

Interim consolidated financial statements of

**Cantex Mine Development Corp.**

October 31, 2008

(Unaudited – Prepared by Management)

# **Cantex Mine Development Corp.**

October 31, 2008

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## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the three month period ended October 31, 2008.

# Cantex Mine Development Corp.

## Interim consolidated statement of operations and comprehensive loss three month period ended October 31, 2008 and 2007

(Unaudited - Prepared by Management)

	October 31, 2008	October 31, 2007
	\$	\$
<b>Expenses</b>		
Exploration (Note 3 and Schedule)	177,223	171,070
General and administrative	74,042	33,291
Amortization	25,993	24,624
Interest income and foreign exchange	49,754	(49,132)
<b>Net loss and comprehensive loss</b>	<b>(327,012)</b>	<b>(179,853)</b>
Loss per common share, basic and diluted	0.00	0.00
Weighted average number of common shares outstanding, basic and diluted	316,682,019	302,034,291

# Cantex Mine Development Corp.

## Interim consolidated statement of shareholders' deficiency three month period ended October 31, 2008 and 2007

(Unaudited - Prepared by Management)

	Number of common Shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' deficiency \$
<b>Balance, July 31, 2007</b>	302,574,291	38,458,180	576,000	(39,611,369)	(577,189)
Shares issued in full and final settlement of liabilities	14,107,728	987,541	-	-	987,541
Stock-based compensation expense	-	-	480,085	-	480,085
Share issuance costs	-	(5,734)	-	-	(5,734)
Net loss and comprehensive loss for the year	-	-	-	(1,494,961)	(1,494,961)
<b>Balance, July 31, 2008</b>	316,682,019	39,439,987	1,056,085	(41,106,330)	(610,258)
Net loss and comprehensive loss for the period	-	-	-	(327,012)	(327,012)
<b>Balance, October 31, 2008</b>	316,682,019	39,439,987	1,056,085	(41,433,342)	(937,270)

# Cantex Mine Development Corp.

## Interim consolidated balance sheet as at October 31, 2008

(Unaudited - Prepared by Management)

	October 31, 2008	July 31, 2008
	\$	\$
<b>Assets</b>		
Current assets		
Cash	73,623	20,276
Amounts receivable	35,771	29,745
	<b>109,394</b>	50,021
Reclamation bonds	29,173	24,557
Property and equipment (Note 4)	140,401	166,394
	<b>278,968</b>	240,972
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	215,671	209,067
Due to related parties (Note 5)	1,000,567	642,163
	<b>1,216,238</b>	851,230
<b>Shareholders' deficiency</b>		
Share capital (Note 6)		
Authorized		
Unlimited number of preferred shares without nominal or par value, issuable in series		
Unlimited number of common shares without nominal or par value		
Issued		
316,682,019 common shares (July 31, 200 - 316,682,019)	39,439,987	39,439,987
Contributed surplus	1,056,085	1,056,085
Deficit	<b>(41,433,342)</b>	<b>(41,106,330)</b>
	<b>(937,270)</b>	<b>(610,258)</b>
	<b>278,968</b>	240,972

Nature and continuance of operations (Note 1)

Contingencies (Note 9)

Subsequent event (Note 12)

Approved by the Board

"Vernon Frolick"

Vernon Frolick, Director

"Chad Ulansky"

Chad Ulansky, Director

# Cantex Mine Development Corp.

## Interim consolidated statement of cash flows three month period ended October 31, 2008 and 2007

(Unaudited - Prepared by Management)

	October 31, 2008	October 31, 2007
	\$	\$
<b>Operating activities</b>		
Net loss	(327,012)	(179,853)
Items not affecting cash		
Amortization	25,993	24,625
Unrealized foreign exchange loss (gain)	49,087	(48,663)
Change in non-cash working capital items		
Increase in amounts receivable	(6,026)	(5,951)
Increase in accounts payable and accrued liabilities	6,604	48,026
	(251,354)	(161,816)
<b>Investing activities</b>		
	-	-
<b>Financing activities</b>		
Advances from related parties	304,701	173,841
	304,701	173,841
Increase in cash during the year	53,347	12,025
Cash, beginning of period	20,276	36,626
<b>Cash, end of period</b>	<b>73,623</b>	<b>48,651</b>

# Cantex Mine Development Corp.

## Notes to the interim consolidated financial statements

October 31, 2008

### 1. Nature and continuance of operations

Cantex Mine Development Corp. ("Cantex" or the "Company") is incorporated under the laws of the Province of Alberta and its principal business activity is the exploration and development of its mineral properties, either directly or indirectly through joint exploration and development ventures and other arrangements. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its commitments, realize its assets and discharge its liabilities in the normal course of business. Since inception, the Company has incurred cumulative losses of \$41,433,342 and, for the period ended October 31, 2008, has incurred negative operating cash flow from continuing operations of approximately \$251,354. At October 31, 2008, the Company has a negative working capital position of approximately \$1,106,844. Additional financing will be required for the Company to continue operations. The ability of the Company to continue operations is dependent upon continued financial support of its shareholders, other investors and lenders, and the successful development of the Company's mineral property interests. The Company has not determined whether any of its properties contain mineral reserves that are economically recoverable. If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used.

Although the Company has taken steps to verify title to the mineral properties in which it, through its subsidiaries, has an interest, in accordance with industry standards for the stage of exploration of such properties, those procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

### 2. Basis of presentation

Management has prepared the consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements are expressed in the Company's functional currency, Canadian dollars, except where noted.

#### (a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Cantex Gold Corp. All significant intercompany balances and transactions have been eliminated.

#### (b) Economic uncertainty

The Company's principal property and its primary exploration and development activities are taking place in the Republic of Yemen and, as such, the Company is exposed to a number of possible risks over which it has no control. These risks include, but are not necessarily limited to: changes in laws affecting foreign ownership, government participation, taxation, royalties, duties, rates of exchange, inflation, exchange control, repatriation of earnings, civil unrest, civil war and acts of terrorism. The likelihood of these events occurring cannot be predicted at this time. There are no assurances that the current economic and political conditions will continue in Yemen.

# Cantex Mine Development Corp.

## Notes to the interim consolidated financial statements

October 31, 2008

### 2. Basis of presentation (continued)

#### (c) *Adoption of new accounting standards*

For the year ended July 31, 2008 the Company early adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") with respect to financial instruments:

CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, adopted by the Company on August 1, 2007, has been superseded by Sections 3862 and 3863 below.

Section 3862, *Financial Instruments - Disclosures*. This section describes the required disclosure to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, *Financial Instruments - Presentation*. This section establishes standards for presentation of financial instruments and non-financial derivatives.

Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section requires disclosure with respect to compliance with capital requirements and if not, the consequences of such non-compliance.

The impact of the adoption of these new standards is disclosed in Notes 10 and 11 of the consolidated financial statements of the Company.

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose and entity's ability to continue as a going concern. This new standard became effective for the Company on August 1, 2008. The adoption of this new accounting standard had no material effect on the Unaudited interim consolidated financial statements for the three month period ended October 31, 2008.

#### (d) *International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("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 ended July 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

# Cantex Mine Development Corp.

Notes to the interim consolidated financial statements

October 31, 2008

### 3. Mineral property interests

	July 31, 2008		October 31, 2008
	Cumulative expenditures	Current year expenditures	Cumulative expenditures
	\$	\$	\$
Yemen program	20,118,692	138,882	<b>20,257,574</b>
West Greenland program	1,694,681	-	<b>1,694,681</b>
Nevada program	1,570,372	38,341	<b>1,608,713</b>
	<b>23,383,745</b>	<b>177,223</b>	<b>23,560,968</b>

	July 31, 2007		July 31, 2008
	Cumulative expenditures	Current year expenditures	Cumulative expenditures
	\$	\$	\$
Yemen program	19,424,595	694,097	20,118,692
West Greenland program	1,694,131	550	1,694,681
Nevada program	1,489,038	81,334	1,570,372
	<b>22,607,764</b>	<b>775,981</b>	<b>23,383,745</b>

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has diligently investigated rights of ownership of all of the mineral concessions in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

### 4. Property and equipment

	October 31, 2008			July 31, 2008
	Cost	Accumulated depreciation	Net book value	Net book value
	\$	\$	\$	\$
Field equipment	504,963	369,775	135,188	160,440
Computer equipment	14,715	9,502	5,213	5,954
	<b>519,678</b>	<b>379,277</b>	<b>140,401</b>	<b>166,394</b>

# Cantex Mine Development Corp.

Notes to the interim consolidated financial statements

October 31, 2008

## 5. Related party transactions and balances

	October 31, 2008	July 31, 2008
	\$	\$
Due to related parties		
To a company controlled by a director for shared office and administrative charges	46,796	21,834
To a company controlled by a director for shared field expenditures	337	337
To a company controlled by a director for exploration expenditures advances to the Company	816,098	481,474
To a company controlled by a director for geological fees	136,354	137,083
To a company with common directors and management for shared administrative charges	1,296	1,229
To a company with common directors and management for shared field expenditures	(314)	206
	<b>1,000,567</b>	<b>642,163</b>

Amounts due to related parties have no fixed terms of repayment, are unsecured and are non-interest bearing.

The following 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:

	Three month period ended October 31,	
	2008	2007
	\$	\$
Amounts paid or accrued		
To a company controlled by a director for office and administrative costs	16,897	8,494
To a company controlled by a director for geological consulting fees	6,183	10,878
To a company with common directors and management for office and administrative costs	1,234	1,461
To a company with common directors and management for shared field expenditures	-	253
To a company controlled by a director for laboratory		
	<b>24,314</b>	<b>21,086</b>

	Three month period ended October 31,	
	2008	2007
	\$	\$
Recoveries recorded		
From a company with common directors and management for shared field expenditures	299	-
	<b>299</b>	<b>-</b>

# Cantex Mine Development Corp.

Notes to the interim consolidated financial statements

October 31, 2008

## 6. Share capital and contributed surplus

### *Stock option plan*

Under the Company's plan, the total number of options outstanding is not to exceed 5% of the aggregate issued and outstanding common shares. The exercise price of the options issued under the plan is determined by the Board of Directors at the time the options are granted. The options vest immediately upon grant, except as determined by the Board of Directors, and are exercisable for up to five years from the date the option is granted. Details are as follows:

	Number	Exercise price
		\$
Outstanding, July 31, 2008	10,090,000	0.14
Granted	-	-
Cancelled	-	-
Outstanding, October 31, 2008	10,090,000	0.14

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

Number	Exercise price	Expiry date
	\$	
6,000,000	0.10	June 16, 2009
100,000	0.10	November 26, 2012
3,990,000	0.20	March 19, 2013
10,090,000		

## 7. Segmented information

The Company manages its business as a single operating segment: mineral exploration. The Company operates in both foreign and domestic countries as follows:

	Three month period ended October 31,	
	2008	2007
	\$	\$
Loss		
Canada	92,762	(21,712)
Yemen	195,909	127,449
United States of America	38,341	74,116
	327,012	179,853

# Cantex Mine Development Corp.

## Notes to the interim consolidated financial statements

October 31, 2008

### 7. Segmented information (continued)

	October 31, 2008	July 31, 2008
	\$	\$
Property and equipment		
Yemen	140,401	166,020
Canada	-	374
	<b>140,401</b>	<b>166,394</b>

### 9. Contingencies

- (a) The Company has not paid filing fees and the CTC exemption fees for subsidiaries incorporated under the Income Tax (Jersey) Act in the Channel Islands and consequently during fiscal 2004 these companies were involuntarily dissolved. The Income Tax (Jersey) Act includes provisions to assess penalties and, due to the loss of tax-exempt status of these subsidiaries, additional income taxes for instances of non-compliance. It is not possible at this time to make an estimate of the amount, if any, of taxes, fees or penalties that may result and accordingly, no provision has been made for any additional income taxes or related costs.
- (b) The Company is from time to time involved in various claims, legal proceedings and tax assessments arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

### 10. Capital management

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

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

The Company expects its current capital resources will not be sufficient to complete its exploration and development plans and operations through its current operating period and will be required to raise additional funds through future equity issuances or secure other financing. To date, the Company has relied on advances from related parties to fund its operations and expects continued financial support through the next twelve months. 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.

# Cantex Mine Development Corp.

## Notes to the interim consolidated financial statements

October 31, 2008

### 11. Financial instruments and risk management

The Company has classified each financial instrument into the following categories: held-for-trading assets and liabilities, loans and receivables, held-to-maturity investments, available-for-sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification.

The Company has made the following classifications:

- Cash is classified as financial assets held-for-trading and are measured on the balance sheet at fair value;
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method; and
- Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

The Company's financial instruments are exposed to certain financial risks, including currency, credit, liquidity and price risk.

#### (a) *Currency risk*

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Yemen and as such, a portion of its expenses are incurred in the local currency and US dollars. A significant change in the currency exchange rates could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At October 31, 2008, the Company is exposed to currency risk relating to funds held in U.S. dollars and Yemen rials with a value of approximately \$71,440.

#### (b) *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held through a large Canadian financial institution with a high investment grade rating.

#### (c) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 10 to the consolidated financial statements.

Accounts payable and accrued liabilities are due within the current operating period.

#### (d) *Price risk*

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

# **Cantex Mine Development Corp.**

Notes to the interim consolidated financial statements

October 31, 2008

## **12. Subsequent event**

On November 20, 2008, the Company announced that Vale International SA ("Vale"), a wholly-owned subsidiary of Companhia Vale do Rio Doce, had signed a letter agreement for the Company's Suwar, Wadi Qutabah nickel, copper, cobalt and platinum group element projects in Yemen. Vale's minimum exploration commitment under the agreement is US\$2 million to be spent prior to August 31, 2009. Vale has the right to acquire up to a 60% interest through a series of progressive expenditure and activity thresholds.

# Cantex Mine Development Corp.

## Interim consolidated schedule of exploration expenses three month period ended October 31, 2008 and 2007

(Unaudited - Prepared by Management)

	<b>October 31, 2008</b>	October 31, 2007
	\$	\$
Wages	<b>47,901</b>	32,046
Consulting and engineering	<b>41,560</b>	51,431
Travel, field costs and other	<b>39,278</b>	40,637
Licenses and permits	<b>34,707</b>	35,364
Living costs	<b>13,777</b>	11,592
	<b>177,223</b>	171,070