

CANTEX MINE DEVELOPMENT CORP.

FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED JULY 31, 2011

The following Management Discussion and Analysis (“MD&A”), prepared as of November 28, 2011, of the results of operations and financial position of Cantex Mine Development Corp. (the “Company”) for the year ended July 31, 2011 should be read together with the annual audited consolidated financial statements for the year ended July 31, 2011 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 consolidated financial statements for the years ended July 31, 2010 and 2009 and the MD&A for those years as well as the unaudited interim consolidated financial statements for the periods ended October 31, 2010, January 31, 2011 and April 30, 2011, along with the MD&A for those periods.

Additional information related to the Company is available on www.cantex.ca or on SEDAR at 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 square kilometer (“km²”) area. 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. Most recently, the Company has staked two claim blocks (approx 1,000 hectares each in size) in the Yukon, Canada.

Performance Summary

The following is a summary of significant events and transactions:

Private Placement

In June 2011, the Company completed a non-brokered private placement for gross proceeds of \$2,400,000 through the issuance of 36,923,077 flow-through common shares at a price of \$0.065 per share. There were no agents' commissions or other compensation paid in connection with the financing.

Northwest Yemen

In November 2008, Vale International SA ("Vale"), a wholly-owned subsidiary of Companhia Vale do Rio Doce (NYSE: RIO, Vale), signed a letter agreement for the Company's Suwar, Wadi Qutabah and Al Masna nickel, copper, cobalt and platinum group element projects in Yemen. Under the terms of the agreement, Vale can acquire up to a 60% interest in each of the mineral exploration licenses for the three properties through a series of progressive expenditure and activity thresholds.

The focus of exploration work completed to date has been on the Suwar project where Vale may earn a 40% participating interest if US\$3 million is spent on the Suwar project (US\$2 million to have been spent prior to October 31, 2009 and a further US \$1 million in 2010), 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 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.

Vale met the US\$2 million exploration expenditure commitment in calendar 2009 and the additional US\$1 million commitment in calendar 2010. The Company has been working with the government to extend the deadline for which a pre-feasibility study is to be completed on the Suwar project.

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 Wadi Qutabah and 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 meters wide and up to 30 meters thick. There is adequate room within this zone to contain a world-class ore body. The mineralized zone is open in all directions.

A seventeen hole drill program was started in August 2007 to provide additional detail at Suwar Hill and also to define mineralization along the previously untested extension of the Suwar massive sulphides.

In November 2008, Vale optioned the Suwar project from Cantex. In the first year, work conducted on the project included the collection of 1,894 soil samples, detailed geological mapping and acquisition of a satellite image. Ground geophysical surveys included 32 line kilometers of ground magnetics, 15 kilometers of ground gravity and a ground induced polarization (IP) survey covering a 2.5 km by 2.5 km area.

Interpretation of the northern portion of the IP survey discovered two significant IP anomalies. The eastern anomaly, which extends from the known mineralization at Suwar Hill, is 800 meters long and 130 to 250 meters wide. The western anomaly is 600 meters long and 150 to 300 meters wide. Drilling commenced June 22, 2009 with the first hole designed to provide a platform for a down hole electro-magnetic geophysical survey below Suwar Hill. Subsequent holes were planned to test the eastern IP anomaly. Five holes were drilled totalling 2,125 meters. Only one hole intersected significant mineralization and it appears that the IP anomalies do not reflect sulphide mineralization. However, drilling with Cantex's man-portable core rig is currently still ongoing.

In the summer of 2010, a 1,624 line kilometer helicopter-borne geophysical survey commenced over the Suwar and Wadi Qutabah project areas. The survey, which collected electromagnetic, magnetic and radiometric data, was designed to test for nickel – copper – cobalt bearing massive sulphide mineralization similar to what has been previously discovered at Suwar Hill. The survey identified three electromagnetic anomalies at the Suwar project area. A drilling program is currently underway testing these three anomalies.

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 meters wide.

Twenty eight reverse circulation drill holes, totalling 4,053 meters, were drilled into the northern 1,100 meters length of the deposit in 1999 and 2000. These holes show that the mineralization extends to at least 150 meters 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 meters depth. Extrapolation of this 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.

To better define the mineralization discovered in the previous round of drilling, a 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.

A third round of drilling is now underway, which when complete will result in 162 holes totalling approximately 21,000 meters testing the deposit. To date, 134 holes had been completed on the deposit. Many of the remaining 28 holes have been drilled to a depth of approximately 100m using percussion drilling techniques and remain to be deepened by core drilling.

Notable intersections from the drilling completed to date are contained in the following table:

Hole	Gold Grade	Length	From	To
	g/t	m	m	m
PDH 27A	1.49	54.0	1.5	55.5
PDH 28	2.24	39.0	18.0	57.0
RDH 07	1.10	64.5	10.5	75.0
RDH 23	1.41	141.9	9.0	150.9
RDH 34	2.44	126.8	24.0	150.8
RDH 44	1.26	52.5	3.0	55.5
RDH 46	3.08	78.0	0.0	78.0
RDH 82	0.87	87.0	6.0	93.0
YDH 02	3.02	46.5	28.5	75.0
YDH 03	1.08	67.5	24.0	91.5
YDH 05	0.95	99.0	81.0	108.0
YDH 07	0.98	76.5	39.0	119.5
YDH 10	1.90	61.5	18.0	79.5
YDH 20	1.04	88.5	70.5	159.0

The results to date, along with those from the drilling yet to be completed, will form the foundation of a prefeasibility study.

In September 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 would have been granted an option to acquire up to a 70% interest in the Al Hariqah gold project.

In January 2011, the Company announced that Cheetah did not meet all of the conditions in the time required for the option agreement to be put into force. As a result the letter of intent is no longer in effect.

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 km². 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 686 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.

The helicopter-borne electromagnetic geophysical survey conducted in 2010 over the Suwar area also covered the Wadi Qutabah area. Four electromagnetic targets were generated from this survey. Three of these are to be drill tested while the fourth, measuring approximately 3km by 4km appears to outcrop and will be examined by prospecting.

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 km. The zone is 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.

At present the Company can not be certain of the safety of its workers at the Al Masna'a project. This is due to infrequent disputes in the area. As such the project area is currently under force majeure. When the situation stabilizes the Company intends to resume work on the project.

Nevada Project

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

These targets are the end result of an extensive exploration program. Initially, sampling surveys were conducted over known gold mines in Nevada to assess their geochemical signatures. A distinctive suite of pathfinder elements was found to accompany many of the mines. Specifically, anomalous gold, bismuth, antimony, mercury and/or arsenic were found to be associated with significant gold mineralization. With this knowledge a regional geochemical survey was conducted over known gold mine trends in Nevada. Numerous similar geochemical signatures were found and claims were then acquired over these areas.

Once the lands were staked focused exploration was undertaken; the anomalies were followed up with geological mapping, soil sampling, rock sampling, trenching and geophysics. The geophysical surveys typically used Controlled Source Audio-frequency Magnetotelluric (CSAMT) techniques. CSAMT is a deep-looking geophysical technique that measures lateral and vertical resistivity contrasts which are important for evaluating the presence of geologic units which are favourable to host large tonnage gold deposits similar to those found elsewhere in Nevada.

In late 2010, an 11 hole, 2,449 meter reverse circulation drilling program was undertaken on the Leonard Creek property. Drilling on some holes intersected unusually deep overburden which was up to 320 meters thick. It is possible that the CSAMT geophysical anomalies may have been a result of the overburden rather than the underlying bedrock. As a consequence no significant gold mineralization was intersected.

A further seven drill ready gold targets have been identified and one target which can be tested by surface trenching. The Company is currently seeking a partner to option these claims to fund the drill program.

A summary of the properties and the targets to be tested are presented below:

Baxter Springs

The Baxter Springs property is located 30km south of the Round Mountain Mine and comprises 16 claims covering 134 hectares. A 307 sample composite soil survey identified two zones of anomalous pathfinder elements. The first is a 150 by 800 meter zone anomalous in arsenic, antimony and mercury, accompanied by areas of anomalous gold. The second is a 120 by 240 meter area of anomalous gold accompanied by bismuth. A CSAMT geophysical survey identified a resistivity high under the gold-bismuth anomaly. Two holes are planned to test the resistivity high underlying the gold-bismuth anomaly and another two holes will test the 150 by 800 meter pathfinder element anomaly.

Bruner

The Bruner property is located 40km northeast of the Paradise Peak Mine and consists of covering 209 hectares. Soil sampling identified a 750 x 600 meter gold anomaly at the southern end of a larger mercury anomaly. Sixteen holes have been outlined to test this anomalous area.

Carico Lake

The Carico Lake property comprises 42 claims covering 351 hectares located along the prolific Battle Mountain – Eureka trend 25km southwest of the Cortez Mining District. A 292 soil sample survey outlined a 700 by 800 meter area anomalous in arsenic with coincident antimony anomalies along the eastern margin. A CSAMT survey was conducted over the anomalous area and outlined structures conducive to hosting gold mineralization as well as a resistivity low at depth which could potentially reflect lower plate rocks which commonly host significant gold deposits in Nevada such as Cortez Hills.

Gold Basin

The Gold Basin property is located 13km east of the Gold Ledge Mine and 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. Anomalous gold, silver and arsenic has been discovered in soil samples overlying a felsic breccia pipe.

North Fork

The North Fork property is located six km southwest of the Buckskin-National Mine and comprises 6 claims covering 50 hectares. A 442 composite soil sample program discovered a gold-arsenic-antimony-silver-mercury anomaly at least 200 meters long. The target deposit is a structurally and/or stratigraphically controlled gold deposit.

Weepah South

The Weepah South property is located three km south of the Weepah Mine and comprises 31 claims covering 260 hectares. The claims are located over a 300 by 400 meter Induced Polarization geophysical anomaly which may reflect mineralization in underlying Paleozoic rocks. 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 km to the north. Permitting and bonding are in place to drill four RC holes.

Leonard Creek

The Leonard Creek property is located 80km north of the Crofoot-Lewis Mine and 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. The alluviums covering the claims area have historically been extensively placer mined for gold. Leonard Creek is one of the few major placer areas in Nevada where a hard rock gold mine has yet to be found as the source of the placer gold.

As alluvium covers most of the bedrock in the area, geophysics was used to identify potential gold mineralization. A CSAMT survey identified several targets, including buried structurally controlled resistivity highs and vertical structurally controlled conductive zones potentially reflecting areas suitable for gold mineralization. Eleven holes were drilled in late 2010 to test four geophysical anomalies, two areas of outcropping sulphur mineralization, two areas of siliceous sinter and one area of alteration. Drilling on some holes intersected unusually deep overburden which was up to 320 meters thick. It is possible that the CSAMT geophysical anomalies may have been a result of the overburden rather than the underlying bedrock. As a consequence no significant gold mineralization was intersected.

Yukon Gold Project

A new belt of gold mineralization has been discovered by ATAC Resources Ltd (“ATAC”) in the Yukon, Canada. The gold mineralization appears geologically similar to Carlin style mineralization in Nevada, which is the second largest gold district in the world.

In February 2011, the Company staked a 38 claim block adjacent to the eastern extremity and on strike with the recent Carlin style mineralization discovered by ATAC. In addition, a 48 claim block was staked over the source area of several arsenic anomalies as reported on the government stream sediment maps 15 km southeast of ATAC’s Rau gold deposit which is located towards the western end of their staked zone. The Company has access to heavy mineral technology developed by the CF Mineral laboratory that has, to date, detected four Carlin style heap leach gold deposits in Nevada that were undetected by analysis of arsenic in stream sediments. These four deposits are now active gold mines.

In August 2011, a field program was completed which consisted of the collection of samples testing both the Company’s claim blocks as well as 2,315 heavy mineral samples testing an area of 30,000 km² underlain by unstaked geology favorable for hosting gold mineralization.

Detailed geochemical sampling was undertaken on the Company’s claim block which is adjacent to and along strike from ATAC’s recent Osiris discovery which hosts Carlin style gold mineralization. From this claim block, 118 talus samples were collected along with 6 heavy mineral samples. The Company’s other claim group, which covers an arsenic anomaly 15km southeast of ATAC’s Rau gold discovery, was tested with 4 heavy mineral samples.

All of the samples have been sent to the C.F. Mineral Research Ltd. laboratory for concentration and preparation for analysis. Certain samples collected for the survey were subsequently submitted to the ALS Chemex laboratory in Vancouver for gold and key path finder element analysis.

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, 2011	Year Ended July 31, 2010	Year Ended July 31, 2009
Total revenues	\$ -	\$ -	\$ -
Net loss	(2,458,769)	(924,146)	(1,796,386)
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)
Total assets	2,164,701	410,031	1,270,475
Total liabilities	4,140,542	2,306,867	3,260,393

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 year ended July 31, 2011

The Company's principal source of income during the year ended July 31, 2011 was administration fees earned pursuant to the agreement with Vale International SA as operator of the Suwar project in Yemen. Administration fees earned during the current period totaled \$117,507 (2010 - \$137,391).

For the year ended July 31, 2011, the Company incurred a loss of \$2,458,769 (2010 - \$924,146). The loss increased from the previous year largely due to exploration expenses related to the Nevada drill program and the Yukon sampling program.

Some of the significant expenses for the year ended July 31, 2011 are as follows:

Exploration expenses totaled \$2,352,715 (2010 - \$877,188) of which \$944,435 (2010 - \$819,843) were incurred in Yemen, \$321,692 (2010 - \$57,345) in Nevada and \$1,086,588 (2010 - \$Nil) in the Yukon. Although the level of drilling activity at Al Hariqah remained constant from that of the prior year, Yemen exploration expenditures increased as certain drilling supplies and tooling were required to be replenished during the year. Refer to the Schedule of Exploration Expenses in the consolidated financial statements for additional detail.

General and administrative expenses totaled \$225,970 (2010 - \$163,948). Some of these significant expenses consisted of:

- Office and administrative costs of \$97,872 (2010 - \$63,611) increased due to insurance coverage and time spent by senior management associated with negotiating the Al Hariqah option agreement.
- Accounting, legal and audit fees of \$59,455 (2010 - \$49,292) increased due to legal services also associated with the Al Hariqah option agreement.
- Transfer agent and filing fees of \$38,679 (2010 - \$36,003) did not change significantly from the previous period.
- Travel and promotion expenses of \$14,794 (2010 - \$1,022) increased due to conferences attended by senior management.

Summary of Quarterly Results

	Three Months Ended July 31, 2011	Three Months Ended April 30, 2011	Three Months Ended January 31, 2011	Three Months Ended October 31, 2010
Total assets	\$ 2,164,701	\$ 317,939	\$ 224,611	\$ 253,183
Working capital (deficiency)	(2,026,010)	(3,129,878)	(2,826,224)	(2,480,878)
Shareholders' (deficiency)	(1,975,841)	(3,077,600)	(2,770,394)	(2,421,935)
Revenues	-	-	-	-
Net loss	(1,278,005)	(307,206)	(348,459)	(525,099)
Loss per share	(0.01)	(0.00)	(0.00)	(0.00)

	Three Months Ended July 31, 2010	Three Months Ended April 30, 2010	Three Months Ended January 31, 2010	Three Months Ended October 31, 2009
Total assets	\$ 410,031	\$ 251,785	\$ 523,921	\$ 743,808
Working capital (deficiency)	(1,958,601)	(1,691,761)	(1,465,389)	(2,277,668)
Shareholders' (deficiency)	(1,896,836)	(1,646,749)	(1,417,042)	(2,215,347)
Revenues	-	-	-	-
Net loss	(250,087)	(229,707)	(218,923)	(225,429)
Loss per share	(0.00)	(0.00)	(0.00)	(0.00)

The increase in total assets during the three month period ended July 31, 2011 was as a result of a private placement equity financing which generated gross proceeds of \$2,400,000. The net loss for the three month period ended July 31, 2011 included a significant increase in exploration expenditures on the Company's Yukon project in correlation with the private placement financing. Total assets increased during the three month period ended April 30, 2011 as a result of exploration advances received from a third party. The net loss for the three month period ended October 31, 2010 includes \$253,493 in exploration expenditures on the Company's Nevada property which had been idle for several years. With the exception of the items noted above, other fluctuations in operating results for the four quarters ending July 31, 2011 reflect the timing of various normal business transactions.

Total assets increased during the three month period ended July 31, 2010 as a result of exploration advances received from a related party. Working capital and shareholders' deficiencies were reduced during the three month period ended January 31, 2010 as a result of the issuance of shares for debt. Exploration cost recoveries received during the three month period ending October 31, 2009 resulted in a decrease in total assets as those funds were used to pay down accounts payable and accrued liabilities. With the exception of the items noted above, other fluctuations in operating results for the four quarters ending July 31, 2010 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 and advances from related parties. The Company continues to seek capital through various means including joint venture partnerships and 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.

In June 2011, the Company completed a non-brokered private placement for gross proceeds of \$2,400,000 through the issuance of 36,923,077 flow-through common shares at a price of \$0.065 per share. There were no agents' commissions or other compensation paid in connection with the financing.

Net cash used in operating activities during the year ended July 31, 2011 was \$1,585,760 compared to \$384,594 during the same period in 2010.

Net cash used in investing activities during the year ended July 31, 2011 was \$Nil compared to \$23,216 during the same period in 2010.

Net cash provided by financing activities during the year ended July 31, 2011 was \$3,335,607 compared to \$417,386 during the same period in 2010.

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 as of the periods ended:

	July 31, 2011	July 31, 2010
	\$	\$
Due to related parties		
To a company controlled by a director for laboratory and mineralogical costs	434,628	257,622
To a shareholder for geological consulting fees	67,452	20,793
To a company controlled by a director for exploration expenditure advances to the Company	2,509,155	1,547,278
To a company controlled by a director for shared office and administrative charges	244,193	158,124
To a company controlled by a director for shared field expenditures	32,912	24,392
To a company controlled by a director for geological consulting fees	336,595	212,779
To a company with common directors and management for shared administrative charges	2,473	1,679
To a company with common directors and management for shared field expenditures	16,433	516
	3,643,841	2,223,183

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:

	Year ended July 31,	
	2011	2010
	\$	\$
Amounts paid or accrued		
To a company controlled by a director for laboratory and mineralogical costs	161,076	4,517
To a director for geological consulting fees	91,850	44,866
To a company controlled by a director for office and administrative costs	73,810	55,453
To a company controlled by a director for shared field expenditures	55,637	12,000
To a company controlled by a director for geological consulting fees	129,224	15,412
To a company with common directors and management for office and administrative costs	11,860	9,864
To a company with common directors and management for shared field expenditures	17,523	1,682
	540,980	143,794
Recoveries recorded		
From a company controlled by a director for shared office and administrative costs	2,521	-
From a company with common directors and management for shared office and administrative costs	163	-
	2,684	-

Risks and uncertainties

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The market prices for silver, gold and other metals can be volatile and there is no assurance that a profitable market will exist for a production decision to be made or for the ultimate sale of the metals even if commercial quantities of precious and other metals are discovered.

The Company currently carries out exploration on mineral concessions that it holds directly from governments. Although the Company makes all reasonable effort to ensure secure title, there is no guarantee that title to properties in which the Company has will not be challenged or impugned. These properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. There is also no guarantee that any of the prospecting license or exploration permits granted in connection with the properties will be renewed upon their normal expiry. Notwithstanding the foregoing, the Company has not experienced any difficulties with renewals to date.

Additional future funds may be required to maintain and advance exploration properties. Historically, the only sources of such funds have been the sale of equity capital and limited debt. Given the current volatile state of financial markets, there are no assurances that sources of financing will be available on acceptable terms, or at all. To date, the Company has relied on advances from a related party to fund its operations and expects continued support. The Company's equity financings are sourced in Canadian Dollars but, for the most part, the Company incurs its expenditures in local currencies or in US dollars. At this time, there are no currency hedges in place.

The Company is operating in the Middle Eastern country of Yemen that has a varied political past and, at times, conflicts with neighboring countries and civil war. Changing political situations may affect the manner in which the Company operates.

Financial Instruments

The carrying values of cash, amounts receivable, prepaid expenses, and accounts payable and accrued liabilities approximate their fair value at July 31, 2011 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.

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, 2011, the Company is exposed to currency risk relating to funds held in U.S. dollars and Yemen rials with a value of approximately \$19,232 (July 31, 2010: \$86,851). The impact of a 5% change in the U.S. dollar and Yemen rials exchange rate to the Canadian dollar would not be material.

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.

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 joint venture partners and GST receivable due from the Federal Government of Canada. The Company is subject to the risk that its joint venture partners will default on amounts owing for their portion of exploration expenditures. The Company's maximum credit risk at July 31, 2011 is \$Nil (July 31, 2010: \$52,079). 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.

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 11 to the consolidated financial statements.

Accounts payable and accrued liabilities are generally due within 30 days. No significant amounts are past due. Amounts due to related parties have no fixed terms of repayment, are unsecured and are non-interest bearing.

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.

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.

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 1581 and 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. The Company's early-adopted Section 1601 for its fiscal year beginning August 1, 2010. This standard did not have any effect on the Company's 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 Company's transition date is August 1, 2010 and this will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011.

Management developed a project plan for the conversion to IFRS based on the current nature of operations. The conversion plan is comprised of three phases: 1) scoping and planning, 2) detailed assessment, and 3) implementation.

Management has completed phase one, scoping and planning, and phase two, the detailed assessment phase. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. The Company is now in the process of making specific accounting policy changes. Such choices will be made in consultation with the Audit Committee and will be based on improving the overall usefulness of our financial statements and comparability with our industry peers.

Due to the small and simple organizational, administrative and accounting structure of the Company, management expects that once the policy choices are finalized, the implementation phase can be completed shortly thereafter. The implementation phase will include the Company updating its significant accounting policies, making any necessary adjustments to its accounting system, and designing tools and processes for the preparation of IFRS information, including comparative and opening balance sheet information. The Company will also design model IFRS financial statements.

Management has identified a number of differences between Canadian GAAP and IFRS that relate to the Company, many of which will not have a material impact on the reported results and financial position of the Company. However, any adjustments required on transition to IFRS will be made against opening shareholders' deficit on the transition date August 1, 2010 and included in the first comparative balance sheet as at October 31, 2011, the end of the first quarter in fiscal 2012. Such adjustments are made directly to deficit because they represent changes to financial events prior to the August 1, 2010 date of transition.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. Management will prepare a presentation to the Audit Committee and the Board of Directors which will focus on the key issues and transitional choices under IFRS 1 applicable to the Company.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company's consolidated financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

Impairment of Assets (IAS36)

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This could result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

Share Based Payments (IFRS 2)

IFRS and Canadian GAAP largely converge on the accounting treatment for share-based transactions with only a few differences. Consultants who perform the same services as employees are treated as employees for the purposes of IFRS 2. Stock option grants to employees must be measured on the date of the grant. Non-employee grants must be measured on the date the goods are supplied or the service is deemed to be completed. This may lead to a difference in the amount of Stock Option Expense recorded than would be the case under Canadian GAAP Section 3870. Furthermore, under IFRS the Company must estimate forfeitures at the grant date and must treat each tranche of options with a different vesting period separately when determining fair value. Under GAAP, the fair value of share-based awards with different vesting periods was calculated as one grant and forfeitures were recognized as they occurred.

Exploration and Evaluation Assets (IFRS 6)

Similar to Canadian GAAP, IFRS allows the choice of capitalizing or expensing exploration costs. The Company's policy under Canadian GAAP has been to expense all exploration expenditures and it will follow the same policy under IFRS without an impact on the financial statements.

Property, Plant and Equipment (IAS 16)

Under IFRS, Property, Plant and Equipment ("PP&E") can be measured at fair value or at cost while under Canadian GAAP, the Company has to carry PP&E on a cost basis and the revaluation is prohibited. The Company will continue with the cost model without an impact on the financial statements.

In accordance with IAS 16 "Property, Plant and Equipment", upon acquisition of significant assets, the Company will need to allocate an amount initially recognized in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or the components provide benefits to the entity in a different pattern.

Foreign Currency (IAS 21)

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 and the entity's financial results and position should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Currently the functional currency of the consolidated entity is the Canadian dollar ("CAD") which is also the presentation currency of the Company's financial statements.

As events and conditions relevant to the Company change, it will re-consider the primary and secondary indicators, as described in IAS 21, in determining the functional currency for each entity. Going forward under IFRS, management will assess the appropriate functional currency based on existing circumstances which may have a significant impact on the Company's consolidated financial statements prepared under IFRS.

Deferred Income Taxes (IAS 12)

Similar to Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity. IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings. The Company does not expect implementation of IAS 12, Income Taxes to have an impact on the financial statements. However, as events and circumstances of the Company's operations change that give rise to future income taxes, IAS 12 will be applied.

General (IFRS 1/IAS 1)

As the Company elects and approves the IFRS accounting policy for each of the areas above, management will determine and disclose impact of the IFRS adoption at the transition date on our financial statements. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable accounting standards at the conversion date are known.

Based on management assessment of the information system currently used by the Company, all information required to be reported under IFRS will be available with minimal system changes.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is finalizing of its assessment of the presentation and disclosures required in its consolidated financial statements.

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 November 28, 2011, the Company had outstanding 371,213,022 common shares and 11,700,000 stock options with a weighted average exercise price of \$0.13 per share.