

# **METALEX VENTURES LTD.**

## **FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS THREE AND SIX MONTH PERIODS ENDED OCTOBER 31, 2007**

The following discussion and analysis, prepared as of December 28, 2007, of the results of operations and financial position of Metalex Ventures Ltd. (the "Company") for the three and six month periods ended October 31, 2007 should be read together with the unaudited consolidated financial statements for the three and six month periods ended October 31, 2007 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

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

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

The Company's main areas of work are in the Kyle Lake area of Northern Ontario where the Company has an approximate 91.5% interest in certain mineral claims and in the Attawapiskat area of Northern Ontario where the Company has a 60% contributing interest in the Big Red Diamond Joint Venture and a 50% contributing entitlement in the Dumont Joint Venture. In Wawa, Ontario the Company initially had the right to earn a 60% interest in certain claim units. The Company subsequently assigned 50% of its rights and obligations under the Wawa agreement to Dianor Resources Inc ("Dianor") and in return Dianor will pay 50% of the Company's costs pertaining to the agreement. In Quebec, the Company has a 33.3% contributing interest in diamond exploration and a 50% contributing interest in base metal exploration on various mineral claims. The Company also explores in Morocco, where it has completed preliminary exploration and is finalizing a joint venture agreement for further exploration, and in Angola where it has certain rights for alluvial and kimberlite diamond exploration. In West Greenland, the Company was granted one exploration license and two additional licenses were transferred to the Company by Cantex Mine Development Corp ("Cantex"). In exchange for transferring exploration rights in its licenses, Cantex has the right to purchase a 25% interest in the Greenland licenses by payment to the Company of \$120,000 at any time between January 1, 2008 and January 20, 2008. The Company has also conducted some exploration work and is currently applying for additional mineral exploration licenses in the Republic of Mali. Most recently, the Company has entered into an agreement (pending TSX approval) to acquire certain mineral claims located in the State of Mato Grosso, Brazil. The Company has also staked additional claims in the James Bay area of Ontario and has entered into a letter of intent with WSR Gold Inc. ("WSR") to grant up to a 50% interest in the claims if certain expenditure commitments are met by WSR. The reader is referred to the relevant sections in this, and previous MD and A's for further details on these projects.

## Performance Summary

The following is a summary of significant events and transactions that occurred during the period:

### *Private Placements*

In August 2007, the Company completed a private placement consisting of 7,620,000 flow-through units at \$0.55 per unit for gross proceeds of \$4,191,000 and 9,425,000 non-flow-through units at \$0.45 per unit for gross proceeds of \$4,241,250. Each unit consists of one common share and one half of one share purchase warrant, each whole warrant exercisable for the purchase of one common share of the Company at a price of \$0.75 per share for a period of two years from the date of issuance. Finder's fees in the amount of \$656,580 were paid in connection with this private placement. In addition, 1,604,500 agent's warrants were issued as finder's fees in connection with this placement, 762,000 agent's warrants are exercisable for the purchase of common shares of the Company at a price of \$0.55 per share and 842,500 agent's warrants are exercisable at a price of \$0.45 per share for a period of two years from the date of issuance. The agents' warrants were valued at \$282,992 using the Black-Scholes option pricing model with an expected volatility of 76%, a risk free interest rate of 4.53%, 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, 2007 and April 30, 2006 for details of private placements made during those periods.

### *Mineral Properties*

Mineral property costs, net of cost recoveries, incurred (paid or payable) during the six month period ended October 31, 2007 were as follows:

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Attawapiskat	\$	196
Wemindji, James Bay		125,722
Kyle Lake		3,183,258
Wawa		196,505
Angola		1,327,553
Morocco		77,696
Greenland		<u>104</u>
Total	\$	4,911,034

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

## **Attawapiskat Property, Ontario**

### *Big Red Diamond Joint Venture*

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

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

As at October 31, 2007 the Company has a 60% working interest in certain mineral claims. These claims are subject to a 7.5% carried interest in favour of Kel-Ex, and the Company is obligated to contribute to the costs of the development program in proportion to its working interest.

### *Dumont Joint Venture*

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

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

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, microilmene 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.

There are several sites within the D6 indicator fan containing strong diamond indicator counts (e.g. OT 134 which contains 44 diamond indicator and 466 kimberlite indicator grains per 20 kg) and during the period November 1, 2004 to January 31, 2005, a further 46 power auger holes, totaling 236 metres were drilled. Results for 557 samples of basal till show that 514 contain diamond indicator (“DI”) minerals (i.e. minerals that grow with diamond). The average DI count is 18 grains per 20 kg and some samples contain more than 50 DI grains per 20kg. Many of the diamond indicator grains are fresh and

occasionally angular and friable showing they are close to their source. Moreover, some of the garnets have kelyphite rims and some of the microilmenite grains (microilmenite is considered a kimberlite indicator not a diamond indicator although it can be used to forecast preservation of diamonds within a kimberlite pipe) have leucoxene coatings, again indicting a proximal source.

All 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 200,000 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 is finalizing a joint venture agreement with the other party for the exploration of various base metals within the same claim area in the Wemindji James Bay region. The Company will hold a 50% interest in this joint venture while retaining its 33.3% share in the original project which will explore solely for diamonds. Accordingly, certain non-diamond exploration costs have been recorded to reflect the Company's increased interest.

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.

### **Kyle Lake Project**

The Kyle Lake area is located approximately 200 km west of James Bay in Northern Ontario and about 100 km west of the Company's Attawapiskat project 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 with Arctic Star to sell a 20% contributing interest in the property to Arctic Star for proceeds of \$100,000, reimbursement of 20% of previous staking and exploration costs incurred on the property and an agreement to pay 20% of on-going exploration costs.

During fiscal 2005, Arctic Star advised the Company that it declined to contribute financially to exploration of the Kyle Lake project and the Company elected to increase its interest in the project by funding Arctic Star's contribution. At October 31, 2007, the working interest of the Company in the project was approximately 91.5%.

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

### *Technical Rationale*

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

### *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 analyses 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 Mini Bulk Sampling*

In view of the encouraging results obtained from the discovery drill hole mentioned above, it was elected to collect a series of minibulk samples. Five of these samples were collected from holes collared in the geophysical center of the body, with one of these 5 holes drilled vertically and the remaining holes being inclined and drilled north, west, south and east respectively. These holes also broadly delineate the deposit at depth as well as providing minibulk samples.

On November 3, 2005, the Company reported that 1,573 kg of kimberlite had been processed from the first two minibulk holes and 288 diamonds had been recovered (i.e. an average of 18 diamonds per hundred kg). Forty-five diamonds exceed 0.5 mm on one dimension, and are classified as macrodiamonds, whilst 33 diamonds exceed 0.5 mm in two dimensions. The sample is dominated by white diamonds, (188 stones - 65%), with no inclusions.

On February 8, 2006, a total of 339 diamonds were recovered from a 1,745 kg of kimberlite sample (19.4 diamonds per 100 kg). White diamonds comprise 73.7% of the sample.

On April 7, 2006, a total of 243 natural diamonds were recovered from processing 190.49 kg of kimberlite drill core from drill hole T1-4.(127 diamonds per 100kg). Drill hole T1-4 was drilled due north at an angle of 76 degrees to determine the northern boundary of the T1 kimberlite pipe. It intersected kimberlite from 260 to 291 metres. Two high chrome G10 ten and 8 other G10 peridotitic garnets were also recovered.

On April 27, 2006, the Company reported that processing of a second sample from drill hole T1-4 had recovered 289 natural diamonds from 271.62 kg of kimberlite. Two of the three largest diamonds recovered, measuring 1.5 x 1.3 and 0.6 mm and 1.4 x 1.3 x 0.5 mm are chip fragments from larger stones, probably broken during core drilling. 201 of the 289 (69.55%) diamonds are white diamonds. When normalized to 100 kg, this result is very similar to the first sample reported from T1-4 and appears to demonstrate continuity of grade and stone size in this part of T1. The very high proportion of white diamonds is entirely consistent with other minibulk holes drilled in T1.

On August 27, 2006, the Company reported that processing of 1,992.8 kg of kimberlite drill core from mini-bulk sample holes T1-5, T1-6 and the lower part of T1-3, drilled in diamondiferous kimberlite T1, was been completed and 896 natural diamonds were recovered. Approximately 70% of these are white diamonds.

### *T1 Bulk Sampling*

In January 2006, the collection and processing of a 200 to 300 tonne bulk sample from T1 was commissioned. The purpose of the bulk sample was to determine the likely diamond grade and indicative diamond values of T1.

The high proportion (65 – 70%) of pristine white micro and macrodiamonds recovered in T1 from a minibulk sample appear similar in colour to a 243.52 carat parcel of commercial size diamonds recovered from the Victor kimberlite, 80 km east of T1. If the quality of the T1 diamonds obtained so far from T1 are representative of those that would be obtained in a production situation, then the value of the T1 diamonds might be similar to the Victor diamonds at over US\$400/ct. Currently the Victor diamonds are thought to have the highest average price ("run of mine") for kimberlite diamonds in the world.

In addition to a favourable size distribution of the diamonds as well as favourable numbers of pristine diamonds recovered from T1, the chemical compositions of diamond indicator minerals, including diamond stability field chromites, olivines, G10 garnets and chrome diopsides, are similar to the chemical compositions of the same minerals found in commercial kimberlites. The G10 garnets include seven G10-9's and a G10-10. These are the very best of the G10 garnets and, according to geologist Charles Fipke, occur in peridotitic kimberlite pipes containing high diamond grades. These are favourable factors and led the directors of Metalex and Arctic Star to commission the 200 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.

On April 17, 2006 the Company announced that the first of 16 bulk sample holes has been completed. This vertical drill hole intersected kimberlite at 137 metres (450 feet) and, after passing through a granite xenolith, bottomed in kimberlite at 295 metres (990 feet). A total of 5,942 kg (13,074 pounds) of plus 0.425 mm kimberlite was collected. This kimberlite was shipped to the CF Mineral Research Laboratory for recovery of diamonds and assessment of the metallurgical characteristics of the kimberlite so that optimal treatment protocol for the remaining samples can be determined.

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

On August 17, 2006, the Company announced that, to-date, 8 core holes have been drilled in T1 of which diamond results are available for 6. A total of 4,201 kg of kimberlite core has been processed and 1,768 diamonds have been recovered. The high proportion of white diamonds within T1 and the average diamond count of 420 diamonds per 1,000 kg are most encouraging.

Also, in August 2006, collection of the 200 tonne bulk sample from T1 was suspended pending 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 and that they met with the Marten Falls First Nation and the Attawapiskat First Nation on September 6, 2006.

The Ministry is continuing discussions with both Attawapiskat First Nation and Marten Falls First Nation. Discussions have centered on what is reasonable consultation for the 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.

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

#### *First Nation Policy*

The Company has a policy of working with relevant First Nation members. The Company started discussions in regard to the T1 bulk sample with the Attawapiskat First Nation in February 2006 and with the Marten Falls First Nation in March 2006. As of December 28, 2007, 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.

#### *Conclusion*

The Company is most encouraged by the quality and appearance of the diamonds it has recovered so far although it is too early to tell if this quality is indicative of the quality of diamonds that will be recovered in a production situation. The Company is also most encouraged by the excellent mineral chemistry of the G10 ten and G10 nine garnets as these indicate exceptionally favourable physical conditions for the formation of diamonds and are therefore normally associated with kimberlites that contain high diamond grades. The clinopyroxenes include a grain whose composition equates to the composition of clinopyroxenes found in large (greater than 100 carat) diamonds from the Ekati and Premier Diamond Mines. The Company eagerly awaits the results of the 200 to 300 tonne bulk sample.

#### *Discovery of New Kimberlites at the Kyle Project*

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

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

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

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

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

The Company has completed four NQ (4.76 cm diameter) inclined delineation holes in U2 to intersect additional kimberlite phases that occur as breccia clasts in the discovery hole. This delineation drilling indicates that the U2 kimberlite is approximately 9 hectares in size.

Drilling has shown that, like Victor, U2 contains varying diamond contents. Diamond contents range from nearly barren to values approaching those expected from Victor. Combining samples U2-2-234-325 and U2-3-198-300 yields 77 diamonds greater than 106 microns per 1000 kilograms. The percentage of gem quality diamonds greater than 106 microns for the two aforementioned samples is 78% while the average for all of the samples from U2 is 74%. The presence of high grade regions

with a high proportion of gem quality diamonds, as evidenced by the current results, supports the continued processing of the delineation drill core. This processing is currently underway.

The Company has also discovered a third new kimberlite. U2NW is just to the northwest of U2 and is approximately 1 hectare in size. Processing of the discovery hole confirmed that the kimberlite is diamondiferous.

The small sample of U2-NW processed does not allow an accurate estimation of the diamond count of the pipe. However, the diamond indicator minerals and microdiamonds recovered from the discovery hole indicate that the U2 NW kimberlite warrants additional testing. Delineation drilling (5.61cm core) of U2-NW has been completed.

#### *Base Metal Play at the Kyle Project*

On November 2, 2007, the Company announced that, based on a previously flown airborne magnetic survey in the vicinity of the Noront nickel-copper-platinum massive sulfide discovery in the James Bay lowlands area of northeastern Ontario, it has staked 41 claims in the vicinity and along the projected strike zone of the Noront discovery.

The Properties are strategically located on and around the “Ring of Fire” and cover approximately 36 square kilometres (8,944 acres) of ground. Based on geophysical work completed by Metalex and Arctic Star, there are 33 high priority Volcanic Massive Sulphide (“VMS”) drill ready targets that have been identified and staked. Further flying on 100 meter spacing over the targets and other claim blocks will commence shortly and upon review of the flight data drilling will start.

The Company then announced it has entered into a letter of intent with WSR Gold Inc. (“WSR”) pursuant to which WSR has been granted the option to acquire up to a 50% interest in these claims. Under the terms of the letter of intent, WSR has the right to earn up to a 50% interest in the project by funding up to CDN\$20.0 million in expenditures on the Property over a 4 year period. For each CDN\$5.0 million in expenditures, WSR will acquire a 12.5% interest in the Property, up to the maximum 50% interest.

#### **Wawa Project**

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

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

On August 10, 2005 the Company announced that reconnaissance sampling has been completed over the Wawa claims with 130 drainage and rock samples 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, 119 diamonds were recovered from 79.60 kg. Analysis of 112.63 kg of conglomerate from the western part returned 18 diamonds.

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

## Mali Project

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

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

The annual exploration commitment in CFA Francs (“CFA”), with Canadian Dollar equivalents using exchange rates at October 31, 2007 is as follows:

Fiscal		
2008	45,000,000 CFA	\$94,275
2009	121,000,000 CFA	\$253,495
2010	103,000,000 CFA	\$215,785

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

## Angola

### *Alluvial diamond exploration*

The Company participates, as a member of a joint venture, in alluvial diamond exploration in Angola through its interest in Project Chitamba which owns an alluvial diamond license which comprises the project area. Pursuant to the agreement, the Company contributes 100% of all costs incurred by the project up to the end of feasibility studies. These costs are repaid out of future profits and during the period the costs are being repaid, the Company’s interest in the project is 51%. After the Company’s costs have been repaid, the Company’s interest in the project will be 33%. Under the terms of the Chitamba alluvial license, the Company must spend US\$3,000,000 by July 31, 2008.

The 3,000km<sup>2</sup> alluvial license covers the western part of the Chitamba – Lulo kimberlite field and a 30 km stretch of the Cuango River and its tributaries. Prolific alluvial diamonds have been mined from the north flowing Cuango River downstream from the Chitamba license since 1971. For example, in 2004 SDM recovered diamonds worth US\$106 million, at an average stone value of about US\$200 per carat, about 80 km downstream from the Chitamba license. As most kimberlites in northern Angola appear to be constrained between the continental projections of two parallel transform faults. The most likely source area of the Cuango diamonds is considered to be the Chitamba – Lulo kimberlite cluster. This theory is supported by a trail of alluvial diamonds that occurs in the Cuango River sediments up to the northern border of the Chitamba permit as well as a trail of alluvial diamonds in the Lulo River which drain the eastern part of the said kimberlite cluster.

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

Sample results from a heavy mineral survey demonstrated that streams in the area east of the Cuango River, and its flood plain, are of greatest interest. It also demonstrated that there appear to be two types of kimberlite in the area, one dominated by eclogitic and peridotitic garnets; the other by peridotitic garnets. If this is the case, these different types of kimberlite

may impact the distribution of alluvial diamonds. The primary importance of the eastern part of the permit is also supported by the fact that most of the aeromagnetic anomalies occur in this area.

Road construction to the Cucumbi River was completed in June 2006 and dredging equipment, a processing plant and camp materials were mobilized to the Cucumbi River. The dredge was used to implement a systematic exploration program whose objective is to discover and evaluate a commercial alluvial diamond resource. This work was managed by a South African dredging expert and a South African security expert was hired to assist with security of diamond recovery.

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

### *Kimberlite Diamond Exploration*

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

There were thirteen known kimberlites within the Chitamba licence at the start of the joint venture and, in November 2005, the Company announced that it had discovered three new kimberlites. The kimberlites were found by follow up of aeromagnetic anomalies using ground magnetic surveys and shallow auger drilling. The modelled sizes of the kimberlites, based on a re-interpretation of aeromagnetic data in 2006, are 164 by 248 metres (1.64 ha); 150 by 150 metres (1.76 ha) and 200 by 82 metres (1.3 ha). Auger samples were collected and were processed by the CF Mineral Research laboratory where results returned one gem quality octahedral microdiamond diamond measuring 2.05 mm x 2.09 mm x 1.43 mm.

Further interpretation, in 2006, of 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. These anomalies were interpreted to reflect pipe like bodies which range in size from less than one hectare to greater than 39 hectares. The size of the four largest bodies, as interpreted from aeromagnetics, were anomaly 14352A at 700 by 700 metres (39 ha); 31530A at 500 by 500 metres (20 ha); 31590A at 375 by 375 metres (11 ha) and Caicala at 460 by 230 metres (8.3 ha). As follow up of four similar anomalies located three new kimberlites, the Company is confident that many new kimberlite pipes remain to be discovered within the Chitamba license, some of which may be of substantial size.

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

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

All of the aeromagnetic anomalies referred to above, and about 70 other kimberlites within and to the east of the Chitamba license (the Chitamba – Lulo kimberlite cluster), are drained by the aforementioned Cuango River and its tributaries. The Company believes it is well placed to discover the source of the alluvial diamonds by follow up of the aeromagnetic anomalies referred to above.

The Company has flown infill aeromagnetics to locate and further prioritize the discovered aeromagnetic anomalies. A specialized heli-portable diamond drill has been constructed, air freighted to Angola and is currently being commissioned on site. Once fully functional, priority anomalies will be drill tested.

## **Morocco**

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

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

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 microilmenite 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.

## **Greenland**

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

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

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

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

The annual exploration commitment in Danish Kroners (“DKK”), with Canadian Dollar equivalents using exchange rates at October 31, 2007 is as follows:

Calendar		
2007	6,878,080 DKK	\$1,268,318
2008	6,878,080 DKK	\$1,268,318

The expenditure commitments are based on a fixed amount plus a sliding scale based on the surface area of the licenses. The commitment will be reduced if certain ground is relinquished. As confirmed by the Greenland Bureau of Minerals and Petroleum at December 16, 2007, the Company has incurred 11,586,402 DKK in expenditures towards this commitment.

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 announced that it has entered into a letter of intent with Kel-Ex Development Ltd. to acquire certain mineral claims located in the State of Mato Grosso, Brazil in consideration for the issuance of 10,000,000 common shares of the Company. The deal received shareholder approval at the Company's recent Annual General Meeting and is now awaiting regulatory approval before the agreement can be finalized.

The claims area contains 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.

The completed airborne survey 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 drill 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 Canadian projects, a 10% interest in certain projects carried to production. Dr. Fipke also owns the CF Mineral Research laboratory where samples collected in the exploration programs are analyzed. Metalex's management is satisfied that all such related party transactions are entered into at a rate that is reflective of current market rates.

## Results of Operations

### For the six months ended October 31, 2007

The Company's principal source of income during the period was from interest on bank deposits which amounted to \$71,320 compared to \$186,706 in 2006. The decrease in interest income reflects the lower average cash balances during the current period.

The net loss for the six months ended October 31, 2007 amounted to \$177,290 (\$0.00 per share) compared to \$340,542 (\$0.01 per share) for the six months ended October 31, 2006.

The loss before income taxes increased by \$66,011, or 11%, to \$664,059 in the six months ended October 31, 2007. This difference is largely due to the decrease in interest income earned and significantly more travel and promotion costs as senior management focused more time on capital raising activity and attended various investor conferences. Also, decreases in consulting fees, office and administrative expenses, and professional fees were offset by increases in amortization, property investigation, and stock based compensation.

Consulting fees decreased from \$227,960 in 2006 to \$45,145 in 2007 as no independent financing consultant services were engaged.

Management fees, representing payments to directors and to two companies controlled by directors, of \$150,275 did not change significantly compared to \$151,973 in 2006.

Office and administrative expenses decreased from \$197,068 in 2006 to \$157,576 in 2007 due to reduction in office staff.

Professional fees decreased from \$117,511 in 2006 to \$81,019 in 2007 due to Ontario legal service requirements in 2006 as well as the audit committee's decision to not engage the Company's auditor to review the interim financial statements.

Transfer agent and filing fees decreased from \$22,249 in 2006 to \$15,414 in 2007 due to a timing difference in the costs associated with the Annual General Meeting.

Travel expenses increased from \$33,000 in 2006 to \$178,111 in 2007 primarily due to increased capital raising and potential joint venture meeting activity.

Mineral property costs, net of cost recoveries, incurred (paid or payable) during the six month periods ended October 31, 2007 and October 31, 2006 were as follows:

	2007	2006
Attawapiskat	\$ 196	\$ 18,369
Wemindji, James Bay	125,722	282,831
Kyle Lake	3,183,258	5,114,795
New Liskeard	-	73,781
Wawa	196,505	160,531
Mali	-	69,156
Angola	1,327,553	1,522,775
Morocco	77,696	340,358
Greenland	<u>104</u>	<u>131,666</u>
Total	\$ 4,911,034	\$ 7,714,262

## Summary of Quarterly Results

	Three Months Ended October 31, 2007	Three Months Ended July 31, 2007	Three Months Ended April 30, 2007	Three Months Ended January 31, 2007
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss before other items	(270,513)	(431,688)	(247,638)	(544,992)
Earnings (loss) for the period	140,587	(317,877)	75,242	(579,016)
Basic and diluted earnings (loss) per share	0.00	(0.00)	0.01	(0.01)

	Three Months Ended October 31, 2006	Three Months Ended July 31, 2006	Three Months Ended April 30, 2006	Three Months Ended January 31, 2006
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss before other items	(434,942)	(343,960)	(362,926)	(822,339)
Earnings (loss) for the period	24,416	(364,958)	1,014,831	(502,052)
Basic and diluted earnings (loss) per share	0.00	(0.01)	0.03	(0.01)

The earnings for the three months ended October 31, 2007 resulted solely from the recording of a future income tax recovery in the amount of \$386,727. Similarly, the earnings for the three months ended April 30, 2007 resulted solely from the recording of a future income tax recovery in the amount of \$278,512. The loss for the three months ended January 31, 2007 included the write-off of mineral properties in the amount of \$306,835 with respect to exploration costs in New Liskeard, Ontario. With the exception of the items noted above, other fluctuations in operating results for the four quarters ending October 31, 2007 reflect the timing of various normal business transactions.

The earnings for the three months ended October 31, 2006 also resulted solely from the recording of a future income tax recovery in the amount of \$344,029. The earnings for the three months ended April 30, 2006 resulted solely from the recording of a future income tax recovery in the amount of \$1,381,440. The loss for the three months ended January 31, 2006 included stock-based compensation of \$329,397 with respect to the granting of 500,000 stock options.

## 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, 2007, the Company had cash of \$4,807,702 and had made exploration advances of \$348,121, representing funds to be applied to future exploration work. As at April 30, 2007, the Company had cash of \$1,712,144 and had made exploration advances of \$679,438.

Working capital and exploration advances at October 31, 2007 amounted to \$2,237,257 compared to \$28,765 at April 30, 2007.

Liquidity at October 31, 2007 has been provided primarily as a result of proceeds from a private placement equity financing completed in August 2007 which consisted of 7,620,000 flow-through units at \$0.55 per unit for gross proceeds of

\$4,191,000 and 9,425,000 non-flow-through units at \$0.45 per unit for gross proceeds of \$4,241,250. Each unit consists of one common share and one half of one share purchase warrant, each whole warrant exercisable for the purchase of one common share of the Company at a price of \$0.75 per share for a period of two years from the date of issuance. Finder's fees in the amount of \$656,580 were paid in connection with this private placement. In addition, 1,604,500 agent's warrants were issued as finder's fees in connection with this placement, 762,000 agent's warrants are exercisable for the purchase of common shares of the Company at a price of \$0.55 per share and 842,500 agent's warrants are exercisable at a price of \$0.45 per share for a period of two years from the date of issuance. The agents' warrants were valued at \$282,992 using the Black-Scholes option pricing model with an expected volatility of 76%, a risk free interest rate of 4.53%, an expected life of 2 years and an expected dividend yield of 0%.

During the six month period ended October 31, 2007, the Company expended \$Nil (2006 – \$286,756) for the acquisition of equipment.

During the six month period ended October 31, 2007, the Company expended \$4,265,613 on mineral properties (net of recoveries) compared to \$7,231,944 during the six months ended October 31, 2006. Other mineral property costs for the six months ended October 31, 2007 were financed through non-cash working capital.

## Contractual obligations

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, 2007	April 30, 2007
Total minimum lease payments	\$ 448,604	\$ 448,604
Less: payments to October 31, 2007	<u>(224,302)</u>	<u>(149,535)</u>
Balance of obligation	224,302	299,069
Less: current portion	<u>(149,537)</u>	<u>(149,537)</u>
Non-current portion - due Fiscal 2009	<u>\$ 74,765</u>	<u>\$ 149,532</u>

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

## Off-Balance Sheet Arrangements

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

## Related Party Transactions

During the six month period ended October 31, 2007, the Company entered into the following transactions with related parties not disclosed elsewhere in these financial statements:

- a) Paid or accrued either, directly or indirectly, sampling, laboratory and mineralogical costs of \$181,800 (2006 - \$329,636) to a company controlled by a director; and a 10% administration fee of \$69,265 (2006 - \$72,739), consulting fees of \$72,963 (2006 - \$20,723) and drilling and equipment rental charges of \$81,701 (2006 - \$150,777) to another company controlled by a director.
- b) Paid or accrued management fees of \$104,900 (2006 - \$139,473) to two companies controlled by directors.
- c) Paid or accrued office expenses of \$500 (2006 - \$3,000) to a company controlled by a director.
- d) Paid or accrued a 10% administration fee of \$3,060 (2006 - \$3,127) and shared office and administrative costs of \$7,269 (2006 - \$8,075) to a company controlled by a director and to a company with common directors and management.
- e) Recorded recoveries, which were netted against various expenses, for shared office and administrative costs of \$12,227 (2006 - \$23,240) and for shared field expenditures of \$253 (2006 - \$10,230) from a company controlled by a director and from a company with common directors and management.

Included in exploration advances is \$108,665 (April 30, 2007 - \$285,530) which represent funds advanced to Kel-Ex, a company controlled by a director of the Company, towards the exploration of certain mineral properties. Kel-Ex is the operator of these properties and is holding these funds on behalf of the Company towards future exploration work.

Included in accounts payable is \$792,873 (April 30, 2007 - \$600,164) for laboratory and mineralogical costs, \$565,886 (April 30, 2007 - \$44,435) for project payroll and camp supplies costs, \$79,579 (April 30, 2007 - \$6,492) for management fees and \$36,772 (April 30, 2007 - \$11,713) for shared office and administrative costs owing to companies controlled by directors and a company with common directors and management.

Included in receivables is \$76,674 (April 30, 2007 - \$90,133) for shared equipment and camp supplies costs incurred in a joint exploration program in Greenland and \$14,692 (April 30, 2007 - \$17,483) 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.

### *Loan payable to related parties*

A forbearance of indebtedness agreement was completed effective July 31, 2006 whereby accounts payable and advances of \$2,536,707 due to a director and companies controlled by a director were exchanged for the loan payable. The loan is non-interest bearing, matures on April 1, 2008, and is secured by a general security agreement on the Company's assets.

As at October 31, 2007, the loan has a balance remaining of \$1,019,052 (April 30, 2007 - \$1,019,052).

## Outstanding share data

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

As at December 28, 2007, the Company had outstanding 85,838,373 common shares, 3,900,000 stock options with a weighted average exercise price of \$0.72 per share, 8,522,500 share purchase warrants with a weighted average exercise price of \$0.75 per share and 1,604,500 agent's warrants with a weighted average exercise price of \$0.50 per share.

## **Risks and uncertainties**

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

## **Financial instruments**

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

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

## **Change in accounting policy**

### *Financial instruments*

Effective May 1, 2007 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the statement of operations such as unrealized gains or losses from available for sale securities which are not included in computing net income (loss) until realized. The Company does not currently have any assets or liabilities that are subject to this accounting treatment.

Under Section 3855, all financial assets, except those classified as held to maturity and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. The Company's financial statements have not been impacted by this policy to date.

## **Disclosure controls and procedures**

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

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

There were no changes to the internal control over financial reporting during the six months ended October 31, 2007 that has affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.