

MAJESTIC GOLD CORP.

Consolidated Financial Statements
March 31, 2009 and 2008

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Majestic Gold Corp. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

Management has developed and is maintaining a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements for the year ended March 31, 2009 and 2008 have been prepared by Management.

"Rod Husband"

Rod Husband
President

Vancouver, British Columbia
June 1, 2009

MAJESTIC GOLD CORP.
Consolidated Balance Sheets
March 31, 2009

	March 31, 2009	September 30, 2008
Assets		
Current		
Cash and cash equivalents	\$ 110,761	\$ 268,820
Accounts receivable	3,708	19,393
GST receivable	0	14,374
Prepaid expenses	0	10,004
Investments (note 6)	158,491	158,491
	272,960	471,082
Deposits	126,505	139,320
Restricted cash (note 4)	371,865	486,369
Mineral properties (note 5)	18,673,534	16,949,807
	\$ 19,444,864	\$ 18,046,578

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Liabilities

Current		
Accounts payable and accrued liabilities	\$ 1,250,370	\$ 1,049,210
Due to shareholders and related parties (note 9)	582,626	410,823
Loan payable (note 7)	2,275,000	2,050,000
	4,107,996	3,510,033

Shareholders' Equity

Share capital (note 8)	30,494,288	26,334,634
Share subscriptions received (note 8(f))		2,727,658
Contributed surplus	1,914,373	1,914,373
Accumulated other comprehensive income	(28,568)	(28,570)
Deficit	(17,100,361)	(16,478,690)
	15,336,868	14,536,545
	\$ 19,444,864	\$ 18,046,578

“Rod Husband”
Director

Director

“Al Korelin”

MAJESTIC GOLD CORP.
Consolidated Statements of Operations
Six Months Ended March 31, 2009 and 2008

	2009	2008
Expenses		
Consulting fees	\$ 1,760	\$ 733,860
Shareholder relations, travel and entertainment	0	293,603
Interest on loan	0	0
Office supplies and management services	70,467	295,772
Professional fees	59,231	20,683
Rent	30,000	9,000
Corporate development	25,700	0
Travel & Accommodations	10,251.30	0
Telecommunications	0	12,863
Regulatory fees	9,327	2,906
Foreign exchange loss (gain)	302	5,761
	<u>207,217</u>	<u>1,374,448</u>
Other expenses (income)		
Unrealized loss on investment (note 7)	0	0
Write-down of mineral property (note4)	0	47,563
Mineral property investigation and evaluation	0	0
Realized gain on sale of investment (note 5)	0	0
Interest	0	(1,038)
Loss Before Income Taxes	<u>207,217</u>	<u>1,420,973</u>
Income Taxes		
Future income tax expense (recovery)	0	0
Future Income Taxes	0	0
	<u>\$ 0</u>	<u>\$ 1,420,973</u>
Loss Before Income Taxes		
Future income tax expense (recovery)		
	<u>\$ (0.003)</u>	<u>\$ (0.02)</u>
Loss per share, basic and diluted		
Weighted average number of common shares outstanding	<u>151,270,94</u>	<u>58,030,80</u>

MAJESTIC GOLD CORP.
Consolidated Statements of Shareholders' Equity
March 31, 2009

	Number of Shares	Share Capital	Subscriptions Received	Contributed Surplus	Deficit Accumulated During the Exploration Stage	Accumulated Other Comprehensive Income	Total Sharehold Equity
Balance – December 31, 2008	67,030,809	\$ 30,494,288	\$ 0	\$ 1,914,373	\$(17,100,361)	\$ 28,568	\$ 15,336,868
Net loss for year	0	0	0	0	0	0	0
Unrealized loss	0	0	0	0	0	0	0
Transfer of income to realized gain on sale of securities	0				0	0	0
Other comprehensive income	0	0	0	0	0	0	0
	67,030,809	30,494,288	0	1,914,373	(17,100,361)	28,568	15,336,868
Common shares issued for cash							
Private placement(net)	84,240,140	0	0	0	0	0	
Stock based compensation (note 8c)	0	0	0	0	0	0	0
Stock based compensation recorded on repricing of stock opti (note 8e)	0	0	0	0	0	0	0

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See notes to consolidated financial statements.

Performance shares issued as part of loan payable (note 7)	0	0	0	0	0	0	0
Share subscriptions received (note 8f)	0	0	0	0	0	0	0
Balance – March 31, 2009	151,270,949	\$ 30,494,288	\$ 0	\$1,914,373	\$(17,100,361)	\$ 28,570	\$15,336,868

MAJESTIC GOLD CORP.
Consolidated Statements of Shareholders' Equity
Years Ended March 31, 2007

	Number of Shares	Share Capital	Subscriptions Receivable	Contributed Surplus	Deficit Accumulated During the Exploration Stage	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance – September 30, 2006	46,673,309	\$ 20,149,842	\$ (85,000)	\$ 883,108	\$ (10,246,461)	\$ 0	\$ 10,701,489
Transitional adjustment for fair value	0	0	0	0	310,501	640,599	1,082,865
	46,673,309	20,149,842	(85,000)	883,108	(9,935,960)	640,599	11,784,354
Net loss for year	0	0	0	0	(3,055,818)	0	(3,126,312)
Unrealized loss	0	0	0	0	0	(297,877)	(359,148)
Other comprehensive income	0	0	0	0	(3,055,818)	(297,877)	(3,485,460)
Common shares issued for cash	46,673,309	20,149,842	(85,000)	883,108	(12,991,778)	342,722	8,298,894
Private placement	8,332,500	3,046,995	0	0	0	0	3,046,995

Exercise of options	25,000	8,750	0	0	0	0	8,750
Shares issued pursuant to option	3,000,000	1,500,000	0	0	0	0	1,500,000
Stock-based compensation transfer to common shares on exercise of options		7,291	0	(7,291)	0	0	0
Receipt of share subscriptions	0	0	85,000	0	0	0	85,000
Balance – September 30, 2007	58,030,809	\$ 24,712,878	\$ 0	\$ 875,817	\$(12,991,778)	\$ 342,722	\$ 12,939,639

MAJESTIC GOLD CORP.
Consolidated Statements of Cash Flows
Six months ended March 31,2009

	2009	2008
Cash provided by (used in):		
Operating Activities		
Loss for the year	\$ (207,217)	\$ (1,420,973)
I Items not involving cash		
Future income taxes	0	0
Stock-based compensation	0	0
Unrealized loss on investment	0	915,300
Write-down of mineral property	0	0
Gain on sale of investment	0	0
Accrued interest	0	0
Changes in non-cash operating working capital		
Accounts receivable	30,059	(24,713)
GST receivable	0	11,733
Prepaid expenses	22,819	(53,370)
Deposits	0	0
Due to shareholders	204,303	
Loan Payable	225,000	(550,850)
Accounts payable and accrued liabilities	(245,794)	0
	(29,170.00)	(1,016,133)
Investing Activities		
Expenditures on mineral properties	(1,723,726)	(659,449)
Restricted cash	(114,501)	131,584
	(1,609,225)	(527,865)
Financing Activities		
Proceeds from issuance of common shares, net of issue costs	4,204,643	4,555,745
Collection of share subscriptions receivable	0	1,100,000
Proceeds from loan	0	0
Interest payable	0	0
Proceeds on sale of investment	0	0
Advances to (repayment from) shareholders and	(2,782,647)	(14,448)
	1,421,996	1,085,552
Decrease in Cash and Cash Equivalents	(158,059)	(458,446)
Cash and Cash Equivalents, Beginning of Period	268,820	921,452
Cash and Cash Equivalents, End of Period	\$ 110,761	\$ 463,006

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See notes to consolidated financial statements.

1. Nature of operations and going concern

The Company is incorporated under the *Business Corporations Act* (British Columbia) and its principal business activity is the acquisition, exploration and development of mineral properties.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable.

The ability of the Company to continue as a going concern and the underlying value and recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the ability of the Company to obtain the necessary financing to pay its liabilities and meet its commitments as they become due, the discovery of economically recoverable reserves, complete the exploration and development of mineral properties, and establish future profitable production or sufficient proceeds from the disposition thereof.

Further, the Company has reported net losses of \$3,432,487 and \$3,126,312 for the years ended September 30, 2008 and 2007, respectively, and has an accumulated deficit of \$16,424,265 as at September 30, 2008 (2007 - \$12,991,778). These financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then material adjustments would be necessary to the carrying values of assets and liabilities and the balance sheet classifications used.

2. Significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

The consolidated financial statements include the accounts of the Company and its integrated 90%-owned British Virgin Island subsidiaries, Majestic Tianshan Gold Inc. ("MTG"), Majestic Yantai Gold Ltd. ("MYG"), Majestic Jiaodong Gold Ltd. ("MJG"), Majestic Shandong Gold Ltd. ("MSG"), and Majestic Zhaoyuan Gold Ltd. ("MZG") and its wholly-

owned British Virgin Island subsidiary, Majestic China Mining Corp. ("MCMC"). All significant intercompany amounts and transactions have been eliminated.

Cash and cash equivalents

Cash equivalents consist of highly liquid, short-term investments that are readily convertible to known amounts of cash, with original maturities of three months or less.

2. Significant accounting policies (Continued)

c) Mineral properties

The Company defers all costs related to investments in mineral properties on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or allowed to lapse.

All mineral resource property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credit to operations.

Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated

fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in the consolidated financial statements.

2. Significant accounting policies (Continued)

e) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

f) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

Interest income and expenses, at the average rate of exchange for the year.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

(g) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral properties, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(h) Loss per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presumably the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environmental and asset retirement obligations, the recoverability and impairment of mineral property interests, fair value of investments, estimated balance of accrued liabilities, valuation allowance for future tax assets and the assumptions used in the determination of the fair value of 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.

(j) Financial Instruments - Disclosure and Presentation

CICA Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments-Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The company has included such disclosures recommended by the new Handbook section in note 13 to these consolidated financial statements.

(k) Capital disclosures

Effective October 1, 2007, the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535 requires disclosure of (i) entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequence of such non-compliance. The company has included disclosures recommended by the new handbook section in note 13.

2. Significant accounting policies (Continued)

(l) Financial instruments – Recognition and Measurement

Effective October 1, 2006, the Company adopted the CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement” which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard, which mandates prospective adoption, requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held for trading, held to maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be record in net income.

Transaction costs other than those related to financial instrument classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

In accordance with the new standards, the Company has classified its financial instruments and measured its financial assets and liabilities as follows:

Cash – as held for trading

Account receivable – as loans and receivables

Restricted cash – held for trading

Accounts payable and accrued liabilities– other liabilities

Loans payable – other liabilities

Comprehensive Income

Effective October 1, 2006, the company adopted the CICA Handbook Section 1530, “Comprehensive Income”, which establishes standards for presentation and disclosure of a statement of comprehensive income (loss). Comprehensive income (loss) is the overall change

in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income (loss) and other comprehensive income (loss). The historic make-up of net income has not changed. Other comprehensive income (loss) consists of gains and losses affecting shareholder' equity that under generally accepted accounting principles and are excluded from net income (loss). Accordingly, The Company now reports a consolidated statement of comprehensive income (loss) and includes the account "Accumulated others Comprehensive Income" in the shareholder's equity section of the consolidated balance sheet.

2. Significant accounting policies (Continued)

Derivatives – mineral properties

The Company retains and/or has obligations related to certain interest rights, the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral interests to which they rely are not sufficiently developed to reasonably determine value.

Future accounting changes

i) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Developments Costs". This section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for the Company beginning on October 1, 2009. The Company is in the process of assessing the impact of this new section on its financial statements.

Going-concern

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of a company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis that fact shall be disclosed together with the basis on which the financial statements

are prepared and the reason why the company is not considered a going concern. The new section is effective for the Company commencing on October 1, 2008. The Company is in the process of assessing the impact of this new section on its financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of April 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Restricted cash

Trans American Industries Ltd. ("TSA") subscribed for 1,800,000 common shares of the Company during the year ended September 30, 2005 for proceeds of \$960,000. The terms of an Option and Shareholder Agreement between the Company and TSA, dated January 14, 2005, and as amended August 22, 2005, restricted the proceeds from this share issuance to be used for exploration expenditures on the Shandong Project. Effective February 1, 2007, TSA amended the terms of the Option and Shareholder Agreement whereby funds are further restricted to exploration expenditures on the Jing Cheng Interest in the Shandong Project (note 5(d)). No balance remains at September 30, 2008.

The Company arranged with RAB Special Situations (Master) Fund Limited to borrow \$2,000,000. The proceeds from the loan are restricted for the purpose of making the Company's final capital contribution to Yantai Zhongjia Mining Inc., the Chinese joint venture company that holds the rights to the Song Jiaguo gold project (note 5(d)). At March 31, 2009, the remaining restricted balance is \$371,865.

5. Mineral properties

	Balance September 30, 2006	Addition (disposi- s)	Write- down
Sawayaerdun, China:			
Investigations	122,156	0	0
Acquisition	472,303	287,164	0
Exploration:			
Assays and analysis	218,028	82,002	0
Exploration work(note 5(h))	600,751	252,610	0
Drilling and trenching	2,003,151	277,543	0
Geological and geochemical	1,282,471	183,252	0
Logistics and support(note 5(i))	316,169	89,826	0
Future income taxes (note 2)	36,000	0	0
	5,051,029	1,172,3	0
Fushan, China:			
Acquisition	132,717	0	(132,717)
Exploration:			
Assays and analysis	28,956	38,513	(67,469)
Exploration work(note 5(h))	178,740	87,883	(266,623)
Drilling	180,577	38,484	(219,061)
Geological and geochemical	205,127	24,927	(230,054)
Logistics and support(note 5(i))	55,585	15,094	(70,679)
Capital equipment	1,636	0	(1,636)

Future income taxes (note 2)	7,000	0	(7,000)
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Muning, China:

Investigations	6,250	0	0
Acquisition	132,716	0	0
Exploration:			
Assays and analysis	203,311	565,536	0
Exploration work(note 5(h))	294,043	373,996	0
Drilling	1,130,957	242,602	0
Geological and geochemical	789,090	846,474	0
Logistics and support(note 5(i))	179,218	130,763	0
Capital equipment	117,104	18,936	0
Future income taxes (note 2)	15,000	0	0

Shandong Project, China:

Acquisition	246,044	0	0
Exploration:			
Exploration work(note 5(h))	81,553	38,650	0
Geological and geochemical	241,527	35,895	0
Capital equipment			
Future income taxes (note 2)	5,000	0	0

Lingshan, China:			
Exploration:			
Assays and analysis	8,778	36,277	0
Exploration work(note 5(h))	35,877	59,864	0
Drilling	0	60,000	0
Geological and geochemical	24,820	19,563	0
Logistics and support(note 5(i))	3,039	2,387	0

5. Mineral properties (Continued)

(a) Sawayaerdun, China

During the year ended September 30, 2004, MTG entered into a joint venture agreement with a party in China to acquire up to a 90% interest in the Sawayaerdun Gold Project in the Xinjiang Province, China. In order for the Company to earn its interest, the Company is required to contribute 100% of the exploration and development costs, including the following minimum cumulative exploration expenditures over four years:

December 31, 2004	US\$ 300,000
December 31, 2005	US\$ 700,000
December 31, 2006	US\$1,350,000
December 31, 2007	US\$2,000,000

The Company issued 150,000 common shares of the Company and agreed to pay 7% of expenses incurred by the Company on the property until such time that the Company has earned its interest in the Sawayaerdun Gold Project as a finder's fee. The finder retained a 10% interest in the project and has the right to convert its 10% interest in the subsidiary into

common shares of the Company at the then market price of shares of the Company based on the then current valuation of the interest. The 150,000 common shares were issued on November 7, 2003, and were valued at \$1.27 each, being the closing price of the Company's shares on the date of issuance. The total fair value of \$190,500 has been capitalized as a mineral property acquisition cost. A cash payment of \$13,164 was made during the year ended September 30, 2007. These amounts have been capitalized as property acquisition costs.

During the year ended September 30, 2007, MTG entered into a mining license transfer agreement with a Chinese government agency. The Chinese government agency is required by December 15, 2007 to transfer the mining license of Sawayaerdun gold mine to the MTG joint venture in exchange for 10% of MTG's equity in the MTG joint venture (transfer application was filed subsequent to September 30, 2007). MTG paid the Chinese government agency 3,000,000 Chinese Renminbi before for reimbursement of exploration expenditures previously made by the Chinese government agency.

As at September 30, 2008, the Company has made the qualifying exploration expenditures to confirm its interest in the Sawayaerdun Gold Project. (verify what the total min. cumulative expenditures are.....if interest in project 90% or 80%)

5.

Mineral properties (Continued)

(b) Fushan, China

In May 2004, MYG entered into a Co-operation Contract with Shandong Yantai Fushan DJY Gold Mine, China to acquire up to a 60% interest in Yantai Jinfu Mining Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to the Fushan Gold Project in the Shandong Province, China. The Company is required to contribute a minimum of US\$2,436,054 in exploration costs over four years to earn its 60% interest; otherwise, it will be deemed that the Company has abandoned all rights and interests in the Co-operation Company.

Upon establishment of the Co-operation Company, the Company issued on March 22, 2005 150,000 common shares of the Company to a third party as a finder's fee. The common shares were valued at \$0.85 per share, being the closing price of the Company's shares on the date of issuance. The total fair value of \$127,500 has been capitalized as a property acquisition cost. As of September 30, 2007, the Company abandoned all right and interests in the Co-operation Company, and accordingly, has written down the carrying value of the property to \$nil.

(c) Muping, China

In May 2004, MJG entered into a Co-operation Contract with Shandong Yantai Muping Gold Mine, China to acquire a 60% interest in Yantai Zhong Jia Mining Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to the Muping Gold Project in the Shandong Province, China. The Company is required to contribute a minimum of US\$4,263,094 in exploration costs by March 2009; otherwise, it will be deemed that the Company has abandoned all rights and interests in the Co-operation Company.

Upon establishment of the Co-operation Company, the Company issued on March 22, 2005 150,000 common shares of the Company to a third party as a finder's fee. The common shares were valued at \$0.85 per share, being the closing price of the Company's shares on the date of issuance. The total fair value of \$127,500 has been capitalized as a property acquisition cost.

(d) Shandong Project – Jinze, China

In January 2005, the Company and TSA entered into an Option and Shareholder Agreement to work jointly to identify, explore and develop targets in an area (the "Area of Interest") on the Jiaodong Peninsula in Shandong Province, China (the "Shandong Project"). The Shandong Project includes three of the nine exploration licenses that the Company presently has under option from Shandong Yantai Muping Gold Mine, China (note 5(c)). The Dazai, Shugzehuang and Chenjiguo licenses (the "Shandong Licenses") lie within the Shandong Project and have been included by the Company in the Option and Shareholder Agreement with TSA. All remaining licenses subject to the Co-operation Contract with Shandong Yantai Muping Gold Mine, China are excluded from this agreement.

5.	Mineral properties (Continued)
(d)	Shandong Project –Jinze, China
(continued)	

TSA earned 50% of MJG's option to earn a 60% interest in the Shandong Licenses by acquiring 800,000 units of the Company at a price of \$0.70 per unit for gross proceeds of \$560,000 and an additional 1,000,000 units of the Company at a price of \$0.40 per unit for gross proceeds of \$400,000 during 2005.

Two new licenses have been granted and applications on four additional licenses have been filed for which approvals are pending with respect to the Shandong Project.

In October 2005, MJG entered into a Co-operation Contract with Yantai Jinze Mining and Technology Ltd. to acquire a 90% interest in Yantai Jinze Gold Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to certain properties located in the vicinity of Yantai City in the Province of Shandong. The Company is required to contribute a minimum of \$1,000,000 in exploration costs over three years; otherwise, it will be deemed that the Company has abandoned all its rights and interests.

Upon establishment of the Co-operation Company, the Company issued on September 6, 2006, 150,000 common shares of the Company to a third party as a finder's fee. The common shares were valued at \$0.54 per share, being the closing price of the shares on the date of issuance. The total fair value of \$81,000 has been capitalized as a property acquisition cost. Subsequent to September 30, 2007, the Company abandoned all rights and interest in the Co-operation Company. The property has been fully written off.

Effective February 1, 2007, the Company and TSA amended their Option and Shareholder agreement. TSA agreed that it will hold no interest nor have a right to acquire any interest in any license in the Shandong Project except for three licenses subject to the Jing Cheng Interest (note 5(e)). The Jing Cheng Interest consists of exploration licenses that are associated with the Jingang Gold Project. The Jing Cheng Interest has been agreed to remain part of the Shandong Project and are subject to the terms of the option agreement. All remaining funds contributed by TSA to the Shandong Project (note 5) are required to be spent on the Jing Cheng Interest. The Jing Cheng Interest consists of licenses in Jing Cheng East, Jing Cheng West and Duoshan, which are all located in Shandong Province, China.

(e) Jingang, China

In July 2006, MZG entered into a Co-operation Contract with China Shandong No. 3 Mineral and Geological Exploration Institute. The subsidiary has the right to acquire a 70% interest in Yantai Ludi Jingang Gold Mining Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to the Jingang Gold Project in the Shandong Province of China. The Company is required to contribute a minimum of \$567,125 in exploration costs over four years; otherwise, it will be deemed that the Company has abandoned all rights and interests in the Co-operation Company.

In accordance with the terms of the amended Option and Shareholder agreement effective February 1, 2007 TSA holds 50% of MJG's option to earn a 70% interest in the Jingang Gold Project, which is known as the Jing Cheng Interest (note 5(d)).

5. Mineral properties (Continued)

(f) Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

5. Mineral properties (Continued)

(g) Option agreement

On November 14, 2006, Central China Goldfields ("CCG") signed an option agreement with the Company whereby CCG has an option to acquire 50% of the issued shares of MCMC in exchange for \$12,250,000. MCMC is to indirectly hold all of the Company's mineral property interest in China. The funds would be strictly used by the Company for the exploration and development of the Chinese projects. On November 30, 2006, CCG advanced \$1,500,000 to the Company in accordance with the option agreement.

The option payments are due as follows:

November 30, 2006	\$ 1,500,000
December 31, 2006	\$ 1,500,000
January 31, 2007	\$ 4,500,000
December 31, 2007	\$ 4,750,000

In the event that CCG does not comply with the above provisions prior to earning the initial interest, CCG has the right to terminate the option and convert all proceeds it has advanced to common shares of the Company. The conversion price for the first \$3,000,000 CCG advanced to the Company is \$0.50 per share.

CCG failed to pay \$1,500,000 to the Company on December 31, 2006 causing the option agreement between CCG and the Company to terminate. CCG converted its \$1,500,000 advance into 3,000,000 common shares of the Company.

6. Investments

The Company's investments have been classified as available-for-sale and consist of the following:

Central China Goldfields plc		September 30, 2008	September 30, 2007
	Number of shares	Fair value	Fair value
Shares	2,800,000	\$158,491	\$533,216
Warrants	3,500,000	-	-

In March 2008, The Company sold 200,000 shares for total proceeds of \$24,000 and realized a net gain of \$15,990. As at September 30, 2008 and 2007 the fair value of the warrants, based upon their intrinsic value, was \$nil.

7. Loan Payable

In April 2008, the Company issued an unsecured note payable of \$2,000,000 to a third party lender as part of obtaining funding for the purpose of making the Company's final capital contribution to Yantai Zhongjia Mining Inc., the Chinese joint venture company that holds the rights to Song Jiaguo gold project, located on the Jiadong Peninsula of Shandong Province in eastern China. The loan bears interest at the rate of 30% per annum on all principal amounts and will accrue interest commencing on September 1, 2008. The note matures on September 30, 2008 and has principal payments and any remaining interest payable due on September 30, 2008. If the principal portion of the loan plus any unpaid interest are not paid by September 30, 2008 the Company will be required to pay a \$25,000 re-commitment fee at the beginning of each month during which the loan thereafter remains outstanding. In addition the Company will be required to pay a maximum of \$20,000 payable to the lender.

As part of the loan payable the Company issued to the lender 6,250,000 performance shares which are valued at \$562,500 (equal to fair market value at the date of issuance). As at September 30, 2008 the loan payable plus accrued interest balance outstanding is \$2,050,000. The loan is considered to be in default and to date the Company has not repaid any of the principal plus accrued interest. The amount outstanding on the loan as at September 30, 2008 is \$2,050,000.

8. Share capital

(a) Authorized

100,000,000 common shares without par value

(b) Private placements

(i) In June 2007, the Company announced a non-brokered private placement of 13,332,500 units for \$0.40 per unit for gross proceeds of \$5,333,000. Each unit consisted of one share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.60 for a period of two years from closing. Share issue costs of \$286,015 were incurred by the Company through the private placement. The Company issued 128,000 warrants as finders' fees for the private placement.

(ii) In January 2008, The Company completed a private placement of 2,750,000 units at \$0.40 per unit, for aggregate gross proceeds of \$1,100,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to

purchase one additional common share in the capital of the Company for two years from the date of issue at the price of \$0.60. The Company paid \$40,744 as finders' fees for the private placement.

(c) Share purchase warrants

The continuity of share purchase options outstanding and exercisable are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2006	2,124,500	\$ 0.46
Expired/cancelled	(1,490,000)	\$ 0.70
Exercised	(25,000)	\$ 0.35
Balance, September 30, 2007	609,500	\$ 0.37
Granted	5,400,000	\$ 0.30
Expired/cancelled	(800,000)	\$ 0.36
Balance, September 30, 2008	5,209,500	\$ 0.30

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	2007		2008	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Options granted				
Exercise price is lower than market price on grant date	0	\$ 0	0	0
Exercise price equals market price	4,500,000	\$ 0.30	0	0

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price on grant date

Exercise price is higher than

market price on grant date 900,000 \$ 0.21 0 0

8. Share capital (continued)

(e) Stock options

The maximum number of common shares issuable under the terms of the Company's Amended Incentive Stock Option Plan, dated February 15, 2005, shall not exceed 10% of the issued and outstanding shares of the Company at the time the stock options are granted, less the number of shares, if any, subject to prior stock options issued.

On October 4, 2007, the Company granted to its directors, officers and consultants, options to purchase 4,500,000 shares of the Company at a price of \$0.30 per share to October 4, 2012. These options vest 100% upon the date of the grant.

On October 4, 2007, a total of 559,500 stock options of which 50,000 were exercisable at \$0.35, 359,500 were exercisable at \$0.53 and 150,000 were exercisable at \$0.60, were all repriced to be exercisable at \$0.30 each.

On February 20, 2008, the Company granted to its directors and third party consultants, options to purchase 900,000 shares of The Company at an exercise price of \$0.30 per share to February 20, 2013. These options vest 100% upon the date of grant.

The continuity of share purchase options outstanding and exercisable are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2006	2,124,500	\$ 0.46
Expired/Cancelled	(1,490,000)	\$ 0.70
Exercised	(25,000)	\$ 0.35
Balance, September 30, 2007	609,500	\$ 0.37
Granted	5,400,000	\$ 0.30
Expired/cancelled	(800,000)	\$ 0.36

Balance, September 30, 2008		5,209,500	\$ 0.30
		2008	
2007			
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares
		Weighted Average Grant Date Fair Value	
Options granted			
Exercise price is lower than market price on grant date			
	0	\$ 0	0
			\$ 0
Exercise price equals market price on grant date			
	4,500,000	\$ 0.30	0
			\$ 0
Exercise price is higher than market price on grant date			
	900,000	\$ 0.21	0
			\$ 0

8. Share capital (Continued)

(e)

Stock options (Continued)

The following table summarizes information about the stock options outstanding and exercisable at September 30, 2008 and 2007:

Expiry Date	Exercise Price	Number of Shares	
		2008	2007
June 6, 2008	\$ 0.20	0	50,000
October 1, 2008	\$ 0.60	0	150,000
May 4, 2009	\$ 0.30	50,000	50,000
January 9, 2011	\$ 0.30	284,500	359,500
October 3, 2012	\$ 0.30	3,975,000	0
February 20, 2013	\$ 0.30	900,000	0
		5,209,500	609,500

As a result of options granted by the Company during the years ended September 30, 2008 and 2007, the Company has recorded a stock-based compensation expense totaling \$1,038,556 (2007 - \$nil), calculated using the Black-Scholes option pricing model. In 2008, stock-based compensation expense of \$1,038,556 was allocated as follows: consulting fees of \$814,816 and office supplies and management services of \$223,740. Due to the repricing of 559,500 stock options of which 50,000 were exercisable at \$0.35, 359,000 were exercisable at \$0.53 and 150,000 were exercisable at \$0.60 to \$0.30, the Company recorded an additional stock-based compensation expense of \$19,396.

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Weighted average		
Risk-free interest rate	4.24%	n/a
Expected dividend yield	0	n/a
Expected stock price volatility	83.74%	n/a

Expected option life in years	5	n/a
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Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(f) Share subscriptions received

As at September 30, 2008 share subscriptions of \$1,808,851 were received and it pertains to a private placement which did not close until after the year end (Note 14).

9. Related party transactions

The amounts due to shareholders and related parties are unsecured, have no formal terms of repayment. They are composed of amounts owed to (from) the President and companies owned by the President totalling \$415,669 and a company the President exercises significant influence over totalling (\$1,341). Past directors and companies owned by them are owed amounts totalling \$2,631.

The Company was charged the following amounts by directors or corporations controlled by directors of the Company:

	2008	2007
Reimbursable expenses	\$ 46,559	\$ 388,570
Consulting fees	\$ 205,382	\$ 184,400
Travel and promotion	\$ 260,896	\$ 0

These transactions occurring in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Income taxes

The reconciliation of income tax benefit computed at statutory rates to the reported income tax benefit is as follows:

	2008	2007
		34.12%
Income tax benefit computed at Canadian statutory rates	\$ 1,171,000	\$ 1,067,000

Effect of rate reduction	(327,000)	0
Permanent differences not recognized in year	(487,000)	(287,000)
Temporary differences not recognized in year	5,000	0
Unrecognized tax losses	(362,000)	(780,000)
Future income tax expense on unrealized loss on investment	52,572	0
Income tax benefit per financial statements	\$ 52,572	\$ 0

As at September 30, 2008 and 2007, the tax effect of the significant components within the Company's future tax assets and liabilities are as follows:

	2008	2007
	\$	\$
Future income tax assets:		
Canadian non-capital loss carry-forwards	1,400,000	1,906,000
Canadian capital losses	2,500	4,400
Canadian resource related deductions	223,000	811,000
Share issuance costs and others	82,000	173,000
Total gross future income tax assets	1,707,500	2,894,400
Valuation allowance	(1,707,500)	(2,894,400)
Net future income tax assets	\$ 0	\$ 0

As at September 30, 2008, the Company has non-capital loss carry-forwards for Canadian income tax purposes of approximately \$7,445,000 (2007 - \$5,586,000), which expire as follows:

2009	\$ 130,000
2010	\$ 264,000
2014	\$ 759,000
2015	\$ 1,202,000
2026	\$ 1,171,000
2027	\$ 1,987,000
2028	\$ 1,932,000

The Company also has capital loss carry-forwards of approximately \$19,000, which can be used to offset future capital gains. The valuation allowance reflects the Company's estimate that the tax assets will likely not be realized and consequently have not been recorded in these financial statements.

11. Segment information

The Company operates in one industry segment, being mineral property exploration. Details of the Company's mineral properties by geographic location are detailed in note 5. Total assets attributable to China as at September 30, 2008 are \$17,032,909 (2007 - \$12,478,267) with the remainder of the assets attributable to Canada.

12. CAPITAL MANAGEMENT

The Company is an exploration stage company and this involves a high degree of risk. The Company has not determined whether its properties contain economically recoverable reserves of ore and currently has not earned any revenues from its mineral properties and, therefore does not generate cash flows from operations. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Company's primary source of funds comes from the issuance of share capital. The Company has engaged in other sources of financing that require fixed payments of interest and principal as it is not subject to any externally imposed capital requirements.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Capital requirements are driven by the Company's exploration activities on its mineral properties. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended September 30, 2008.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this financing due to uncertain economic conditions. The Company believes that it will be able to generate sufficient funds and additional receivables to fund its working capital for the coming year.

The Company's capital under management includes:

	September 30, 2008	September 30, 2007
Loan Payable		
Shareholder' Equity		
Share Capital	26,334,634	24,712,878
Subscriptions received	1,419,950	0

The Company's credit facility has certain financial covenants that, without the prior written consent of the lender, would result in a breach for the agreement. The Company cannot permit:

appointing an employee of The Company or its subsidiaries a contract whose total remuneration is in excess of \$150,000 a year.

The Company's share capital is no subject to external restrictions.

There were no changes in The Company's approach to capital management during the period.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on its shares will be made

by the board of directors on the basis of The Company's earnings, financial requirements and other conditions existing at such future time.

13. Risk Management and Financial Instruments

(a) Fair Value

The carrying value of cash and cash equivalents, restricted cash, deposits, accounts payable and accrued liabilities, due to shareholders and related parties and loans payable approximate their fair value because of the short-term maturity of these instruments. Investments are carried at its quoted market value.

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

(b) Credit risk

The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment grade securities held at a major Canadian financial institution in accordance with the Company's investment policy. Concentration of credit risk exists with respect to Company's cash and cash equivalents as amounts are held with a single major Canadian financial institution and with a major Chinese financial institution which is operated by a Chinese government agency. Concentration of credit risk exists with respect to Company's restricted cash as it is held with a major Chinese financial institution which is operated by a Chinese government agency. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	2008	2007
Bank accounts – China	\$ 585,206	\$ 444,005
Bank accounts – Canada	\$ 170,194	\$ 496,815
Guaranteed investment certificates	\$ 0	\$ 132,000
	<u>\$ 755,400</u>	<u>\$ 1,072,820</u>

The credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with major financial institutions with strong investment grade ratings by a primary ratings agency.

The Company has no asset backed securities.

(c) Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in obtaining funds to meet commitments. The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet its current liabilities when due. As at September 30, 2008, the Company's deficit was \$16,494,759, has working capital deficiency of approximately \$2,482,294 and continues to incur significant cash outflows. The Company is exposed to significant liquidity risk as the \$2,000,000 loan payable plus accrued interest is due immediately and is considered to be in default. The Company does not have sufficient cash and cash equivalents at September 30, 2008 to meet short-term business requirements.

To preserve its cash position, the Company plans to concentrate its efforts on Song Jiaguo and Sawayaredun and substantially defer expenditures on other projects until either the Song Jiaguo or the Sawayaredun property becomes viable. The Company believes with future non-brokered private placement financing it will be able to cover its working capital shortfall and have adequate cash to continue supporting its exploration efforts on its mineral properties.

(d) Factor risks

The Company is an exploration company with properties currently focused in China. Its mining activities involve numerous inherent risks. The Company is subject to various financial, operational and political risks that could significantly affect its profitability and operating cash flow. The Company minimizes these risks by careful management and planning. These risks include changes in local laws affecting the mining industry, a decline in the price of gold, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in the Chinese Renminbi against the Canadian dollar. The Company does not use financial instruments to mitigate the risks of changes in the price of gold or currency fluctuations.

The Company operates in an international environment, and as such, is subject to currency risk. A significant portion of the Company's expenditures is denominated in Chinese renminbi. A

strengthening of this currency could adversely affect the Company's costs denominated in Canadian dollars.

The Company's business is very dependant on the price of gold which is subject to fluctuation by factors the Company cannot control. A drop in the price of gold could adversely affect the Company's financial condition, results of operations and cash flows. Lower gold prices may result in: a) asset impairment and a write-down of the asset carrying value, b) production cutbacks and c) cessation of operations.

The Company operates primarily in China and is exposed to the laws governing the mining industry in China. The China government is currently supportive of the mining industry but as it is a communist country there can easily be changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance and expropriation of property that could adversely affect the Company's exploration effort and production plans.

Due to financial constraints the Company manages its operations with a limited number of key personnel. The need to replace any of these individuals could adversely affect the Company's operations until a qualified replacement is found.

The Company does not currently carry insurance for business interruptions nor does it carry insurance on its camp, plant, assay laboratory, fuel storage or garage facilities at its mining properties due to financial constraints.

The Company's properties are located in an area that can experience severe winter weather conditions which could adversely affect mining and exploration operations. In addition, the Company is subject to environmental laws and regulations that are constantly changing and may require expenditures that are significantly different from our current estimates.

(e) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

i.) interest rate risk

The Company's cash and cash equivalents consists of cash held in bank accounts and guaranteed investment certificates that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of September 30, 2008. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. The Company is not exposed to interest rate risk on its loan payable as payments outstanding on the loan do not fluctuate with interest rate changes. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

ii) Foreign currency risk

The Company is exposed to foreign currency risk as monetary financial instruments are denominated in Chinese renminbi. The Company has not entered into any foreign currency contracts to mitigate this risk as it believes this risk is minimized by the amount of cash held in this foreign jurisdiction.

iii) Other price risk

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

Net loss and other comprehensive loss for the year ended September 30, 2008 could have varied if the Canadian dollar to Mexican pesos foreign exchange rate varied by reasonably possible amounts from their actual balance sheet date values.

The sensitivity analysis of the Company's exposure to foreign currency risk at the reporting date has been determined based upon hypothetical changes taking place at September 30, 2008, which includes a hypothetical change in the foreign currency exchange rate between the Canadian dollar and Mexican Peso of 10% and the effect on net loss and comprehensive loss. Monetary financial instruments denominated in Mexican pesos as at September 30, 2008 have been used in these calculations.

	Reasonably Possible Changes
CDN \$: MXN peso exchange rate variance	10%
Net loss and comprehensive loss	\$25,832

14 RESTATEMENT

On August 28, 2008, the CICA Emerging Issues Committee (“EIC”) issued EIC – 172 wherein it recommended the recognition in net income of the tax benefit arising from the recognition of income tax loss carry-forwards consequent to the recording of unrealized gains on available-for-sale financial assets in other comprehensive income. The Abstract requires retrospective accounting for prior periods so affected. The Company has therefore restated net loss and related components of other comprehensive income for 2007 to reflect the recognition of the benefit of the application in the amount of \$70,494 as follows:

	2007	
	Restated	Previously reported
Net loss for the year	\$ (3,055,818)	\$ (3,126,312)
Deficit	\$ (12,991,778)	\$ (13,062,272)
Accumulated other comprehensive income:		
Adjustment to opening balance	\$ 640,599	\$ 772,364
Unrealized loss on available for sale investments	\$ (297,877)	\$ (359,148)

Certain of the prior years' comparative figures have been reclassified to conform to the current year's presentation

Cashflows statement – add into the cashflow statement

Cash and Cash Equivalents

Cash	377,870
789,452	
Cash Equivalents	0
132,000	