

# **CANTEX MINE DEVELOPMENT CORP.**

## **FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS THREE MONTH PERIOD ENDED OCTOBER 31, 2008**

The following discussion and analysis, prepared as of December 29, 2008, should be read together with the unaudited interim consolidated financial statements for the three month period ended October 31, 2008 and 2007 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the years ended July 31, 2008 and 2007, and the Management Discussion and Analysis for those years.

Additional information related to the Company is available on [www.cantex.ca](http://www.cantex.ca) 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 and exploration of mineral properties for commercial mineral deposits and it is considered to be at the exploration stage. The Company has not yet determined whether any of its properties contain ore reserves that are economically recoverable. The Company trades on the TSX Venture Exchange under the symbol CD.

The Company's primary project is located in the northwestern part of the Republic of Yemen where it owns an exclusive Exploration License over a 698 km<sup>2</sup> area and a prospecting permit for uranium covering an area of 3,876 km<sup>2</sup>. The second project is in Nevada, USA where the Company has a 100% interest in 7 groups of gold exploration claims comprised of 267 claims over 2,233 hectares.

## Performance Summary

The following is a summary of significant events and transactions:

### **Northwest Yemen**

On November 20, 2008, the Company announced that Vale International SA (“Vale”), a wholly-owned subsidiary of Companhia Vale do Rio Doce (NYSE: RIO, Vale), had signed a letter agreement for the Company’s Suwar, Wadi Qutabah nickel, copper, cobalt and platinum group element projects in Yemen (TSX Venture Exchange approval received December 2, 2008).

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 in the mineral exploration licenses for Suwar and Wadi Qutabah through a series of progressive expenditure and activity thresholds.

Vale may earn a 40% participating interest in the Suwar project if a prefeasibility study is completed on or before July 31, 2010, US \$3 million is spent on the Suwar project and a US \$1 million option payment is made to Cantex. An additional 11% can be earned by completing a feasibility study and a further 9% interest can be earned by financing mine development and achieving commercial production. If Cantex’s share of mine development costs are carried through to production by Vale, they are recovered by Vale as a development loan from 80% of Cantex’s share of profits.

The agreement also allows Vale to enter into a joint venture with Cantex on any other nickel, copper or cobalt bearing property, including the Company’s Al Masna’a deposit, in Yemen. The obligations are similar for each individual property.

### ***Suwar Nickel, Copper, Cobalt, Platinum Project***

The Suwar nickel, copper, cobalt, platinum project is located in the southern part of a layered basic igneous complex some 32 km in length and 8 km in width. The complex is dominated by gabbroic rocks and is thought to be of mid Proterozoic age. The city of Sana’a lies some 50 km to the east-southeast.

Mineralization at surface occurs as a discontinuous series of gossan outcrops, often containing malachite, which occur along a northeast trending zone nearly 3 km long. At least 1.1 km of this zone exhibits an UTEM response.

It has been determined from earlier drilling results that the mineralized zones are dominated by pyrrhotite with nickel being contained mainly in pyrrhotite-pentlandite intergrowths and copper within chalcopyrite. The sulphides occur both as disseminations and as massive bands. While only traces of platinum group metals have been found, only a small part of the mineralized complex has been tested and there remains a possibility for discovery of significant PGE values. There is insufficient drilling to calculate a resource but, based on the drill results and geology, the 2.7 km long discontinuously mineralized zone is up to 140 metres wide and up to 30 metres thick. There is adequate room within this zone to contain a world-class ore body. The mineralized zone is open in all directions.

An additional drilling program commenced August 14, 2007. Seventeen holes totalling 1,920 meters are planned to provide additional detail at Suwar Hill and also to test for mineralization along the previously untested extension of the Suwar massive sulphides. Four holes were complete as of January 20<sup>th</sup> 2008 and drilling of the remaining holes is currently underway. This drilling is part of the work being conducted towards completing a pre-feasibility study on Suwar by July 31, 2010.

### ***Wadi Qutabah Nickel, Copper, Cobalt, Platinum Project***

The Wadi Qutabah nickel, copper, cobalt, platinum project is located in the northern part of the same-layered mafic complex that hosts the Suwar nickel deposit (described above). It lies some 23 km north of Suwar and 60 km northwest of Sana’a.

At Wadi Qutabah, five iron sulphide horizons have been found within layered gabbroic rocks. These iron sulphide horizons are conformable with the primary layering of the gabbroic rocks and occur over an area of 23 km<sup>2</sup>. The best exposed horizon is the middle horizon and this can be traced in outcrop for more than 19 km. It is likely that the two lower horizons are of similar dimensions but these are largely concealed. The two upper horizons are significantly eroded and are of limited lateral extent.

Based on assay results for composite chip samples taken from the exposed horizon, only traces of platinum group elements were found in these samples but as strongly anomalous platinum occurs within drainage concentrates, there is a possibility that the platinum rich part of the deposit has yet to be discovered. As platinum group metals and nickel can partition during the intrusion of layered mafic complexes a drill program testing the vertically layered mafic complex to locate possible platinum horizons was undertaken.

To test the continuity of the flat lying sulphide horizons five vertical holes totaling 685.84 meters were drilled. These five holes intersected a total of 323.80 meters of weak (<10%) disseminated sulphides, 20.08 meters of moderate (10-50%) sulphide mineralization and 6.80 meters of semi massive to massive sulphide mineralization. These mineralized sections will be analyzed for nickel-copper-cobalt and platinum group elements. Cantex geologists are pleased with the extent and continuity of the sulphide mineralization.

Six additional holes were drilled to identify the source of the high platinum group element values found in three heavy mineral stream samples. The highly anomalous samples were from three adjacent streams draining a restricted portion of the Wadi Qutabah area. The six holes were designed to test the stratigraphy of the watershed of the anomalous streams. Several sulphide rich zones were intersected and these will be analyzed to identify anomalous platinum group element horizons.

### ***Al Masna Nickel, Copper, Cobalt Project***

The Al Masna'a nickel, copper, cobalt project is located in the Saadah region some 205 km north-northwest of the capital city, Sana'a, and 25 km south of the border with Saudi Arabia.

Anomalous nickel and copper values have been found in heavy mineral concentrates in a number of heavy mineral samples collected in the region while variably anomalous results for cobalt and platinum occur in follow up drainage, soil and rock samples. Most of the anomalous values occur in an area underlain by layered gabbroic rocks. Soil surveying around a mineralized drill hole at Al Masna'a identified several anomalous zones of copper, nickel, cobalt, platinum, palladium and rhodium.

The evidence to date strongly suggests that the high nickel values discovered in the Al Masna drill hole are not an isolated occurrence and that there is good probability of discovering extensions to this mineralized zone, as well as new zones of nickel mineralization. The results of the sampling to date identify one or more zones of mineralization with a strike length of at least 4.5 kilometers. The zone(s) is (are) open to the north.

Drilling is planned to test the IP, TEM and nickel soil geochemical anomalous zones in the Al Masna'a area with the objective of determining the grade and distribution of nickel and copper in the iron sulphide horizons.

### ***Al Hariqah Gold Deposit***

The Al Hariqah gold deposit is located some 130 km northwest of Sana'a. It was discovered during follow up of anomalous gold values found in heavy mineral concentrates.

Mapping and soil geochemistry have shown that gold mineralization occurs for a distance of nearly 4 km in two close, parallel, north northwest trending zones. These zones are up to 50 metres wide.

Twenty eight reverse circulation drill holes, totalling 4,053 meters, were drilled into the northern 1,100 metres length of the deposit. These holes show that the mineralization extends to at least 150 metres depth with several deep holes bottoming in mineralization. The drilling suggests potential for a gold resource within the drilled area of 16 million tonnes at an average grade of 1.65 g/t to 100 metres depth. Extrapolation of these data to the area covered by the mapping suggests potential for a resource of 40 million tonnes at similar grades. However the deposit is open along strike, across strike and at depth so there is potential to increase the tonnage available.

A drill program of 45 holes using the Company's specialized core / percussion drill was conducted in late 2005 and 2006. These holes were located to test the extension of the mineralization defined by the previous drill program as well as to test the continuity of mineralization between holes. Results for these holes, as determined by fire assay at ALS Chemex, an ISO 9001:2000 accredited laboratory in Vancouver, were consistent with those of the previous drill program. The Company is most encouraged with the consistent results as they demonstrate the continuity of gold values within the Al Hariqah deposit. The gold grades recovered are typical of those found in open pit mines.

Based on encouraging assay results of the work to date, the Company is committed to completing a pre-feasibility study at Al Hariqah prior to July 31, 2010.

### **Naqub West Uranium Project**

On February 28, 2007, the Company reported that it has acquired a new prospecting permit in Yemen containing numerous indications of uranium. The new permit covers 3,876 km<sup>2</sup> (1,514 square miles) in the Naqub West region, 195 km south southeast of the capital, Sana'a. The area is well accessed by paved road.

The area was covered by an airborne radiometric survey flown by Geo-survey in 1985. This survey found a total of 133 uranium anomalies within the permit area. A uranium anomaly was defined as being greater than 6 standard deviations above the background. Many of these anomalies have coincident thorium and/or potassium anomalies.

The Company intends to conduct an exploration program to test these uranium anomalies.

### **Nevada Project**

Cantex has a 100% interest in seven mineral properties in Nevada.

A summary of the seven Nevada properties follows:

#### ***Baxter Springs***

The Baxter Springs property comprises 16 claims covering 134 hectares. The property was once staked by the Dia Met – Goldtex JV after the area was initially identified by a regional stream sediment sampling program. In 2004, two geochemically anomalous zones in soils and rocks were defined. A gold-antimony-bismuth anomaly overlies a CSAMT fault bounded resistivity high. As well, underlying a stratigraphically or structurally controlled arsenic-antimony-mercury soil and rock anomaly, are two vertical, moderately resistive zones at depth. The target deposit type is structurally or stratigraphically controlled gold, similar to the Midway deposit to the south. Permitting has been approved to drill four RC holes [June 5, 2005].

#### ***Bruner***

The Bruner property consists of 25 claims covering 209 hectares. The property was once staked by the Dia Met – Goldtex JV to cover an area initially identified by a regional stream sediment sampling program. In 2004, a gold-mercury anomaly in soils and rocks was delineated. The targeted deposit type is Tertiary volcanic hosted gold similar to that found in the district.

#### ***Carico Lake***

The Carico Lake property comprises 42 claims covering 351 hectares. The claims were originally staked by the Dia Met – Goldtex JV to cover an area anomalous in gold. The JV conducted a stream sediment sampling, soil and rock sampling, and geological mapping program over the claim area. In 2004, the extent of a large arsenic anomaly in rocks and soils was delineated. The target is a sediment-hosted gold deposit similar to that found in the Cortez Mining District to the east.

#### ***Gold Basin***

The Gold Basin property comprises 20 claims covering 167 hectares. The claims were staked to cover an area anomalous in gold in soils and rocks initially identified by a regional stream sediment sampling program. The Dia Met – Goldtex JV had conducted stream sediment sampling, soil and rock sampling, and geological mapping within the present claim area. The claims cover a felsic volcanic breccia which hosts the mineralization. The targeted deposit type is volcanic hosted disseminated gold.

### ***Leonard Creek***

The Leonard Creek property comprises 127 claims covering 1,062 hectares. The property was once staked by the Dia Met – Goldtex JV after the area was initially identified by a regional stream sediment sampling program. A subsequent program of rock sampling, soil sampling and geological mapping identified a structural setting favourable for the deposition of gold. In 2004, a CSAMT survey identified several targets, including buried structurally controlled resistivity highs and vertical structurally controlled conductive zones. On other areas of the property, mapping has identified additional drill targets, including areas of siliceous sinter and alteration. Permitting has been approved for 12 RC holes [May 20, 2005]. The targeted deposit is gold in Tertiary volcanic rocks, similar to the Crowfoot deposit to the south.

### ***North Fork***

The North Fork property comprises 6 claims covering 50 hectares. The property was once staked by the Dia Met – Goldtex JV. The area was initially identified by a regional stream sediment sampling program. Subsequent work included rock and soil sampling, trenching, road construction, geological mapping and reverse circulation drilling. In 2004, a gold-arsenic-antimony-silver-mercury anomaly in rocks and soils, at least 200 meters long, was discovered. The target deposit is a structurally and/or stratigraphically controlled gold deposit.

### ***Weepah South***

The Weepah South property comprises 31 claims covering 260 hectares. The property was once staked by the Dia Met – Goldtex JV when the area was initially identified by a regional stream sediment sampling program. An induced polarization geophysical survey carried out by the JV shows an anomaly which may reflect mineralization in Paleozoic rocks at depth. The targeted deposit is a vein-like gold deposit up to 25 meters in width occupying a north to northeast trending shear zone, similar to the Weepah Mine three kilometers to the north. Permitting and bonding are in place to drill four RC holes [Permitting – October 26, 2004, Bonding – January 19, 2005].

## 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 July 31, 2008	Year Ended July 31, 2007	Year Ended July 31, 2006
Total revenues	\$ -	\$ -	\$ -
Net loss	(1,494,961)	(1,069,121)	(1,315,311)
Basic and diluted loss per share	-	-	-
Total assets	240,972	307,187	399,037
Total liabilities	851,230	884,379	1,133,300
Cash dividends	-	-	-

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 month period ended October 31, 2008, the Company incurred a loss of \$327,012 (2007 - \$179,853). The loss was greater than the previous year largely due to unrealized foreign exchange losses in the current period resulting from the decreasing value of the Canadian dollar - a significant balance of the Company's outstanding liabilities are in US dollars.

Some of the significant expenses for the three month period ended October 31, 2008 are as follows:

Exploration expenses total \$177,223 (2007 - \$171,070): of which \$138,882 (2007 - \$96,954) was incurred in Yemen and \$38,341 (2007 - \$74,116) in Nevada. Overall, exploration work was up slightly from the previous year. Refer to the Schedule of Exploration Expenses in the financial statements for additional detail.

General and administrative expenses total \$74,042 (2007 - \$33,291). Some of these significant expenses consisted of:

- Consulting fees of \$1,388 (2007 - \$1,925) did not change significantly from the previous year.
- Office and administrative costs of \$32,782 (2007 - \$10,476) increased due to increased activity in the Yemen office during the current period.
- Accounting, legal and audit fees of \$32,789 (2007 - \$12,530) increased due to accounting services required for Yemen tax remittances and tax planning.
- Transfer agent and filing fees of \$2,115 (2007 - \$2,488) did not change significantly from the previous year.
- Travel costs of \$4,968 (2007 - \$5,872) decreased slightly due to increased travel requirements in the previous year.
- Interest income and foreign exchange losses of \$49,754 (2007 - \$49,132 gain) increased as the Canadian dollar lost value in relation to US and Yemen currency.

Amortization of \$25,993 (2007 - \$24,624) increased from the prior year with the purchase of additional field equipment.

## Summary of Quarterly Results

	Three Months Ended October 31, 2008	Three Months Ended July 31, 2008	Three Months Ended April 30, 2008	Three Months Ended January 31, 2008
Total assets	\$ 278,968	\$ 240,972	\$ 257,173	\$ 322,169
Working capital (deficiency)	(1,106,844)	(801,209)	(685,965)	(1,355,576)
Shareholders' equity (deficiency)	(937,270)	(610,258)	(469,368)	(1,113,084)
Revenues	-	-	-	-
Net loss	(327,012)	(140,890)	(817,437)	(356,781)
Earnings (loss) per share	0.00	0.00	0.00	0.00

  

	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 assets	\$ 297,762	\$ 307,187	\$ 354,392	\$ 383,031
Working capital (deficiency)	(992,145)	(814,137)	(641,912)	(392,797)
Shareholders' equity (deficiency)	(757,042)	(577,189)	(380,280)	(106,451)
Revenues	-	-	-	-
Net loss	(179,853)	(196,909)	(300,555)	(321,435)
Earnings (loss) per share	0.00	0.00	0.00	0.00

The increase in total assets for the three month period ended October 31, 2008 was due to exploration advances received from a related party. The net loss for the three months ended July 31, 2008 was partially offset by a recovery of prior period expenses of \$102,429 which represents unsettled invoice accruals relating to predecessor entities of Cantex. The net loss for the three months ended April 30, 2008 includes stock based compensation of \$480,085 recognized as a result of incentive stock options granted and vested during the period. Also during this period, working capital and shareholders' deficiencies were significantly reduced as a result of the issuance of shares for debt. The increase in total assets for the three month period ended January 31, 2008 was due to exploration advances received. 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.

Working capital and shareholders' deficiencies were significantly reduced during the three month period ended January 31, 2007 as a result of the issuance of shares for debt. With the exception of the item noted above, other fluctuations in operating results for the four quarters ending October 31, 2007 reflect the timing of various normal business transactions.

### Liquidity and Capital Resources

The Company has financed its operations to date primarily through the issuance of common shares, exercise of stock options and loans from related parties. 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 the realization of assets and liquidation of liabilities in the normal course of business. As shown in the consolidated financial statements, the Company has suffered recurring losses, has negative working capital and has a significant deficit from operations. The application of the going concern concept is dependent on the Company's ability to explore and develop mineral properties with profitable reserves and to receive continued financial support from its creditors and shareholders. Management plans to obtain additional financing through future private placements for common shares or from the issuance of common shares on the exercise of outstanding options. The consolidated financial statements do not give effect to any adjustment should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts differing from those reflected in the consolidated financial

statements. There can be no assurance that sufficient working capital can be generated from operations and external financing to meet the Company's liabilities and commitments as they become due. Failure to generate sufficient working capital from operations or obtain external financing will cause the Company to curtail operations and the Company's ability to continue as a going concern will be impaired. The outcome of these matters cannot be predicted at this time.

No private placements were completed during the period.

Net cash used in operating activities during the three month period ended October 31, 2008 was \$251,354 compared to \$161,816 during the three month period ended October 31, 2007.

There was no cash used in investing activities during the three month period ended October 31, 2008 or 2007.

Financing activities provided net cash of \$304,701 during the three month period ended October 31, 2008 compared to \$173,841 during the three month period ended October 31, 2007. Cash provided during the period consisted of advances from related parties.

### Off-Balance Sheet Arrangements

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

### Related Party Transactions

The Company had the following liabilities to related parties at the end of the periods:

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

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



## **Financial Instruments**

The carrying values of cash, amounts receivable, and accounts payable approximate their fair value at October 31, 2008 due to their short-term nature. No reclassifications or de-recognition of financial instruments occurred in the period.

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 Canadian dollars of \$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.

## **Change in accounting policy**

For the year ended July 31, 2008 the Company early adopted the following new accounting standards issued by the CICA:

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. These sections detail the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".

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 seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance.

## **Recent accounting pronouncements**

### *New Pronouncement*

CICA Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. This new standard became effective for the Company on August 1, 2008. The Company is currently assessing the impact of this new accounting standard on its financial statements.

### *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.

## **Outstanding Share Data**

The authorized share capital of the Company consists of an unlimited number of preferred shares without par value (issuable in series) and an unlimited number of common shares without par value.

As at December 29, 2008, the Company had outstanding 316,682,019 common shares and 10,090,000 stock options with a weighted average exercise price of \$0.14 per share.

## **Subsequent Event**

On November 20, 2008, the Company announced that Vale International SA (“Vale”), a wholly-owned subsidiary of Companhia Vale do Rio Doce (NYSE: RIO, Vale), had signed a letter agreement for the Company’s Suwar, Wadi Qutabah nickel, copper, cobalt and platinum group element projects in Yemen.