



**AUEX VENTURES, INC.**

**Quarterly Report**  
Expressed in U.S. dollars

**For the six months ended  
December 31, 2008**

Unaudited (prepared by management)

Notice to Reader

These interim consolidated financial statements of AuEx Ventures Inc. have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these interim consolidated financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

## **Date**

The following discussion is management's assessment and analysis of the results of operations and financial conditions ("MD&A") of AuEx Ventures, Inc. ("AuEx" or the "Company") and should be read in conjunction with the accompanying unaudited interim consolidated financial statements and related notes thereto for the three and six months ended December 31, 2008 and with the audited consolidated financial statements for the year ended June 30, 2008 which are available at the SEDAR website at [www.sedar.com](http://www.sedar.com).

The financial information in this MD&A is derived from the Company's financial statements prepared in accordance with Canadian generally accepted accounting principles and all dollar amounts are expressed in U.S. dollars unless otherwise indicated.

The effective date of this report is February 13, 2009.

## **Overview**

AuEx is a precious metals exploration company that controls over 80,000 acres of unpatented mining claims and fee land in Nevada, one mineral exploration project in Spain and a generative exploration program in Argentina where exploration rights on 10 categoos and 5 "MDs" have been secured. AuEx applies the extensive Nevada exploration experience and advanced technical skills of its founders to search for and acquire new precious metal exploration projects that are then offered for joint venture.

On July 8, 2008 AuEx graduated to and its common shares began trading on the Toronto Stock Exchange and its common shares were delisted from trading on the TSX Venture Exchange.

## **Operation Highlights for the six months ended December 31, 2008 and up to February 13, 2009**

- Long Canyon Venture reports a number of new significant gold drill intercepts including 83.5 feet at 0.155 opt and 48 feet at 0.267 opt
- West Pequop Venture reports a number of new significant gold intercepts including 141 feet grading 0.238 opt
- Drilling completed at Klondike North funded by Eldorado Gold
- Generative exploration programs ongoing in Nevada, Utah, Argentina and Spain
- Shareholder rights plan adopted

2009 is expected to be a significant year for new project generation in addition to continued work on existing projects with the Company's funding exploration and joint venture partners. The Company and its funding partners are expected to expend over \$20 million on AuEx projects for exploration and drilling in calendar 2009.

### *Long Canyon project –*

The Company's Long Canyon exploration project is located in Elko County, Nevada. By September 11, 2008 Fronteer Development Group Inc. ("Fronteer") had expended \$5 million to vest a 51% interest in the Long Canyon Venture with the Company participating at 49%.

The 2008 drill program was completed in early December in a combination of 164 core and reverse circulation holes. On January 26, 2009 the Company reported new gold drill intercepts, including hole LC160C returning 83.5 feet at 0.155 ounces per ton and hole LC161C returning 48 feet at 0.267 ounces per ton, that infill and extend shallow, oxide gold mineralization. Fronteer, operator of the Long Canyon Venture, provided these results to the Company from 23 additional holes completed during the 2008 drilling program. Assays for a number of holes are still outstanding. These results continue to demonstrate the size potential and continuity of the Long Canyon gold system. Mineralization continues to be oxidized, shallow and is still open. The 2009 drilling program will conduct step-out drilling to follow up on numerous mineralized holes to offset, the large southwest extension of the original soil anomaly and extension drilling to the northeast. Several new exploration targets outside of these will be drill tested as well.

A NI 43-101 resource estimate will be generated for Long Canyon to include the results of the 2008 drilling program in the first quarter of 2009.

*West Pequop project –*

The Company's West Pequop exploration project is located in Elko County, Nevada. By June 19, 2008 Agnico Eagle USA, Inc. ("Agnico") had expended \$5 million to vest a 51% interest in the West Pequop Venture. Agnico has elected to earn an additional 19% interest by completing all subsequent expenditures through completion of a bankable feasibility study within five years. The agreement also includes a financing provision whereby Agnico may arrange overall project construction financing and provide a loan option to the Company for its share of required equity.

On January 22, 2009 the Company announced new gold assay results from the final 9 holes of the 2008 program, including core hole WNC-144 reporting 141 feet grading 0.238 ounces per ton gold from the Mountain Top zone. These results confirm and extend gold mineralization in the Mountain Top target area with mineralization still open in all directions including a structural trend along strike, a lateral zone of undrilled cave fill breccias, and at depth in a karsted zone (laterally? Along strike? At depth?). The results from hole 144 at Mountain Top confirm values found earlier in hole 135 and extend those values deeper. The area is a complex zone of solution and cave collapse breccias and contains excellent grades making it attractive for further evaluation.

Exploration drilling during 2008 at the West Pequop Venture has been conducted in the Section 34, Mountain Top, Acrobat/Juggler and Range nature Front target areas for a total of over 35,000 feet. This work has expanded the extent of high grade gold mineralization at Section 34 and Mountain Top and established the presence of gold mineralization at the Range Front target. While drilling results in the Acrobat/Juggler area did not produce reportable results in 2008, additional drilling is nonetheless warranted and planned for this area in 2009. Gold mineralization at West Pequop has now been found in several distinct stratigraphic positions within the enclosing Cambrian and Ordovician limestone and dolomite assemblages. Gold mineralization is typical of oxidized Carlin-type occurrences and is commonly associated with faulting, felsic dikes and solution collapse breccias.

Pursuant to the terms of the joint venture Agnico will continue to solely fund an aggressive exploration program for the West Pequop Venture in 2009.

*Eldorado Gold Projects –*

On June 24, 2008, the Company entered into a letter agreement with Eldorado Gold Corp. ("Eldorado") allowing Eldorado the exclusive right to acquire a 51% interest in each of the North Klondike, Green Monster, Buffalo Canyon and Hays Canyon prospects and in this quarter, on execution of the definitive agreement, Eldorado paid the Company a \$90,000 option payment.

On October 24, 2008 the Company reported that reverse circulation drilling has commenced at the North Klondike gold/silver exploration project located about 10 miles south of Tonopah in Esmeralda County, Nevada. The exploration drilling project was completed in November totaled 12 drill holes totaling about 8,400 feet of drilling.

The North Klondike exploration project contains hydrothermal alteration and geochemistry indicative of a low sulfidation, epithermal gold system hosted in Tertiary volcanic rocks similar to those found in the nearby Tonopah Mining District and throughout the Walker Lane. During the past several months, AuEx staff and consultants, acting on behalf of Eldorado, have conducted surface geologic mapping, rock chip sampling, soil sampling and ground geophysics. This work has identified a number of exploration targets on the property that will be tested in the current drilling program. Surface exploration activities are continuing on the project and additional targets are expected to be identified.

*Argentina update*

AuEx's exploration activities in Santa Cruz Province, Argentina are being conducted under an exploration agreement with Agnico. Under the agreement, Agnico and AuEx share 70:30 respectively in generative exploration expenditures with work activity conducted by AuEx. Exploration activity commenced approximately 18 months ago and to date AuEx has applied for 10 categoos and 1 "MD" and has leased 4 "MDS". These define thirteen distinct land packages of mineral rights totalling almost 90,000 hectares all in mining friendly Santa Cruz Province. Once an adequate level of work has been completed and exploration targets identified, the properties are presented to Agnico for consideration to enter into an exploration earn-in agreement. To date, two projects, Meridiano and Gertrudis, have been accepted by Agnico and work on these projects funded 100% by Agnico is underway. Agnico can vest an initial 60% interest in these properties upon completion of \$1,000,000 in exploration expenditures and can then elect to earn an additional 10% interest by carrying all further costs through feasibility capped at \$10,000,000.

Generative activity is continuing as well as work to bring other existing properties to a project stage for presentation to Agnico. Properties not accepted by Agnico remain the property of AuEx with no further obligations to Agnico.

The Meridiano Project contains a caldera complex within which is a 1 kilometer by 0.6 kilometer area with anomalous gold mineralization hosted within a series of structural zones with multistage hydrothermal breccias. To date, 153 outcrop samples have been taken from these zones from which 47 have returned gold values exceeding 0.5 gram per ton (g/t) with a high value of 8.9 g/t gold. The gold values are accompanied by anomalous arsenic and antimony typical of low-sulfidation, epithermal gold systems. The nature and extent of the hydrothermal brecciation suggests the possibility of a bulk tonnage exploration target rather than a vein target which is more typical of the region. This project is being readied for drilling later in 2009.

The Gertrudis Project contains two parallel structural corridors of silicification and brecciation that are up to a kilometer in length before being covered and are within a broader complex of parallel trending andesite dikes. These zones of silicification consistently run hundreds of parts per billion gold and appear to be in the upper portion of a typical zoned epithermal environment. Trace element geochemistry compliments the gold values and helps to define drill targets where higher temperature trace elements are coincident with higher gold values. Drilling is envisioned for the two zones in early 2010.

*Generative Exploration Program – Nevada, Utah and Spain*

In order to maintain its pipeline of exploration projects, the Company continues its generative exploration program. New projects from these efforts will replace existing projects that fail to produce encouraging results and to grow the US portfolio of exploration projects. Work activity in this regard is ongoing by Company geologic staff and consultants and will continue over the upcoming financial year.

*Shareholder rights plan*

On January 16, 2009 the Board of Directors of AuEx adopted a Shareholder Rights Plan to protect the Company's shareholders from unfair, abusive or coercive take-over strategies, including the acquisition of control of the Company through a take-over bid that does not treat all shareholders equally or fairly. The primary objective of the Rights Plan is to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made for AuEx and to ensure that every shareholder has an equal opportunity to participate in such a bid. The Rights Plan is similar to plans adopted by other Canadian companies and ratified by their shareholders. AuEx is not aware of any pending or threatened take-over bid for the Company.

The Rights Plan is intended to encourage a person (an "Acquiring Person") who makes a take-over bid to proceed either with the approval of the Company's Board of Directors or by way of a "Permitted Bid", which generally requires a take-over bid to satisfy certain minimum standards designed to promote fairness. Those standards include a requirement that the bid be kept open for at least 60 days and that, if more than 50% of the shares subject to the bid are tendered within that period, the bid must remain open for an additional 10 days to permit the other shareholders to also tender their shares. The 10 day provision is designed to reduce the pressure to tender during the initial 60-day period.

The Rights Plan provides that if a take-over bid fails to meet these minimum standards and the Rights Plan is not waived by the Board of Directors, holders of Voting Shares other than the Acquiring Person will be able to purchase additional common shares of the Company at a significant discount to market, thus exposing the Acquiring Person to substantial dilution of its holdings.

The Rights Plan has been approved by the TSX, but if it is not ratified by shareholders by July 15, 2009, it and all of the Rights outstanding at the time will terminate.

A copy of the Rights Plan is available for viewing through the Internet at the Canadian System for Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### **Qualified Person**

The data disclosed in this MD&A have been reviewed and verified by Company President and CEO Ronald Parratt (M.Sc. and Certified Professional Geologist), a "qualified person" as that term is defined in National Instrument 43-101.

### **Measurements**

Imperial units of measure have been used in this MD&A. To convert Imperial measurements to metric equivalents divide by:

Short tons to tonnes	1.10231
Ounces (troy) to kilograms	32.150
Ounces (troy) to grams	0.03215
Ounces (troy) / short ton to grams/tonne	0.02917
Acres to hectares	2.47105
Miles to kilometres	0.62137
Feet to meters	3.28084

### **Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value on its property, plant and equipment, site reclamation and rehabilitation as well as the value assigned to stock-based compensation expense. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend, among other things, upon a variety of factors including the market value of AuEx shares and financial objectives of the holders of the options. AuEx used historical data to determine volatility in accordance with Black-Scholes modeling, however the future volatility is inherently uncertain and the model has its limitations. While these estimates can have a material impact on the stock-based compensation expense and hence results of operations, there is no impact on the Company's financial condition.

AuEx's recoverability evaluation of its mineral properties and equipment is based on market conditions for minerals, underlying mineral resources associated with the assets and future costs that may be required for ultimate realization through mining operations or by sale. AuEx is in an industry that is exposed to a number of risks and uncertainties, including exploration risk, development risk, commodity price risk, operating risk, ownership and political risk, funding and currency risk, as well as environmental risk. Bearing these risks in mind, AuEx has assumed recent world commodity prices will be sustainable. None of AuEx's mineral properties have a defined mineral resource as yet and accordingly, there is always the potential for a material adjustment to the value assigned to mineral properties and equipment.

AuEx has an obligation to reclaim its properties after the surface has been disturbed by exploration methods at the site. As a result AuEx has recorded a liability for the fair value of the reclamation costs it expects to incur. The Company estimated applicable inflation and credit-adjusted risk-free rates as well as expected reclamation time frames. To the extent that the estimated reclamation costs change, such changes will impact future reclamation expense recorded.

### **Changes in Accounting Policies including Initial Adoption**

Effective July 1, 2008, the Company adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

a) General standards of financial statement presentation

CICA Handbook section 1400 was amended, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The Company makes this assessment and reports this information in note 1.

b) Financial Instruments – Disclosures and Financial Instruments – Presentation

These two standards replace the current standard "*Financial Instruments – Disclosure and Presentation*" (Section 3861), revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new Sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how those risks are managed.

c) Capital Disclosures

This section establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has reported this information in the notes.

d) Capital Disclosures

This section establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

e) International financial reporting standards ("IFRS")

In 2006, the 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 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 of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 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.

## **Results of Operations**

### *Results of Operations for the three months ended December 31, 2008*

The consolidated net loss for the six months ended December 31, 2008 was \$3,837,655 (December 31, 2007 - \$1,479,949).

The significant changes between the current quarter and the comparative quarter of last year are discussed below.

Mineral property exploration expenditures, net of \$1,029,332 recovered from funding partners, was \$2,418,990 (December 31, 2007 - \$181,673) so that total exploration was \$3,448,322. The Company received a \$90,000 mineral property option payment from Eldorado of which \$74,087 recovered the balance of deferred acquisition costs and the remaining \$15,913 reduced the net loss for the period. For some of the projects the Company performs the exploration work pursuant to a service contract for the operator for which it earns a management fee. Exploration expenditures paid for directly by funding partners are not included in the Company's financial statements.

Salaries and benefits, including \$64,310 of directors fees (December 31, 2007 - \$30,000), charged to administration totaled \$346,641 (December 31, 2007 - \$245,710). Salaries and benefits included in mineral property exploration expenditures were an additional \$277,202 (December 31, 2007 - \$111,589) of which \$67,633 (December 31, 2007 - \$91,482) was recovered from funding partners. Including Ronald Parratt and Richard Bedell, the Company now has four full time geologists employed, three full time consultants and three part time consultants based in the exploration office in Reno, Nevada. In addition, as of December 31<sup>st</sup>, AuEx has one full time geologist, and one part time consultant based in Argentina.

The non-cash stock based compensation expense of \$665,152 (December 31, 2007 - \$1,036,729) is the recognition of the fair value of stock options over their vesting periods. Another \$127,558 of stock based compensation expense is included in the Argentina mineral property exploration expenditure.

## **Summary of Quarterly Results**

	3 Month ended December 31, 2008	3 months ended September 30, 2008	3 months ended June 30, 2008	3 months ended March 31, 2008	3 months ended December 31, 2007	3 months ended September 30, 2007	3 months ended June 30, 2007	3 months ended March 31, 2007
Total revenues	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Net loss	(2,483,647)	(1,354,008)	(1,049,123)	(1,004,103)	(848,913)	(631,036)	(868,225)	(268,164)
Net loss per share, basic and diluted	(0.09)	(0.05)	(0.04)	(0.04)	(0.03)	(0.03)	(0.04)	(0.01)

As the Company's exploration and administrative activities increase the Company's costs and net loss can be expected to continue to rise. The Company has generated no revenue to date.

## **Liquidity**

The Company has funded its operations to date from the sale of its equity securities and by project option payments and work programs funded by third parties.

As at December 31, 2008 the Company had working capital of \$4,871,495 compared to working capital at June 30, 2008 of \$4,445,270.

On November 28, 2008 the Company issued 4,000,000 common shares and 2,000,000 common share purchase warrants for gross proceeds of \$3,556,520 (Cdn \$4,400,000) pursuant to a private placement. Each warrant entitles the holder to purchase one additional share at a price of Cdn \$1.38 per share for the first year following issuance and Cdn\$1.65 for the second year following issuance. In the event that the trading price of the Company's shares on the Toronto Stock Exchange is Cdn\$2.06 or greater for a period of 20 consecutive trading days in the period commencing either four months and up to twelve months after the closing date or above Cdn\$2.48 per share thereafter, the Company may provide notice of an earlier expiry of the warrants, in which case the warrants shall expire 30 days after such notice is given.

During the six months ended December 31, 2008 the Company issued 100,000 common shares pursuant to the exercise of stock options for cash proceeds of \$50,000 and 6,889 common shares pursuant to a mineral property purchase agreement for a fair value of \$10,000.

If additional capital financing arrangements, including public or private sales of debt or equity securities are insufficient or unavailable, the Company will modify its growth, mineral exploration and operating plans to match available funding. Any additional equity financing may be on terms that are dilutive, or potentially dilutive, to its shareholders.

### **Capital Resources**

The Company has common stock purchase warrants and stock options outstanding, that if exercised will raise additional capital for the Company.

### **Transactions with Related Parties**

Unless disclosed elsewhere, related party transactions for the six months ended December 31, 2008 are as follows:

- (a) Paid or accrued \$41,295 (December 31, 2008 - \$38,896) for consulting fees to a company controlled by an officer of the Company.
- (b) The Company has leased the Rose Mine project in part from a company controlled by Richard Bedell, a director of the Company (Note 4 of the interim consolidated financial statements).

The related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### **Outstanding Share Data as at February 13, 2009**

The authorized share capital of AuEx consists of an unlimited number of common shares, 10,000,000 preferred shares and one special voting share (the "Special Voting share"). The holder of the Special Voting share, Pacific Corporate Trust Company, is entitled to the number of votes equal to the number of Class B non-voting common shares ("Exchangeable Shares") outstanding subject to reduction in certain circumstances.

	<b>Common Shares issued and outstanding</b>	<b>Exchangeable shares issued and outstanding</b>	<b>Total common and exchangeable shares outstanding</b>	<b>Common Share Purchase Warrants</b>	<b>Common Share Purchase Options</b>
Balance December 31, 2008	24,280,174	5,026,529	29,306,703	2,200,000	4,231,666
Common share purchase warrants exercised	371,200	-	371,200	(371,200)	-
Stock options exercised	105,554	-	105,554	-	(166,666)

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<b>Balance February 13, 2009</b>	<b>24,756,928</b>	<b>5,026,529</b>	<b>29,783,457</b>	<b>1,828,800</b>	<b>4,065,000</b>
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## Financial Instruments

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and amounts due from or due to various exploration funding partners. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

### *Currency risk*

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company operates in Canada, the United States, Argentina and Spain and a portion of its cash is held in Canadian dollars and expenses are incurred in Canadian dollars, Argentina pesos and Euros. A significant change in the currency exchange rates between the United States dollar relative to the other currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

## Forward looking statements

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future exploration activities and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration successes, the maintenance and continuation of exploration funding agreements and continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

## Risks and Uncertainties

Mineral exploration is subject to a high degree of risk, which a combination of experience, knowledge, and careful evaluation may fail to overcome. Exploration activities seldom result in the discovery of a commercially viable mineral resource. Exploration activities require significant cash expenditures. The Company will therefore require additional financing to carry on its business and such financing may not be available when it is needed.

## Technical Reporting

All data, as disclosed in this MD&A have been verified by the Company's qualified persons Ronald L. Parratt, M.Sc., and Certified Professional Geologist and Eric M. Struhsacker, M.Sc., and Certified Professional Geologist to the degree disclosed in each news release that announced the exploration results reported in this MD&A.

## Disclosure and Internal Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company. Based on an evaluation of the Company's disclosure controls and procedures as of the end of the year covered by this MD&A, management believes such controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

The Chief Executive Officer and Chief Financial Officer have designed the internal controls over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the

reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

During the six month period ending December 31, 2008, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Corporate Governance**

Management of the Company is responsible for the preparation and presentation of the annual financial statements and notes thereto, MD&A and other information contained in the annual report. Additionally, it is Management's responsibility to ensure the Company complies with the laws and regulations applicable to its activities.

The Company's management is held accountable to the Board of Directors ("Directors"), each member of which is elected annually by the shareholders of the Company. The Directors are responsible for reviewing and approving the annual audited financial statements and MD&A. Responsibility for the review and approval of the Company's quarterly unaudited interim financial statements and MD&A is delegated by the Directors to the Audit Committee, which is comprised of three directors who are independent of management. Additionally, the Audit Committee pre-approves audit and non-audit services provided by the Company's auditors.

The auditors are appointed annually by the shareholders to conduct an audit of the financial statements in accordance with generally accepted auditing standards. The external auditors have complete access to the Audit Committee to discuss the audit, financial reporting and related matters resulting from the annual audit as well as assist the members of the Audit Committee in discharging their corporate governance responsibilities.

### **Other Information**

Additional information relating to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).



**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Expressed in U.S. dollars

**For the six months ended  
December 31, 2008**

Unaudited (prepared by management)

Notice to Reader

These interim consolidated financial statements of AuEx Ventures Inc. have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these interim consolidated financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

**AUEX VENTURES, INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. dollars)

	<b>December 31, 2008</b> <b>(unaudited)</b>	June 30, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 4,759,157	\$ 4,412,448
Receivables	203,600	162,248
Prepaid expense	31,857	29,539
	<u>4,994,614</u>	<u>4,604,235</u>
<b>Equipment</b> (Note 3)	<b>113,921</b>	79,627
<b>Mineral properties</b> (Note 4)	<b>610,506</b>	607,317
<b>Restricted cash</b> (Note 5)	<b>190,454</b>	337,462
<b>Reclamation bond</b> (Note 5)	<b>102,690</b>	25,265
	<u>6,012,185</u>	<u>5,653,906</u>
	\$	\$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 123,119	\$ 158,965
	<u>123,119</u>	<u>158,965</u>
<b>Asset retirement obligation</b>	<b>190,454</b>	190,454
	<u>313,573</u>	<u>349,419</u>
<b>Shareholders' Equity</b>		
Capital stock (Note 7)	14,585,764	11,119,720
Contributed surplus (Note 7)	3,269,194	2,503,458
Deficit	(12,156,346)	(8,318,691)
	<u>5,698,612</u>	<u>5,304,487</u>
	<u>6,012,185</u>	<u>5,653,906</u>
	\$	\$

**Nature of operations (Note 1)**  
**Subsequent event (Note 11)**

Approved by the Board of Directors

/s/ "Ronald L. Parratt"  
Ronald L. Parratt, Director

/s/ "Robert Boaz"  
Robert Boaz, Director

The accompanying notes are an integral part of these interim consolidated financial statements.

**AUEX VENTURES, INC.****INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

(Expressed in U.S. dollars)

For the three and six months ended December 31, 2008

(unaudited – prepared by management)

	<b>Three months ended December 31, 2008</b>	Three months ended December 31, 2007	<b>Six months ended December 31, 2008</b>	Six months ended December 31, 2007
<b>EXPENSES</b>				
Amortization	\$ 9,660	\$ 6,388	\$ 19,408	\$ 12,092
Consulting	37,852	28,737	73,605	61,085
Foreign exchange	(19,638)	(5,746)	1,762	(61,387)
Insurance	19,426	11,682	28,879	18,778
Mineral property exploration expenditures (Schedule)	1,755,173	51,291	2,418,990	181,673
Mineral property recoveries	-	-	(15,913)	(52,091)
Office and miscellaneous	22,505	17,930	37,510	29,470
Professional fees	28,531	11,898	41,133	18,084
Regulatory and transfer agent fees	9,247	8,741	104,055	12,996
Rent	11,784	11,562	24,227	23,650
Salaries and benefits	169,975	139,128	346,641	245,710
Shareholder relations	72,544	42,117	92,006	62,643
Stock-based compensation (Note 7)	368,984	569,167	665,152	1,036,729
Travel and related	9,608	13,160	26,863	23,106
<b>Loss before other items</b>	<b>(2,495,651)</b>	<b>(906,055)</b>	<b>(3,864,318)</b>	<b>(1,612,538)</b>
<b>OTHER ITEMS</b>				
Interest income	7,752	52,291	20,269	116,724
Gain on sale of equipment	-	-	200	-
Management fees	4,252	14,851	6,194	25,865
Write off of mineral property	-	(10,000)	-	(10,000)
	<u>12,004</u>	<u>57,142</u>	<u>26,663</u>	<u>132,589</u>
<b>Loss and comprehensive loss for the period</b>	<b>\$ (2,483,647)</b>	<b>\$ (848,913)</b>	<b>\$ (3,837,655)</b>	<b>\$ (1,479,949)</b>
Deficit, beginning of period	\$ (9,672,699)	\$ (5,416,552)	\$ (8,318,691)	\$ (4,785,516)
Loss for the period	<u>(2,483,647)</u>	<u>(848,913)</u>	<u>(3,837,655)</u>	<u>(1,479,949)</u>
Deficit, end of period	\$ <u>(12,156,346)</u>	\$ <u>(6,265,465)</u>	\$ <u>(12,156,346)</u>	\$ <u>(6,265,465)</u>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.09)</b>	<b>\$ (0.03)</b>	<b>\$ (0.15)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of common shares outstanding</b>	<b>26,240,305</b>	<b>25,163,776</b>	<b>25,388,096</b>	<b>25,128,275</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

**AUEX VENTURES, INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(Expressed in U.S. dollars)  
For the three and six months ended December 31, 2008  
(unaudited – prepared by management)

	<b>Three months ended December 31, 2008</b>	Three months ended December 31, 2007	<b>Six months ended December 31, 2008</b>	Six months ended December 31, 2007
<b>CASH FLOWS TO OPERATING ACTIVITIES</b>				
Loss for the period	\$ (2,483,647)	\$ (848,913)	\$ (3,837,655)	\$ (1,479,949)
Items not affecting cash:				
Amortization - equipment	9,660	6,388	19,408	12,092
Amortization - mineral property exploration	3,649	-	4,581	-
Stock-based compensation - administration	368,984	569,167	665,152	1,036,729
Stock-based compensation - mineral property exploration	62,026	-	127,558	-
Write off of mineral property	-	10,000	-	10,000
Gain on sale of equipment	-	-	(200)	-
Changes in non-cash working capital items:				
Receivables	(24,907)	(239,171)	(41,352)	(413,906)
Prepaid expenses	2,294	10,538	(2,318)	(15,662)
Accounts payable and accrued liabilities	(146,351)	(32,795)	(35,846)	(122,853)
Long Canyon Venture cash call due	(289,264)	-	-	-
	<u>(2,497,556)</u>	<u>(524,786)</u>	<u>(3,100,672)</u>	<u>(973,549)</u>
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES</b>				
Restricted cash	-	-	147,008	(14,962)
Reclamation bonds	(77,425)	-	(77,425)	-
Purchase of equipment	(1,376)	(6,131)	(58,283)	(17,129)
Gain on sale of equipment	-	-	200	-
Mineral property recoveries	-	-	74,087	36,389
Mineral property expenditures	(30,837)	(47,931)	(67,276)	(62,931)
	<u>(109,638)</u>	<u>(54,062)</u>	<u>18,311</u>	<u>(58,633)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of common stock for cash	3,379,070	138,745	3,429,070	154,745
	<u>3,379,070</u>	<u>138,745</u>	<u>3,429,070</u>	<u>154,745</u>
<b>Change in cash for period</b>	<b>771,876</b>	<b>(440,103)</b>	<b>346,709</b>	<b>(877,437)</b>
<b>Cash, beginning of period</b>	<u><b>3,987,281</b></u>	<u>5,854,228</u>	<u><b>4,412,448</b></u>	<u>6,291,562</u>
<b>Cash, end of period</b>	<u><b>\$ 4,759,157</b></u>	<u>\$ 5,414,125</u>	<u><b>\$ 4,759,157</b></u>	<u>\$ 5,414,125</u>
<b>Supplemental cash flow:</b>				
Shares issued pursuant to a mineral option agreement	10,000	7,500	10,000	7,500
Fair value of stock options exercised	-	76,745	26,974	76,745

The accompanying notes are an integral part of these interim consolidated financial statements.

**AUEX VENTURES, INC.**
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTY EXPLORATION EXPENDITURES**

(Expressed in U.S. dollars)

For the six months ended December 31, 2008

(unaudited – prepared by management)

<i>Exploration expenditures by property:</i>	2008			2007		
	Exploration Expenditures	Recoveries from funding partners	Net Exploration Expenditures	Exploration Expenditures	Recoveries from funding partners	Net Exploration Expenditures
<b>Nevada:</b>						
Antelope	\$ 5,046	\$ -	\$ 5,046	\$ 12,962	\$ -	\$ 12,962
Arabia	22,645	-	22,645	-	-	-
Buffalo Canyon	199,611	(199,611)	-	2,941	-	2,941
Bunce	47,814	-	47,814	395,422	(395,422)	-
General reconnaissance	164,846	-	164,846	55,791	-	55,791
Goldstar	23,472	-	23,472	-	-	-
Green Monster	87,414	(87,414)	-	20,318	-	20,318
Grouse Creek	-	-	-	6,679	-	6,679
Hays Canyon	81,980	(81,980)	-	-	-	-
Hum	11,602	-	11,602	7,458	-	7,458
Leonid	31,437	-	31,437	861	(861)	-
Long Canyon Joint Venture (Note 4)	1,734,344	-	1,734,344	8,415	-	8,415
Long Canyon South	21,336	(3,307)	18,029	-	-	-
NLRC License	6,538	-	6,538	13,077	-	13,077
North Klondike	401,680	(401,680)	-	18,956	-	18,956
Olympic	25,577	-	25,577	-	-	-
Pasco Canyon	5,051	(5,051)	-	(13)	13	-
West Pequop	23,336	(23,336)	-	-	-	-
Pequop	-	-	-	(7,341)	7,341	-
Reef	10,709	-	10,709	30,806	-	30,806
Rose Mine	8,329	-	8,329	-	-	-
Sinter	15,711	-	15,711	15,470	-	15,470
Southwest Trinity	46,023	(10,997)	35,026	-	-	-
Swiss Bank	19,509	(19,509)	-	10,315	(10,315)	-
Trinity Silver	3,488	(3,488)	-	55,007	(55,007)	-
	2,997,498	(836,373)	2,161,125	647,124	(454,251)	192,873
<b>Utah:</b>						
Wildcat	7,886	-	7,886	-	-	-
<b>Spain:</b>						
Baza	39,334	-	39,334	10,970	(55,512)	(44,542)
<b>South America:</b>						
Argentina reconnaissance	246,002	(182,001)	64,001	118,677	(90,116)	28,561
Hidefield	15,892	(10,958)	4,934	-	-	-
Stock based compensation - Argentina	141,710	-	141,710	-	-	-
Chile reconnaissance	-	-	-	4,781	-	4,781
<b>Mineral property exploration expenditures</b>	<b>\$ 3,448,322</b>	<b>\$ (1,029,332)</b>	<b>\$ 2,418,990</b>	<b>\$ 781,552</b>	<b>\$ (599,879)</b>	<b>\$ 181,673</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

## 1. NATURE OF OPERATIONS

AuEx Ventures, Inc. (the “Company”) was incorporated on May 10, 2004 under the laws of the Province of British Columbia and its principal business activities are the acquisition and exploration of mineral properties.

The Company has not yet determined whether its mineral properties contain economically recoverable ore reserves. The recovery of the amounts comprising mineral properties and deferred exploration costs are dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete the exploration and development of those reserves and upon future profitable production.

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business.

The Company intends to raise funds from the issue of common shares in order to maintain its participating interest in the Long Canyon Venture and to fund the Company’s generative exploration programs but there is no guarantee that the Company will be able to raise or procure such funds.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements for the Company have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). They do not include all of the information and disclosures required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements including the notes thereto for the year ended June 30, 2008 which may be found on [www.sedar.com](http://www.sedar.com).

### **New accounting standards:**

Effective July 1, 2008, the Company adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”). There was no material impact on the Company’s financial condition or operating results as a result of the adoption of these new standards:

a) General standards of financial statement presentation

CICA Handbook section 1400 was amended, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. The Company makes this assessment and reports this information in note 1.

b) Financial Instruments – Disclosures and Financial Instruments – Presentation

These two standards replace the current standard “*Financial Instruments – Disclosure and Presentation*” (Section 3861), revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new Sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how those risks are managed. The Company has provided this information in Note 8.

c) Capital Disclosures

This section establishes standards for the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any

**AUEX VENTURES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has reported this information in note 9.

**3. EQUIPMENT**

	December 31, 2008			June 30, 2008	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	
Office equipment	\$ 18,241	\$ 9,022	\$ 9,219		6,862
Computers	49,905	27,294	22,611		21,674
Field equipment	115,231	33,140	82,091		51,091
Net book value	\$ 183,377	\$ 69,456	\$ 113,921	\$	79,627

**4. MINERAL PROPERTIES**

Title to mineral 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 conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and to the best of its knowledge; all properties are in good standing.

	June 30, 2008	Additions	Recoveries	December 31, 2008
<b>Nevada:</b>				
Antelope	\$ 11,436	\$ 5,000	\$ -	\$ 16,436
Arabia	-	4,875	-	4,875
Buffalo Canyon	17,502	-	(17,502)	-
Bunce	117,005	31,752	-	148,757
Goldstar	-	6,439	-	6,439
Green Monster	26,212	-	(26,212)	-
Hays Canyon	1,131	-	(1,131)	-
Hum	15,143	-	-	15,143
Klondike North	29,242	-	(29,242)	-
NLRC License	46,893	-	-	46,893
Olympic	-	15,000	-	15,000
Other	23,513	-	-	23,513
Pequop (West Pequop and Long Canyon)	290,054	-	-	290,054
Reef	15,366	-	-	15,366
Rose Mine	-	10,000	-	10,000
Sinter	13,820	-	-	13,820
Southwest Trinity	-	1,600	-	1,600
	<u>607,317</u>	<u>74,666</u>	<u>(74,087)</u>	<u>607,896</u>
<b>Utah:</b>				
Wildcat	-	2,610	-	2,610
Mineral properties	\$ <u>607,317</u>	\$ <u>77,276</u>	\$ <u>(74,087)</u>	\$ <u>610,506</u>

**AUEX VENTURES, INC.**  
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Details on the Company's mineral properties are found in note 4 to the audited consolidated financial statements for the year ended June 30, 2008 and only material differences to those agreements are noted below:

**Long Canyon Property, Elko County, Nevada**

By September 11, 2008 Fronteer Development Group Inc. had expended \$5 million to vest a 51% interest in the Long Canyon Venture with the Company participating at 49%.

The proportionate expenditures in the Long Canyon Venture included in the Company's accounts are summarized as follows:

<b>Assets:</b>	
Cash	\$64,255
Reclamation bond	<u>101,186</u>
<b>Total assets</b>	<u>\$165,441</u>

<b>Mineral property expenditures:</b>	
Assays	150,042
Consultants and salaries	278,371
Dirt work	201,567
Drilling	881,550
Environmental	8,292
Equipment rental	4,114
Field and office supplies	21,112
Geophysics and surveys	52,233
Legal	931
Property maintenance	13,478
Repairs and maintenance	1,109
Travel and accommodation	38,743
Management fee	<u>82,802</u>
<b>Total expenditures</b>	<u>\$1,734,344</u>

**Klondike North, Green Monster, Buffalo Canyon and Hays Canyon prospects, Nevada**

On September 15, 2008, the Company entered into an option earn in agreement with Eldorado Gold Corp. ("Eldorado"), superseding a letter agreement signed June 24, 2008 allowing Eldorado the exclusive right to acquire a 51% interest in each of the Klondike North in Esmeralda County, Green Monster and Buffalo Canyon in Nye County and the Hays Canyon prospect in Washoe County. The Company received a \$90,000 mineral property option payment from Eldorado of which \$74,087 recovered the balance of deferred acquisition costs and the remaining \$15,913 reduced the net loss for the period. Eldorado will be required to fund \$11,000,000 in exploration within five years with the first year's \$350,000 obligation. Upon vesting a 51% interest, Eldorado may then elect to earn an additional 19% interest in each prospect by funding all expenditures through completion of a bankable feasibility study.

**AUEX VENTURES, INC.**  
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Agreement year	Klondike North	Green Monster	Buffalo Canyon	Hays Canyon	Total
2008	\$ 150,000	\$ 80,000	\$ 60,000	\$ 60,000	\$ 350,000
2009	250,000	220,000	240,000	150,000	860,000
2010	600,000	500,000	220,000	290,000	1,610,000
2011	1,000,000	1,000,000	1,000,000	500,000	3,500,000
2012	1,000,000	1,200,000	1,480,000	1,000,000	4,680,000
<b>Total</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 2,000,000</b>	<b>\$ 11,000,000</b>

**Trinity Silver project, Pershing County, Nevada**

On July 29, 2005 the Company leased the former producing silver mine and surrounding property in Pershing County, Nevada forming the Trinity Silver project from Newmont. This former producing mine was subsequently reclaimed by the previous operators.

On July 28, 2008 the agreement was amended so that to maintain the option the Company is now required to spend an additional \$400,000 on or before January 29, 2009, an additional \$100,000 on or before July 29, 2009 and an additional \$100,000 on or before each January 29 thereafter and must have expended a total \$2,100,000 by the end of the 7<sup>th</sup> agreement year. The Company can purchase the property at any time prior to July 29, 2009 for \$500,000 or for \$1,000,000 thereafter. Newmont retained a sliding scale royalty that increases to 5% at silver prices above \$10 per ounce. This royalty may be reduced by one percentage point under certain conditions. In addition, Newmont retains the right to back-in up to completion of feasibility upon fulfillment of specific expenditure requirements.

**Olympic prospects, Mineral County, Nevada**

Sedi-Met, Inc. – May 30, 2008 twenty year mining lease and option to purchase agreement for the Olympic prospect

3% NSR however the Company may purchase 1% of the NSR for \$1,000,000. The Company has the right of first refusal to acquire another 1% of the NSR on the terms offered.

The agreement includes an option to purchase the property for \$200,000 at any time the Company decides to commence development of or mining on the property, or completes a positive feasibility study for these activities.

The Company is required to make additional payments as follows:

Date	Payment	Required Expenditures
July 2, 2008 on execution	\$15,000 (paid)	-
May 30, 2009	\$20,000	-
May 30, 2010	\$25,000	To drill 2000 feet of reverse circulation drilling in three identified locations
May 30, 2011	\$30,000	To drill 3000 feet of reverse circulation drilling in four identified locations
May 30, 2012	\$35,000	
May 30, 2013	\$30,000 per year thereafter	

**AUEX VENTURES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Rose Mine, Eureka County, Nevada**

Mountain Gold Exploration, Inc. and Geocorp (Geocorp is owned by a director of the Company) – August 5, 2008 twenty year mining lease and option to purchase agreement for the Rose Mine prospect

3% NSR however the Company may purchase up to 2% of the NSR for \$1,000,000 for each percentage point of the NSR purchased.

The agreement includes an option to purchase the property for \$200,000 at any time the Company decides to commence development of or mining on the property, or completes a positive feasibility study for these activities. The Company is required to make additional payments as follows:

Date	Payment	Required Expenditures
August 5, 2008 on execution	\$10,000 (paid)	-
August 5, 2009	\$10,000	\$10,000
August 5, 2010	\$15,000	\$20,000
August 5, 2011	\$20,000	\$20,000
August 5, 2012	\$25,000	\$50,000
August 5, 2013	\$30,000	\$50,000
August 5, 2014 to 2018	\$50,000 per year	\$50,000 per year
August 5, 2019 to 2028	\$100,000 per year	-

**Bunce, Pershing County, Nevada**

The Company and North Range Resources Ltd. (“North Range”) had an exploration and funding agreement that on November 6, 2008 the Company elected to terminate. At the date of termination North Range owed the Company \$513,711 for exploration costs reimbursable to the Company and the Company and North Range have agreed to a settlement by which North Range has issued 1,500,000 common shares to AuEx Inc. deemed equal to the amount \$513,711. North Range is a privately held company and no value has been assigned to these shares for accounting purposes until such time as the shares become tradable on a public stock exchange.

**Gold Star, Pershing County, Nevada**

The Company staked claims for the Gold Star prospect, Pershing County, Nevada in 2008 at a cost of \$6,439.

**Wildcat, Juab County, Utah**

The Company staked claims for the Wildcat prospect, Juab County, Utah in 2008 at a cost of \$2,610.

**Arabia, Pershing County, Nevada**

The Company staked claims for the Arabia prospect, Pershing County, Nevada in 2008 at a cost of \$4,875.

## **5. RECLAMATION BONDS**

The Company is required to post bonds with the Bureau of Land Management (“BLM”) for reclamation of planned mineral exploration programs work associated with the Company’s mineral properties located in the United States. For the Company’s mineral properties that are being actively explored under funding arrangement agreements, the funding partners are responsible for bonding for the surface disturbance created by the exploration programs funded by each of them on those projects.

The Company purchased a bond from the Nevada Bond Pool (the “Pool”) for the Long Canyon property at a cost of \$25,265 for work conducted by the Company prior to entering into a funding agreement with Fronteer (Note 5). During the six months ended December 31, 2008, the Company increased its bonding to \$102,690.

The Company posted a bond of \$337,462 that is secured by a Letter of Credit that is in turn secured by interest earning restricted cash taking the form of certificates of deposit in the name of the Company for the West Pequop property created by the Company prior to entering into a funding agreement with Agnico (Note 4). Effective June 19, 2008 Agnico earned a 51% interest in the West Pequop property and the surface disturbance to that date was combined with a new bond being required in the amount of \$388,682 of which the Company’s share is \$190,454. In the six months ended December 31, 2008 the Company reduced restricted cash by \$147,008.

## **6. RELATED PARTY TRANSACTIONS**

Unless disclosed elsewhere, related party transactions for the six months ended December 31, 2008 are as follows:

- (a) An amount of \$8,653 for expenses owed to two officers are included in accounts payable and accrued liabilities (December 31, 2007 - \$1,727).
- (b) Paid or accrued \$41,295 (December 31, 2007 - \$38,896) for consulting fees to a company controlled by an officer of the Company.
- (c) The Company has leased the Rose Mine project in part from a company controlled by Richard Bedell, a director of the Company (Note 4).

The related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**AUEX VENTURES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

**Authorized:** An unlimited number of common shares without par value and 10,000,000 preferred shares

**Issued and outstanding:**

	<b>Shares</b>	<b>Value</b>	<b>Contributed Surplus</b>
<b>Outstanding at June 30, 2008</b>	25,199,814	\$ 11,119,720	\$ 2,503,458
Issued during period:			
Stock options exercised	100,000	76,974	(26,974)
Shares issued for mineral property <sup>(1)</sup>	6,889	10,000	-
Private placement <sup>(2)</sup>	4,000,000	3,556,520	-
Share issue costs	-	(177,450)	-
Fair value of stock options vested	-	-	792,710
<b>Outstanding at December 31, 2008</b>	<b>29,306,703</b>	<b>\$ 14,585,764</b>	<b>\$ 3,269,194</b>

- (1) On October 3, 2008 the Company issued 6,889 common shares in satisfaction of the \$10,000 stock compensation component related to the Bunce property.
- (2) On November 28, 2008 the Company issued 4,000,000 common shares and 2,000,000 common share purchase warrants for gross proceeds of \$3,556,520 (C\$4,400,000) pursuant to a private placement. Each warrant entitles the holder to purchase one additional share at a price of C\$1.38 per share for the first year following issuance and C\$1.65 for the second year following issuance. In the event that the trading price of the Company's shares on the Toronto Stock Exchange is C\$2.06 or greater for a period of 20 consecutive trading days in the period commencing either four months and up to twelve months after the closing date or above C\$2.48 per share thereafter, the Company may provide notice of an earlier expiry of the warrants, in which case the warrants shall expire 30 days after such notice is given. Share issue costs were \$177,450 which included the agent's cash commission of \$133,370 (C\$165,000) paid from the gross proceeds.

**Exchangeable Shares**

The Company issued a special voting share to a transfer agent attaching a number of votes equal to the number of Exchangeable Shares at any given time, or, at June 28, 2005 the equivalent of 7,979,817 common shares in exchange for the 7,979,817 Class B shares of Holdings held by the former shareholders of AuEx, Inc. At December 31, 2008 there are 5,026,529 Class B shares outstanding (June 30, 2008 – 5,726,325). All of the Exchangeable Shares have been included in the outstanding share capital schedule.

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**Warrants**

The continuity for share purchase warrants for the six months ended December 31, 2008:

Expiry date	Exercise price		Balance, June 30, 2008	Issued	Exercised	Expired	Balance, December 31, 2008
	US\$	Cdn\$					
February 14, 2009		\$3.00	200,000	-	-	-	200,000
November 29, 2010		\$1.38	-	2,000,000	-	-	2,000,000
			200,000	2,000,000	-	-	2,200,000
Weighted average exercise price			\$2.94	\$1.13	\$-	\$-	\$1.25

At June 30, 2008 the exchange rate was US\$ 0.98 for Cdn\$ 1.00 and at December 31, 2008 the exchange rate was US\$ 0.82 for Cdn\$ 1.00.

**Stock options**

The continuity for stock options for the six months ended December 31, 2008 is as follows:

Expiry date	Exercise price		Balance, June 30, 2008	Granted	Exercised	Expired	Balance, December 31, 2008
	US\$	Cdn \$					
November 2, 2009	\$0.20		200,000	-	-	-	200,000
November 2, 2009	\$0.32		500,000	-	-	-	500,000
July 14, 2010	\$0.50		100,000	-	(100,000)	-	-
June 15, 2011		\$1.75	835,000	-	-	-	835,000
February 13, 2012		\$2.43	100,000	-	-	-	100,000
July 11, 2012		\$2.15	1,165,000	-	-	-	1,165,000
September 20, 2012		\$1.95	100,000	-	-	(33,334)	66,666
July 24, 2013		\$2.14	-	850,000	-	(50,000)	800,000
December 30, 2013		\$1.73	-	565,000	-	-	565,000
			3,000,000	1,415,000	(100,000)	(83,334)	4,231,666
Weighted average exercise price			\$1.52	\$1.62	\$0.50	\$1.69	\$1.41

At December 31, 2008 2,478,333 of the stock options were exercisable.

### **Stock compensation expense**

- 1) On December 30, 2008 the Directors granted 565,000 options with a fair value of \$496,944 or \$0.88 per option which will be recognized as an expense as the options vest. The fair value is estimated on the grant date using the Black-Scholes Option Pricing Model with the following assumptions: 100% expected stock price volatility, a 1.32% risk free interest rate, a 3 year expected life and zero expected dividend yield.

On October 27, 2008 the Company's shareholders approved a new Combined Incentive and Nonqualified Stock Option Plan (the "2008 Plan") with 5,059,963 shares reserved for issuance. The options previously granted continue under the 2008 Plan and were all for a term of five years and vest as to one-third on each six month anniversary from the date of grant.

- 2) On July 24, 2008 the Directors granted 850,000 options with a fair value of \$1,128,332 or \$1.33 per option. During the six months ended December 31, 2008 \$592,643 was recognized as an expense offset by contributed surplus leaving \$535,689 to recognize as an expense as the options vest. The fair value is estimated on the grant date using the Black-Scholes Option Pricing Model with the following assumptions: 100% expected stock price volatility, a 2.4% risk free interest rate, a 3 year expected life and zero expected dividend yield.
- 3) On September 21, 2007 the Directors granted 100,000 options with a fair value of \$124,446 or \$1.24 per option. During the year ended June 30, 2008, \$96,215 was recognized as an expense, in the six months ended December 31, 2008 \$22,470 was recognized as an expense offset in both cases by contributed surplus leaving \$5,761 to recognize as the options vest.
- 4) On July 11, 2007 the Directors granted 1,165,000 options with a fair value of \$1,517,762 or \$1.30 per option. During the year ended June 30, 2008, \$1,313,988 was recognized as an expense, in the six months ended December 31, 2008 \$189,720 was recognized as an expense offset in both cases by contributed surplus leaving \$14,053 to recognize as the options vest.
- 5) On February 14, 2007 the Directors granted 100,000 options with a fair value of \$132,764 or \$1.33 per option. During the year ended June 30, 2007 \$63,923 was recognized as an expense, during the year ended June 30, 2008, \$65,154 was recognized as an expense and in the three months ended September 30, 2008 the final \$3,687 was recognized as an expense offset in all cases by contributed surplus.

Of the stock-based compensation expense of \$808,520, an amount of \$141,710 was allocated to Argentina mineral exploration expenditures.

## **8. FINANCIAL INSTRUMENTS**

All financial instruments are recorded initially at estimated fair value on the balance sheet and classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables and other liabilities.

### *Financial Risk Management*

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, receivables, restricted cash, and reclamation bond and accounts payable and accrued liabilities.

The fair values of cash, amounts receivable, advances to contractors and accounts payable and accrued liabilities and amounts due from or due to various exploration funding partners approximate their book values because of the short-term nature of these instruments.

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*Financial Instrument Risk Exposure*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

*Credit Risk*

The Company's only exposure to credit risk is on its bank accounts. Bank accounts are with a Canadian Schedule 1 bank with a \$20 million counterparty credit limit.

*Liquidity Risk*

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts which are available on demand.

*Market Risk*

The only significant market risk exposure to which the Company is exposed is interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

*Currency risk*

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company operates in Canada, the United States, Argentina and Spain and a portion of its cash is held in Canadian dollars and expenses are incurred in Canadian dollars, Argentina pesos and Euros. A significant change in the currency exchange rates between the United States dollar relative to the other currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

*Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

## **9. MANAGEMENT OF CAPITAL**

The Company manages its cash, common shares, stock options and warrants as capital (see Note 6). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company is not subject to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

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In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

The Company does not expect its current capital resources will be sufficient to carry its exploration plans and operations through its current operating period and will attempt to raise additional capital through an equity transaction.

**10. SEGMENT INFORMATION**

The Company operates in one business segment being the acquisition and exploration of mineral properties and has three geographical segments: USA, Argentina and Spain. The total assets attributable to the geographical locations relate primarily to equipment and deferred mineral property costs and have been disclosed in notes 3 and 4.

**11. SUBSEQUENT EVENT**

Subsequent to December 31, 2008 the Company:

- 1) issued 100,000 common shares pursuant to the exercise of stock options for proceeds of \$32,000.
- 2) issued 5,554 common shares pursuant to the exchange of 66,666 stock options.
- 3) issued 371,200 common shares pursuant to the exercise of common share purchase warrants for proceeds of \$412,013.