



1. INTRODUCTION

Mundoro Capital Inc. ("Company", "MCI", "Mundoro Capital"), is a Canadian based, mineral exploration, development and investment company. Mundoro Mining Inc. ("Mundoro Mining" or "MMI") is a 100% owned subsidiary of Mundoro Capital. The following management's discussion and analysis ("MD&A"), prepared as of February 25, 2011, should be read in conjunction with the audited Consolidated Financial Statements for December 31, 2010 and December 31, 2009 and related notes which are prepared in accordance with Canadian Generally Accepted Accounting Principles. This document has been reviewed by the Audit Committee of the Board of Directors of the Company and has been approved by the Board of Directors. All amounts are expressed in United States dollars unless otherwise indicated.

2. FORWARD LOOKING STATEMENTS

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This management's discussion and analysis ("MD&A") and in particular the "Outlook" section, contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of February 25, 2011.
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.
- Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

The material assumptions that were applied in making the forward looking statements in this MD&A include: expectations as to the Company's future strategy and business plan; and execution of the Company's existing plans, which may change due to changes in the views of the Company or if new information arises which makes it prudent to change such plans.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

3. SUMMARY OF ACTIVITIES

In 2010, the Company focused on: (i) continued effort to communicate with the Liaoning government and the Company's joint venture partner regarding the status of the business license of the Chinese joint venture company, Liaoning Tianli Mining Co., Ltd. ("Tianli"), and the future development of Maoling; (ii) negotiations and various levels of due diligence with Chinese groups in order to determine if a strategic transaction could be structured relating to the Maoling Gold Project ("Maoling"); and (iii) evaluated new resource opportunities at the project level and the corporate level.

The Company has not financed since 2005 and has maintained a low share count of 38.3 million shares outstanding. The Company is in a financially strong position with \$9,338,122 in cash and cash equivalents, and no debt as at December 31, 2010.



Throughout 2010, the Company continued its efforts to communicate with the Liaoning government and the Company's joint venture partner regarding the status of Tianli's business license for the future development of the Maoling Gold Project. The Company continues to attempt to attain a resolution that involves either: a strategic transaction with a Chinese group; receiving the necessary licenses to develop the Maoling Gold Project directly; or obtaining compensation from the relevant Chinese government. At the same time, the Company is also evaluating legal alternatives in China; however, there is no assurance that the Company will be successful in any form of legal action against the Chinese government or the Chinese joint venture partner.

With respect to negotiations with Chinese groups, the Company is continuing negotiations and various levels of due diligence with a Chinese publicly listed company, a Chinese state-owned company, and other companies in order to determine if a strategic transaction could be structured such that the Chinese group would acquire the Maoling Gold Project and the Company would retain a minority interest or a form of participation in the event the Maoling Gold Project is developed in the future. There are no assurances that these negotiations or the due diligence will be successful or that a transaction can be completed. Despite the Company's best efforts, the Tianli's business license and exploration license were not renewed and the Maoling Gold Project remains stalled.

With respect to new resource projects, in 2010 the Company evaluated a number of resource opportunities at the project level and the corporate level as part of the corporate strategy to build a portfolio of resource properties. The key criteria for project selection have been: located in a proven geological belt with existing mineral production; located in a jurisdiction where there is a precedent of developing a resource property from early exploration through to production; located in an area where the Company has strategic advantage from in-house expertise; and based on detailed evaluation, clearly demonstrates attractive valuation where there is upside for shareholders after acquisition. With increases in commodity prices, the valuation of many resource projects evaluated has outweighed their technical and/or economic merit and as a result, management initiated a project generation program. As a result of this effort, the Company has made an application for three exploration concessions in the State of Durango, Mexico. The Company will continue to evaluate project level resource opportunities alongside its project generation program.

Mundoro Mining completed its RMB 1.2 million community relations program which funded community development programs in Gaizhou County over a three year period from 2007 to 2010. Over the course of the campaign, Mundoro Mining supplied stationery to local school children; built a new roof for a local medical clinic; supplied new musical instruments; upgraded a medical clinic; donated computers, servers and printers to two schools to help improve teaching methods; built two irrigation ponds to supply water to farmers of the three local villages of Zhangpu, Maoling and Taipingzhuang; and, constructed a technology centre housing computers for use by students at the local secondary school.

In order to effectively progress the project generation work while continuing to evaluate advance exploration and development stage projects, the Company has expanded the technical team with the addition of: Mr. Claude Britt as Senior Geological Technical Advisor joined the team as a technical advisor in the second quarter of 2009 and Mr. Scott Randall as Exploration Geologist joined the team in the first quarter of 2011. Mr. Brad Blacketer will be stepping down as Chief Financial Officer, effective March 1, 2011, and will be replaced by Mr. Alnesh Mohan. Mr. Mohan is a Chartered Accountant and a partner at Quantum Partners LLP which is a chartered accounting firm specialized in providing accounting and financial reporting services to junior resource companies.

4. OUTLOOK

The Company is focused on attaining a resolution to Tianli's business license problem and the future development of Maoling either directly with the Liaoning government and the Chinese joint venture partner, or through a strategic transaction with a Chinese group. In parallel, the Company is committed to building the project portfolio of the Company with either exploration stage or development stage mineral resource properties.



5. MAOLING PROPERTY OVERVIEW

Prospective investors should carefully consider additional information such as the Annual Information Form and the Company's National Instruments 43-101 compliant technical reports: 2003 Maoling Technical Report (Lewis); 2004 Resource Estimate (AMEC); 2005 Pre-Feasibility Study (AMEC); and, 2006 Resource Estimate (Golder), which are the basis for the summary table of the Company's Resources and Reserves shown below in Table 5.1. The technical reports have been filed on the SEDAR website at www.sedar.com.

Mundoro Mining's sole focus is the Maoling Gold Project ("Maoling") located in Liaoning Province, China. The Measured, Indicated and Inferred Resources of Maoling place it in the category of one of the largest undeveloped gold deposits in the world.

Table 5.1

Maoling Resources			Maoling Reserves		
Tonnes (millions)	Grade (Au g/t)	Contained Gold (million ozs)	Tonnes (millions)	Grade (Au g/t)	Contained Gold (million ozs)
Zone 1 Measured & Indicated Resource			Zone 1 Pre-Feasibility Probable Reserves		
161	0.92	4.8	88.8	1.0	2.8
Total Zone 1 and 4 Inferred Resource					
158	0.9	4.4			

Licensing and Government Relations

The Maoling Gold Project was earmarked by the Chinese government for development and foreign investment as early as 1994, when the State Council approved a report identifying it as one of 10 deposits to be made available for international participation. The Maoling Gold Project was again presented as one of 16 alternative exploration districts to be opened to foreign investors by the Ministry of Land and Resources at the 1999 "China Mining Conference" in the city of Dalian. Encouraged by these invitations to participate in the project together with the national policy of opening up mineral resource development to foreign-funded companies, Mundoro Mining conducted a project assessment and began partnership discussions with a company controlled on behalf of the provincial government of Liaoning by the Geological and Exploration Bureau, Liaoning Aidi Resources Company Ltd. ("Aidi"). The Joint Venture Contract, where the Company has rights to a 79% interest in the JV and Aidi has a 21% interest, was finalized in 2001, resulting in the formation of Tianli to manage the Maoling Gold Project. The exploration license for the Maoling Gold Project, covering an area of approximately 20 square kilometers, was transferred to Tianli in 2002.

Tianli's business license was granted in August 2001 and the exploration license was transferred to Tianli in April 2002. Tianli's business license was not renewed and expired on August 31, 2005. Tianli's exploration license for the Maoling Gold Project expired on November 5, 2005, and was not capable of being renewed because Tianli did not have a renewed business license. In August 2007, Mundoro Mining received correspondence from Aidi, who suggested both parties should discuss the termination of the JV. The reasons cited for the proposed termination and liquidation were Chinese environmental regulations related to water zoning made it impossible for Tianli to conduct mining activities at the Maoling Gold Project. Mundoro Mining responded to Aidi in September 2007 explaining the reasons why Mundoro Mining did not believe it was appropriate to terminate the JV or liquidate the JV and requested to be allowed to complete the Feasibility Study and the ESIA in order to demonstrate that the Maoling Gold Project could be developed in a sustainable and environmentally responsible manner.

Mundoro Mining has completed engineering and environmental studies for the development of the Maoling Gold Project and has updated that work as it relates to evolving mining and environmental regulations in China, and provided this information to Aidi, and communicated main findings to senior officials in the Liaoning government. In January



2010, the Company delivered to senior officials in the Liaoning government, "A Study on Yushi Reservoir Water Source Protection Zoning and Analysis of Impact of Maoling project on Water Source Protection."

The Company received a letter in March 2010 ("Aidi March 2010 Letter") from Aidi, suggesting that the parties immediately negotiate to terminate the Maoling Gold Project and liquidate the joint venture company. The reasons cited for the proposed termination and liquidation were Chinese environmental regulations related to water and nature reserve zoning made it impossible for Tianli to conduct mining activities at the Maoling Gold Project and as a result, in Aidi's opinion, force majeure occurred. The Company responded to the Aidi March 2010 Letter with a letter ("Mundoro March 2010 Letter") explaining the reasons why the Company does not intend to terminate the joint venture or liquidate the joint venture company, which are based on the technical studies and review of the regulations, and presented a proposal for the renewal of the joint venture company's business license in order to be allowed to complete the Feasibility Study and the ESIA in order to demonstrate the Maoling Gold Project could be developed in a sustainable and environmentally responsible manner. Mundoro does not believe force majeure under the joint venture contract occurred. In response to the Mundoro March 2010 Letter, Mundoro Mining received a letter from Aidi in July 2010 ("Aidi July 2010 Letter") which was in all material respects similar to the Aidi March 2010 Letter and did not address any of the points raised by Mundoro Mining in the Mundoro March 2010 Letter. Mundoro Mining responded to the Aidi July 2010 Letter in August 2010 with a letter ("Mundoro August 2010 Letter") requesting to have an official board meeting to discuss the proposal Mundoro Mining outlined in the Mundoro March 2010 Letter and reiterating Mundoro Mining believes the work completed to date by Chinese and international engineering and environmental firms demonstrates the Maoling Gold Project can be developed in a sustainable and responsible manner with no significant impact on the downstream water storage facilities supplying Yingkou City and Dalian. The Company has received no official response to the Mundoro August 2010 Letter.

The Company has conveyed the economic and environmental merits of the Maoling Gold Project to various levels of the provincial and national governments in China. The Company has also sought assistance from the Canadian Embassy in Beijing and the Canadian government in Ottawa in communicating with the Chinese government regarding Tianli's business license and exploration license for the Maoling Gold Project.

The Company is continuing its efforts to communicate with the Liaoning government and Aidi regarding the status of Tianli and the future development of the Maoling Gold Project.

Summary of Recent Technical and Environmental Work

In January 2008, Ausenco provided a draft interim report to the Company on the status of the feasibility study which remains incomplete. Because of the delays in the renewal of Tianli's business license, certain portions of the feasibility study, such as geotechnical drilling for the final pit slope design in Zone 1 and final Chinese cost estimations, cannot be completed at this stage. It is anticipated that once Tianli's business license is renewed, the remaining engineering work needed to produce a NI 43-101 compliant feasibility study and a full ESIA for Maoling will be completed.

In May 2009 a further report titled "A Technical Evaluation Study on Production Process of the Maoling Gold Project" was issued by Guojie Senior Professors Science and Technology Consultation and Development Academy, Department of Environmental Science and Engineering, Tsinghua University in Beijing indicating Maoling can be developed as per the feasibility study and treated in China as an example of an eco-industrial system for the gold industry.

In response to the evolving mining and environmental regulations in China and lack of local understanding of environmental processes for the Maoling Gold Project, in the fourth quarter of 2009 and first quarter of 2010 Mundoro revised the processing plant circuit, the tailings storage facility and updated the water management plan for the Maoling Gold Project. Mundoro completed three key reports: (i) a report by Ausenco on the use of a revised processing plant circuit from that of the 2005 Pre-Feasibility Study to now use a combination processing circuit of gravity, flotation and Carbon in Leach ("CIL") for the Maoling ore; and (ii) a report by Golder to provide revised tailings storage facility design from that of the 2005 Pre-Feasibility Study as a result of the revised processing plant circuit; and in January 2010 (iii) a report titled "A Study on Yushi Reservoir Water Source Protection Zoning and Analysis of Impact of Maoling

project on Water Source Protection” prepared for the Company by three Chinese design institutes on the environmental considerations for mine development in the Maoling area and how that pertains to Chinese government mining and environmental regulations.

6. FINANCIAL HIGHLIGHTS

The Company's loss for 2010 was \$3,416,804 (\$0.09 per share) compared to a loss of \$4,725,783 (\$0.12 per share) for 2009. The 2010 loss was principally attributable to the following:

- Expenditures for Maoling project management activities of \$375,305 in 2010, compared to \$518,670 in 2009.
- Expenditures for corporate expenses of \$2,126,950, compared to \$2,060,128 in 2009 which includes a
- Foreign exchange loss of \$343,233, compared to a foreign exchange loss of \$637,748 in 2009.
- Stock-based compensation expense of \$218,553, compared to \$1,546,874 in 2009.
- Litigation settlement of \$389,883, compared to \$0 in 2009.

The Company ended 2010 with \$9,338,122 in cash and cash equivalents, and no debt.

7. SUMMARY OF QUARTERLY RESULTS

The following quarterly information is prepared in accordance with Canadian GAAP. The Company's measurement or functional currency is the Canadian dollar and its reporting currency is the U.S. dollar.

<i>US\$000's, except per share data</i>	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09⁽³⁾	Q1/09⁽³⁾
Interest income	\$20	\$17	\$7	\$4	\$5	\$5	\$6	\$34
Project management costs	50	91	69	165	298	59	94	68
Corporate expenses ⁽¹⁾	611	509	437	570	546	442	618	455
Other expenses (income) ⁽²⁾	786	402	(336)	110	1,095	426	592	84
Income (loss) for the period	(1,427)	(985)	(163)	(842)	(1,934)	(922)	(1,298)	(573)
Income (loss) per share, basic and fully diluted	\$(0.04)	\$(0.02)	\$(0.01)	\$(0.02)	\$(0.05)	\$(0.02)	\$(0.03)	\$(0.01)

- (1) Corporate Expenses include accounting and audit, corporate development, corporate governance, government and community relations, corporate communication and marketing, and general and administrative expenses.
- (2) Other Expenses include stock-based compensation, litigation settlement of \$389,883 in 4Q 2010, foreign exchange loss (gain), amortization and loss on disposal of equipment.
- (3) During 2009, the Company restated the financial statements for the three months ended March 31, 2009 and the six months ended June 30, 2009 to be consistent with the method of foreign currency translation used for consolidation in periods prior to January 2009.

The principal factors that cause fluctuations in the Company's quarterly results include: (i) the timing of stock option grants; (ii) mark-to-market adjustments on restricted share units; and, (iii) foreign exchange gains or losses that principally result from Canadian dollar exchange rate fluctuations when translating the Company's U.S. dollar denominated cash balances into its Canadian dollar functional currency.

8. RESULT OF OPERATIONS

The following selected annual information is prepared in accordance with Canadian GAAP. The Company's measurement or functional currency is the Canadian dollar and its reporting currency is the U.S. dollar.

	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Interest Income	\$47,935	\$49,820	\$437,381
Project Management Costs	375,305	518,670	484,615
Corporate Expenses			
Accounting and Audit	262,264	240,390	310,057
Corporate Communication and Marketing	233,689	231,107	333,090
Corporate Development	615,946	462,278	316,431
Corporate Governance	332,891	415,831	252,237
Government and Community Relations	342,878	317,116	290,919
General and Administrative	339,282	393,406	317,053
Total Corporate Expenses	2,126,950	2,060,128	1,819,787
Other Expenses			
Amortization	7,158	10,943	17,847
Foreign Exchange Loss (Gain)	343,233	637,748	(850,284)
Loss on disposal of equipment	3,657	1,240	14,430
Litigation settlement	389,883	-	-
Stock-based Compensation	218,553	1,546,874	201,069
Total Other Expenses (Income)	962,484	2,195,565	(616,938)
Income (Loss) for the Year	\$(3,416,804)	\$(4,725,783)	\$(1,250,083)
Income (Loss) per Share, Basic and Fully Diluted	\$(0.09)	\$(0.12)	\$(0.03)
Total Assets	\$9,511,047	\$12,285,116	\$14,199,050
Total Long Term Liabilities	Nil	\$102,639	Nil
Cash Dividends per Share	Nil	Nil	Nil



Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

The Company's loss for the year ended December 31, 2010 was \$3,416,804 (\$0.09 per share), a decrease of \$1,308,979 when compared to the loss for the year ended December 30, 2009 of \$4,725,783 (\$0.12 per share). The decrease in loss for 2010 is primarily due to the following:

- The Company's project management expenditures on the Maoling project for the year were \$375,305, a decrease of \$143,365 when compared to the preceding year. The decrease principally resulted from various project design and technical studies prepared by consultants in 2009, whereas there were no such studies prepared in 2010.
- The Company incurred a foreign exchange loss of \$343,233 in 2010 as compared to a foreign exchange loss of \$637,748 in 2009. The foreign exchange loss in 2010 and 2009 primarily results from a strengthening of the Canadian dollar relative to the U.S. dollar and the resulting effect on the translation of U.S. dollar cash balances into the Canadian dollar functional currency.
- Stock-based compensation decreased from \$1,546,874 in 2009 to \$218,553 in 2010. The decrease of \$1,328,321 was principally due to mark-to-market adjustments on restricted share units, and the payment of 1,364,499 RSUs in 2009 as compared to only 170,001 in 2010. The Company's share price decreased during 2010 from C\$1.23 at December 31, 2009 to C\$0.65 at December 31, 2010, whereas the share price increased from C\$0.26 at December 31, 2008 to C\$1.23 at December 31, 2009.

9. FEASIBILITY STUDY AND ESIA ACTIVITIES

The Feasibility Study commenced in December 2005 and has to date accumulated costs of \$3,550,062 under Ausenco's supervision as project manager. The Environmental & Social Impact Assessment Study has to date accumulated costs of \$1,567,621. The Feasibility Study has been essentially completed, and it is anticipated that once Tianli's business license issue is resolved, the remaining engineering work will be completed to produce a NI 43-101 compliant feasibility study and a full ESIA for Maoling.

10. FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity as at December 31, 2010 was cash and cash equivalents totaling \$9,338,122 (December 31, 2009 – \$12,134,801).

The Company believes it has sufficient funds to cover current corporate commitments and when required, completion of a feasibility study and a full ESIA for the development of Maoling. Additional funds would be required to complete construction at Maoling. When required, the Company will explore appropriate financing routes which may include any one of, or combination of: issuance of share capital, funding through strategic partnership, project debt, convertible securities or other financial instruments. Although the intent would be to plan and arrange the necessary project debt financing to build a mine at Maoling, there is no assurance that all of the required debt and equity financing can be raised. Certain of these financing sources may be with recourse to the Company. Decisions with respect to financing alternatives will be made at the time of a new project acquisition or at time of production decision for Maoling.

When considering new project acquisitions, joint ventures or project investments, the Company will carefully consider the implications of such investments against the Company's need for cash to sustain current activity.

With the exception of interest earned on investments, the Company does not have revenue and relies upon equity financings to fund its ongoing business operations.

11. SHARE CAPITAL

As of February 25, 2011, the Company had one class of common shares issued and 38,399,276 shares outstanding. In addition, the Company had 1,962,501 stock options outstanding and exercisable at prices ranging from \$0.49 to \$2.06.

12. OFF BALANCE SHEET ARRANGEMENTS

There are no off balance sheet arrangements for the Company.

13. USE OF FINANCIAL INSTRUMENTS

The Company is not in a situation where it needs to enter into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The principal financial instruments affecting the Company’s financial condition and results of operations are currently its cash. The Company is exposed to insignificant interest rate risk with respect to its cash, cash equivalents and accounts receivable given extremely low market interest rates. The majority of the Company’s cash has been placed with a Canadian Chartered Bank. The majority of the Company’s cash equivalents are in commercial paper, bankers’ acceptances and other money market instruments issued by Canadian Federal and Provincial governments and other entities with a Dominion Bond Rating Service credit rating of R1M or higher. Other accounts receivable represent amounts owing from government agencies and related parties. The Company does not hold any asset-backed commercial paper.

14. CRITICAL ACCOUNTING ESTIMATES

A detailed summary of all the Company’s significant accounting policies is included in Note 2 to the audited Consolidated Financial Statements for December 31, 2010. 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 accounts 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 determining the variables used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

15. CONTRACTUAL OBLIGATIONS

The Company’s only contractual obligations consist of operating lease commitments for office space in Beijing and Vancouver and are summarized as follows:

	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Operating leases	\$51,701	\$116,746	\$9,797	--	\$178,244



16. INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The effective implementation date of the conversion from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2011, with an effective transition date of January 1, 2010 for financial statements prepared on a comparative basis. The Company has substantially completed an IFRS assessment and conversion process which included consultation with our external auditors.

The Company's approach to the conversion to IFRS included three phases.

- Phase One, an initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS, was completed in 2009.
- Phase Two, an in depth analysis of the impact of those areas identified under phase which was completed in the fourth quarter of 2010.
- Phase Three, the implementation of the conversion process, through the preparation of the opening balance sheet as at January 1, 2010, was completed in the fourth quarter of 2010.

The Company's IT, accounting and financial reporting systems were not significantly impacted by the conversion to IFRS. Further, the Company has in place internal and disclosure control procedures to ensure continued effectiveness during this transition period. Based on the review undertaken under Phase One and the work performed under Phases Two and Three, the Company concluded that IFRS had a limited impact on its current financial position. At the same time, IFRS will likely require more extensive disclosure and analysis of balances and transactions in the notes to the financial statements. The specific accounting areas the Company has focused its analysis on are outlined below together with the more salient issues under each area.



Key Area	Canadian GAAP (applied by the Company)	IFRS	Analysis and Preliminary Conclusions
Property plant and equipment	<p>PP&E is recorded at historical cost</p> <p>Depreciation is based on their useful lives after due estimation of their residual values</p>	<p>PP&E can be recorded using the cost (on transition to IFRS, the then fair value can be deemed to be the cost) or revaluation models</p> <p>Depreciation must be based on the useful lives of each significant component within PP&E</p>	<p>PP&E will continue to be recorded at historical costs due to the complexity and resources required to determine fair values on an annual basis</p> <p>Based on an analysis of PP&E's significant components and their useful lives, changes to their useful lives and, therefore, depreciation rates and expenses, will not be required</p>
Mineral properties	<p>Exploration, evaluation and development costs are expensed when incurred</p>	<p>IFRS has limited guidance with respect to these costs and currently allows exploration and evaluation costs to be either capitalized or expensed</p>	<p>The existing accounting policy will be maintained.</p>
Stock-based compensation	<p>Stock-based compensation for equity-settled awards is determined on the grant date, using fair value model of Black-Scholes, and is recognized on a straight-line basis on the vesting date. Stock based compensation for cash-settled awards is measured at each reporting date and at the settlement date, using the intrinsic model. Forfeitures are accounted for as they occur.</p>	<p>Stock-based compensation for equity-settled and cash-settled awards is determined by the same valuation models. However, for equity-settled awards, stock-based compensation under IFRS is recognized on a graded method over the vesting period, with each vesting tranche valued separately. For cash-settled awards, upon settlement, it is adjusted to the value actually realized (intrinsic model) same as Canadian GAAP. Forfeitures are required to be estimated with a true-up based on actual forfeitures upon vesting.</p>	<p>Stock-based compensation for equity-settled awards will be recalculated and shown as a difference in the opening IFRS balance sheet.</p>
Foreign currency	<p>The functional currency of the Company is the Canadian dollar, whereas its reporting currency is the US dollar. A company is not explicitly required to assess the unit of measure (functional currency) in which it measures its own assets, liabilities, revenues</p>	<p>A company measures its assets, liabilities, revenues and expenses in its functional currency, which is the currency of the primary economic environment in which it operates. IFRS requires that the functional currency of</p>	<p>The functional currency determination under IFRS for the company's Chinese subsidiary will change from the Canadian dollar to the RMB, and will therefore result in a difference in the opening balance IFRS balance sheet.</p>



Key Area	Canadian GAAP (applied by the Company)	IFRS	Analysis and Preliminary Conclusions
	and expenses; rather, it only assesses the functional currency of its foreign operations.	each entity in the consolidated group be determined separately. IFRS allows the presentation currency to be different from the functional currency.	
Accumulated Foreign Currency Translation Adjustment	The foreign exchange effect of translating financial statements from an entity's functional currency into the reporting currency is recorded as a foreign currency translation adjustment within shareholders' equity.	The foreign exchange effect of translating financial statements from the functional currency into the presentation (reporting) currency is also recorded as a foreign currency translation adjustment within shareholders' equity.	A first-time adopter may elect not to calculate the translation difference related to foreign operations retrospectively. Instead, an entity may reset translation differences at the date of transition, determined in accordance with previous Canadian GAAP, to zero. The requirements of IAS 21 "Effects of Changes in Foreign Exchange Rates" are then applied prospectively from the date of transition. The Company will apply this exemption in its opening IFRS balance sheet.

The accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the Company's financial statements in subsequent years, including projects regarding income taxes, financial instruments and joint venture accounting. In addition, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures, but this is still in the discussion paper stage and may not be completed for some time. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its transition process to IFRS.

17. DISCLOSURE CONTROLS AND PROCEDURES UPDATE

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Mundoro is accumulated and communicated to the management as appropriate to allow timely decisions regarding required disclosure. The Company has concluded, based on its evaluation as of the end of the year, the disclosure controls and procedures are effective to provide reasonable assurance that material information related to Mundoro, including the consolidated subsidiaries, is made known to them by others within both entities. It should be noted that while the Company believes that the disclosure controls and procedures provide a reasonable level of assurance and that they are effective, it does not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.



18. INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company is responsible for designing internal controls over financial reporting or causing them to be designed under the supervision of the CEO and CFO in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company has assessed the design of the internal control over financial reporting and during this process the Company identified certain weaknesses in internal controls over financial reporting which are as follows:

- Due to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties.
- Due to the size of the Company and the limited number of staff, the Company does not have the optimum complement of personnel with all the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise. Hence the Company hires external accounting firms to assist in the completion of such transactions.

These weaknesses in the Company's internal controls over financial reporting may result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

19. RISKS AND UNCERTAINTIES

An investment in the securities of the Company is speculative due to the nature of the Company's business and the present stage of exploration and development of its mineral properties. Risk factors relating to the Company could materially affect the Company's future results and could cause them to differ materially from estimates described in forward-looking statements made by the Company. Prospective investors should carefully consider these risk factors along with the other matters set out or incorporated by reference in the Annual Information Form which has been filed on the SEDAR website at www.sedar.com, and include but are not limited to:

Any mineral property in which Mundoro Capital holds an interest directly or indirectly, now or in the future, may be subject to changes in environmental laws and regulations that may adversely affect those operations.

Environmental laws and regulations may affect the operations of Mundoro Capital. Mundoro Capital minimizes these risks by complying with all applicable and international environmental, health and safety standards and regulations. Environmental legislation may change and make the mining and processing of ore uneconomic or result in significant environmental or reclamation costs. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. In addition, certain types of operations require the submission of environmental impact statements and approval by government authorities. Environmental legislation is evolving towards stricter standards, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Permits from a variety of regulatory authorities are required for many aspects of mineral exploitation activities, including closure and reclamation.

Future environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. The Company's business may be affected by amendments or changes to environmental laws, regulations and requirements in the host country. At any time, a number of draft environmental laws may be proposed. It is not possible to predict when or if a draft environmental bill will be enacted into law or what the final provisions of such law will be, if enacted. It is possible that the host country government will issue further decrees or otherwise attempt to modify existing environmental rights or other laws affecting the Company, its properties and its ability to operate in the host country. Any changes to host country environmental law may adversely affect the Company's ability to develop and operate its properties in the host



country. Globally, environmental legislation is evolving towards stricter standards and enforcement, more stringent environmental impact assessments of new mining projects and increasing liability exposure for companies and their directors and officers. There is no assurance that future environmental regulations will not adversely affect Mundoro Capital's operations.

The Company may be unsuccessful in obtaining permits and licenses in a timely manner for any mineral property in which Mundoro Capital is in the process of evaluating as a strategic investment and/or holds an interest directly or indirectly in an exploring, developing and/or operating mineral property now or in the future.

Exploration, development and operation of mineral property are subject to laws and regulations governing health and worker safety, employment standards, environmental matters, mine development, project development, mineral production, permitting and maintenance of title, exports, taxes, labour standards, reclamation obligations, heritage and historic matters and other matters. The Company is required to have a wide variety of permits from government and regulatory authorities to carry out its activities. These permits relate to virtually every aspect of the Company's exploration and exploitation activities. The owners and operators of the properties in which Mundoro Capital holds an interest require licenses and permits from various governmental authorities in order to conduct their operations. Future changes in such licenses and permits could have a material adverse impact on the costs Mundoro Capital incurs. Such licenses and permits are subject to change in various circumstances and are required to be kept in good standing through a variety of means, including cash payments and satisfaction of conditions of issue. There can be no guarantee that Mundoro Capital or the operators of those properties in which Mundoro Capital holds an interest, will be able to obtain or maintain all necessary licenses and permits in good standing that may be required to explore, develop and operate the properties, commence construction or operation of mining operations that economically justify the cost. Any failure to comply with applicable laws and regulations, permits and licenses, or to maintain permits and licenses in good standing, even if inadvertent, could result in interruption or closure of exploration, development or mining operations or fines, penalties or other liabilities accruing to the owner or operator of the project. Any such occurrence could cause the termination of operations on the property, and thereby have a material and adverse effect on Mundoro Capital's results of operation and financial condition.

Mundoro Capital has no history of operations and there can be no assurance that it will be successful or profitable.

While members of management have investment experience, there can be no assurance that Mundoro Capital's management will be able to successfully execute Mundoro Capital's business model and growth strategy. If Mundoro Capital cannot execute its business model and growth strategy, it may result in a material and adverse effect on Mundoro Capital's profitability, results of operation and financial conditions. The Company has never paid a dividend on its common shares and does not expect to do so in the foreseeable future.

Uncertainty of exploration and development of properties.

Exploration and development projects are uncertain and consequently, it is possible that actual cash operating costs and economic returns will differ significantly from those estimates for a project prior to production. Mineral resource exploration and development is a highly speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. There can be no assurance that the Company will successfully acquire additional mineral rights. While discovery of additional ore bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration and development programs of the Company will result in profitable commercial mining operations. The profitability of the Company's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Development projects are subject to the completion of successful feasibility studies and environmental assessments, issuance of necessary governmental permits and receipt of adequate financing. They typically require a number of years and significant expenditures during the development



phase before production is possible. The economic feasibility of development projects is based on many factors such as: estimation of reserves; anticipated metallurgical recoveries; environmental considerations and permitting; future gold prices; and anticipated capital and operating costs.

Increased competition for resource investments could adversely affect Mundoro Capital's ability to acquire additional resource investments.

The mining industry is competitive with many companies competing for the limited number of precious metal acquisition and exploration opportunities that are economic under current and foreseeable metals prices, as well as for available investment funds. With metal prices at their current levels, activity in the industry has increased dramatically. Many companies are engaged in the search for and the acquisition of mineral interests, and there is a limited supply of desirable mineral interests. The mineral exploration and mining business are competitive in all phases. Mundoro Capital may be at a competitive disadvantage in acquiring interests, whether by way of investment or otherwise, as many competitors have greater financial resources and technical staff. Accordingly, there can be no assurance that Mundoro Capital will be able to compete successfully against other companies in acquiring new mineral properties. Mundoro Capital's inability to acquire additional investments in mineral properties may result in a material and adverse effect on Mundoro Capital's results in operation and financial condition.

Mundoro Capital may experience difficulty attracting and retaining qualified management and technical personnel to efficiently operate its business.

The success of Mundoro Capital will be largely dependent on the performance of its management team. The loss of the services of these persons would have a materially adverse effect on Mundoro Capital's business and prospects. There is no assurance Mundoro Capital can retain the services of its officers or other qualified personnel required to operate its business.

Changes in the market price of commodities.

Mundoro Capital's revenues, if any, are expected to be in large part derived from the sale of natural resource assets. The price of natural resource assets fluctuates widely and is affected by factors beyond the control of Mundoro Capital including, but not limited to, international economic and political trends, currency exchange fluctuations, economic inflation and expectations for the level of economic inflation in the consuming economies, interest rates, global and local economic health and trends, speculative activities and changes in the supply of precious metals due to new mine developments, mine closures as well as advances in various production and use technologies of precious metals. All of these factors will have impacts on the viability of Mundoro Capital's exploration projects that are impossible to predict.

Mundoro Capital's financials may be subject to variations in currency and foreign exchange rates.

It is anticipated that Mundoro Capital's resource investments will be made in Canadian and US dollars and Mundoro Capital may also make resource investments denominated in other foreign currencies. Therefore, changes in currency exchange rates as well as associated transaction costs could adversely affect the value of the Company's resource investments during any period. In addition, the Company could also make investments in jurisdictions which may place restrictions on the repatriation of funds. The Company does not anticipate entering into hedging or derivative arrangements to manage its foreign exchange risk.

There can be no assurance that Mundoro Capital will be able to obtain sufficient financing in the future to execute its business plan.

Mundoro Capital has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for further exploration and development of its projects. There can be no assurance that Mundoro Capital will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement



of further business activities and may result in a material adverse effect on Mundoro Capital's profitability, results of operation and financial condition. Mundoro Capital will require new capital to grow its business and there are no assurances that capital will be available when needed, if at all. It is likely that such additional capital will be raised through the issuance of additional equity, which will result in dilution to Mundoro Capital's shareholders.

Mundoro Capital's Common Shares may experience price volatility.

In recent years, the securities markets have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the common shares will be subject to market trends generally, notwithstanding any potential success of Mundoro Capital in creating revenues, cash flows or earnings. The value of Mundoro Capital's common shares will be affected by such volatility.

Limited Number of Investments.

The Maoling Gold Project operated and managed by Mundoro Mining currently constitutes the only investment for Mundoro Capital. The Company intends to participate in a limited number of investments and, as a consequence, the aggregate return of the Company may be substantially adversely affected by the unfavourable performance of even a single investment. In addition, as the Company's investments are expected to be concentrated in the resource sector, the Company's performance will be disproportionately subject to adverse developments in the resource sector.

Certain of Mundoro Capital's directors serve in similar positions with other public companies, which may put them in a conflict position from time to time.

Certain of the directors of Mundoro Capital also serve as directors or officers, or have significant shareholdings in, other companies involved in mineral property investments and, to the extent that such other companies may participate in ventures which Mundoro Capital may participate in, a conflict may arise. In all cases where directors and officers have an interest in other companies, such other companies may also compete with Mundoro Capital for the acquisition of mineral property investments. Such conflicts of the directors and officers may result in a material and adverse effect on Mundoro Capital's results of operation and financial condition.

Any mineral property in which Mundoro Capital holds an interest directly or indirectly, now or in the future, may be subject to hazards and risks beyond the control of Mundoro Capital.

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and Mundoro Capital may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of Mundoro Capital.

Any mineral property in which Mundoro Capital holds an interest directly or indirectly, now or in the future is subject to reserves and resources estimates based on interpretation and assumption and actual production may differ from amounts identified in such estimates.

The mineral reserves and resources identified on properties are estimates only, and no assurance can be given that the estimated reserves and resources are accurate or that the indicated level of minerals will be produced. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralization or formations may be different from those predicted. Further, it may take many years from the initial phase of drilling before production is possible, and during that time the economic feasibility of exploiting a



discovery may change. Resource estimates in particular must be considered with caution. Resource estimates for properties that have not commenced production are based, in many instances, on limited and widely spaced drill holes or other limited information, which is not necessarily indicative of the conditions between and around drill holes. Accordingly, such resource estimates may require revision as more drilling or other exploration information becomes available or as actual production experience is gained. Further, resources may not have demonstrated economic viability and may never be extracted by the operator of a property. It should not be assumed that any part or all of the mineral resources on properties constitute or will be converted into reserves. Market price fluctuations of the applicable commodity, as well as increased production and capital costs or reduced recovery rates, may render the proven and probable reserves on properties unprofitable to develop at a particular site or sites for periods of time or may render reserves containing relatively lower grade mineralization uneconomic. Moreover, short-term operating factors relating to the reserves, such as the need for the orderly development of orebodies or the processing of new or different ore grades, may cause reserves to be reduced or not extracted. Estimated reserves may have to be recalculated based on actual production experience. Any of these factors may require the operators to reduce their reserves and resources, which may result in a material and adverse effect on Mundoro Capital's results of operation and financial condition.

Any mineral property in which Mundoro Capital holds an interest directly or indirectly, now or in the future, may be subject to unforeseen and unknown title defects.

A defect in the chain of title to any of the underlying properties in which Mundoro Capital may have an interest may arise to defeat the claim of the operator to a property. To the extent an owner or operator is not entitled to title on the property, it may be required to cease operations or transfer operational control to another party. As a result, known title defects, as well as unforeseen and unknown title defects may impact operations at a project in which Mundoro Capital has an interest and may result in a material and adverse effect on Mundoro Capital's results of operation and financial condition.

Any mineral property in which Mundoro Capital holds an interest directly or indirectly, now or in the future, may be exposed to risks of changing political attitudes and stability and ensuing changes in government regulation in the countries in which it holds its interests.

The properties in which Mundoro Capital or its affiliates may hold an interest may be located in multiple legal jurisdictions and political systems. There is sovereign risk in investing in foreign countries, including the risk that the resource concessions may be susceptible to revision or cancellation by new laws or changes in direction by the government in question. It is possible that changes in applicable laws, regulations, or changes in their enforcement or regulatory interpretation could result in adverse changes to mineral operations. These are matters over which Mundoro Capital has no control. There is no assurance that future political and economic conditions in such countries will not result in the adoption of different policies or attitudes respecting the development and ownership of resources. Any such changes in policy or attitudes may result in changes in laws affecting ownership of assets, land tenure and resource concessions, taxation, royalties, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, which may affect both the ability to undertake exploration and development on the properties on which Mundoro Capital holds royalty or other interests. In certain areas in which Mundoro Capital has an interest, the regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. Any changes in governmental laws, regulations, economic conditions or shifts in political attitudes or stability are beyond the control of Mundoro Capital and such changes may result in a material and adverse effect on Mundoro Capital's results of operation and financial condition.

Operations in foreign countries may limit or disrupt Mundoro Capital's operations, restrict the movement of funds or result in the deprivation of contractual rights of the taking of property by nationalization or expropriation without fair compensation.

The Company's future concessions and operations in foreign countries are subject to the political risks and uncertainties associated with investment in a foreign country. The Company's interests located in foreign countries are subject to



foreign countries' federal and state laws and regulations. As a result, the Company's mining investments are subject to the risks normally associated with the conduct of business in foreign countries. Investors should assess the political risks of investing in a foreign country. Any variation from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Company. In addition, the enforcement by the Company of its legal rights to exploit its properties may not be recognized by the government of the foreign country or by its court system.

Any mineral property in which Mundoro Capital holds an interest directly or indirectly, now or in the future, may be subject to potential litigation.

Potential litigation may arise with respect to a property in which Mundoro Capital is in the process of evaluating as a strategic investment and/or holds an interest directly or indirectly in an exploring, developing and/or operating mineral property now or in the future (for example, litigation between joint venture partners or original property owners). Mundoro Capital might not generally have any influence on the litigation nor will it necessarily have access to data. To the extent that litigation results in the cessation or reduction of production from a property (whether temporary or permanent), it could have a material and adverse effect on Mundoro Capital's results of operations and financial condition.

Other risk factors include issues relating to: results of prior exploration work; estimates of reserves and resources; economics of mine development; uninsurable risks; gold sales; currency repatriation and conversion; industry competition for resource investments and experienced management professionals; management performance and succession; price volatility of publicly traded securities; and the residency of directors and others.

20. QUALIFIED PERSONS & INFORMATION CONCERNING ESTIMATES OF RESOURCES

The Pre-Feasibility Study ("PFS") described herein was prepared to broadly quantify the Maoling Zone 1 deposit's capital and operating cost parameters, and to further the development of the project. It was not prepared for use as a valuation of the deposits, nor should it be considered to be a final feasibility study. The information contained in the PFS reflects various technical and economic conditions at the time of writing that can change significantly over relatively short periods of time. Reserves quoted were prepared by AMEC Americas Ltd. under the direction and oversight of Mr. Mark Pearson P.Eng. of Vancouver, BC, an 'Independent Qualified Person' as defined by National Instrument 43-101. Resource estimation for the Zone 1 area in 2006 was carried out in the Brisbane, Australia office of Golder Associates Pty Limited, an international earth sciences consulting group under the direction and oversight of Dr. Andrew Richmond, MAusIMM, an 'Independent Qualified Person' as defined by NI43-101. The Zone 4 Resource Estimate (2001) was prepared by AMEC Americas and is reviewed in a technical report prepared by Peter Lewis, Ph.D., P.Geo., NI43-101 compliant technical reports for the pre-feasibility study and all reserve and resource estimates have been filed on the SEDAR website at www.sedar.com. This management discussion and analysis of financial results used the terms "measured resources", 'indicated resources' and 'inferred resources'. The Company advises investors that although these terms are recognized and required by Canadian regulations (under National Instrument 43-101 Standards of Disclosure for Mineral Projects), the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves. In addition, 'inferred resources' have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for Preliminary Assessment as defined under 43-101. Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable. Mineral Resources that are not classified as mineral reserves do not have demonstrated economic viability.



MUNDORO
CAPITAL

Consolidated Financial Statements and Notes
For the Fiscal Year Ended December 31, 2010

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mundoro Capital Inc.

We have audited the accompanying consolidated financial statements of **Mundoro Capital Inc.**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss and deficit, loss and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Mundoro Capital Inc.** as at December 31, 2010 and 2009, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
February 28, 2011.

Ernst & Young LLP

Chartered Accountants

MUNDORO CAPITAL INC.

(an exploration stage company)

Consolidated Balance Sheets

December 31, 2010 and 2009

(Expressed in United States Dollars)

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,338,122	\$ 12,134,801
Amounts receivable	47,823	35,453
Prepaid expenses	52,985	32,337
Deposits	16,678	18,377
	9,455,608	12,220,968
Mineral interests (Note 3)	100	100
Equipment and vehicles (Note 5)	55,339	64,048
Total Assets	\$ 9,511,047	\$ 12,285,116
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 201,961	\$ 397,944
Current portion of compensation liabilities (Note 7)	71,785	167,673
	273,746	565,617
Long term compensation liabilities (Note 7)	-	102,639
SHAREHOLDERS' EQUITY		
Share capital (Note 6 (b))	35,873,603	35,873,603
Contributed surplus (Note 6 (d))	7,752,299	7,470,954
Deficit	(38,845,493)	(35,428,689)
Accumulated other comprehensive income (Note 13)	4,456,892	3,700,992
Total Shareholders' Equity	9,237,301	11,616,860
Total Liabilities and Shareholders' Equity	\$ 9,511,047	\$ 12,285,116

Nature of operations (Note 1)

Commitments (Note 8)

Segmented information (Note 9)

Approved by the Directors:

"Thomas Allen"
Thomas Allen"Teo Dechev"
Teo Dechev

MUNDORO CAPITAL INC.

(an exploration stage company)

Consolidated Statements of Loss and Deficit

Years Ended December 31, 2010 and 2009

(Expressed in United States Dollars)

	2010	2009
Interest	\$ 47,935	\$ 49,820
Project management costs (Note 4)	375,305	518,670
Expenses		
Accounting and audit	262,264	240,390
Corporate communication and marketing	233,689	231,107
Corporate development	615,946	462,278
Corporate governance	332,891	415,831
Government and community relations	342,878	317,116
General and administrative	339,282	393,406
	2,126,950	2,060,128
Loss before other expenses	(2,454,320)	(2,528,978)
Other expenses		
Amortization	7,158	10,943
Foreign exchange loss	343,233	637,748
Loss on disposal of equipment	3,657	1,240
Litigation settlement (Note 14)	389,883	-
Stock based compensation (Note 7)	218,553	1,546,874
Loss for the year	(3,416,804)	(4,725,783)
Deficit, beginning of year	(35,428,689)	(30,702,906)
Deficit, end of year	\$ (38,845,493)	\$ (35,428,689)
Loss per share, basic and diluted	\$ (0.09)	\$ (0.12)
Weighted average shares outstanding:		
Basic and diluted	38,340,301	38,340,301

MUNDORO CAPITAL INC.

(an exploration stage company)

Consolidated Statements of Loss and Comprehensive Loss

Years Ended December 31, 2010 and 2009

(Expressed in United States Dollars)

	2010	2009
Loss for the year	\$ (3,416,804)	\$ (4,725,783)
Effect of exchange rate changes	755,900	2,012,792
Comprehensive loss for the year	\$ (2,660,904)	\$ (2,712,991)

MUNDORO CAPITAL INC.

(an exploration stage company)

Consolidated Statements of Cash Flows

Years Ended December 31, 2010 and 2009

(Expressed in United States Dollars)

	2010	2009
Cash flows provided by (used in) operating activities		
Loss for the year	\$ (3,416,804)	\$ (4,725,783)
Adjustments for items not involving cash:		
- amortization	7,587	24,356
- loss on disposal of equipment	3,657	1,240
- stock-based compensation	218,553	1,546,874
	<u>(3,187,007)</u>	<u>(3,153,313)</u>
Change in non-cash working capital:		
- (increase) decrease in accounts receivable	(12,370)	1,115
- (increase) decrease in prepaid expenses	(20,648)	77,165
- decrease in deposits	1,698	42
- (decrease) increase in accounts payable and accrued liabilities	(195,983)	286,309
	<u>(3,414,310)</u>	<u>(2,788,682)</u>
Cash flows used in financing activities		
Restricted share units exercised for cash	(135,734)	(1,034,126)
	<u>(135,734)</u>	<u>(1,034,126)</u>
Effect of exchange rate changes on cash and cash equivalents	753,365	2,002,117
Decrease in cash and cash equivalents	(2,796,679)	(1,820,691)
Cash and cash equivalents, beginning of year	12,134,801	13,955,492
Cash and cash equivalents, end of year	<u>\$ 9,338,122</u>	<u>\$ 12,134,801</u>

1. Nature of Operations

Mundoro Capital Inc. (the “Company” or “MCI”) is an exploration, development and investment company in the resource 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. (“Mundoro Mining” or “MMI”), which is now a wholly owned subsidiary of the Company, through a Plan of Arrangement. 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. MMI’s principle business focus is exploration and development of the Maoling Gold Property in China. The business of exploration and development involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations.

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, 2010, Tianli 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 GAAP 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.

(c) Financial Instruments

Financial instruments are classified as one of the following: loans and receivables, held-to-maturity, held-for-trading, available-for-sale and other financial liabilities. Financial instruments are measured on the balance sheet at amortized cost or fair value depending on the classification. Loans and receivables, held-to-maturity and other financial liabilities are accounted for at amortized cost. Held-for-trading and available-for-sale financial instruments are recorded at fair value. Changes in fair value of held-for-trading financial instruments are recognized in operations while changes in fair value of available-for-sale financial instruments are initially recorded in other comprehensive income or loss.



2. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

(d) 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.

(e) Cash Equivalents

Cash equivalents as at December 31, 2010 included short-term money market instruments which had a term to maturity of 90 days or less when acquired.

(f) Equipment and Vehicles

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

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

(g) Foreign Currency Translations

The functional currency of the Company and each of its subsidiaries is the Canadian dollar. For consolidation purposes Tianli's accounts are translated from Chinese Yuan (Renminbi) to Canadian dollars ("C\$") using the temporal method 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 yearly average rate that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. Any unrealized gains and losses arising from the temporal method of translation have been recorded as foreign exchange gain or loss in MMI's consolidated statement of operations and deficit.

MMI's consolidated accounts are then consolidated with MCI's accounts in C\$. MCI's consolidated accounts in C\$ are then translated from C\$ to US dollars ("US\$") using the current rate method in accordance with the guidance of the Emerging Issue Committee (EIC) Abstract No. 130, *Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a 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 Accumulated Comprehensive Income, a separate component of shareholders' equity.



2. Significant Accounting Policies (continued)

(h) 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 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 Company accounts for forfeitures as they occur.

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. The Company does not record an expense for its unvested awards that are forfeited.

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

Basic earning (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.

(j) 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.

(k) 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. The Company has no asset retirement obligations or environmental liabilities.

3. Mineral Interests

The Maoling Gold Project was earmarked by the Chinese government for development and foreign investment as early as 1994, when the State Council approved a report identifying it as one of 10 deposits to be made available for international participation. The Maoling Gold Project was again presented as one of 16 alternative exploration districts to be opened to foreign investors by the Ministry of Land and Resources at the 1999 “China Mining Conference” in the city of Dalian. Encouraged by these invitations to participate in the project together with the national policy of opening up mineral resource development to foreign-funded companies, Mundoro Mining conducted a project assessment and began partnership discussions with a company controlled on behalf of the provincial government of Liaoning by the Geological and Exploration Bureau, Liaoning Aidi Resources Company Ltd. (“Aidi”). The formal co-operative joint venture (“JV”) agreement, where the Company has rights to a 79% interest in the JV and Aidi has a 21% interest, was finalized in 2001, resulting in the formation of Tianli to manage the Maoling Gold Project. The exploration license for the Maoling Gold Project, covering an area of approximately 20 square kilometers, was transferred to Tianli in 2002.

Tianli’s business license was granted in August 2001 and the exploration license was transferred to Tianli in April 2002. Tianli’s business license was not renewed and expired on August 31, 2005. Tianli’s exploration license for Maoling Gold Project expired on November 5, 2005, and was not capable of being renewed because Tianli did not have a renewed business license. In August 2007 Mundoro Mining received correspondence from Aidi, who suggested both parties should discuss the termination of the JV. The reasons cited for the proposed termination and liquidation were Chinese environmental regulations related to water zoning made it impossible for Tianli to conduct mining activities at the Maoling Gold Project. Mundoro Mining responded to Aidi in September 2007 explaining the reasons why Mundoro Mining did not believe it was appropriate to terminate the JV or liquidate JV and requested to be allowed to complete the Feasibility Study and the ESIA in order to demonstrate that the Maoling Gold Project could be developed in a sustainable and environmentally responsible manner.

The Company received a letter in March 2010 (“Aidi March 2010 Letter”) from Aidi, suggesting that the parties immediately negotiate to terminate the Maoling Gold Project and liquidate the joint venture company. The reasons cited for the proposed termination and liquidation were Chinese environmental regulations related to water and nature reserve zoning made it impossible for Tianli to conduct mining activities at the Maoling Gold Project and as a result, in Aidi’s opinion, force majeure occurred. The Company responded to the Aidi March 2010 Letter with a letter (“Mundoro March 2010 Letter”) explaining the reasons why the Company does not intend to terminate the joint venture or liquidate the joint venture company, which are based on the technical studies and review of the regulations, and presented a proposal for the renewal of the joint venture company’s business license in order to be allowed to complete the Feasibility Study and the ESIA in order to demonstrate the Maoling Gold Project could be developed in a sustainable and environmentally responsible manner. Mundoro does not believe force majeure under the joint venture contract occurred. In response to the Mundoro March 2010 Letter, Mundoro Mining received a letter from Aidi in July 2010 (“Aidi July 2010 Letter”) which was in all material respects similar to the Aidi March 2010 Letter and did not address any of the points raised by Mundoro Mining in the Mundoro March 2010 Letter. Mundoro Mining responded to the Aidi July 2010 Letter in August 2010 with a letter (“Mundoro August 2010 Letter”) requesting to have an official board meeting to discuss the proposal Mundoro Mining outlined in the Mundoro March 2010 Letter and reiterating Mundoro Mining believes the work completed to date by Chinese and international engineering and environmental firms demonstrates the Maoling Gold Project can be developed in a sustainable and responsible manner with no significant impact on the downstream water storage facilities supplying Yingkou City and Dalian. The Company has received no official response to the Mundoro August 2010 Letter.

4. Project Management Costs

The Company follows the practice of expensing all exploration, development and project management costs until a decision is made to put the deposit into production. The following is a summary of expenditures incurred on the Maoling project since its inception:

	2010	2009	Accumulated Total
Engineering	\$25,775	\$105,004	\$3,620,028
Environmental	175,854	316,867	1,567,621
Geological	173,676	96,799	4,171,389
Mineral exploration	-	-	4,201,370
Community and government relations	-	-	2,910,674
Management and administration expenses for TJV	-	-	3,710,140
Total	\$375,305	\$518,670	\$20,181,222

5. Equipment and Vehicles

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computers	\$76,774	\$66,891	\$9,883	\$84,546	\$71,799	\$12,747
Furniture and fixtures	32,067	25,520	6,547	33,569	24,649	8,920
Office equipment	131,443	110,960	20,483	131,951	107,133	24,818
Vehicles	177,563	161,092	16,471	168,039	152,452	15,587
Leasehold improvements	18,210	16,255	1,955	17,233	15,257	1,976
Total	\$436,057	\$380,718	\$55,339	\$435,338	\$371,290	\$64,048

6. Share Capital

- (a) **Authorized:** Unlimited number of common shares without par value.
- (b) **Issued and fully paid common shares:** 38,340,301 at December 31, 2010 and December 31, 2009.
- (c) **Stock options.**

At the Company's 2009 Annual General Meeting, the shareholders approved a new stock option plan for the Company's directors, officers, employees and consultants ("2009 Plan") whereby the maximum number of shares issuable under the 2009 Plan is a rolling number equal to 4.9% of the issued and outstanding common shares at the time of grant. No more than a maximum of 1,878,675 will be available under the 2009 Plan without the Company first obtaining shareholder approval.

The Company has a legacy 2004 Stock Option Plan ("2004 Plan") which will expire and be terminated after the remaining stock options issued under that plan have been exercised, cancelled or expired.



6. Share Capital (continued)

(c) Stock options (continued)

The option prices referred to in the tables below and in Note 7 are contractually denominated in Canadian dollars. Exercise prices for stock options granted are reflected in U.S. dollars at exchange rates in effect on the date of grant. Exercise prices for stock options exercised, cancelled or expired are reflected in U.S. dollars at historical exchange rates.

A summary of stock options outstanding and exercisable at December 31, 2010 is as follows:

Stock Option Plan	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Exercise Price in USD	Exercise Price in CAD
2004 Plan	300,000	0.14	300,000	\$2.06	\$2.30
2009 Plan	1,721,476	3.63	1,721,476	\$0.53	\$0.60

The tables below are a summary of the options outstanding under the 2004 Plan and 2009 Plan at December 31, 2010 and the changes for the year then ended:

2004 Plan	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2009 and December 31, 2010	300,000	\$2.06

2009 Plan	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2009	1,850,451	\$0.49
Cancelled and forfeited	(338,975)	\$0.49
Granted	210,000	\$0.79
Options outstanding at December 31, 2010	1,721,476	\$0.53

On August 10, 2010, the Directors granted 500,000 stock options at an exercise price of \$0.79. The grant includes 290,000 stock options that are subject to shareholder approval and 210,000 stock options which vested on the date of grant and are exercisable for one common share through August 10, 2015. No stock based compensation expense will be recorded for the 290,000 options until shareholder approval.

6. Share Capital (continued)

(c) Stock options (continued)

The options outstanding at December 31, 2009 under the 2009 Plan vested 50% on January 1, 2010 with the remaining 50% vesting on January 1, 2011. The options granted in 2010 vested on the date of grant. The estimated fair value of the options granted was calculated using the *Black-Scholes Option Pricing Model* with the following assumptions:

	2010	2009
Risk-free interest rate	1.81%	1.84%
Dividend yield	0.00%	0.00%
Price volatility	95.38%	81.43%
Expected lives (in years)	3	3
Number of common shares	210,000	1,850,451
Exercise price	\$0.79	\$0.49
Calculated fair value per share	\$0.48	\$0.26

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, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(d) Contributed Surplus

Balance at December 31, 2008	\$7,228,518
Amount expensed in the year	242,436
Balance at December 31, 2009	\$7,470,954
Amount expensed in the year	281,345
Balance at December 31, 2010	\$7,752,299

7. Stock-Based Compensation

2009 Stock Option Plans

During the year ended December 31, 2010, the Company charged \$281,345 (2009 – \$242,436) of stock-based compensation expense for stock options vesting during the period. Stock-based compensation expense for stock options is recorded using the straight-line method resulting in a charge to operations on the option vesting dates and a corresponding charge to contributed surplus. The charge to operations relates to the following categories in the consolidated statements of loss:

	2010	2009
	Under 2009 Stock Option Plan	Under 2009 Stock Option Plan
For services in respect of:		
Accounting	\$ -	\$16,049
Corporate governance	116,931	150,726
Corporate communication and marketing	41,104	-
Corporate development	74,207	32,099
Government relations	33,103	43,562
General and administrative	16,000	-
Total	\$281,345	\$242,436

Restricted Share Unit Plan

The Company has a Restricted Share Unit (“RSU”) Plan for its directors, officers, employees and consultants (“Participants”). Under the RSU Plan, 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 increase in value of the common shares of the Company from the date of grant to the date of exercise. All RSUs vest equally in three tranches: the first tranche on January 1 of the first year following the year of grant, the second tranche on January 1 of the second year following the year of grant, and the third tranche on January 1 of third year following the year of grant. Vesting is subject to the participant being employed by the Company on the vesting date. All vested RSUs, if unexercised, are deemed exercised on December 31 of the year of vesting. The RSU Plan will be terminated after the remaining RSU’s issued under the plan have been exercised or forfeited.

Stock-based compensation expense for RSUs is accrued over the RSU vesting period. At the end of each reporting period, the RSU liability is marked-to-market. Stock-based compensation expense (recovery) attributable to RSUs \$(198,527) and \$270,312 for the year ended December 31, 2010 and 2009, respectively. The following is the summary of RSUs outstanding at December 31, 2010 and changes for the year then ended:

	Number of units granted /cancelled/forfeited /exercised	Weighted average grant price	Number of units vested
Balance at December 31, 2009	340,001	\$0.18	-
Vested during the period	-	\$0.18	170,001
Exercised for cash	(170,001)	\$0.18	(170,001)
Balance at December 31, 2010	170,000	\$0.18	-

8. Commitments
Office Lease

In February 2010, the Company and its landlord agreed to the early termination of its Vancouver office lease on March 5, 2010 versus the original lease expiry date of June 30, 2013. In February 2010, the Company signed a lease agreement for new office space in Vancouver for a term of five years ending March 31, 2015. The Company has a lease for office space in Beijing, China through September 20, 2011 for base rent and its proportionate share of operating costs. As of December 31, 2010, the minimum obligations under these leases are as follows:

	Vancouver	Beijing	Total
2011	\$35,922	\$15,779	\$51,701
2012	38,371	-	38,371
2013	39,188	-	39,188
2014	39,188	-	39,188
2015	9,797	-	9,797
Total	\$162,466	\$15,779	\$178,245

9. Segmented Information

The Company has two operating segments: the exploration and development of the Maoling Gold Project in China and corporate administrative functions in Canada. The Company's total assets and losses by segment are as follows:

	Canada	China	Total
Total assets, December 31, 2010	\$ 9,459,761	\$ 51,286	\$ 9,511,047
Total assets, December 31, 2009	12,221,991	63,125	12,285,116
Net loss:			
Twelve months ended December 31, 2010	(2,853,601)	(563,203)	(3,416,804)
Twelve months ended December 31, 2009	\$ (3,734,216)	\$ (991,567)	\$ (4,725,783)

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, and 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 and cash equivalents as held-for-trading; accounts receivable as loans and receivables; and accounts payable and accrued liabilities as other liabilities.

(a) Fair Value

At December 31, 2010 and December 31, 2009, the carrying values of cash and cash equivalents, deposits, amounts receivable, accounts payable, accrued liabilities and compensation liabilities approximated their fair values due to the short period to maturity of those financial instruments.

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about the financial instruments.

The CICA establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

The Company's carrying value and fair value of cash and cash equivalents under the fair value hierarchy is measured using Level 1 inputs. As at December 31, 2010 and 2009, the Company has no other financial instruments that require disclosure under the fair value hierarchy.

(b) Financial Risk Management

The Company is exposed to a variety of financial instrument related risks. The types of risk exposure and the way in which such exposure is managed are as follows:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its liquid financial assets. The Company limits exposure to credit risk and liquid financial assets by maintaining the majority of its cash with a Canadian Chartered Bank and the majority of its cash equivalents in commercial paper, bankers' acceptances and other money market instruments issued by Canadian Federal and Provincial governments and other entities with a Dominion Bond Rating Service credit rating of R1M or higher.

11. Financial Instruments (continued)

(b) Financial Risk Management (continued)

Credit risk (continued)

The Company's concentration of credit risk and maximum exposure with respect to cash and cash equivalents is as follows:

	December 31, 2010
Cash balances at a Canadian chartered bank	\$1,801,695
Bearer deposit notes rated R1H	5,022,840
Commercial paper rated R1M	2,499,627
Other cash balances	13,960
Total cash and cash equivalents	\$9,338,122

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration, development and other corporate activities, and ensuring that it has sufficient cash and cash equivalents on hand to meet its short-term business requirements. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. The Company believes that it has sufficient cash and cash equivalents to meet its short-term business requirements. In the long term, the Company may have to raise funds through the issuance of equity, assumption of debt, or other financing alternatives to complete development of the Maoling project and any other projects acquired by the Company in the future. There are no assurances that the Company would be successful in its efforts to secure any required future financing.

Market Risk

The significant market risks to which the Company is exposed are interest rate risk, currency risk and commodity price risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. The Company also holds a portion of cash and cash equivalents in bank accounts that earn variable interest rates. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2010.

The Company's interest rate risk principally arises from the interest rate impact of interest earned on cash and cash equivalents. A 10% change in interest rates on cash and cash equivalents outstanding at December 31, 2010 would result in a \$4,894 change to the Company's net loss (2009: \$2,427) for the year ended December 31, 2010.

Currency risk

The Company operates in Canada and China and a portion of its expenses are incurred in Chinese Yuan (Renminbi) and US dollars, whereas its functional currency is in Canadian dollars. The Company is therefore affected by currency transaction risk, which may affect the Company's operating results as exchange rates fluctuate. The Company has not hedged its exposure to currency risk.

11. Financial Instruments (continued)

(b) Financial Risk Management (continued)

Market Risk (continued)

Currency risk (continued)

The Company is also affected by currency translation risk. Although the Company's functional currency is the Canadian dollar, its reporting currency is the US dollar. The Company's financial statements are translated into the Canadian dollar functional currency using the temporal method, with the resulting translation adjustment is recorded in the Company's operating results. These financial statements are subsequently translated into the US dollar reporting currency using the current rate method, with the resulting translation adjustment recorded in other comprehensive income.

If the Canadian dollar had strengthened against the US dollar and the Renminbi by 10%, the Company would have had additional foreign currency losses (gains) in the statement of operations as follows:

Increase in foreign currency loss (gain) (in USD)	
	Year Ended
December 31, 2010	\$241,623
December 31, 2009	\$293,313

If the Canadian dollar had weakened against the US dollar and the Renminbi by 10%, the Company would have had additional foreign currency gains in the statement of operations as follows:

Increase in foreign currency (gain) loss (in USD)	
	Year Ended
December 31, 2010	(\$241,623)
December 31, 2009	(\$293,313)

The Company had the following balances in the three mentioned currencies as at December 31, 2010 and 2009:

	In Canadian \$	In US \$	In Chinese ¥
December 31, 2010			
Cash and cash equivalents	\$6,699,273	\$2,588,877	¥ 90,933
Amounts receivable	42,931	-	31,709
Accounts payable and accrued liabilities	96,036	104,188	8,015
Rate to convert to \$1.00 Canadian	1.00	0.9946	0.1509
Rate to convert to \$1.00 US	1.0054	1.00	0.1517
December 31, 2009			
Cash and cash equivalents	\$9,304,588	\$3,255,640	¥ 176,209
Amounts receivable	29,638	1,650	39,451
Accounts payable and accrued liabilities	291,522	100,616	7,621
Rate to convert to \$1.00 Canadian	1.00	1.051	0.1533
Rate to convert to \$1.00 US	0.9515	1.00	0.1459

The Company does not have a formal policy to manage currency risk; however, management actively monitors movements in foreign currency and forecasts foreign currency payments.



11. Financial Instruments (continued)

(b) Financial Risk Management (continued)

Market Risk (continued)

Financial Market Risk

As of December 31, 2010, 170,000 RSUs (Note 7) were outstanding and will vest on January 1, 2011. RSUs are marked-to-market at each reporting period. When the holder of vested RSUs provides the Company with notice of exercise, the Company is required to pay the RSU holder the increase in value of its common shares from the date of grant to the date of exercise.

If the Company's share price had increased by 10%, the Company would have had additional RSU stock compensation expense as follows:

Increase in RSU stock compensation expense (in USD)	
	Year ended
December 31, 2010	\$11,110
December 31, 2009	\$35,371

If the share price of the Company had decreased by 10%, then this would have had a decrease in stock compensation expense as follows:

(Decrease) in RSU stock compensation expense (in USD)	
	Year ended
December 31, 2010	(\$11,110)
December 31, 2009	(\$35,371)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk, or currency risk. The Company is not exposed to significant other price risk.



12. Income Taxes

Future income tax assets:

	2010	2009
Losses and resource pools	\$ 8,114,000	\$ 7,199,000
Share issuance costs	-	-
Other	54,000	43,000
Total future income tax assets	8,168,000	7,242,000
Less valuation allowance:	(8,168,000)	(7,242,000)
Net future income tax assets	-	-

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

	2010	2009
Loss for the year	\$(3,417,000)	\$(4,726,000)
Expected tax expense (recovery) at 28.50% (2009-30%)	(974,000)	(1,418,000)
Increase (reduction) in income taxes resulting from:		
Stock-based compensation	87,000	464,000
Expiry of losses	382,000	68,000
Foreign exchange rate and tax rate differences	39,000	(224,000)
Non-taxable foreign exchange gain (loss)	(62,000)	324,000
Change in valuation allowance	925,000	889,000
Other	\$(397,000)	\$(103,000)
Income tax expense	-	-

Future income tax assets include losses and resource expenditures incurred by the Tianli Joint Venture. The ability of the Tianli Joint Venture to realize these amounts is dependent upon the renewal of its business license and the granting of its exploration license (Note 3). In addition, due to uncertainty as to the administrative practice of the Chinese authorities in their interpretation and enforcement of the People's Republic of China Corporate Income Tax Law and Regulations ("CITLR") for resource exploration entities, in the event that the Tianli Joint Venture's treatment of resource expenditures were to be challenged by the Chinese tax authorities, the resource expenditures may be treated as deductions in computing income for the period in which they were incurred and thus included in the Tianli Joint Venture's tax loss for the period, and the tax losses of certain prior years would have expired by December 31, 2010.



12. Income Taxes (continued)

The Company has non-capital losses which may be applied to reduce future taxable income. These losses expire as follows:

	Canada	China	Total
2011	-	650,000	650,000
2012	-	297,000	297,000
2013	-	-	-
2014	1,138,000	212,000	1,350,000
2015	1,924,000	-	1,924,000
2026	2,074,000	-	2,074,000
2027	2,099,000	-	2,099,000
2028	627,000	-	627,000
2029	3,382,000	-	3,382,000
2030	2,758,000	-	2,758,000
Total	14,002,000	1,159,000	15,161,000

In the event that loans made by MMI to the Tianli Joint Venture are deemed to be non-compliant under the Peoples' Republic of China Foreign Exchange Regulations, the loans could be included in the taxable income of the Tianli Joint Venture. In that event, the non-capital loss carry forwards and resource tax pools of Tianli Joint Venture as of the end of 2010 may be available to be applied against these amounts. The ability of Tianli Joint Venture to apply its non-capital loss carry forwards and resources tax pools are subject to the Chinese tax authority's treatment of the resource expenditures and to the limitations on the carry forward period for non-capital losses under the CITLR. At December 31, 2010 the carrying value of resource tax pools in Tianli Joint Venture exceeded the loan amount owed by Tianli Joint Venture to MMI.

13. Accumulated Other Comprehensive Income

Accumulated other comprehensive income is comprised of the following:

	2010	2009
Accumulated other comprehensive income, beginning of year	\$3,700,992	\$1,688,200
Effect of year exchange rate changes	755,900	2,012,792
Accumulated other comprehensive income, end of the year	\$4,456,892	\$3,700,992

14. Litigation Settlement

In December 2010 the Company settled a claim by a former officer and director of the Company for a payment representing approximately 16 months' salary totaling \$389,883.

15. Comparative Figures

Certain of the 2009 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2010.