MUNDORO CAPITAL

Consolidated Financial Statements and Notes
For the Year Ended December 31, 2008

(Expressed in United States Dollars – except as noted otherwise)

These financial statements have been audited by the Company's auditors.

AUDITORS' REPORT

To the Shareholders of
Mundoro Capital Inc.

We have audited the consolidated balance sheet of **Mundoro Capital Inc.** as at December 31, 2008 and 2007 and the consolidated statements of loss and deficit, loss and comprehensive loss 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 consolidated 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 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.

Ernst & Young LLP

Vancouver, Canada,
March 5, 2009.

Chartered Accountants

MUNDORO CAPITAL INC.
(an exploration stage company)

Consolidated Balance Sheets
December 31, 2008 and 2007

(Expressed in United States Dollars)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents (Note 11)	$ 13,955,492	$ 18,374,368
Accounts receivable	36,568	127,391
Prepaid expenses and deposits	127,921	92,971
	14,119,981	**18,594,730**
Mineral interests (Note 4)	100	100
Equipment and vehicles (Note 5)	78,969	178,975
Total Assets	**$ 14,199,050**	**$ 18,773,805**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 111,635	$ 245,151
Commitments (Note 8)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	35,873,603	36,157,820
Contributed surplus (Note 7 (e))	7,228,518	6,826,920
Deficit	(30,702,906)	(29,452,823)
Accumulated other comprehensive income (Notes 2(f) and 13)	1,688,200	4,996,737
Total Shareholders' Equity	14,087,415	18,528,654
Total Liabilities and Shareholders' Equity	**$ 14,199,050**	**$ 18,773,805**

Nature of operations (Note 1)

Approved by the Directors:

"Patrick Downey" "Robert van Doorn"
Patrick Downey Robert van Doorn

MUNDORO CAPITAL INC.
(an exploration stage company)

Consolidated Statements of Loss and Deficit
Years Ended December 31, 2008 and 2007

(Expressed in United States Dollars)

	2008	**2007**
Interest	$ 437,381	$ 855,954
Project management costs (Note 4)	484,615	1,267,079
Expenses		
Accounting and audit	310,057	279,707
Corporate communication and marketing	333,090	436,678
Corporate development	316,431	186,103
Corporate governance	252,237	338,625
Government and community relations	290,919	813,718
General and administrative	331,483	510,635
	1,834,217	2,565,466
Loss before Other Expenses	1,881,451	2,976,591
Other Expenses		
Amortization	17,847	39,746
Foreign exchange loss (gain)	(850,284)	1,614,702
Stock based compensation (Note 7(d) and Note 7(e))	201,069	1,806,089
	(631,368)	3,460,537
Loss for the year	**(1,250,083)**	**(6,437,128)**
Deficit, beginning of year	(29,452,823)	(23,015,695)
Deficit, end of year	$ (30,702,906)	$ (29,452,823)
Loss per basic share	$ (0.03)	$ (0.17)
Weighted average shares outstanding:		
Basic	38,562,238	38,627,540

MUNDORO CAPITAL INC.
(an exploration stage company)

Consolidated Statements of Loss and Comprehensive Loss
Years Ended December 31, 2008 and 2007

(Expressed in United States Dollars)

	2008	2007
Loss for the year	$ (1,250,083)	$ (6,437,128)
Effect of exchange rate changes	(3,308,537)	(3,859,860)
Loss and Comprehensive Loss for the Year	$ (4,558,620)	$ (10,296,988)

MUNDORO CAPITAL INC.
(an exploration stage company)

Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

(Expressed in United States Dollars)

	2008	2007
Cash flows provided by (used in) operating activities		
Loss for the year	$ (1,250,083)	$ (6,437,128)
Adjustments for items not involving cash:		
- amortization	60,188	71,285
- loss on disposal of equipment	14,430	-
- stock-based compensation	201,069	1,806,089
	(974,396)	(4,559,754)
Change in non-cash working capital:		
- decrease in accounts receivables	90,823	39,608
- decrease (increase) in prepaid expenses and deposits	(34,950)	18,854
- decrease in accounts payable and accrued liabilities	(133,516)	(224,853)
	(1,052,039)	(4,726,145)
Cash flows provided by (used in) financing activities		
Proceeds from issuance of shares	-	142,500
Proceeds used to buy back shares	(83,688)	-
	(83,688)	142,500
Cash flows provided by (used in) investing activities		
Proceeds from short-term investments	-	4,273,252
Acquisition of equipment	(1,822)	(14,430)
	(1,822)	4,258,822
Effect of exchange rate changes	(3,281,327)	3,841,701
Increase (decrease) in cash and cash equivalents	(4,418,876)	3,516,878
Cash and cash equivalents, beginning of year	18,374,368	14,857,490
Cash and cash equivalents, end of year	$ 13,955,492	$ 18,374,368

1. Nature of Operations

Mundoro Capital Inc. (the "Company" or "MCI") is an exploration and investment company for the resources sector.

The Company was incorporated on March 6, 2008 under the Company Act of The Province of British Columbia for the purpose of acquiring all shares of Mundoro Mining Inc. ("MMI") which is now a wholly owned subsidiary of the Company, through a Plan of Arrangement. For comparative reporting purposes, this transaction has been accounted for as a continuity of interests. MMI is in the business of exploration and development of the Maoling Gold Property in China. MMI was incorporated on January 10, 1997 under the Business Corporations Act of Yukon, Canada and on November 30, 2000, MMI registered as an extra-provincial company under the Company Act of the Province of British Columbia and effective on June 14, 2005, MMI continued as a corporation in the province of British Columbia.

Trading of the Company's common shares on the Toronto Stock Exchange ("TSX") commenced on April 23, 2008 in the name of Mundoro Capital Inc. in substitution for trading of the common shares of MMI.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and reflect the following significant accounting policies:

(a) Consolidation

These consolidated financial statements include the accounts of the Company, MMI and MMI's 79% owned joint venture company, Liaoning Tianli Mining Company Ltd. ("Tianli"), incorporated on August 31, 2001 in Liaoning, China. The minority interest (21%) is $ nil as it represents only the profit sharing and working interest. As at December 31, 2008, MMI's joint venture is still in the exploration stage and has not generated any revenue. Inter-company accounts and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses reported during the year. Significant areas requiring the use of management estimates include the collectability of amounts receivable, the fair value of financial instruments, the rates of amortization, the determination of environmental and asset retirement obligations, the impairment in value of resource properties, amounts of accrued liabilities, valuation allowance for future tax assets and determination of the variables used to calculate stock-based compensation. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(expressed in United States Dollars – except as noted otherwise)

2. Significant Accounting Policies (continued)

(c) Mineral Interests

The Company follows the practice of expensing all exploration, development and project management costs until a production decision is made to put the deposit into production.

(d) Cash Equivalents

Cash equivalents in 2008 and 2007 included short-term money market instruments which had a term to maturity of 90 days or less when acquired.

(e) Equipment and Vehicles

Equipment and vehicles are carried at cost. Amortization is provided at the following annual rates:

Vehicles	30% Declining balance
Computer	30% Declining balance
Furniture and fixtures	20% Declining balance
Office equipment	20% Declining balance
Leasehold improvements	5 years straight-line

(f) Foreign Currency Translations

MMI consolidates the accounts of Tianli. MMI translated 100% of Tianli's amounts from Chinese Yuan (Renminbi) to Canadian dollars using the temporal method for consolidation with MMI's accounts, as follows: monetary items such as cash, accounts receivable, accounts payable and accrued liabilities at the exchange rate in effect at the applicable balance sheet date; non-monetary items such as equipment and vehicles, amortization and share capital items at the transaction's historical exchange rate; and revenue and expense items at the average exchange rate for the period. Any unrealized gains and losses using the temporal methods of translation have been recorded as foreign exchange loss or gain in MMI's consolidated statement of operations and deficit.

In 2008, MCI and from 2005 to 2007, MMI translated consolidated accounts from Canadian dollars to US dollars, using the current rate method in accordance with the guidance of the Emerging Issue Committee (EIC) 130, Change in the Reporting Currency, as follows: assets and liabilities at the exchange rate in effect at the applicable balance sheet date and revenue and expense items at the average exchange rate for the period. Unrealized gains and losses resulting from the translation are accumulated in a separate component of the shareholders' equity and described as Accumulated Other Comprehensive Income in the consolidated balance sheet.

2. Significant Accounting Policies (continued)

(g) Stock Based Compensation and Other Stock Based Payments

The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments."

The value of all stock options awarded must be determined by the application of the fair value method. CICA 3870 provides alternative methods of transition for the adoption of the fair value method and, as permitted, the Company has elected the prospective application method, which allows the fair value method to be applied to awards granted, modified or settled for fiscal years beginning on or after January 1, 2003 to employees and directors and on or after January 1, 2002 to consultants.

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the market price of the Company's common shares and an expected life of the options. The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

The CICA Handbook Sections 3870.38 - 3870.40 further provides that the Company should measure compensation cost for awards that call for settlement in cash or other assets. The compensation cost is the amount by which the quoted market price of the shares covered by the grant exceeds the strike price specified. Changes, either increases or decreases, in the quoted market price between the date of grant and the measurement date result in a change in the measure

of compensation. Awards that call for settlement in cash or other assets is an indexed liability, and the measurement date is the settlement (exercise) date because it is consistent with accounting for similar liabilities. The Company incurs a liability because it is compelled to settle the award by cash or other assets rather than by issuance of equity instruments.

(h) Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market price. For the Company, diluted earnings (loss) per share is equal to the basic earnings (loss) per share because common share equivalents consisting of options to acquire common shares that are outstanding for the periods presented are anti-dilutive; however, they may be dilutive in the future.

2. Significant Accounting Policies (continued)

(i) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more-likely-than not that it can be realized.

(j) Asset Retirement Obligations and environmental liabilities

The Company follows CICA Handbook Section 3110 "Asset Retirement Obligations", requiring that the fair value of liabilities for asset retirement obligations be recognized in the year in which they are incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, will be recorded and amortized over the life of the asset, using a systematic and rational method. Subsequent to initial measurement, the asset retirement obligations are adjusted to reflect year-to-year changes in liability.

(k) Revenue Recognition

Interest income on cash and cash equivalents is recognized on an accrual basis.

3. Adoption of New Accounting Policies

a) Current Changes in Accounting Policies

(i) Capital Disclosures

The Company implemented CICA Handbook Section 1535 (Capital Disclosures). 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. Disclosures required by this standard are included in Note 10.

(ii) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)

The Company implemented CICA Handbook Sections 3862 (Financial Instruments – Disclosure) and 3863 (Financial Instruments – Presentation), which replaced section 3861 Financial Instruments – Disclosures and Presentation. These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements. Sections 3862 and 3863 emphasize the significance of financial instruments for the entity's financial position and performance, the nature and extent of the risks arising from financial instruments, and how these risks are managed. Disclosures required by this standard are included in Note 11.

3. Adoption of New Accounting Policies (continued)

(iii) Assessing Going Concern

CICA Handbook Section 1400 was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. Management has reviewed the requirements and concluded that they do not affect the Company's financial statements.

(b) Future Changes in Accounting Policies

(i) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency and certain contractual arrangements and compensation arrangements. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to prepare for training and additional resources to ensure a timely conversion.

4. Mineral Interests and Project Management Costs

(a) Mineral Interests:

On June 10, 2001, MMI entered into a Cooperative Joint Venture Agreement with Liaoning Aidi Resources Company Ltd. ("Aidi"), a company incorporated under the Business Law of Liaoning Province, China and formed the Liaoning Tianli Mining Company Limited Joint Venture ("TJV"). Pursuant to the Cooperative Joint Venture Agreement, MMI is required to fund all work on the mining project ("Maoling Project").

MMI has satisfied its obligations to date under the Cooperative Joint Venture Agreement. At December 31, 2008, the cumulative registered capital contributions amounted to $2,780,000 (December 31, 2007 - $2,780,000). In addition, MMI had advanced loans in cash of $789,200 and expenditures incurred of $12,947,882.

On August 31, 2005, the TJV's business license was not renewed by the authorities in Liaoning. Management has received no explanation for the delay, and MMI is in communication with the appropriate government authorities for the renewal of this license.

(expressed in United States Dollars – except as noted otherwise)

4. Mineral Interests and Project Management Costs (continued)

(a) Mineral Interests (continued)

Under Chinese mining laws and regulations, exploration licenses have a three year term and have two two-year extensions. The TJV's exploration license for Maoling expired on November 5, 2005, at the end of the first two-year extension. The Ministry of Land and Resources of China deferred the grant of the exploration license to the TJV pending the renewal of the business license.

(b) Project Management Costs

MMI follows the practice of expensing all exploration, development and project management costs until mineral reserves have been firmly established and a mining permit issued. Project management costs incurred in 2008 amounted to $484,615 (2007 - $1,267,079) and are detailed below:

	2008	2007	Accumulated Total
Project Management Costs			
Engineering	$109,149	$ 771,353	$3,489,249
Environmental	119,641	223,270	1,074,900
Geological	255,825	272,456	3,900,914
	$484,615	$1,267,079	$8,465,063

The engineering costs include fees paid to engineering consultants and others retained for services of an engineering, metallurgical, and geotechnical nature. The environmental costs include fees paid to consultants for the environment and social impact assessment ("ESIA") study and other environmental studies completed. The geological costs include fees paid for services of a geological nature. The total accumulated project management costs incurred to date amounts to $8,465,063 (December 31, 2007 - $7,980,448).

(expressed in United States Dollars – except as noted otherwise)

5. Equipment and Vehicles

	2008	2007
Cost:		
Computers	$ 75,116	$ 91,731
Furniture and fixtures	28,964	35,590
Office equipment	114,116	138,750
Vehicles	144,992	178,159
Leasehold improvements	20,337	40,439
	383,525	484,669
Less: Accumulated amortization	(304,556)	(305,694)
Net book value	$ 78,969	$ 178,975

6. Restricted Share Unit Plan

On October 8, 2008, the Company established a Restricted Share Unit (“RSU”) Plan for its directors, officers, employees and consultants (“Participants”). To participate in the RSU plan, Participants had to surrender their stock options held under the Company’s 2004 Stock Option Plan in exchange for RSU’s on a 1:1 basis by October 22, 2008. As at that date, 3,793,500 RSU’s were granted at the strike price of $0.18 (C$0.23), which was the closing price of the common shares of Mundoro Capital on October 21, 2008, the day prior to the RSU grant. On December 3, 2008, an additional 300,000 RSU’s were granted to a new Director at the strike price of $0.15 (C$0.19). A Participant can elect to receive a Payout Amount in cash or common shares acquired by the Company in the market equal to the cash value. The Payout Amount is calculated as the difference in value of the common shares of Mundoro Capital from the date of grant to the date of exercise. The RSU’s vest in three parts, the first tranche on January 1, 2009, the second tranche on January 2, 2010, and the third tranche on January 1, 2011, and will expire on December 31, 2011. The RSU Plan terminates on December 31, 2011.

7. Share Capital

(a) Authorized: Unlimited number of common shares without par value.

7. Share Capital (continued)

(b) Issued and fully paid common shares:

	Shares	Amount
Balance at **December 31, 2006**	38,514,061	$ 35,954,791
Issued pursuant to exercise of stock options	130,000	142,500
Reclassification of contributed surplus on exercise of options		60,529
Balance at **December 31, 2007**	38,644,061	36,157,820
Cancelled pursuant to normal course issuer bid	(303,760)	(284,217)
Balance at **December 31, 2008**	38,340,301	$ 35,873,603

(c) Normal Course Issuer Bid ("NCIB")

Pursuant to the NCIB, the company is permitted, between May 29, 2008 and May 28, 2009, to purchase for cancellation, up to a maximum of 1,933,203 shares being 5% of its total issued and outstanding Common Shares subject to a daily restriction of 9,190 Common Shares, being 25% of the average daily trading volume from December 2007 to May 2008. In accordance with this, the Company during the year ended December 31, 2008 purchased 303,760 common shares on the Toronto Stock Exchange at an average price of $0.27 (C$0.33) per share for cancellation.

Exchange Rate

The option prices referred to in Notes 7(d) to 7(e) are contractually denominated in Canadian dollars. The prices have been translated to US dollars at the following exchange rates for the purpose of presenting their value in the respective fiscal years:

- For 2007 at C$1 = between US$0.85 and US$1.07, the exchange rates on the various dates of grant
- For 2008 at C$1 = US$1.00, the exchange rate on the date of grant

(d) Stock Options

In April 2005, the Company amended and restated its Stock Option Plan ("the Plan") whereby the maximum number of shares issuable under the Plan is a rolling number equal to 15% of the issued and outstanding common shares at the time of grant, provided that no more than 7,000,000 common shares will be available under the Plan without the Company first obtaining shareholder approval. The Company's Stock Option Plan was not renewed at the Annual General Meeting in April 2008.

(expressed in United States Dollars – except as noted otherwise)

7. Share Capital (continued)

(d) Stock Options (continued)

After the 2008 Plan of Arrangement, all the options previously granted under the Plan of MMI were effectively converted to Mundoro Capital Inc. options to acquire stock of Mundoro Capital and except for those exchanged for RSU's continue to exist until they expire. Any grant of new options to existing officers, directors or employees will need to be approved by shareholders at the Company's annual general meeting.

A summary of the status of options granted under the Stock Option Plan as at December 31, 2008 and December 31, 2007 and the changes during the years then ended are as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at **December 31, 2006**	4,411,000	$ 1.75
Exercised	(130,000)	$ 1.10
Cancelled	(962,500)	$ 1.50
Granted	2,350,000	$ 1.15
Options outstanding at **December 31, 2007**	5,668,500	$ 1.57
Granted	100,000	$ 0.90
Cancelled	(5,118,500)	$ 1.57
Options outstanding at **December 31, 2008**	650,000	$ 1.53

During the year, the Company charged $201,069 in 2008 (2007 - $1,806,089) of stock based compensation to operations with offset credit to contributed surplus.

Options Outstanding Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.00-$1.01	200,000	0.73	$0.82	-	-
$1.01-$1.50	150,000	0.50	$1.42	150,000	$1.41
$2.01-$2.50	300,000	2.15	$2.06	300,000	$2.06
	650,000	1.33	$1.53	450,000	$1.84

The weighted average fair values of the options granted in 2008 and 2007 were estimated at $0.35 (C$0.35) and $0.67 (C$0.75) respectively, by using the *Black-Scholes Option Pricing Model* with the following weighted average assumptions:

(expressed in United States Dollars – except as noted otherwise)

7. Share Capital (continued)

(d) Stock Options (continued)

	2008	2007
Risk-free interest rate	3.08%	4.15%
Dividend yield	0.00%	0.00%
Price volatility	105.45%	71.32%
Expected lives (in years)	0.9	4.55
Number of common shares	100,000	2,350,000
Grant / Exercise price	$0.90	$1.15
Calculated fair value per share	$0.35	$0.67

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(e) Contributed Surplus

Balance, December 31, 2006	$2,957,833
Amount expensed in the year	1,806,089
Amount exercised in the year	(60,529)
Amount reclassified from unexercised warrant	2,123,527
Balance, December 31, 2007	6,826,920
Amount expensed in the year	201,069
Amount contributed from shares bought back in the year	200,529
Balance, December 31, 2008	$ 7,228,518

(f) Warrants

On September 18, 2008, the Company entered into a consulting agreement with ALG Consultants, and as partial consideration under the agreement, the Company proposes to issue 2,000,000 common share purchase warrants ("Warrants") to ALG Consultants, subject to all necessary approvals. Each Warrant will be exercisable into one common share of the Company at a price of $0.37 (C$0.40) per share upon the restoration of Tianli's business license within 12 months from signing the consulting agreement.

(expressed in United States Dollars – except as noted otherwise)

8. Commitments

Office Lease

MMI has a lease for office space in Vancouver for a term up to and ending June 30, 2013. MMI also has a lease for office space in Beijing, China for a term up to and ending September 20, 2009. MMI pays base rent and its proportionate share of the operating costs. The obligations remaining under these leases are as follows:

	Vancouver	Beijing	Total
2009	$ 77,693	$ 19,002	$ 96,695
2010	77,693	-	77,693
2011	77,693	-	77,693
2012	77,693	-	77,693
2013	38,846	-	38,846
Total	$ 349,618	$ 19,002	$ 368,620

9. Geographical Information

The Company's business is considered as operating in one segment and the geographical division of the total assets of the Company is as follows:

	2008	2007
Canada	$ 14,141,625	$ 18,670,843
China	57,425	102,962
	$ 14,199,050	$ 18,773,805

10. Management of Capital Risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity and cash and cash equivalents. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets to adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including but not limited to source and use of capital and general industry conditions.

The Company expects its current capital resources will be sufficient to carry its exploration, development and investment plans and operations through the current operating period.

11. Financial Instruments

The Company has designated its cash, cash equivalents and deposits as held-for-trading; amounts receivable as loans and receivables; and accounts payable and accrued liabilities as other liabilities.

(a) Fair Value

The carrying values of cash, cash equivalents, deposits, amounts receivables, and accounts payable and accrued liabilities approximated their fair values due to the relatively short period to maturity of those financial instruments. The fair value of cash equivalents is recorded as cost plus accrued interest.

The fair value of financial instruments at December 31, 2008 and December 31, 2007 is summarized as follows:

	2008		2007	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial Assets				
Held-for-trading				
Cash	$9,905,227	$9,905,227	$18,374,368	$18,374,368
Cash equivalents	4,050,265	4,050,265	-	-
Deposits	18,419	18,419	31,934	31,934
Loans and receivable				
Amounts receivable	36,568	36,568	127,391	127,391
Financial Liabilities				
Accounts payable and accrued liabilities	111,635	111,635	245,151	245,151

(b) Financial Risk Management

Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and China and a portion of its expenses is incurred in Chinese Yuan (Renminbi) and US dollars, while the financial reporting currency is in US dollars. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar and Chinese Yuan could have an effect on the Company's result of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

11. Financial Instruments (continued)

(b) Financial Risk Management – Currency Risk (continued)

	2008	**2007**
Amount on deposit denominated in Canadian dollars	$9,552,657	$13,365,728
Amount on deposit denominated in US dollars	$4,383,580	$5,008,535
Amount on deposit denominated in Chinese Yuan	$13,291	$106

Credit risk

The Company is exposed to credit risk with respect to its cash, cash equivalents and amounts receivable. Cash and cash equivalents have been placed with a large international financial institution and a major Canadian financial institution. Other amounts receivable are primarily amounts owing from government agencies. The Company does not have any asset-backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by maintaining adequate cash balances.

Interest Rate Risk

Interest rate risk consists of two components:

i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(expressed in United States Dollars – except as noted otherwise)

12. Income Taxes

	2008	**2007**
Future income tax assets:		
Losses and resource pools	$ 6,243,000	$ 6,926,000
Share issuance costs	73,000	188,000
Other	37,000	27,000
Total future income tax assets	6,353,000	7,141,000
Less valuation allowance:	(6,353,000)	(7,141,000)
Net future income tax assets	$ -	$ -

The reconciliation of income taxes at the statutory rate to the income tax expense (recovery) is as follows:

	2008	**2007**
Loss before income taxes	$ (1,250,000)	$ (6,437,000)
Expected tax expense (recovery) at 31% (2007-34.12%)	(388,000)	(2,196,000)
Increase (reduction) in income taxes resulting from:		
Stock-based compensation	57,000	712,000
Expiry of losses	75,000	130,000
Foreign exchange rate and tax rate differences	326,000	471,000
Non-taxable foreign exchange gain (loss)	295,000	588,000
Change in valuation allowance	(788,000)	314,000
Other	423,000	(19,000)
Income tax expense	$ -	$ -

Future income tax assets include losses and resource expenditures incurred by the Tianli Joint Venture. The ability of the Company to realize these amounts is dependent upon the renewal of their business license and the granting of their exploration license (Note 4(a)).

The Company's Canadian non-capital loss carry-forwards and Chinese net operating loss carry-forwards totaling approximately $9,301,000 (2007-$9,806,000) expire between 2009-2028, and are available to reduce future taxable income.

In the event loans made by MMI to the Tianli Joint Venture are deemed to be non-compliant with the Peoples' Republic of China Foreign Exchange Regulations, the loans could be considered to be on account of income and taxable at the Joint Venture level. Currently, there are sufficient non-capital losses and resource tax pools available to offset these amounts.

(expressed in United States Dollars – except as noted otherwise)

13. Accumulated Other Comprehensive Income

Accumulated other comprehensive income is comprised of the following:

	2008	**2007**
Accumulated other comprehensive income, beginning of year	$4,996,737	$1,136,877
Effect of year exchange rate changes	(3,308,537)	3,859,860
Accumulated other comprehensive income, end of year	$1,688,200	$4,996,737

14. Comparative Figures

Certain 2007 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2008.