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**MALBEX RESOURCES INC.**  
(An Exploration Stage Company)

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED DECEMBER 31, 2009**

**(Expressed In Canadian Dollars Except As Otherwise Indicated)**

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## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim consolidated financial statements of Malbex Resources Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the September 30, 2009 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors and approves the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

### **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**MALBEX RESOURCES INC.**  
**(An Exploration Stage Company)**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
*(Expressed In Canadian Dollars Except As Otherwise Indicated)*  
*(Unaudited)*

	December 31 2009	September 30 2009
<b>ASSETS</b>		
Current		
Cash	\$ 6,810,720	\$ 557,118
Receivables	439,542	42,548
Prepaid expenses	215,006	36,894
Deferred reverse takeover costs	-	349,082
Restricted cash	-	7,798,061
	<b>7,465,268</b>	8,783,703
Equipment (Note 7)	311,240	142,536
Deferred mineral property expenditures (Note 6)	4,224,371	2,160,293
Mineral property acquisitions (Note 6)	66,573	66,573
Restricted cash (Note 6)	2,369,004	2,496,512
	<b>6,971,188</b>	4,865,914
	<b>\$ 14,436,456</b>	\$ 13,649,617
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 775,700	\$ 605,526
Other current liabilities	-	7,798,061
	<b>775,700</b>	8,403,587
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (Note 8)	12,039,095	3,469,580
Subscription receipts	-	1,978,220
Warrants (Note 10(a))	2,276,425	607,640
Broker warrants (Note 10(b))	334,378	334,378
Contributed surplus	3,068,075	930,975
Accumulated Deficit	(4,057,217)	(2,074,763)
	<b>13,660,756</b>	5,246,030
	<b>\$ 14,436,456</b>	\$ 13,649,617

**Nature of Operations and Going Concern (Note 1)**

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

**MALBEX RESOURCES INC.****(An Exploration Stage Company)****INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS***(Expressed In Canadian Dollars Except As Otherwise Indicated)**(Unaudited)*

	<b>Three Months Ended December 31</b>		<b>Cumulative From Inception on April 24, 2008</b>
	<b>2009</b>	<b>2008</b>	
<b>EXPENSES</b>			
Stock-based compensation (Note 9)	\$ 1,505,000	\$ -	\$ 2,342,875
Professional fees	90,320	247,398	770,292
Corporate, general and administrative	320,889	106,333	780,107
Amortization	6,712	-	45,214
	<b>1,922,921</b>	<b>353,731</b>	<b>3,938,488</b>
Less: Interest income	(3,454)	(1,384)	(12,721)
Foreign exchange loss (gain)	62,987	(372,567)	131,450
<b>Net (Loss) Income and Comprehensive (Loss) Income</b>	<b>\$ (1,982,454)</b>	<b>\$ 20,220</b>	<b>\$ (4,057,217)</b>
<b>Deficit, beginning of period</b>	<b>(2,074,763)</b>	<b>(190,364)</b>	<b>-</b>
<b>Deficit, end of period</b>	<b>\$ (4,057,217)</b>	<b>\$ (170,144)</b>	<b>\$ (4,057,217)</b>
<b>Basic and diluted (loss) income per share</b>	<b>\$ (0.04)</b>	<b>\$ 0.00</b>	
<b>Weighted average number of shares outstanding</b>	<b>55,259,337</b>	<b>40,830,134</b>	

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**MALBEX RESOURCES INC.****(An Exploration Stage Company)****INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY***(Expressed In Canadian Dollars Except As Otherwise Indicated)**(Unaudited)*

<b>Three months ended December 31, 2008</b>	<b>Capital Stock</b>	<b>Subscription Receipts</b>	<b>Warrants</b>	<b>Broker Warrants</b>	<b>Contributed Surplus</b>	<b>Accumulated Deficit</b>	<b>Total</b>
Balance, October 1, 2008	\$ 3,043,251	\$ -	\$ -	\$ -	\$ -	\$ (190,364)	\$ 2,852,887
Shares subscribed on royalty conversion	315,000	-	-	-	-	-	315,000
Net income for the period	-	-	-	-	-	20,220	20,220
<b>Balance, December 31, 2008</b>	<b>\$ 3,358,251</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (170,144)</b>	<b>\$ 3,188,107</b>

<b>Three months ended December 31, 2009</b>	<b>Capital Stock</b>	<b>Subscription Receipts</b>	<b>Warrants</b>	<b>Broker Warrants</b>	<b>Contributed Surplus</b>	<b>Accumulated Deficit</b>	<b>Total</b>
Balance, October 1, 2009	\$ 3,469,580	\$ 1,978,220	\$ 607,640	\$ 334,378	\$ 930,975	\$ (2,074,763)	\$ 5,246,030
Conversion of subscription receipts	10,637,500	(2,839,439)	-	-	-	-	7,798,061
Issuance of warrants - valuation	(1,668,785)	-	1,668,785	-	-	-	-
Cost of issue - cash	(861,219)	861,219	-	-	-	-	-
Net Arapaho assets acquired, net of costs	424,519	-	-	-	-	-	424,519
Exercise of stock options	37,500	-	-	-	-	-	37,500
Stock-based compensation	-	-	-	-	2,137,100	-	2,137,100
Net loss for the period	-	-	-	-	-	(1,982,454)	(1,982,454)
<b>Balance, December 31, 2009</b>	<b>\$ 12,039,095</b>	<b>\$ -</b>	<b>\$ 2,276,425</b>	<b>\$ 334,378</b>	<b>\$ 3,068,075</b>	<b>\$ (4,057,217)</b>	<b>\$ 13,660,756</b>

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**MALBEX RESOURCES INC.**  
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**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed In Canadian Dollars Except As Otherwise Indicated)*  
*(Unaudited)*

	<b>Three Months Ended</b>		Cumulative From
	<b>December 31</b>		Inception on
	<b>2009</b>	2008	April 24, 2008
<b>CASH (USED IN) PROVIDED BY:</b>			
<b>OPERATING ACTIVITIES</b>			
Net (loss) income for the period	\$ (1,982,454)	\$ 20,220	\$ (4,057,217)
Amortization	6,712	-	45,214
Unrealized foreign exchange loss	49,953	-	118,416
Stock-based compensation	1,505,000	-	2,342,875
Net change in non-cash working capital:			
Receivables	(396,994)	(2,416)	(439,542)
Prepaid expenses	(178,112)	(12,310)	(215,006)
Accounts payable and accrued liabilities	170,174	148,527	770,115
	<b>(825,721)</b>	154,021	(1,435,145)
<b>INVESTING ACTIVITIES</b>			
Shares purchased - Malbex San Juan	-	(4,000)	(4,000)
Mineral property acquisitions	-	-	(66,573)
Mineral property expenditures	(1,416,723)	(280,538)	(2,996,997)
Acquisition of equipment	(190,671)	-	(371,709)
	<b>(1,607,394)</b>	(284,538)	(3,439,279)
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares, net of costs	37,500	-	14,120,379
Net monetary assets acquired from reverse takeover (Note 5 )	773,601	-	424,519
Increase (decrease) Restricted cash (Note 5)	7,875,616	(500,764)	(2,749,403)
	<b>8,686,717</b>	(500,764)	11,795,495
<b>NET CHANGE IN CASH</b>	<b>6,253,602</b>	(631,281)	6,921,071
Foreign exchange effect	-	-	(110,351)
<b>CASH, BEGINNING OF PERIOD</b>	<b>557,118</b>	664,931	-
<b>CASH, END OF PERIOD</b>	<b>\$ 6,810,720</b>	\$ 33,650	\$ 6,810,720

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

**MALBEX RESOURCES INC.**  
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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Malbex Resources Inc. (the "Company" or "Malbex") was originally incorporated on April 7, 1998 under the laws of British Columbia and operated as Arapaho Capital Corp. ("Arapaho") until December 8, 2009. Effective December 8, 2009, Arapaho operates on a continuing basis under the laws of Ontario and has operated since that date as Malbex Resources Inc.

The Company is a precious metals exploration company with assets in San Juan, Argentina. As a result of the Company currently having only exploration options for properties, the Company is considered to be an exploration stage company, as defined by Accounting Guideline 11 of the Canadian Institute of Chartered Accountants' Handbook.

The Company has four wholly-owned subsidiaries: Malbex Nominee Inc., Malbex Cooperatief U.A., Malbex B.V. and Malbex San Juan S.A. Malbex San Juan S.A. is incorporated under the laws of Argentina and holds the interest in, and administers activity on, the Company's properties.

The Company is in the process of determining whether the mineral properties on which it holds exploration options contain mineral reserves that are economically recoverable. The recoverability of amounts shown for deferred exploration costs and acquisition costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition of the mineral properties.

These unaudited interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP") which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2009, the Company had not earned operating revenues, reported an accumulated deficit of \$4,057,217 and had working capital of \$6,689,568. In order to keep its claims in good standing, the Company is required to make monthly payments of USD\$11,400 (See Note 6). These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and, accordingly, the use of accounting principles applicable to a going concern. The Company's ability to continue as a going concern is dependent upon its obtaining additional financing and eventually achieving profitable production in the future. The Company is examining various financing alternatives to raise additional capital. Nevertheless, there can be no assurance that the Company's financing activities will be successful or sufficient.

The unaudited interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications, which could be material.

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**2. BASIS OF PRESENTATION**

These unaudited interim consolidated financial statements of Malbex have been prepared by management after giving effect to the October 30, 2009 reverse takeover transaction between Arapaho Capital Corp. ("Arapaho") and Malbex Resources Inc. ("Pre-RTO Malbex") (Note 5). Subsequent to the reverse takeover transaction, Arapaho operates on a continuing basis as Malbex Resources Inc.

These consolidated financial statements of the combined entity are issued under the name of the Company, but are a continuation of the consolidated financial statements of Pre-RTO Malbex. Comparative amounts are those of Pre-RTO Malbex.

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian GAAP. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2009 may not necessarily be indicative of the results that may be expected for the year ending September 30, 2010.

The balance sheet at September 30, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by Canadian GAAP for annual financial statements. The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual audited consolidated financial statements for the year ended September 30, 2009, except as noted below. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended September 30, 2009.

*Financial Instruments*

During 2009, CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") was amended to require disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
- Level 3 - Inputs that are not based on observable market data.

This amended standard applies to annual financial statements with fiscal years ending after September 30, 2009. The Company will include these disclosures in its annual financial statements for the year ending September 30, 2010.

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**2. BASIS OF PRESENTATION (continued)**

**Future Accounting Changes**

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of IFRS on its financial statements.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

**3. CAPITAL MANAGEMENT**

The Company considers its capital structure to consist of capital stock, warrants, broker warrants, contributed surplus and accumulated deficit, which at December 31, 2009 totalled \$13,660,756. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of its mineral properties. 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 team to sustain the future development of the business.

The properties in which the Company currently has exploration options are in the exploration stage. As such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration program and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts when economic conditions permit it 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 appropriate. There were no changes in the Company's approach to capital management during the three months ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

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**4. FINANCIAL RISK FACTORS**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk including interest rate, foreign exchange rate, and commodity and equity price risk.

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Cash is held with reputable Canadian, Argentinean and European chartered banks which are closely monitored by management. Financial instruments included in receivables consist of value-added-tax receivable from government authorities in Canada and Argentina and deposits held with service providers.

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, 2009, the Company had cash of \$6,810,720 to settle current liabilities of \$775,700. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company is seeking additional capital to improve its liquidity position.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

i) Interest Rate Risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in interest bearing accounts of major Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its financial institutions.

ii) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Argentina on a cash call basis from the manager of the Argentina projects using United States and Argentina currencies. Management believes the foreign exchange risk derived from currency conversions is low and therefore does not hedge its foreign exchange risk.

iii) Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices. 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 as it relates to precious metals and the stock market to determine the appropriate course of action to be taken by the Company.

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**4. FINANCIAL RISK FACTORS (continued)**

**Fair Value**

The Company has designated its cash as held-for-trading, which is measured at fair value. Receivables 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.

As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

**Sensitivity Analysis**

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

- i) Interest rate risk is remote as the Company does not hold any short term investments to give rise to exposure to interest risk.
- ii) The Company is exposed to foreign currency risk on fluctuations related to cash, restricted cash and accounts payable and accrued liabilities that are dominated in the U.S. Dollar, Argentinean Peso and European Euro. Sensitivity to a plus or minus 10% change in the foreign exchange rates would affect net loss and comprehensive loss by approximately \$73,600 with all other variables held constant.
- iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depend upon the world market price of gold. Gold prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of gold or silver may be produced in the future, a profitable market will exist for them. A decline in the market price of gold or silver may also require the Company to reduce its carrying value of deferred mineral property expenditures, which could have a material and adverse effect on the Company's value.

**5. REVERSE TAKEOVER**

On October 30, 2009, the Company completed a Reverse Takeover transaction (the "RTO") with Pre-RTO Malbex. In accordance with the Emerging Issues Committee Abstract 10, "Reverse Takeover Accounting" the RTO is not considered a business combination. The RTO has been accounted for as the issuance of shares by Malbex for the net monetary assets of Arapaho. Consideration net of transaction costs has been added to share capital.

Current assets acquired	\$ 830,107
Less : Current liabilities	(13,519)
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Net assets acquired	816,588
Transaction costs (\$349,082 at September 30, 2009)	(392,069)
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Net assets acquired	\$ 424,519
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**5. REVERSE TAKEOVER (continued)**

In accounting for the RTO, certain estimates are made by management in order to arrive at the fair values of assets acquired under reverse takeover transactions that are in substance capital transactions and which do not constitute business combinations. Readers should be cautioned that should an independent valuation be performed, the results may be different than as presented.

Arapaho's retained earnings, share capital and contributed surplus have been eliminated upon consolidation.

The RTO was effected by way of an amalgamation (the "Amalgamation") whereby Pre-RTO Malbex amalgamated with a wholly-owned subsidiary of the Company and shareholders of Pre-RTO Malbex received common shares of the Company ("Common Shares") in exchange for their common shares of Pre-RTO Malbex ("Pre-RTO Malbex Shares") on the basis of one Common Share for every 1.5 Pre-RTO Malbex Shares (the "Exchange Ratio"). The RTO resulted in a change of control of the Company and constituted a reverse takeover under the policies of the TSX Venture Exchange.

As a result of completing the Amalgamation, the Company indirectly holds all of the assets of Pre-RTO Malbex, including the Del Carmen, Despoblados, and Los Amarillos exploration projects located in the Province of San Juan, north-western Argentina. In addition, upon completion of the Amalgamation, \$7.8 million, representing the escrowed portion of the gross proceeds raised by Pre-RTO Malbex in a June 30, 2009 \$10.6 million private placement of 21,275,000 subscription receipts (the "Malbex Subscription Receipts")(see note 8(b)(ii)), was released from escrow.

Immediately prior to completion of the Amalgamation, each Pre-RTO Malbex Subscription Receipt was automatically exchanged, without the payment of any additional consideration, for one unit of Pre-RTO Malbex. Each unit consisted of one Pre-RTO Malbex Share and one-half of one common share purchase warrant of Pre-RTO Malbex (each whole warrant a "Pre-RTO Malbex Warrant"). At the effective time of the Amalgamation, among other things, outstanding Pre-RTO Malbex Shares (including those Pre-RTO Malbex Shares issued upon the deemed exchange of the Pre-RTO Malbex Subscription Receipts) and Pre-RTO Malbex Warrants were exchanged for Common Shares and common share purchase warrants of Malbex ("Replacement Warrants"), respectively, on the basis of the Exchange Ratio. Each Replacement Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$1.125 per Common Share until April 29, 2011, provided that if the closing price of the Common Shares on a stock exchange in Canada is higher than \$1.50 per Common Share for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Replacement Warrants by giving notice to the holders thereof and in such case the Replacement Warrants will expire on the 30th day after the date on which such notice is given by the Company. In addition, under the Amalgamation outstanding broker warrants of Pre-RTO Malbex were exchanged for broker warrants of the Company ("Replacement Broker Warrants") on the basis of the Exchange Ratio. Outstanding options ("Malbex Options") to purchase Pre-RTO Malbex Shares granted under the share option plan of Pre-RTO Malbex entitle the holders thereof to acquire Common Shares, on the basis of the Exchange Ratio, upon the exercise thereof.

As a result of the Amalgamation as at October 30, 2009, there were 56,308,301 Common Shares outstanding, of which 49,383,301 Common Shares, representing approximately 87.7 per cent of the outstanding Common Shares, were held by the former Pre-RTO Malbex shareholders. In addition, an aggregate of 9,755,908 Common Shares were reserved for issue upon the exercise of outstanding options of the Company, Malbex Options, Replacement Warrants and Replacement Broker Warrants.

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**6. DEFERRED MINERAL PROPERTY EXPENDITURES AND MINING PROPERTY ACQUISITION COSTS**

	<b>Three Months Ended</b>		Cumulative From Inception on April 24, 2008
	<b>December 31</b>		
	<b>2009</b>	2008	
Balance, beginning of period	\$ 2,160,293	\$ 97,381	\$ -
Land / Concession	50,138	63,623	288,490
Geology	25,813	20,000	109,969
Surface drilling	159,831	-	159,831
Geochemical studies	3,871	-	69,483
Geophysical studies	26,801	-	55,280
Environmental studies	8,498	56,154	84,652
Data gathering	5,029	-	15,325
Field Camp including Earthworks	664,844	-	1,366,963
Transportation	153,817	70,976	363,625
Communications	10,920	-	12,581
Project management	376,662	-	434,229
Administration and amortization	577,854	178,784	1,263,943
	<b>2,064,078</b>	<b>389,537</b>	<b>4,224,371</b>
<b>Total Deferred Mineral Property Expenditures</b>	<b>\$ 4,224,371</b>	<b>\$ 486,918</b>	<b>\$ 4,224,371</b>

On August 14, 2008, the Company entered into three mining exploration agreements ("Agreements") with exploitation options with the Provincial Institute of Mining and Exploration of the Province of San Juan, Argentina ("IPEEM") for the mining areas called "Del Carmen", "Los Despoblados" and "Arroyo de los Amarillos", located in San Juan province, Argentina.

Under the terms of the Agreements, IPEEM granted the Company the exclusive right to carry out, during the term of the Agreements, mining prospecting and exploration activities in these mining areas with the options to undertake exploitation and trading activities of first category ores and minerals located in the said mining areas. The option to exploit carries an initial term of 30 years with an option to renew for the life-span of the mine.

Pursuant to the Agreements, the Company is required to:

- make staged investments totalling USD \$45,000,000 on the three mining properties over the 5 1/2 year term of the agreements, with the first period expiring on March 12, 2010. The minimum investment may be increased, at the Company's option, if the progress of exploratory work should so require.
- pay upon the execution of the Agreements and in consideration for the rights the amount of USD \$20,000 for each of the three mining areas (USD \$60,000 in total - paid).
- pay, on a monthly basis, the amount of USD \$11,400 in total for the three mining areas.
- deliver to IPEEM a contractual guarantee of USD \$2,250,000 in total for the commitment of the Company in respect of the three mining areas, which is held in an account at an international insurance company as restricted cash as security for the contractual guarantee given to IPEEM by the international insurance company.

# MALBEX RESOURCES INC.

(An Exploration Stage Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED DECEMBER 31, 2009

(Expressed In Canadian Dollars Except As Otherwise Indicated)

(Unaudited)

### 7. EQUIPMENT

<b>December 31, 2009</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Office equipment	\$ 32,107	\$ 1,461	\$ 30,646
Other equipment	89,222	2,250	86,972
Computer equipment	61,392	4,607	56,785
Computer software	70,546	25,418	45,128
Vehicles	118,442	26,733	91,709
	<b>\$ 371,709</b>	<b>\$ 60,469</b>	<b>\$ 311,240</b>

<b>September 30, 2009</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Office equipment	\$ 5,480	\$ 548	\$ 4,932
Computer equipment	12,984	1,948	11,036
Computer software	33,200	16,600	16,600
Vehicles	129,374	19,406	109,968
	<b>\$ 181,038</b>	<b>\$ 38,502</b>	<b>\$ 142,536</b>

**MALBEX RESOURCES INC.**  
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**8. CAPITAL STOCK**

- (a) Authorized - Unlimited number of common shares  
(b) Issued

	Number of Shares	Amount
Balance - December 31, 2008	42,199,996	\$ 3,358,251
Shares issued on private placement (i)	10,600,000	1,060,000
Issuance of warrants - valuation (ii)	-	(607,640)
Issuance of broker warrants - valuation (iii)	-	(334,378)
Cost of issue - cash	-	(6,653)
Balance - September 30, 2009	52,799,996	3,469,580
Conversion of subscription receipts (ii)	21,275,000	10,637,500
Issuance of warrants - valuation (ii)	-	(1,668,785)
Cost of issue - cash	-	(861,219)
Pre reverse takeover issued common shares	74,074,996	11,577,076
Reduction in issued common shares resulting from reverse takeover (Note 5)	(24,691,695)	-
Net monetary assets acquired from Amalgamation (Note 5)	6,925,000	424,519
Exercise of stock options	150,000	37,500
<b>Balance - December 31, 2009</b>	<b>56,458,301</b>	<b>\$ 12,039,095</b>

- (i) On February 2, 2009 and April 8, 2009, the Company completed a private placement of an aggregate of 10,600,000 common shares at a price of \$0.10 per common share for total proceeds of \$1,060,000.
- (ii) On June 30, 2009, the Company completed a private placement of 21,275,000 Subscription Receipts at a price of \$0.50 per Subscription Receipt for gross proceeds of \$10,637,500. Each Subscription Receipt being exchangeable, without payment of any consideration in addition to the purchase price therefor, for one common share and one-half of one warrant.

Upon completion of the private placement, the non-escrowed proceeds, amounting to \$2,839,439, were released to the Company. The remaining portion of the aggregate gross proceeds of \$7,798,061 was held in escrow and was released to the Company upon completion of the RTO as described in Note 5.

A fair value of \$2,276,425 was assigned to the warrants, as calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%; expected volatility 100%; risk free rate of return 1.20%, and an expected maturity of two years.

- (iii) A fair value of \$334,378 was assigned to the broker warrants, as calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%; expected volatility 100%; risk free rate of return 1.20%, and an expected maturity of two years.

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**9. STOCK OPTIONS**

The following table reflects the continuity of stock options for the three months ended December 31, 2009:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance - September 30, 2009	2,500,000	\$ 0.50
Reduction in stock options resulting from reverse takeover (Note 5)	(833,337)	0.50
	1,666,663	0.75
Addition of outstanding Arapaho stock options	150,000	0.25
Exercised	(150,000)	(0.25)
Issued (i)	3,550,000	0.80
<b>Balance - December 31, 2009</b>	<b>5,216,663</b>	<b>\$ 0.78</b>

The following table reflects the stock options outstanding as at December 31, 2009:

<b>Expiry Date</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Options Outstanding</b>	<b>Black-Scholes Value</b>
August 20, 2014	\$ 0.75	4.64	1,666,663	\$ 930,975
December 8, 2014	0.80	4.94	3,550,000	2,137,100
	\$ 0.78	4.84	5,216,663	\$ 3,068,075

- (i) On December 8, 2009, the Company granted 3,550,000 options to directors, officers, consultants and employees of the Company, each such option entitling the holder to acquire one common share of the Company at an exercise price of \$0.80 until December 8, 2014. The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%, expected volatility 100%, risk free interest rate 2.46%, and an expected maturity of 5 years. The stock options were assigned a value of \$2,137,100, of which \$632,100 was capitalized as deferred mineral property expenditures and \$1,505,000 was charged to income during the three months ended December 31, 2009.

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**10. WARRANTS AND BROKER WARRANTS**

Each whole warrant and broker warrant entitles the holder thereof to purchase one common share of the Company at any time commencing on the date of the issue thereof and expiring on April 29, 2011, subject to adjustment. A fair value was assigned to both the warrants and broker warrants, calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%; expected volatility 100%; risk free rate of return 1.20%, and an expected maturity of two years.

**a) WARRANTS**

The following table reflects the continuity of warrants for the three months ended December 31, 2009:

	<b>Number of Warrants</b>		<b>Amount</b>
<b>Balance - September 30, 2009</b>	2,839,439	\$	607,640
Issued	7,798,061		1,668,785
Reduction resulting from reverse takeover	(3,545,855)		-
<b>Balance - December 31, 2009</b>	<b>7,091,645</b>	<b>\$</b>	<b>2,276,425</b>

The following table reflects the actual warrants outstanding as at December 31, 2009:

<b>Expiry Date</b>	<b>Exercise price</b>	<b>Number</b>	<b>Black-Scholes Value</b>
June 30, 2011	\$ 1.125	7,091,645	\$ 2,276,425

**b) BROKER WARRANTS**

The following table reflects the continuity of broker warrants for the three months ended December 31, 2009:

	<b>Number of Broker warrants</b>		<b>Amount</b>
Balance - September 30, 2009	1,271,400	\$	334,378
Reduction resulting from reverse takeover	(423,800)		-
<b>Balance - December 31, 2009</b>	<b>847,600</b>	<b>\$</b>	<b>334,378</b>

The following table reflects the actual broker warrants outstanding as at December 31, 2009:

<b>Expiry Date</b>	<b>Exercise price</b>	<b>Number</b>	<b>Black-Scholes Value</b>
June 30, 2011	\$ 0.75	847,600	\$ 334,378

# **MALBEX RESOURCES INC.**

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## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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*(Unaudited)*

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### **11. RELATED PARTY TRANSACTIONS**

During the three months ended December 31, 2009, the Company incurred legal fees of \$90,000 (December 31, 2008 - \$46,755) and reimbursement of expenses of \$nil (December 31, 2008 - \$1,568) respectively to a law firm of which a shareholder and former director of the Company is a partner. As at December 31, 2009, included in accounts payable and accrued liabilities was \$90,000 (December 31, 2008 - \$156) in respect of these transactions.

During the three months ended December 31, 2009, the Company incurred legal fees capitalized to the property of \$37,508 (legal fees expensed December 31, 2008 - \$51,066) for Malbex San Juan S.A. and reimbursement of expenses of \$nil (December 31, 2008 - \$6,868) to a law firm of which a director of a subsidiary of the Company is a partner. As at December 31, 2009, included in accounts payable and accrued liabilities was \$17,979 (December 31, 2008 - \$11,099) in respect of these transactions.