantex”), a company with common directors and management.

Included in accounts payable is \$1,550,485 (April 30, 2009 - \$1,063,329) for laboratory and mineralogical costs, \$127,124 (April 30, 2009 - \$1,517,271) for project payroll and camp supplies costs, \$3,465 (April 30, 2009 - \$88,446) for consulting fees, \$49,661 (April 30, 2009 - \$159,164) for shared office and administrative costs, \$614,533 (April 30, 2009 – \$507,860)

for exploration work completed on certain properties owing to CF Minerals, Kel-Ex, Cantex and Copper Consulting. Cash advances previously received from Kel-Ex were repaid in full at the end of the period (April 30, 2009 - \$1,703,800).

Included in receivables is \$28,973 (April 30, 2009 - \$13,713) for shared office and administrative costs due from Kel-Ex and Cantex.

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. Management strives to ensure that the exchange value reflects market rates.

## **Financial instruments**

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 (October 31, 2009 - \$11,880). 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.

### **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's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

### **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.

## **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.

## **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 be sufficient to complete its exploration and development plans and operations through its current operating period and will not be required to raise additional funds through future equity issuances or secure other financing for the remainder of the fiscal year. Until its equity financing was recently completed, the Company had 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.

## **Change in accounting policies**

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 have been reclassified to reflect the change in accounting policy.

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 adoption of this standard did not have any material 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 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.

The Company is working to develop and execute an implementation plan. An initial diagnostic review of significant IFRS differences is currently underway to identify the key areas which are likely to be impacted by accounting policy changes. After which, the Company will perform a more detailed review of the impact of IFRS on the Company’s consolidated financial statements and other areas of the Company. Any changes required to systems and controls will be identified as the project progresses.

While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **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 was for approximately \$310,000 (all of which the Company has accrued as at October 31, 2009) with additional charges of \$20,000 per month going forward. The vendor was also seeking approximately \$6,000,000 for damages, immediate recovery of its equipment, and reimbursement for costs of the legal action.

In November 2009, the Company negotiated a new agreement with the vendor concerning the drilling rig equipment and, pursuant thereto, the vendor has released the Company from any and all actions. The Company is not required to pay any of the damages initially being sought by the vendor. The Company has responsibility for certain de-mobilization costs associated with the drilling rig and, as a condition of the new agreement, has paid a deposit of \$500,000 towards future de-mobilization costs.

## **Outstanding share data**

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

As at December 29, 2009, the Company had outstanding 45,754,160 common shares, 5,287,300 stock options with a weighted average exercise price of \$0.87 per share and 9,187,500 share purchase warrants with a weighted average exercise price of \$1.30.