

# **ALEXIS MINERALS CORPORATION**

## **ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007**



McGovern, Hurley, Cunningham, LLP  
Chartered Accountants

## AUDITORS' REPORT

To the Shareholders of  
**Alexis Minerals Corporation**

We have audited the consolidated balance sheets of Alexis Minerals Corporation as at December 31, 2008 and 2007 and the consolidated statements of shareholders' equity, operations, comprehensive (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

A handwritten signature in cursive script that reads 'McGovern, Hurley, Cunningham, LLP'.

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
February 13, 2009

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# ALEXIS MINERALS CORPORATION

## Consolidated Balance Sheets

in Canadian dollars

As at December 31,

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,529,303	\$ 6,153,297
Restricted cash (Note 6)	-	150,000
Amounts receivable (Note 15)	967,753	2,293,571
Tax credits receivable (Notes 5 and 6)	6,269,850	12,054,626
Inventory (Note 21)	2,254,258	4,794,746
Prepaid expenses (Note 15)	177,355	351,914
Investments	332,592	-
Future income taxes (Note 16(b))	662,000	-
	<b>15,193,111</b>	25,798,154
Property, plant and equipment (Note 4)	7,837,745	5,934,808
Cash appropriated for exploration expenditures	-	530,034
Mineral properties and deferred expenditures (Note 5)	55,654,869	39,041,822
	<b>\$ 78,685,725</b>	<b>\$ 71,304,818</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 15)	\$ 4,977,983	\$ 6,012,546
Secured demand loan (Note 6)	-	5,345,689
Current portion of capital lease obligations (Note 7)	508,699	264,886
Current portion of long-term debt (Note 8)	165,706	170,298
	<b>5,652,388</b>	11,793,419
Capital lease obligations (Note 7)	337,996	276,008
Long-term debt (Note 8)	150,511	316,217
Liability component of convertible debenture (Note 9)	3,698,760	3,335,692
Asset retirement obligation (Note 10)	541,000	479,000
Future tax liability (Note 16(b))	-	1,599,000
	<b>10,380,655</b>	17,799,336
Shareholders' equity:		
Share capital (Note 11)	63,134,869	48,908,428
Warrants (Note 12)	6,679,843	5,138,113
Equity component of convertible debenture (Note 9)	830,334	830,334
Contributed surplus (Note 14)	7,962,377	6,936,037
Deficit	(10,302,353)	(8,307,430)
	<b>68,305,070</b>	53,505,482
	<b>\$ 78,685,725</b>	<b>\$ 71,304,818</b>

Commitment and contingencies - Notes 1, 5 and 19

APPROVED ON BEHALF OF THE BOARD:

Signed "David Rigg" \_\_\_\_\_, Director

Signed "Maurice Colson" \_\_\_\_\_, Director

# ALEXIS MINERALS CORPORATION

## Consolidated Statements of Shareholders' Equity in Canadian dollars

	Common Shares		Warrants	Convertible Debenture	Contributed Surplus	Accumulated Deficit	Shareholders' Equity
	#	\$	\$	\$	\$	\$	\$
Balance, December 31, 2006	70,710,626	25,898,218	2,071,196	830,334	4,541,368	(6,552,773)	26,788,343
Private placement	25,000,000	25,000,000	-	-	-	-	25,000,000
Value of warrants granted on private placement	-	(4,912,500)	4,912,500	-	-	-	-
Exercise of warrants and broker warrants	3,009,616	2,753,372	-	-	-	-	2,753,372
Valuation allocation on exercise of warrants	-	1,167,993	(1,167,993)	-	-	-	-
Exercise of stock options	1,371,000	738,025	-	-	-	-	738,025
Valuation allocation on exercise of stock options	-	531,236	-	-	(531,236)	-	-
Shares issued in lieu of interest payment	291,522	251,907	-	-	-	-	251,907
Expiry of warrants	-	-	(677,590)	-	677,590	-	-
Stock based compensation	-	-	-	-	2,248,315	-	2,248,315
Flow through share tax effect	-	(1,315,000)	-	-	-	-	(1,315,000)
Tax effect of cost of issue	-	511,000	-	-	-	-	511,000
Share issue costs	-	(1,715,823)	-	-	-	-	(1,715,823)
Loss for the year	-	-	-	-	-	(1,754,657)	(1,754,657)
Balance, December 31, 2007	100,382,764	48,908,428	5,138,113	830,334	6,936,037	(8,307,430)	53,505,482
Private placements	26,714,286	16,700,000	-	-	-	-	16,700,000
Value of warrants granted on private placements	-	(1,688,143)	1,688,143	-	-	-	-
Value of broker warrants granted on private placements	-	(79,200)	79,200	-	-	-	-
Exercise of stock options	410,000	122,400	-	-	-	-	122,400
Valuation allocation on exercise of stock options	-	91,510	-	-	(91,510)	-	-
Valuation allocation of expired warrants	-	-	(225,613)	-	225,613	-	-
Shares issued in lieu of interest payment	577,777	253,303	-	-	-	-	253,303
Stock based compensation	-	-	-	-	892,237	-	892,237
Share issue costs	-	(1,777,429)	-	-	-	-	(1,777,429)
Tax effect of cost of issue	-	604,000	-	-	-	-	604,000
Loss for the year	-	-	-	-	-	(1,994,923)	(1,994,923)
<b>Balance, December 31, 2008</b>	<b>128,084,827</b>	<b>63,134,869</b>	<b>6,679,843</b>	<b>830,334</b>	<b>7,962,377</b>	<b>(10,302,353)</b>	<b>68,305,070</b>

# ALEXIS MINERALS CORPORATION

## Consolidated Statements of Operations, Comprehensive (Loss) and Deficit in Canadian dollars

For the years ended December 31,

	2008	2007
Revenue	\$ 10,079,290	\$ -
Mine operating expenses	8,334,197	-
Amortization and depletion	1,364,388	-
	<b>9,698,585</b>	-
Gross profit	<b>380,705</b>	-
Expenses:		
Professional, consulting and management fees (Note 13)	1,784,108	3,127,199
Other general and administrative expenses	1,072,184	969,026
Long-term interest, accretion and financing costs	709,088	651,812
Other interest, accretion and financing costs	389,329	276,271
Write off of exploration properties	180,800	-
Foreign exchange	58,237	2,221
Interest income and gain on held for trading investments	(161,118)	(600,871)
Amortization of office equipment	-	3,999
	<b>4,032,628</b>	<b>4,429,657</b>
(Loss) before income taxes	<b>(3,651,923)</b>	<b>(4,429,657)</b>
Future income taxes (Note 16(a))	<b>1,657,000</b>	<b>2,675,000</b>
Net (loss) and comprehensive (loss) for the year	<b>(1,994,923)</b>	<b>(1,754,657)</b>
DEFICIT, beginning of year	<b>(8,307,430)</b>	<b>(6,552,773)</b>
DEFICIT, end of year	<b>\$ (10,302,353)</b>	<b>\$ (8,307,430)</b>
Net (loss) per share, basic and diluted:	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
Weighted average number of shares outstanding, basic and diluted:	<b>116,107,149</b>	<b>95,976,577</b>

# ALEXIS MINERALS CORPORATION

## Consolidated Statements of Cash Flows

in Canadian dollars

For the years ended December 31,

	2008	2007
Cash provided by (used in):		
Operations:		
Net (loss) for the year	\$ (1,994,923)	\$ (1,754,657)
Items not involving cash:		
Stock-based compensation (Note 13)	636,776	1,741,970
Amortization and depletion	1,364,388	3,999
Interest, accretion and finance charges	899,303	687,680
Unrealized gains on held for trading investments	(34,937)	-
Write off of exploration properties	180,800	-
Future income tax recovery	(1,657,000)	(2,675,000)
Changes in non-cash working capital	3,919,224	(6,288,271)
	<b>3,313,631</b>	<b>(8,284,279)</b>
Financing:		
Private placements, net of share issue costs	14,922,571	23,284,177
Exercise of warrants and options	122,400	3,491,397
Demand loan	(5,345,689)	2,110,417
Long-term debt repayments	(183,631)	(141,740)
Capital lease payments	(494,431)	-
	<b>9,021,220</b>	<b>28,744,251</b>
Investing:		
Property, plant and equipment purchases	(2,493,051)	(3,592,764)
Purchase of marketable securities	(297,655)	-
Release of restricted funds	150,000	-
Decrease (increase) in cash appropriated for exploration expenditures	530,034	(396,613)
Decrease in prepaid exploration and development expenditures	-	160,414
(Decrease) increase in exploration and development accounts payable	(1,120,523)	2,684,550
Exploration tax credits received	10,040,115	5,637,551
Expenditures on mineral interests, net of government assistance	(20,767,765)	(21,894,099)
	<b>(13,958,845)</b>	<b>(17,400,961)</b>
Change in cash and cash equivalents	(1,623,994)	3,059,011
Cash and cash equivalents, beginning of year	6,153,297	3,094,286
Cash and cash equivalents, end of year	\$ 4,529,303	\$ 6,153,297
Cash and cash equivalents consists of:		
Cash	\$ 4,514,303	\$ 6,143,297
Cash equivalents	15,000	10,000
	<b>\$ 4,529,303</b>	<b>\$ 6,153,297</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest and dividend income received	\$ 126,181	\$ 600,871
Interest paid	181,729	254,491
Common shares issue for interest payment	253,303	251,907
Broker warrants charged as financing costs	79,200	-
Stock-based compensation charged to mineral properties	255,461	506,345
Amortization of exploration assets charged to mineral properties	1,030,076	471,708
Equipment acquired under capital leases	800,233	474,677
Equipment acquired by finance arrangement	-	278,000
Income taxes paid	-	-

- See accompanying Notes to the Consolidated Financial Statements -

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Alexis Minerals Corporation (the "Company") currently has interests in mineral exploration and development properties in the province of Québec. During the fourth quarter of 2008, the Company achieved commercial production at the Lac Herbin deposit. Prior to a discovery concerning production, the Company was a development stage entity, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11. The Company is also continuing to focus on the exploration and development of its other gold and base metal projects within this region.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to its property interests in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments may be material.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year except as described in Note 3. Outlined below are those policies considered particularly significant.

#### a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its proportionate share of the accounts of the joint ventures in which the Company has an interest.

#### b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, estimates for asset retirement obligations and reclamation costs and the methods and rates of amortization and depletion. Other significant estimates made by the Company include factors affecting valuations of stock based compensation, warrants, inventory, mineral properties (including estimated reserves) and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

#### c) Foreign currency translation

Transactions and account balances originally stated in currencies other than the Canadian dollar have been translated into Canadian dollars using the temporal method of foreign currency translation as follows. Monetary assets and monetary liabilities in foreign currencies have been translated at exchange rates in effect at the balance sheet date. Revenue and expense transactions are translated at average exchange rates during the year. Exchange gains or losses from such translation practices are reflected in the consolidated statements of operations.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and investment-grade deposit certificates with original maturities of three months or less. Cash and cash equivalents are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

#### e) Investments

Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing prices at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date. The Company's investments consist of shares of a publicly listed corporation and have been classified as held-for-trading.

#### f) Inventory

Material and supplies expected to be used in production are valued at the lower of average cost and realizable value. Stock-piled ore inventory is valued at the lower of average production cost and net realizable value. Finished goods inventory which consists of gold doré and gold brick which is available for sale is valued at the lower of average production cost and net realizable value. Production costs include the cost of raw materials, direct labour, mine site overhead expenses, amortization of operating property and equipment and depletion of mineral property costs.

#### g) Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided on a straight line basis over the following number of years:

Computer equipment	3 years
Computer software	1-2 years
Office equipment	4 years
Office furniture	8 years
Field equipment	4 to 5 years
Mobile equipment	4 to 5 years
Buildings	4 to 30 years

#### h) Mineral properties and deferred expenditures

Mineral properties and deferred expenditures are carried at cost, net of government assistance and pre-production revenues, until they are brought into production, at which time they are depleted on a unit of production method based on proven and probable reserves. Government assistance is recorded when it is more likely than not to be received. If a property is subsequently determined to be significantly impaired in value, the property and related deferred costs are written down to their net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews its mineral properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. An impairment loss is recognized when the carrying amount of the mineral properties is not recoverable and exceeds its fair value. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a change in the determination of the need for and amount of any write down.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### i) Asset retirement obligations

Asset retirement obligations include the costs related to the abandonment of mineral properties, dismantling and removing tangible equipment such as milling facilities and returning the land to its original condition. The Company recognizes an asset retirement obligation ("ARO") in the period in which it is identified and a reasonable estimate of the fair value can be made. Fair value is estimated based on the present value of the estimated future cash outflows to abandon the asset, discounted at the Company's credit-adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding amount capitalized to mineral properties. The amount capitalized is charged to earnings through the depletion and depreciation of mineral properties. The ARO liability is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings. Revisions to the original estimated cost or the timing of the cash outflows may result in a change to the ARO. Actual costs incurred to settle the ARO reduce the long-term liability.

#### j) Convertible debt instruments

The Company's convertible debt instruments are segregated into their debt and equity components at the date of issue, based on the relative fair market values of these components in accordance with the substance of the contractual agreements. The debt component of the instruments is classified as a liability, and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument. The carrying value of the debt component is accreted to the original face value of the instruments, over the term of the convertible debt instrument, using the effective interest method. The value of the conversion option makes up the equity component of the instruments. The conversion option is recorded using the residual value approach. Upon conversion, any gain or loss arising from extinguishment of the debt is recorded in operations of the current period.

#### k) Revenue recognition

Revenue from the sale of gold, silver, and doré bars is recognized when persuasive evidence of a sale arrangement exists, the risks and rewards of ownership passes to the purchaser including delivery of the product, the selling price is fixed or determinable, and collectability is reasonably assured.

#### l) Flow through financing

The Company has financed a portion of its exploration activities through the issue of flow through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

#### m) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the consolidated financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

#### n) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### o) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted number of shares outstanding. Diluted earnings (loss) per share is calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from options, warrants and convertible debentures excluded from the computation of diluted earnings (loss) per share because they were anti-dilutive for the year ended December 31, 2008 were 10,186,500 (2007 – 8,979,000), 21,457,143 (2007 – 13,468,300) and 5,103,030 (2007 – 5,613,333), respectively.

#### p) Joint ventures

A portion of the Company's exploration activities are conducted jointly with others wherein the Company enters into agreements that provide for a specified percentage interest in exploration properties. Expenditures on these properties are capitalized to mineral properties. Joint venture accounting, which reflects the Company's proportionate interest in exploration properties is applied by the Company only when the parties have earned their respective interests and enter into a formal comprehensive agreement for joint ownership and exploration participation.

#### q) Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

#### r) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income.

#### s) Comprehensive income

Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the statement of operations and comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity. The Company does not currently have any OCI items or AOCI. Therefore, comprehensive loss is equal to net less for the years ended December 31, 2008 and 2007.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 3. ACCOUNTING CHANGES

#### a) Changes in accounting policies

The following accounting policy changes were adopted effective January 1, 2008:

##### (i) Inventory

The Company adopted CICA Handbook Section 3031, "Inventories", which replaces Section 3030, "Inventories", and requires inventory to be measured at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. Further, it expands the disclosure requirements to increase transparency and requires the reversal of previous write-downs to net realizable value when the economic circumstances have changed to support an increased inventory value. The Company has included disclosures recommended by the new Handbook section in Note 21 to these consolidated financial statements.

##### (ii) Capital disclosures

CICA Handbook Section 1535 specifies 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 included disclosures recommended by the new Handbook section in Note 17 to these consolidated financial statements.

##### (iii) Financial instruments – disclosures and presentation

CICA Handbook Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", 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 the entity manages those risks. The Company has included disclosures recommended by the new Handbook Section in Note 18 to these consolidated financial statements.

#### b) Future accounting changes

##### (i) Goodwill and Intangible Assets

The CICA issued Handbook Section 3064 "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Asset standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. This standard is effective for years beginning on or after January 1, 2009. The Company is currently in the process of evaluating the impact of this standard.

##### (ii) International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Alexis will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Company is creating an implementation team, which will consist of internal resources and external consultants. A changeover plan is being established to convert to the new standards within the allotted timeline.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 4. PROPERTY, PLANT AND EQUIPMENT

	2008		
	Cost (\$)	Accumulated Amortization (\$)	Net (\$)
Computer equipment	103,775	55,916	47,859
Computer software	209,945	208,859	1,086
Office equipment	24,384	18,202	6,182
Office furniture	34,474	11,179	23,295
Field equipment	2,244,123	441,875	1,802,248
Mobile equipment	4,412,710	1,162,763	3,249,947
Buildings	1,337,136	130,008	1,207,128
Mill	1,500,000	-	1,500,000
	<u>9,866,547</u>	<u>2,028,802</u>	<u>7,837,745</u>

	2007		
	Cost (\$)	Accumulated Amortization (\$)	Net (\$)
Computer equipment	115,514	39,969	75,545
Computer software	203,434	114,328	89,106
Office equipment	114,244	14,554	99,690
Office furniture	15,584	7,662	7,922
Field equipment	827,575	96,058	731,517
Mobile equipment	3,227,830	340,944	2,886,886
Buildings	569,082	24,940	544,142
Mill	1,500,000	-	1,500,000
	<u>6,573,263</u>	<u>638,455</u>	<u>5,934,808</u>

Included in mobile equipment is equipment under capital lease with a net book value of approximately \$1,137,000 (2007 - \$475,000).

Included in property, plant and equipment is a mill that is currently being under care and maintenance. Accordingly, no amortization expense has been recorded.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 5. MINERAL PROPERTIES AND DEFERRED EXPENDITURES

Description	PRODUCING PROPERTY	NON-PRODUCING PROPERTIES					TOTAL (\$)
	Lac Herbin (\$)	Rouyn (\$)	Lac Pelletier (\$)	VMS (\$)	Aurbel (\$)	Other (\$)	
Balance, December 31, 2007	16,471,686	12,160,139	2,462,045	4,500,462	3,243,314	204,176	39,041,822
Acquisition and property maintenance	-	25,379	98,813	1,001,046	41,972	-	1,167,210
Preproduction costs	8,804,087	-	-	-	-	-	8,804,087
Development costs	6,607,913	-	-	-	-	-	6,607,913
Exploration costs	1,654,082	1,349,515	1,588,235	3,455,441	550,240	(23,376)	8,574,137
Amortization	890,289	13,696	85,202	36,344	4,545	-	1,030,076
	34,428,057	13,548,729	4,234,295	8,993,293	3,840,071	180,800	65,225,245
Less:							
Net gold sales from bulk sample	(4,301,805)	-	-	-	-	-	(4,301,805)
Government assistance	(2,491,934)	(250,704)	(383,007)	(842,001)	(116,008)	-	(4,083,654)
Depletion of deferred exploration and development costs	(1,004,117)	-	-	-	-	-	(1,004,117)
Write off of exploration costs	-	-	-	-	-	(180,800)	(180,800)
Balance, December 31, 2008	26,630,201	13,298,025	3,851,288	8,151,292	3,724,063	-	55,654,869

Description	NON-PRODUCING PROPERTIES						TOTAL (\$)
	Lac Herbin (\$)	Rouyn (\$)	Lac Pelletier (\$)	VMS (\$)	Aurbel (\$)	Other (\$)	
Balance, December 31, 2006	10,265,534	10,876,872	1,001,730	2,379,605	2,313,299	192,583	27,029,623
Acquisition and property Maintenance	16,216	80,743	57,866	25,860	45,511	6,137	232,333
Development costs	14,612,748	-	-	-	-	-	14,612,748
Exploration costs	3,530,108	3,128,626	1,381,477	3,321,586	743,176	5,456	12,110,429
Amortization	202,666	1,395	20,972	47,820	198,855	-	471,708
	28,627,272	14,087,636	2,462,045	5,774,871	3,300,841	204,176	54,456,841
Less:							
Net gold sales from bulk sample	(4,589,857)	-	-	-	-	-	(4,589,857)
Government assistance	(7,565,729)	(1,927,497)	-	(1,274,409)	(57,527)	-	(10,825,162)
Balance, December 31, 2007	16,471,686	12,160,139	2,462,045	4,500,462	3,243,314	204,176	39,041,822

The Company has accrued approximately \$4,300,000 in government assistance related to eligible expenditures in the province of Québec for the year ended December 31, 2008. The assistance has been applied to the properties to which it pertains. The Company receives this assistance in the form of refundable tax credits from the Québec Provincial Government and mining duties returns from Québec Ministry of Natural Resources.

During the year ended December 31, 2008, the Company also filed for approximately \$10,800,000 of government assistance related to eligible expenditures in the province of Québec for the year ended December 31, 2007. Of this amount, the Company has received \$8,900,000 as of December 31, 2008 leaving a balance of \$1,900,000 accrued. The Company also received \$1,100,000 of assistance related to the 2006 year.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 5. MINERAL PROPERTIES AND DEFERRED EXPENDITURES (continued)

#### Aurbel Property (Including Lac Herbin), Québec

The Company holds a 100% interest in the Aurbel Property (including Lac Herbin), subject to a 4.5% NSR. A corporation that is controlled by a director of the Company holds 2% of the NSR. See Note 15.

On October 1, 2008, the company declared the commencement of commercial production at Lac Herbin.

During the fourth quarter of 2008, inventory generated during the pre-production phase and previously carried at its approximate net realizable value was sold for gross proceeds of approximately \$5,880,000. This sale has been recorded as revenue on the statement of operations with a corresponding amount being recorded as a mine operating expense.

#### Rouyn Noranda Properties, Québec

Pursuant to the June 15, 2004 binding letter of intent with Falconbridge Ltd., now referred to as Xstrata Copper ("Xstrata"), a business unit of Falconbridge Ltd., the Company has a 50% interest in all of Xstrata's properties in the prospective Rouyn-Noranda Base Metal and Gold Camp. See Note 20.

Certain claims that form part of this property are subject to NSR royalties that range from 0.5% to 2% of net proceeds or production royalties that range from 7.5% to 20%.

#### Lac Pelletier Property, Rouyn-Noranda, Québec

Pursuant to the September 2005 option agreement within Thundermin Resources Inc. ("Thundermin"), the Company can acquire a 100% interest in the Lac Pelletier Property, subject to a 3.5% NSR royalty and \$1 charge per tonne milled, by spending \$1,000,000 in exploration expenditures by September 1, 2008. During 2007, the Company met their expenditure obligations.

Pursuant to the agreement, the Company is also required to make a production decision by September 1, 2008 and reach commercial production by September 1, 2009. These dates can both be extended by one year by making a cash payment of \$75,000 to Thundermin. If the Company fails to reach commercial production by the specified date, the Company will be required to make annual advance royalty payments of \$75,000. The Company extended their decision deadline by making the required \$75,000 payment to Thundermin.

#### VMS Properties, Québec

Pursuant to the March 17, 2004 option agreement with AUR Resources Inc. ("AUR"), the Company met its exploration expenditure commitments, and during 2008 made a final \$1,000,000 cash payment to AUR in order to vest into a 100% interest in the properties under the agreement. AUR will subsequently retain between a 2% and a 2.5% net smelter return royalty on the properties depending on pre-existing underlying royalties. Certain claims forming part of this property are subject to NSR royalties of 1% to 2.5%, net profits royalties of 5% or net proceeds of production royalties of 10% or 25 cents charge per ton milled. Certain of the properties were held under previously existing agreements. The other party to these agreements has opted to no longer fund the properties and consequently their interest will decrease and the Company's will increase with further exploration on these properties.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 6. SECURED DEMAND LOAN

During 2007, the Company signed short-term demand loan agreements with two major Canadian Chartered banks for non-revolving demand loans of up to an aggregate of \$5,900,000 at an interest rate of prime plus 0.75%. These loans were secured against and repayable upon receipt of anticipated 2007 refundable Québec government assistance of approximately \$8,900,000. A loan guarantee was provided by Investissement Québec for a fee of 3%, or \$177,000. In accordance with the loan guarantee the Company was required to deposit \$150,000 in a GIC. As at December 31, 2007, a total of \$5,345,689 had been advanced to the Company with respect to these loan agreements.

During 2008, the Company received the \$8,900,000 in government assistance, and these demand loans were repaid in full. The \$150,000 GIC was also redeemed upon repayment. Total interest costs for the term of this loan amounted to \$180,753.

### 7. CAPITAL LEASE OBLIGATIONS

The Company has entered into capital leasing arrangements for mobile equipment. These leasing arrangements are for terms of two to four years and at interest rates between 4.12% and 7.95%.

As at December 31, 2008, the future minimum lease payments under the capital lease arrangements were:

	2009	\$	551,804
	2010		293,115
	2011		46,598
	2012		18,140
			<u>909,657</u>
Less: Amounts representing interest			<u>(62,962)</u>
			846,695
Less: Current portion			<u>508,699</u>
Long-term portion		\$	<u><u>337,996</u></u>

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 8. LONG-TERM DEBT

In 2007, the Company entered into financing contracts to purchase equipment. The financing contracts have interest rates ranging from 7.25% to 7.75% and are repayable over two to four years. Certain of the contracts have been provided by the vendors of the equipment.

In July 2006, the Company purchased a building, being the Val d'Or office, from Aur. The Company made a payment of \$100,000 towards the purchase price, with the balance payable in 45 monthly instalments of \$10,000 and recorded as a non-interest bearing long-term debt, discounted at a rate of 6.28%. Accretion expense related to this loan for the year ended December 31, 2008 totalled \$13,333 (2007 - \$13,333).

Principal repayments are as follows:

	Building \$	Equipment \$	Total \$
2009	106,667	59,039	165,706
2010	35,555	63,781	99,336
2011	-	51,175	51,175
Total long-term debt	142,222	173,995	316,217
Less: current portion	106,667	59,039	165,706
Long-term portion	35,555	114,956	150,511

### 9. CONVERTIBLE DEBENTURE

During 2006, the Company completed a private placement debenture financing with Industrial Alliance Securities Inc. ("Industrial Alliance") raising \$4,210,000 in gross proceeds. Pursuant to the terms of the private placement, the Company issued Units comprised of \$1,000 principal convertible debentures (the "Debentures") maturing April 28, 2010 and 150 common share purchase warrants (the "Warrants"). The \$1,000 face value Debentures are unsecured and subordinated obligations of the Company, have a coupon rate of 6.0% and are convertible at the option of the holder, any time after 12 months from the date of closing, into common shares of the Company at an exercise price of \$0.75 for the second year, \$0.825 for the third year and \$0.9075 for the fourth year (the "Conversion Prices"). Interest on the loan is payable in cash or in common shares of the Company at the option of the Company based on a price equal to 90% of the average closing price of the common shares of the Company on the TSX Exchange for a period of 20 consecutive trading days ending 5 days before the payment date. The Warrants, at an exercise price of \$0.75 expired on May 11, 2008. The Company will have the right to redeem the Debentures in their fourth year provided that the shares of the Company are trading in excess of \$1.13 over the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given. The redemption can be satisfied through the issuance of common shares valued at 90% of the 20 day average trading price ending five days prior to the date of redemption.

The Debentures are classified as a liability, with the exception of the portions relating to the conversion features and the attached Warrants, resulting in the carrying value of the Debentures being less than its face value. The discount is being accreted over the term of the Debentures, utilizing the effective interest rate method at a 15% discount rate. For the year ended December 31, 2008, accretion of the discount totalled \$533,269 (2007 - \$495,472).

Financing charges associated with the Debentures were prorated between the debt and equity components of the Debentures. Those allocated to the debt portion of the Debentures were deferred and are being accreted over the term of the Debentures. The financing costs relating to the equity portion have been recorded as a cost of issue against the value of the equity portion of the Debentures. For the year ended December 31, 2008, \$83,101 (2007 - \$82,409) in deferred financing charges were accreted to operations.

During the year ended December 31, 2008, the Company issued 577,777 (2007 - 291,522) common shares of the Company in lieu of the 6% cash interest payment due to the debenture holders. The shares were valued at a weighted average value of \$0.4384 per share for a total amount of \$253,303 (2007 - \$251,907).

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 10. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations ("ARO") are based on management's estimates of costs to abandon and reclaim mineral properties and facilities as well as an estimate of the future timing of the costs to be incurred.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the ARO associated with the retirement of the Company's exploration properties:

	2008	2007
	\$	\$
Balance, beginning of year	479,000	423,000
Liabilities incurred	-	-
Accretion expense	62,000	56,000
Balance, end of year	541,000	479,000

The Company has estimated its total asset retirement obligations to be \$541,000 at December 31, 2008 based on a total future liability of approximately \$2,650,000 and a credit adjusted risk-free rate of 13%. Reclamation is expected to occur in the year 2021.

### 11. SHARE CAPITAL

#### (a) Authorized

Unlimited number of common shares without par value

#### (b) Issued

Common Shares issued	Number of Shares	Stated Value
Balance, December 31, 2006	70,710,626	\$ 25,898,218
Private placement (i)	25,000,000	25,000,000
Warrants valuation	-	(4,912,500)
Exercise of warrants	3,009,616	2,753,372
Warrant exercise - valuation reallocation	-	1,167,993
Exercise of stock options	1,371,000	738,025
Stock option exercise - valuation reallocation	-	531,236
Shares issued for payment of interest (Note 9)	291,522	251,907
Flow-through share tax effect	-	(1,315,000)
Cost of issue	-	(1,715,823)
Tax effect of cost of issue	-	511,000
Balance, December 31, 2007	100,382,764	\$ 48,908,428
Private placements (ii) and (iii)	26,714,286	16,700,000
Warrants valuation	-	(1,688,143)
Exercise of stock options	410,000	122,400
Stock option exercise - valuation reallocation	-	91,510
Shares issued for payment of interest (Note 9)	577,777	253,303
Cost of issue	-	(1,856,629)
Tax effect of cost of issue	-	604,000
<b>Balance, December 31, 2008</b>	<b>128,084,827</b>	<b>\$ 63,134,869</b>

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 11. SHARE CAPITAL (continued)

(i) In February 2007, the Company completed a brokered private placement with the issuance of 25,000,000 units of the Company at \$1.00 per unit for gross proceeds of \$25,000,000. Each unit consists of one common share of the Company and one half of one common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one common share of the Company at a price of \$1.35 until February 13, 2009. In connection with the private placement, the underwriters received a cash commission equal to 6% of the gross proceeds.

The fair value of the warrants, an amount of \$4,912,500, was estimated on the date of grant using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 85%, risk-free interest rate of 4.1% and an expected life of 2 years.

(ii) In March 2008, the Company completed a brokered private placement with the issuance of 16,714,286 units of the Company at \$0.70 per unit for gross proceeds of \$11,700,000. Each unit consists of one common share of the Company and one half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$1.00 until March 18, 2010. In connection with the private placement, the underwriters received a cash commission equal to 6% of the gross proceeds.

The fair value of the warrants, an amount of \$1,688,143, was estimated on the date of grant using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 70%, risk-free interest rate of 2.7% and an expected life of 2 years.

(iii) In October 2008, the Company completed a brokered private placement with the issuance of 10,000,000 flow through common shares of the Company at \$0.50 per share for gross proceeds of \$5,000,000. In connection with the private placement, the underwriters received a cash commission equal to 6% of the gross proceeds as well as 600,000 broker warrants issued at an exercise price of \$0.75 per common share with an expiry date of October 15, 2010. The fair value of these broker warrants was estimated on the date of grant using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 68%, risk-free interest rate of 2.25% and an expected life of 2 years. A value of \$79,200 was recorded as a non-cash issue cost.

### 12. WARRANTS

Summary of warrant activity

	2008		2007	
	Number of warrants	Weighted Average Exercise price	Number of warrants	Weighted Average Exercise price
Balance, beginning of year	13,468,300	\$1.31	5,809,241	\$0.91
Granted, private placements	8,957,143	0.98	12,500,000	1.35
Exercised	-	-	(3,009,616)	0.91
Expired	(968,300)	0.75	(1,831,325)	1.00
<b>Balance, end of year</b>	<b>21,457,143</b>	<b>\$1.20</b>	<b>13,468,300</b>	<b>\$1.31</b>

Summary of warrants outstanding at December 31, 2008:

Number of warrants	Exercise Price \$	Grant date fair value of warrants \$	Date of expiry
12,500,000	1.35	4,912,500	February 13, 2009*
8,357,143	1.00	1,688,143	March 18, 2010
600,000	0.50	79,200	October 15, 2010
<b>21,457,143</b>		<b>6,679,843</b>	

\* Expired unexercised on February 13, 2009.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 13. STOCK-BASED COMPENSATION

The Shareholders of the Company approved the Company's existing stock option plan, "the Plan", to be administered by the Directors of the Company. Under the Plan, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. Options granted under the Plan will be for a term not to exceed 5 years. The options currently granted under the plan vest immediately pending any regulatory hold period. The plan provides that, it is solely within the discretion of the Board to determine who should receive stock options and in what amounts. In no case (calculated at the time of grant) shall the plan result in:

- The number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- The aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- The number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;
- The aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

Summary of stock option activity

	2008		2007	
	Number of options	Weighted Average Exercise price \$	Number of options	Weighted Average Exercise price \$
Balance, beginning of year	8,979,000	0.69	6,350,000	0.59
Granted	2,446,500	0.50	4,185,000	0.80
Exercised	(410,000)	0.30	(1,371,000)	0.54
Expired	(575,000)	0.82	-	-
Forfeited	(254,000)	0.79	(185,000)	0.56
<b>Balance, end of year</b>	<b>10,186,500</b>	<b>0.65</b>	<b>8,979,000</b>	<b>0.69</b>

As at December 31, 2008, the following stock options were outstanding:

Date of Expiry	No. of Options Exercisable	No. Of Options Outstanding	Exercise Price (\$)	Grant date Fair Value of Options (\$)
16-Mar-09	17,500	17,500	0.60	8,050
22-Apr-09	50,000	50,000	0.55	21,000
28-May-09	100,000	100,000	0.45	34,400
14-Jul-09	1,320,000	1,320,000	0.50	388,080
08-Nov-09	100,000	100,000	0.40	29,600
24-Feb-10	100,000	100,000	0.47	35,700
20-Apr-10	1,550,000	1,550,000	0.78	917,600
01-Feb-11	485,000	485,000	0.42	153,260
01-Nov-11	100,000	100,000	0.52	33,900
08-Dec-11	120,000	120,000	0.50	39,120
05-Mar-12	25,000	25,000	0.91	15,075
09-Apr-12	100,000	100,000	1.14	75,800
27-Aug-12	3,130,000	3,130,000	0.79	1,755,930
17-Sep-12	300,000	400,000	0.84	228,023
11-Oct-12	10,000	10,000	0.94	6,990
19-Oct-12	155,000	155,000	0.91	104,780
01-Nov-12	2,500	2,500	0.89	1,650
30-Jan-13	100,000	100,000	0.88	61,100
05-Aug-13	2,296,500	2,296,500	0.49	739,473
06-Dec-13	25,000	25,000	0.21	3,275
	<b>10,086,500</b>	<b>10,186,500</b>		

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 13. STOCK-BASED COMPENSATION (continued)

During the year ended December 31, 2008, 2,446,500 stock options (2007: 4,185,000) were granted to directors, officers, employees and consultants of the Company with a weighted-average grant date fair value of \$0.33 per option (2007: \$0.57). All options granted in 2008 vested immediately. Of the 4,185,000 options granted in 2007, 400,000 did not vest immediately. These options vest 1/8 every 3 months from March 5, 2007 until June 17, 2009. Stock-based compensation expense of \$621,380 (2007: \$1,741,970) relating to these options was recorded against professional, consulting and management fees, while \$15,396 (2007: \$Nil) was recorded against mine operating costs. As well, \$255,461 (2007: \$506,345) was recorded to mineral properties and deferred exploration expenditures. The fair value of these options was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions, quoted at their weighted averages:

	<u>2008</u>	<u>2007</u>
Expected dividend yield	0%	0%
Expected volatility	80.16%	87.72%
Risk-free interest rate	3.20%	4.27%
Expected life	5 years	5 years

### 14. CONTRIBUTED SURPLUS

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 6,936,037	\$ 4,541,368
Stock options granted and/or vested during the year		
Directors, officers and employees	831,057	2,040,745
Consultants	61,180	207,570
Exercise of stock options, reallocation of valuation	(91,510)	(531,236)
Expiry of warrants and broker warrants, reallocation of valuation	225,613	677,590
Balance, end of year	\$ 7,962,377	\$ 6,936,037

### 15. RELATED PARTY TRANSACTIONS

The Company was charged \$60,000 during the year ended December 31, 2008 (2007: \$66,300) by companies controlled by directors of the Company for administration and engineering services.

An amount of \$19,450 is payable to directors and officers or companies controlled by directors and officers of the Company at December 31, 2008 (2007: \$150,259).

During the year ended December 31, 2008, 1,800,000 options (2007: 3,175,000) were granted to directors and officers of the Company at a weighted average exercise price of \$0.51 per share (2007: \$0.81) expiring five years from the date of grant. Also, during the year, directors and officers exercised 300,000 stock options (2007: nil) at an exercise price of \$0.255 for gross proceeds of \$76,500.

The Company shares its premises with other corporations that have common directors and officers, and the Company reimburses the related corporations for their proportional share of the expenses. Included in accounts payable and accrued liabilities at December 31, 2008 is \$nil (2007: \$13,049) owing to such corporations. The Company has advanced \$66,428 to such corporations to cover shared expenses (2007: \$nil). As well, the Company is owed \$2,900 from such corporations for shared expenses (2007: \$3,901).

A royalty of US\$106,124 (CDN\$106,591) was paid during the first quarter of 2008 to a corporation controlled by a director of the Company, all of which had been accrued at December 31, 2007 (Note 5). A further US\$87,000 (CDN\$100,000) was paid to the same corporation for royalties earned during the third quarter of the year. An additional US\$176,000 (CDN\$214,000) was accrued at December 31, 2008 for royalties earned during the fourth quarter of 2008 owed to this corporation.

During 2008, a director of the Company subscribed for 100,000 (2007 - 100,000) common shares of the Company for gross proceeds of \$70,000 (2007 - \$100,000) as part of the private placements described in Note 11.

All of the above transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. The amounts owing to and from the related parties are unsecured, non-interest bearing with no fixed terms of repayment.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 16. INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 31% (December 31, 2007 - 32%) were:

	2008 \$	2007 \$
Loss before income taxes	(3,651,923)	(4,429,657)
Expected income tax recovery at statutory rates	(1,182,000)	(1,417,000)
Adjustments resulting from:		
Change in tax rates	-	(796,000)
Difference in tax rates	-	94,000
Stock-based compensation	287,000	675,000
Exploration allowance	(974,000)	(595,000)
(Applied) expired non-capital losses	-	(79,000)
Non-deductible amounts for tax purposes	118,000	78,000
Other	94,000	(635,000)
Future income tax recovery	(1,657,000)	(2,675,000)

b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2008 and December 31, 2007 are as follows:

	2008 \$	2007 \$
Future income tax assets (liabilities)		
Non-capital losses	-	452,000
Resource properties	(390,000)	(2,897,000)
Property, plant and equipment	204,000	245,000
Share issue costs	848,000	601,000
	662,000	(1,599,000)

c) The Company has approximately \$55,000,000 of Canadian development and exploration expenditures as at December 31, 2008 which under certain circumstances can be used to reduce the taxable income of future years.

### 17. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, warrants, options and convertible debentures. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has entered into production and has begun to generate cash flows to support the ongoing and longer term strategy focused on regional exploration. However, the Company may continue to rely on capital markets to support continued growth. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 18. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### Credit risk

The Company's credit risk is primarily attributable to cash equivalents, amounts receivable and tax credits receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates and bankers acceptances, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable and tax credits receivable consist of goods and services tax due from the Federal Government of Canada, tax credits due from the Provincial Government of Québec, and receivables from related and unrelated companies. The Company currently transacts with highly rated counterparties for the sale of gold. Management believes that the credit risk concentration with respect to these financial instruments is remote.

#### Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company had a cash and cash equivalents balance of \$4,529,303 (December 31, 2007 - \$6,153,297) to settle current liabilities of \$5,652,388 (December 31, 2007 - \$11,793,419). Approximately \$4,900,000 of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

#### Market risk

##### (a) Interest rate risk

The Company has cash balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company carries a long-term convertible debenture on which interest is payable semi-annually at a fixed rate of 6% per annum. Management believes that interest rate risk is remote as investments have maturities of three months or less and the Company currently does not carry interest bearing debt at floating rates.

##### (b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. All gold sales revenues are denominated in US dollars. The Company is exposed to currency risk with fluctuations in the Canadian dollar relative to the US dollar. The Company currently does not use derivatives to mitigate its foreign currency risk.

##### (c) Price risk

The Company is exposed to price risk with respect to commodity prices, specifically gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future gold mining operations will be significantly affected by changes in the market prices for gold. Gold prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for gold, the level of interest rates, the rate of inflation, investment decisions by large holders of gold including governmental reserves and stability of exchange rates can all cause significant fluctuations in gold prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 18. FINANCIAL RISK FACTORS (continued)

#### Financial instruments

The Company has designated its cash equivalents and investments as held-for-trading, measured at fair value. Amounts receivable and tax credits receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Liability component of convertible debentures, capital lease obligations and long-term debt is classified as "other financial liabilities" and measured at amortized cost.

The carrying value of cash equivalents, amounts receivable, tax credits receivable and accounts payable and accrued liabilities reflected in the consolidated balance sheet approximate fair value because of the limited term of these instruments.

The carrying values of the liability component of convertible debentures, capital lease obligation and long-term debt approximate their fair values as current interest rates have not changed significantly.

#### Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the year:

- The Company does not hold interest bearing debt at interest rates subject to market fluctuations to give rise to interest rate risk.
- Based on the gold brick and doré inventory held by the Company as at December 31, 2008, 10% fluctuations in the exchange rate from US\$ to CDN\$ will generate increases or decreases in value of approximately \$30,000.
- Based on the gold brick and doré inventory held by the Company at December 31, 2008, an increase or decrease in the market price of gold of US\$100 per ounce would generate a respective increase or decrease in value of approximately \$30,000.
- The Company commenced commercial production during the fourth quarter of 2008. The Company has not currently hedged its future gold sales.

### 19. COMMITMENTS AND CONTINGENCIES

(a) The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$3.5 million be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under the agreements are approximately \$800,000.

(b) The Company is committed to minimum amounts under long-term capital lease agreements for equipment, which expire in September 2011. Minimum commitments remaining under these leases were approximately \$910,000, including imputed interest of approximately \$63,000, over the following years:

2009	\$	552,000
2010		293,000
2011		47,000
2012		18,000
		<hr/>
	\$	910,000

# ALEXIS MINERALS CORPORATION

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 19. COMMITMENTS AND CONTINGENCIES (continued)

(c) The Company has been named as a defendant in a legal action relating to the cancellation of 100,000 options held by a former consultant. These options expired three months after the termination of the contract pursuant to the terms of the stock option plan of the Company. The former consultant is claiming \$750,000 in damages for breach of agreement. Management believes that the claim is without merit and plans to vigorously defend itself.

(d) Pursuant to the issuance of 10,000,000 flow-through shares in October 2008, the Company renounced \$5,000,000 on qualified exploration expenditures with an effective date of December 31, 2008 in February 2009. The effect of this renunciation will be recorded in February 2009. As of December 31, 2008, the Company has expended approximately \$1,400,000 related to these flow through funds and is required to expend the balance of approximately \$3,600,000 by December 31, 2009. The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

### 20. INTEREST IN JOINT VENTURE

The Company vested into a 50% joint venture interest in the Rouyn Properties during the year ended December 31, 2008. Xstrata is the operator of this joint venture. Commencing April 2008, the Company contributes funding for 50% of the total expenditures of the joint venture. The Company's proportionate share of the assets, liabilities and cash flows of this joint venture included in these consolidated financial statements are as follows:

	<u>2008</u>	<u>2007</u>
	\$	\$
Current assets	-	-
Mineral properties and deferred exploration expenditures	709,813	-
Current liabilities	88,517	-
Revenues	-	-
Expenses	-	-
Cash flows from operating activities	-	-
Cash flows from investing activities	621,296	-

### 21. INVENTORY

	<u>2008</u>	<u>2007</u>
	\$	\$
Material and supplies	338,268	-
Stockpiled ore	1,651,991	-
Gold brick or doré bars	263,999	4,794,746
	<u>2,254,258</u>	<u>4,794,746</u>

All inventory is carried at the lower of cost and net realizable value. As at December 31, 2008 and 2007, all inventory is recorded at cost.