Consolidated financial statements of

# Cantex Mine Development Corp.

July 31, 2010 and 2009

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July 31, 2010 and 2009

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# Auditors' Report

To the Shareholders of
Cantex Mine Development Corp.

We have audited the consolidated balance sheets of Cantex Mine Development Corp. as at July 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
November 23, 2010

# Cantex Mine Development Corp.

## Consolidated statements of operations and comprehensive loss
## years ended July 31, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Expenses** | | |
| Exploration (Note 4 and Schedule) | **877,188** | 1,213,442 |
| Stock-based compensation (Note 7(c)) | **-** | 377,487 |
| General and administrative | **163,948** | 292,049 |
| Amortization | **48,232** | 103,601 |
| **Loss before other items** | **(1,089,368)** | (1,986,579) |
| **Other items** | | |
| Administration fees earned | **137,391** | 180,616 |
| Interest income | **679** | 418 |
| Foreign exchange gain | **27,152** | 9,159 |
| | **165,222** | 190,193 |
| **Net loss and comprehensive loss** | **(924,146)** | (1,796,386) |
| Loss per common share, basic and diluted | **(0.00)** | (0.01) |
| Weighted average number of common shares outstanding, basic and diluted | **326,303,370** | 316,780,309 |

# Cantex Mine Development Corp.

Consolidated statements of shareholders' deficiency
years ended July 31, 2010 and 2009

| | Number of common Shares | Share capital | Contributed surplus | Deficit | Total shareholders' deficiency |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance, July 31, 2008** | 316,682,019 | 39,439,987 | 1,056,085 | (41,106,330) | (610,258) |
| Shares for debt settlement (Note 7 (a)(i)) | 560,559 | 39,239 | - | - | 39,239 |
| Stock-based compensation expense | - | - | 377,487 | - | 377,487 |
| Net loss and comprehensive loss for the year | - | - | - | (1,796,386) | (1,796,386) |
| **Balance, July 31, 2009** | 317,242,578 | 39,479,226 | 1,433,572 | (42,902,716) | (1,989,918) |
| Shares for debt settlement (Note 7 (a)(ii)) | 17,047,367 | 1,022,842 | - | - | 1,022,842 |
| Share issuance costs | - | (5,614) | - | - | (5,614) |
| Stock-based compensation expense | - | - | - | - | - |
| Net loss and comprehensive loss for the period | - | - | - | (924,146) | (924,146) |
| **Balance, July 31, 2010** | 334,289,945 | 40,496,454 | 1,433,572 | (43,826,862) | (1,896,836) |

# Cantex Mine Development Corp.

## Consolidated balance sheets
## as at July 31, 2010 and 2009

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current assets | | |
| Cash | **252,609** | 243,033 |
| Amounts receivable | **68,466** | 938,773 |
| Prepaid expenses | **27,191** | - |
| | **348,266** | 1,181,806 |
| Reclamation bonds (Note 4 (b)) | **28,194** | 25,876 |
| Property and equipment (Note 5) | **33,571** | 62,793 |
| | **410,031** | 1,270,475 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **83,684** | 503,025 |
| Due to related parties (Note 6) | **2,223,183** | 2,757,368 |
| | **2,306,867** | 3,260,393 |
| **Shareholders' deficiency** | | |
| Share capital (Note 7) | | |
| 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 | | |
| 334,289,945 common shares (2009 - 317,242,578) | **40,496,454** | 39,479,226 |
| Contributed surplus | **1,433,572** | 1,433,572 |
| Deficit | **(43,826,862)** | (42,902,716) |
| | **(1,896,836)** | (1,989,918) |
| | **410,031** | 1,270,475 |

Nature and continuance of operations (Note 1)
Contingencies (Note 11)
Subsequent event (Note 14)

Approved by the Board

*"Vernon Frolick"*
Vernon Frolick, Director

*"Chad Ulansky"*
Chad Ulansky, Director

# Cantex Mine Development Corp.

## Consolidated statements of cash flows
## years ended July 31, 2010 and 2009

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net loss | **(924,146)** | (1,796,386) |
| Items not affecting cash | | |
| Amortization | **48,232** | 103,601 |
| Stock-based compensation | **-** | 377,487 |
| Unrealized foreign exchange gain | **(2,554)** | (7,261) |
| Change in non-cash working capital items | | |
| Decrease (increase) in amounts receivable | **870,307** | (909,028) |
| Increase in prepaid expenses | **(27,191)** | - |
| (Decrease) Increase in accounts payable and accrued liabilities | **(349,242)** | 776,658 |
| | **(384,594)** | (1,454,929) |
| **Investing activities** | | |
| Increase in reclamation bonds | **(4,206)** | - |
| Purchase of property and equipment | **(19,010)** | - |
| | **(23,216)** | - |
| **Financing activities** | | |
| Share issue costs | **(5,614)** | - |
| Advances from related parties | **423,000** | 1,677,686 |
| | **417,386** | 1,677,686 |
| Increase in cash during the year | **9,576** | 222,757 |
| Cash, beginning of year | **243,033** | 20,276 |
| **Cash, end of year** | **252,609** | 243,033 |

Supplemental disclosure with respect to cash flows (Note 10)

## 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 $43,826,862 and, for the year ended July 31, 2010, has incurred negative operating cash flow from continuing operations of $384,594. At July 31, 2010, the Company has a negative working capital position of $1,958,601. 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 which raises substantial doubt as to the Company's ability to continue as a going concern. 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.

**3. Significant accounting policies**

(a) *Adoption of new accounting standards*

*Goodwill and Intangible Assets*

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Adoption of these new requirements has had no impact on the Company's consolidated financial statements.

*Financial Instruments - Disclosure*

In June 2009, the AcSB amended Section 3862, Financial Instruments – Disclosures, to converge with Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The amendments expand the disclosures required in respect of recognized fair value measurements and clarify existing principles for disclosures about the liquidity risk associated with the financial instruments, including the fair value hierarchy into which the fair value measurements are categorized in their entirety. Disclosure must be made for any significant transfers between the level of fair value hierarchy and the reasons for those transfers. The Company adopted this amended standard on July 31, 2010 and the required disclosures are included in Note 13.

(b) *Recent accounting pronouncements*

*Business combinations*

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non Controlling Interests* to replace Section 1581and Section 1600. These sections shall be applied prospectively to business combinations beginning on or after January 1, 2011. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. This standard is not expected to have any effect on the Company's financial statements unless and until one or more business combination transactions occur.

## 3. Significant accounting policies (continued)

(b) *Recent accounting pronouncements (continued)*

*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 2011. The transition date of August 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.

(c) Financial instruments

The fair value of the Company's financial instruments consisting of cash, amounts receivable, reclamation bonds, accounts payable approximate their carrying value due to the short-term nature of those instruments.

(d) Mineral property interests

Mineral property acquisition costs and exploration and development expenditures incurred prior to determination of the feasibility of mining operations, periodic option payments and administrative expenditures are expensed as incurred. Such expenses incurred subsequent to the determination of the feasibility of mining operations are deferred until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. These costs will be amortized over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned or when an impairment in value has occurred. Proceeds from property option payments received are netted against exploration expenses of the related mineral rights, with any excess being included in operations as administration fees earned.

(e) Property and equipment

Property and equipment is recorded at cost. Amortization is provided over the expected useful life of the assets, which is from three to five years, on a straight-line basis.

(f) Foreign currency translation

The Company's functional currency is the Canadian dollar. The Company's foreign subsidiary is considered to be an integrated operation. Accordingly, the Company uses the temporal method to translate the financial statements of the subsidiary into Canadian dollars, whereby all foreign currencies are translated into Canadian dollars using average rates for the period for items included in the consolidated statements of operations, the rate in effect at the balance sheet date for monetary assets and liabilities, and historical rates for other assets included in the consolidated balance sheets. Translation gains or losses are included in the determination of income.

## 3. Significant accounting policies (continued)

(g) Loss per share

The Company follows the treasury stock method of calculating diluted loss per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of all stock options and warrants (Note 7) is applied to repurchase common shares at the average market price for the year. As the Company has a loss in both years presented, the effect of the options and warrants is anti-dilutive and basic and diluted loss per share are the same.

(h) Stock-based compensation

The Company has a stock option plan that is described in Note 7. All stock-based payments are recorded using the fair value method. Under this method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable and are amortized over the vesting period. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(i) Asset retirement obligation

The Company recognizes the fair value of an asset retirement obligation as a liability in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and depreciated over the life of the asset. The Company has determined that there are no significant asset retirement obligations related to its assets and, therefore, has not recorded any such obligations as at July 31, 2010 (2009: $Nil).

(j) Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future tax assets and liabilities expected to be recovered or settled are measured using enacted or substantively enacted tax rates and are recorded in the financial statements if realization is considered more likely than not. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Measurement uncertainties

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the valuation allowance for future income taxes, asset retirement obligations, the fair value estimate of stock options issued in exchange for services and contingent liabilities. Actual results could differ from those estimates.

**4. Mineral property interests**

| | July 31, 2009 Cumulative expenditures | Current year expenditures | **July 31, 2010 Cumulative expenditures** |
|---|---|---|---|
| | $ | $ | **$** |
| Yemen program | 21,340,603 | 819,843 | **22,160,446** |
| Nevada program | 1,615,207 | 57,345 | **1,672,552** |
| | 22,955,810 | 877,188 | **23,832,998** |

| | July 31, 2008 Cumulative expenditures | Current year expenditures | **July 31, 2009 Cumulative expenditures** |
|---|---|---|---|
| | $ | $ | **$** |
| Yemen program | 20,171,996 | 1,168,607 | **21,340,603** |
| Nevada program | 1,570,372 | 44,835 | **1,615,207** |
| | 21,742,368 | 1,213,442 | **22,955,810** |

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.

(a) *Yemen program*

During 1996, the Company applied for and was granted a 52,000 square kilometers (“$km^2$“)prospecting permit in the Republic of Yemen. With continued exploration, the Company was able to focus its efforts on progressively smaller areas showing the potential for economic mineralization. The Company has held an exploration license granting exclusive exploration rights and the right to obtain an exploration contract since 1999. Under the terms of the exploration contract, the Government of the Republic of Yemen has the right to offer to acquire, on commercial terms, an undivided interest of up to 49% in the Company’s exploration licenses in the Republic of Yemen. In this event, the Company’s interest (and that of any partner) would be diluted proportionately. The current exploration license is valid until March 30, 2012 and covers 698 $km^2$.

In November 2008, Vale International SA (“Vale”), a wholly-owned subsidiary of Companhia Vale do Rio Doce, signed a letter agreement for the Company’s Suwar, Wadi Qutabah and Al Masna nickel, copper, cobalt and platinum group element projects in Yemen.

## 4. Mineral property interests (continued)

(a) *Yemen program (continued)*

Vale may earn a 40% participating interest in the Suwar project if US$3 million is spent on the Suwar project, a pre-feasibility study is completed on or before July 31, 2012 and a US$1 million option payment is made to Cantex. An additional 20% can be earned by completing a feasibility study, financing mine development and achieving commercial production. Vale met the US$2 million exploration expenditure commitment in calendar 2009 and have committed to spending an additional US$1 million in calendar 2010.

(b) *Nevada program*

During 2002, the Company entered into an agreement with Sovereign Gold Corp. ("Sovereign") with respect to nine claim groups of gold exploration claims in the state of Nevada.

In 2004, the Company acquired a 100% interest in the nine claim groups and one additional claim group for consideration of US$125,000, 3,000,000 common shares and a promissory note to Sovereign for US$33,000 for reimbursement of Sovereign's costs of maintaining the claims in good standing.

As at July 31, 2010, the Company has retained seven of the claim groups comprised of 267 claims over 2,233 hectares.

Reclamation bonds of $28,194 (US$27,418) have been posted with the State of Nevada.

## 5. Property and equipment

| | | | **July 31, 2010** |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net book value** |
| | **$** | **$** | **$** |
| Field equipment | **523,973** | **491,519** | **32,454** |
| Computer equipment | **14,715** | **13,598** | **1,117** |
| | **538,688** | **505,117** | **33,571** |

| | | | July 31, 2009 |
|---|---|---|---|
| | Cost | Accumulated amortization | Net book value |
| | $ | $ | $ |
| Field equipment | 504,967 | 445,520 | 59,447 |
| Computer equipment | 14,711 | 11,365 | 3,346 |
| | 519,678 | 456,885 | 62,793 |

## 6. Related party transactions and balances

| | **July 31, 2010** | July 31, 2009 |
|---|---|---|
| | **$** | $ |
| Due to related parties | | |
| To a company controlled by a director for laboratory and mineralogical costs | **257,622** | 252,879 |
| To a director and shareholder for geological fees | **20,793** | 21,665 |
| To a company controlled by a director for exploration expenditure advances to the Company | **1,547,278** | 2,171,060 |
| To a company controlled by a director for shared office and administrative charges | **158,124** | 99,899 |
| To a company controlled by a director for shared field expenditures | **24,392** | 11,792 |
| To a company controlled by a director for geological fees | **212,779** | 196,297 |
| To a company with common directors and management for shared administrative charges | **1,679** | 3,776 |
| To a company with common directors and management for shared field expenditures | **516** | - |
| | **2,223,183** | 2,757,368 |

Amounts due to related parties have no fixed terms of repayment, are unsecured and are non-interest bearing. The fair value of the amounts due to related parties is not determinable due to the nature of the accounts.

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:

| | Year ended July 31, | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Amounts paid or accrued | | |
| To a company controlled by a director for laboratory and mineralogical costs | **4,517** | 240,837 |
| To a director for management and geological consulting fees | **44,866** | 134,430 |
| To a company controlled by a director for office and administrative costs | **55,453** | 67,471 |
| To a company controlled by a director for shared field expenditures | **12,000** | 10,910 |
| To a company controlled by a director for geological consulting fees | **15,412** | 63,557 |
| To a company with common directors and management for office and administrative costs | **9,864** | 22,363 |
| To a company with common directors and management for shared field expenditures | **1,682** | - |
| | **143,794** | 539,568 |

## 6. Related party transactions and balances (continued)

| | Year ended July 31, | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Recoveries recorded | | |
| From a company controlled by a director for shared office and administrative costs | **-** | 849 |
| From a company controlled by a director for shared field expenditures | **-** | 299 |
| From a company with common directors and management for shared field expenditures | **-** | 1,754 |
| | **-** | 2,902 |

## 7. Share capital and contributed surplus

(a) (i) In May 2009, the Company settled indebtedness totaling $39,239 owing to Chad Ulansky, President and CEO of the Company, by the issuance of 560,559 shares with a deemed value of $0.07 per share. The indebtedness included monies owing for geological consulting services.

(ii) In January 2010, the Company settled indebtedness totaling $1,022,842 owing to a company owned by Dr. Charles Fipke, the Chairman of the Company, by the issuance of 17,047,367 shares with a deemed value of $0.06 per share. The indebtedness included monies advanced to the Company for mineral exploration and operating expenditures.

(b) *Stock option plan*

In January 2009, shareholders approved and the Company implemented a new stock option plan (the “Plan”). Under the 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 a period of up to ten years from the date of grant.

In January 2009, the Company granted 7,800,000 options to certain officers and directors. Each of these options vested immediately and allow the holder to purchase one common share in the Company at a price of $0.10 until January 28, 2019. As a condition of these new grants, 6,000,000 options, originally granted to those certain officers and directors, with an exercise price of $0.10, were cancelled immediately.

## 7. Share capital and contributed surplus (continued)

(b) *Stock option plan (continued)*

Details are as follows:

| | Number | Weighted Average Exercise price |
|---|---|---|
| | | $ |
| Outstanding, July 31, 2008 | 10,090,000 | 0.14 |
| Granted | 7,800,000 | 0.10 |
| Expired | (120,000) | (0.20) |
| Cancelled | (6,000,000) | (0.10) |
| Outstanding, July 31, 2009 | 11,770,000 | 0.14 |
| **Granted** | **-** | **-** |
| **Expired** | **(70,000)** | **(0.20)** |
| **Cancelled** | **-** | **-** |
| **Outstanding, July 31, 2010** | **11,700,000** | **0.13** |

The following stock options were outstanding and exercisable at July 31, 2010:

| Number | Exercise price | Expiry date |
|---|---|---|
| | $ | |
| 100,000 | 0.10 | November 26, 2012 |
| 3,800,000 | 0.20 | March 19, 2013 |
| 7,800,000 | 0.10 | January 28, 2019 |
| 11,700,000 | | |

(c) *Stock-based compensation*

During the year, the Company recognized stock-based compensation of $Nil (2009 - $377,487) in the statement of operations as a result of the issuance of incentive stock options granted and vested. The weighted average fair value of options granted was valued at $Nil per option (2009 - $0.05) using the Black-Scholes option pricing model. The assumptions used in calculating the 2009 fair values included a risk-free rate of 2.1%, option life of 5 years, stock price volatility of 85% and expected dividend yield of 0%.

## 8. Income taxes

The tax effects of temporary differences and loss carryforwards that give rise to the Company's future income tax asset are presented below:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| Non-current future tax asset | | |
| Property and equipment | **147,600** | 135,500 |
| Share issue costs | **3,900** | 4,200 |
| Mineral property interests | **6,157,400** | 5,792,800 |
| Capital loss carryforwards | **158,900** | 158,900 |
| Non-capital loss carryforwards | **1,101,826** | 1,112,926 |
| | **7,569,626** | 7,204,326 |
| Valuation allowance | **(7,569,626)** | (7,204,326) |
| | **-** | - |

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial combined statutory tax rate of 29% (2009 - 30%) to income before income taxes as follows:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| Loss before income taxes | **924,146** | 1,796,386 |
| | **29%** | 30% |
| Expected income tax recovery | **(269,158)** | (542,658) |
| Permanent difference | **79** | 116,080 |
| Effect of tax rate changes and other | **(96,221)** | (281,548) |
| Valuation allowance | **365,300** | 708,126 |
| | **-** | - |

The Company has the following non-capital losses carried forward that are available to reduce future years taxable income.

| | $ |
|---|---|
| Year of expiry | |
| 2014 | 2,354,200 |
| 2015 | 129,700 |
| 2026 | 194,100 |
| 2027 | 286,500 |
| 2028 | 161,600 |
| 2029 | 109,500 |
| 2030 | 7,400 |
| | 3,243,000 |

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filing by the tax authorities may result in material adjustments to net income or loss and operating loss carryforwards.

## 9. 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:

| | Year ended July 31, | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Loss | | |
| Canada | **136,117** | 479,343 |
| Yemen | **730,684** | 1,272,208 |
| United States of America | **57,345** | 44,835 |
| | **924,146** | 1,796,386 |

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Property and equipment | | |
| Yemen | **33,571** | 62,793 |
| Canada | **-** | - |
| | **33,571** | 62,793 |

## 10. Supplemental disclosure with respect to cash flows

Significant non-cash transactions for the year ended July 31, 2010 included:

(a) Issuing 17,047,367 common shares valued at $1,022,842 to a company owned by the Chairman of the Company for monies advanced to the Company for mineral exploration and operating expenditures.

Significant non-cash transactions for the year ended July 31, 2009 included:

(a) Issuing 560,559 common shares valued at $39,239 to the President and CEO of the Company for monies owing for geological consulting services.

No cash was paid for interest or taxes during the year ended July 31, 2010 (2009: $nil)

## 11. Contingencies

(a) The Company has not paid certain fees for subsidiaries incorporated under the Income Tax (Jersey) Act (“Act’) in the Channel Islands and these companies were involuntarily dissolved in fiscal 2004. The 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.

## 12. Capital management

The Company includes 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 it 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 exploration activities 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.

## 13. 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 a financial asset held-for-trading and is measured on the balance sheet at fair value;

- Amounts 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 amounts due to related parties 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.

The fair value hierarchy established by amended CICA Handbook Section 3862, *Financial Instruments – Disclosures,* establishes three levels to classify the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

## 13. Financial instruments and risk management (continued)

Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liabilities.

Level 3 – Prices or valuation techniques that require inputs that are both significant to fair value measurement and unobservable (supported by little or no market activity).

A summary of the Company's financial assets that are measured at fair value on a recurring basis by the level within the fair value hierarchy is presented below. As at July 31, 2010, those financial assets are classified in their entirety based on the level of input that is significant to the fair value measurement.

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash | $ 252,609 | $ 252,609 | $ - | $ - |

(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 July 31, 2010, the Company is exposed to currency risk relating to funds held in U.S. dollars and Yemen rials with a value of approximately $86,851 (2009: $94,020).

(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.

At July 31, 2010, the Company has no financial assets that are past due or impaired due to credit risk defaults. The Company's receivables consist mainly of mineral property recoveries due from partners and GST receivable due from the Federal Government of Canada. The Company is subject to the risk that its partners will default on amounts owing for their portion of exploration expenditures. The Company's maximum credit risk at July 31, 2010 is $52,079, (subsequently received; 2009: $756,489). Any such amounts defaulted would dilute that partners' interest in the exploration joint venture and would require the Company to pick up the proportionate share of future exploration expenditures.

## 13. Financial instruments and risk management (continued)

(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 12 to the consolidated financial statements.

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

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

(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.

## 14. Subsequent event

On September 17, 2010, the Company announced that Cheetah-Yemen Holdings Ltd. (“Cheetah”), a wholly owned subsidiary of Cheetah Ventures Ltd. had entered into a letter of intent whereby Cheetah will be granted an option to acquire up to a 70% interest in the Company’s Al Hariqah gold project in Yemen. Cheetah’s interest will be earned in stages, but to earn the full 70% interest, Cheetah is required to fund CAD$5,000,000 in exploration expenditures, including the completion of a prefeasibiltity study prior to March 2012, plus 70% of the costs required to put the project into commercial production. Cheetah’s minimum commitment under the agreement is CAD$2,000,000.

# Cantex Mine Development Corp.

Consolidated schedules of exploration expenses
years ended July 31, 2010 and 2009

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Travel, field costs and other | **316,398** | 407,576 |
| Wages | **258,648** | 349,195 |
| Consulting and engineering | **188,156** | 377,362 |
| Licenses and permits | **78,703** | 34,707 |
| Living costs | **35,283** | 44,602 |
| | **877,188** | 1,213,442 |