

Far City Mining Limited

Management's Discussion and Analysis
For the years ended
September 30, 2010 and 2009

Date: January 28, 2011

Far City Mining Limited

(An Exploration Stage Company)

Management Discussion & Analysis

For the years ended September 30, 2010 and 2009

Introduction

This management's discussion and analysis provides an analysis of the Corporation's exploration results and financial situation, which will enable the reader to evaluate important variations in exploration results and in the Corporation's financial situation for the year and three months ended September 30, 2010 and 2009. This report supplements the Corporation's audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and the accompanying notes prepared in accordance with generally accepted accounting principles in Canada. The Corporation's audited consolidated financial statements and the management's discussion and analysis are intended to provide a reasonable base for the investor to evaluate the Corporation's exploration results and financial situation.

Management's Responsibility for Financial Statements

The information provided in this MD&A, including the audited consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of the future values for certain assets or liabilities. Management believes such estimates have been based on past experiences, present conditions and expectations of future events and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Acquisition and reverse takeover transaction

On March 26, 2009, the Corporation completed a reverse takeover transaction in accordance with the share purchase agreement dated March 26, 2009 among the Corporation, Feature Grand and the shareholder of Feature Grand. Pursuant to the agreement, the Corporation issued an aggregate 120,000,000 shares to the shareholder of Feature Grand, representing effectively 100% of the issued and outstanding shares of the Corporation, in exchange for 100% of the outstanding shares of Feature Grand.

As a result of the transaction described above, control of the Corporation was passed to the former shareholder of Feature Grand upon closing of the transaction. This type of share exchange is referred to as a 'reverse takeover'. A reverse takeover transaction involving a non-public enterprise and a non-operating public Corporation is a capital transaction in substance, rather than a business combination. That is, the transaction is equivalent to the issuance of shares by the non-public operating enterprise for the net monetary assets of the non-operating public Corporation, accompanied by a recapitalization of the non-public operating enterprise.

The reverse takeover transaction has been accounted for as a recapitalization of Feature Grand whereby the historical financial statements and operations of Feature Grand become the historical financial statements of the

Far City Mining Limited

(An Exploration Stage Company)

Management Discussion & Analysis

For the years ended September 30, 2010 and 2009

Corporation with no adjustment to the carrying value of the assets and liabilities. The accompanying financial statements reflect the recapitalization of the shareholders equity as if the transaction occurred as of the beginning of the first period presented.

Nature of Business and Overall Performance

The Corporation is a resource company engaged in the acquisition, exploration and development of precious and base metals properties in China. The Corporation has its corporate and administrative office in Hong Kong and a field office in Chengdu, China.

The Corporation owns 100% interest in the Jiaogenma property in the province of Sichuan, China. (the "Property")

Ganzi State Xingkang Zinc and Multi-metal Mining Company Ltd. (Xingkang) was originally a joint venture company between Kangding Minsheng Mining Co. Ltd. (Minsheng) (80%) and No. 108 Geological Brigade, Sichuan Bureau of Geology and Mineral Resources (No. 108 Geological Brigade) (20%). Minsheng funded the exploration work and subsequently took over the 100% ownership of Xingkang. In November 2007, Chengdu Xincui Mining Co. Ltd. (Xincui) took over the 100% ownership of Xingkang from Minsheng

The audited consolidated financial statements include the accounts of the Corporation and its subsidiary.

Mineral Project

The Corporation's only project is Jiaogenma located in the western plateau of Sichuan province, China. The Corporation's fully-owned subsidiary, Feature Grand, commissioned and received an independent technical report on the Property, in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). The Technical Report on Jiaogenma Sn-Zn Project, Sichuan Province, Peoples Republic of China" December 15, 2008, was prepared by Dr D. George Cargill, Ph.D., P. Eng. (the "Author") of Cargill Consulting Geologists Limited. A copy of the Technical Report is available at www.sedar.com. The following information and figures were taken directly from the Technical Report.

The Property is located between 99° 35'54" E to 99° 38'44" E and 30° 23'50" N to 30° 26' 00" N. It is in Kangding County, Ganzi District, Sichuan Province, China, about 5 km from the Xiasai Mine site, 46 km from the town of Yidun and about 840 km from Chengdu.

Far City Mining Limited

(An Exploration Stage Company)

Management Discussion & Analysis

For the years ended September 30, 2010 and 2009

Land Tenure

The land comprising the Property is held as Exploration Permit No. T51120080502007493 by Ganzi State Xingkang Zinc and Multi-metals Mining Company Limited, which is owned (100%) by Chengdu Xincui Mining Co. Ltd. (Xincui) which is owned (100%) by Great Elegant Investment Limited, which is owned (100%) by Feature Grand, which is owned (100%) by the Corporation.

The Exploration Permit covers 9.81 km². This permit applies to mineral resources within this area and sufficient surface rights to allow access to these resources.

When the project is started a working report is needed and the work must follow the design in the report. The annual time to verify the work is October to November. For an extension or license renewal one level of exploration work needs to have been completed on the property, e.g. a geophysics survey.

The exploration licence will expire on December 31, 2012. Application for extension / renewal needs to be submitted to the registration office at least 30 days before the licence expires.

Exploration Program

A two phase exploration program is recommended for the property. The initial phase will consist of compiling existing field data into three-dimensional digital database, re-assaying available soil and rock samples using a multi-element analytical method such as 35 element ICP analysis. Then test available rock samples for responses to magnetic susceptibility, conductivity, resistivity, polarization and radiometrics to determine if other types of geophysical surveys can be used to detect zones of mineralization. Then survey the entire property with a combined Induced Polarization and Magnetic survey to explore the 1) area between the northwest trending shear zones, and 2) areas with more than 15 m of transported glacial overburden. This phase of exploration is already in progress and was completed in the end of Year 2009.

The second phase will include a drill program based on the data received from phase one. This would consist of compiling the new data into three dimensional digital database followed by a detailed survey of IP anomalies found in Phase One IP survey. This would be followed by carrying out fill in drilling on Mineralized Zones F5, F1A and F1B where mineralized zones have been defined by widely spaced trenches and adits. This program would require about 20 drill holes (2,000 m) to establish enough data points between the adits and the trenches to allow the Corporation to establish a resource to a western standard. This would be followed by step out drilling on Mineralized Zones F1, F3 and F5 to do some three-dimensional testing of zones determined by the previous trenching program and carry out drill test based on IP anomalies, magnetic and IP survey done in Phase One. This program would require about 20 drill holes (2,000 m).

Far City Mining Limited
(An Exploration Stage Company)
Management Discussion & Analysis
For the years ended September 30, 2010 and 2009

Exploration work done

Surface Exploration

It should be noted that because of altitude (4,800 m a.s.l.), site work can only be conducted during the summer season, which is from April to October.

The Corporation has conducted 1:2,000 topographic survey for the northern zone (Zone 3). The site exploration work during the summer season included the excavation of 16 trenches. 144 samples were collected from the trenches.

Geophysics Exploration

During the same season, an extensive geophysical program was completed in the property. Magnetic method was applied in Zone 3, northern zone. The results are very encouraging, suggesting the continuity of the known mineralized structures under overburden layers and the probable existence of new ore zones located between the ore zones.

Future Development

Future work will complete the exploration programs recommended in the NI 43-101 Report (Cargill's Report), followed by several other tasks including the extension of geochemical and geophysical work to the full extension of the property, undertake a structural study of the property, drilling some diamond holes to investigate the structural position of the known structures.

Further exploration plans on the concessions will be based on the results of these programs.

Selected Financial Information

The following financial data, which has been prepared in accordance with Canadian generally accepted accounting principles, is derived from the Corporation's audited consolidated financial statements for the year and three months period ended September 30, 2010 and 2009.

| | Three months ended Sep. 30, 2010 | Three months ended Sep. 30, 2009 | Year ended Sep. 30, 2010 | Year ended Sep. 30, 2009 |
|----------------------------------|---|---|-------------------------------------|-------------------------------------|
| Interest income | 103 | 12 | 175 | 2,059 |
| Net loss for the period | (2,109,758) | (1,101,135) | (2,921,871) | (1,925,853) |
| Basic and diluted loss per share | 0.0152 | 0.0088 | 0.0212 | 0.0154 |
| Total Assets | 5,749,713 | 5,815,488 | 5,749,713 | 5,815,488 |
| Total long term liabilities | 434,966 | 13,677 | 434,966 | 13,677 |
| Cash dividend | Nil | Nil | Nil | Nil |

Far City Mining Limited

(An Exploration Stage Company)
Management Discussion & Analysis
For the years ended September 30, 2010 and 2009

Results of Operation

For the three months period ended September 30, 2010 and 2009

During the period from July 1, 2010 to September 30, 2010, the Corporation did not generate any revenue.

Expenses during the period July 1, 2010 to September 30, 2010 were US\$2,109,861 and include: Staff salaries and benefits of US\$130,309, office and administration fees of US\$23,785, legal and professional fees of US\$61,253, amortization expenses US\$10,311, bank charges of US\$619, interest expenses of US\$24,746 and Stock-based compensation of US\$1,823,702.

During the period from July 1, 2010 to September 30, 2010, the Corporation did not incur expenses on the Property.

During the period from July 1, 2009 to September 30, 2009, the Corporation did not generate any revenue.

Expenses during this period were US\$1,101,147 and include: Staff salaries and benefits of US\$115,274, office and administration fees of US\$110,111, legal and professional fees of US\$233,423, amortization expenses US\$421, bank charges of US\$443, interest expenses of US\$348,370 and bad debts provision of US\$293,100.

During the period from July 1, 2009 to September 30, 2009, the Corporation did not incur expenses on the Property.

For the years ended September 30, 2010 and 2009

During the year ended September 30, 2010, the Corporation did not generate any revenue.

Expenses during the year ended September 30, 2010 were US\$2,922,046 and include: Staff salaries and benefits of US\$477,061, office and administration fees of US\$293,862, legal and professional fees of US\$233,980, amortization expenses US\$30,703, bank charges of US\$2,856, interest expenses of US\$24,746 and stock-based compensation of US\$1,823,702.

During the year ended September 30, 2010, the Corporation incurred US\$881,395 on the Property for the exploration work done. Also the Corporation paid deposits amounted US\$156,460 for the exploration work to be done in the Year of 2010.

During the year ended September 30, 2009, the Corporation did not generate any revenue.

Far City Mining Limited

(An Exploration Stage Company)
Management Discussion & Analysis
For the years ended September 30, 2010 and 2009

Expenses during this period were US\$1,927,912 and include: Staff salaries and benefits of US\$398,891, office and administration fees of US\$355,972, legal and professional fees of US\$455,333, amortization expenses US\$1,117, bank charges of US\$1,896, interest expenses of US\$357,057, written off of assets US\$64,546 and bad debts provision of US\$293,100.

During the year ended September 30, 2009, the Corporation paid deposit amounted US\$452,253 for the exploration work to be done in the Year of 2009.

Liquidity and Capital Resources

The Corporation has a negative working capital of US\$437,643 as at September 30, 2010 and deficit of US\$5,683,126. The Corporation's continued existence as a going concern is dependent upon the continued support of related parties, its ability to raise adequate long-term financing and has undertaken available cost cutting measures.

The Corporation will continue to require funds and as a result, will have to continue to rely on equity and debt financing. There can be no assurance that financing, whether debt or equity, will always be available to the Corporation in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Corporation. The Corporation have a commitment for office rental amounted US\$85,488 as at September 30, 2010.

Share capital

Apart from the shares issued in the acquisition and reverse takeover transaction mentioned above, on July 9, 2010, the Corporation issued 1,793,000 shares for US\$394,949 to raise the Corporation working capital.

Stock option plan

As at May 17, 2010, the Corporation established a stock option plan ("the Plan") for the benefit of key employees, directors and officers of, and service providers providing services to, the Corporation. The Plan provides that the aggregate number of shares available for issuance, pursuant to options granted under the Plan is limited to 13,755,000 shares.

Options are granted under the Plan at the discretion of the Board of Directors at exercise prices determined by the Corporation, but shall be not less than the fair market value of the shares on the date of grant of the option. In general, options granted under the Plan vest over the period of up to a maximum of ten years from the grant date and expire by no later than the tenth anniversary of the date of grant.

Far City Mining Limited
(An Exploration Stage Company)
Management Discussion & Analysis
For the years ended September 30, 2010 and 2009

During the year ended September 30, 2010, there are 9,600,000 options granted at CAD\$0.23 per option and 200,000 options had been forfeited.

Related Party Transactions

For the three months period ended September 30, 2010 and 2009

During the period July 1, 2010 to September 30, 2010, the directors, Mr. Harry Tak Shing Lam, Mr. Patrick Pak Him Wong, Mr. Picheng Hu, Mr. Wenhai Zhang, Mr. Peixing Yang, Mr. Jorge Sepulveda Schonherr and Madam Lai Fong Chung charged salaries of US\$23,561, US\$11,973, US\$15,907, US\$5,850, US\$5,850, US\$4,932 and US\$4,932 respectively. 2217415 Ontario Inc., a director, Mr. Joseph Biu Sing Tam's wife is the sole beneficiary of the company, charged a legal and professional fee of US\$18,811. Mr. Jorge Sepulveda Schonherr, a director, charged a legal and professional fee of US\$6,126.

During the period July 1, 2009 to September 30, 2009, the directors, Mr. Harry Tak Shing Lam, Mr. Patrick Pak Him Wong and Mr. Joseph Biu Sing Tam charged salaries of US\$25,159, US\$13,547 and US\$5,035 respectively. 2217415 Ontario Inc., a director, Mr. Joseph Biu Sing Tam's wife is the sole beneficiary of the company, charged a legal and professional fee of US\$4,053. Mr. Jorge Sepulveda Schonherr, a director, charged a legal and professional fee of US\$4,956.

The amount due to related party, Mr. Harry Tak Shing Lam, presented as a non-current liability amounting to US\$421,310 is unsecured, is non-interest bearing and is repayable by 14 months' notice.

The accounts payable to Splendid Fame Limited, presented as a non-current liability amounting to US\$9,792 is unsecured, is non-interest bearing and is repayable by 18 months' notice.

For the year ended September 30, 2010 and 2009

During the year ended September 30, 2010, the directors, Mr. Harry Tak Shing Lam and Mr. Patrick Pak Him Wong, Mr. Picheng Hu, Mr. Wenhai Zhang, Mr. Peixing Yang, Mr. Jorge Sepulveda Schonherr and Madam Lai Fong Chung charged salaries of US\$98,895, US\$52,538, US\$57,350, US\$20,482, US\$20,482, US\$27,702 and US\$27,702 respectively. A director, Mr. Jorge Sepulveda Schonherr charged a legal and professional fee of US\$13,213. 2217415 Ontario Inc., a director, Mr. Joseph Biu Sing Tam's wife is the sole beneficiary of the company, charged a legal and professional fee of US\$75,808.

Far City Mining Limited

(An Exploration Stage Company)

Management Discussion & Analysis

For the years ended September 30, 2010 and 2009

During the year ended September 30, 2009, the directors, Mr. Harry Tak Shing Lam, Mr. Patrick Pak Him Wong and Mr. Joseph Biu Sing Tam charged salaries of US\$108,996, US\$58,690 and US\$5,035 respectively. A director, Mr. Jorge Sepulveda Schonherr charged a legal and professional fee of US\$4,956. 2217415 Ontario Inc., a director, Mr. Joseph Biu Sing Tam's wife is the sole beneficiary of the company, charged a legal and professional fee of US\$4,053.

The amount due to related party, Mr. Harry Tak Shing Lam, presented as a current liability amounting to US\$421,310 is unsecured, is non-interest bearing and is repayable by 14 months' notice.

The accounts payable to Splendid Fame Limited, presented as a non-current liability amounting to US\$9,792 is unsecured, is non-interest bearing and is repayable by 18 months' notice.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the unaudited interim consolidated financial statements include the Corporation's estimate of recoverable value of its mineral properties and related deferred expenditures. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Corporation's control. The Corporation's recoverability of the recorded value of its mineral properties and associated deferred expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Corporation is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves and the ability of the Corporation to obtain necessary financing to complete the development and future profitable production or proceeds of disposition thereof.

Far City Mining Limited

(An Exploration Stage Company)
Management Discussion & Analysis
For the years ended September 30, 2010 and 2009

Change in Accounting Policies including Initial Adoption

Financial instruments

The Corporation has adopted the Canadian Institute of Chartered Accountants' new Handbook Section 1530 "Comprehensive Income", Section 1535 "Capital Disclosures", Section 3251 "Equity", Section 3855 "Financial Instruments – recognition and measurement", Sections 3862 and 3863 which deal with financial instruments disclosure and presentation, Section 3865 "Hedges", Section 1400 "General Standards on Financial Statement Presentation", Section 3031 "Inventories", Section 3064 "Goodwill and Intangible Assets".

a) Comprehensive income

Section 1530 introduces new requirements for situations when certain gains and losses ("other comprehensive income" or "OCI") must be temporarily presented outside of net loss. Comprehensive income includes both net loss and OCI. OCI is the change in shareholders' equity from non-owner sources which are not included in the calculation of net loss until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category of shareholders' equity on the balance sheet.

b) Capital disclosures

Section 1535 requires disclosure about how the Corporation manages its capital resources. A new note has been added to these financial statements.

c) Equity

As a result of the issuance of guidance on financial instruments accounting, the CICA issued an amended accounting standard regarding Equity ("Section 3251"), which replaces Section 3250, Equity. The standard requires companies to disclose the impact of the new financial instruments accounting on equity within the Consolidated Balance Sheets and the Consolidated Statements of Retained Earnings.

Far City Mining Limited

(An Exploration Stage Company)

Management Discussion & Analysis

For the years ended September 30, 2010 and 2009

d) Financial instruments recognition, measurement, disclosure and presentation

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

Upon adoption of these new standards, the Corporation has designated its cash and cash equivalents as held-for trading, which are measured at fair value. Receivables are designated as loans and receivables, which are measured at amortized cost. Loan payable and due to related parties are designated as other liabilities, which are measured at amortized cost. At September 30, 2010, the Corporation had neither available-for-sale nor held-to maturity financial instruments. The adoption of this policy had no material impact on opening deficit.

Sections 3862 and 3863 identifies and details information to be disclosed in the financial statements.

e) Hedges

CICA handbook Section 3865 specifies circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Corporation currently does not have any hedges.

f) General Standards on Financial Statement Presentation

Section 1400 has been amended to include requirements to assess and disclose an entities ability to continue as a going concern.

g) Inventories

Section 3031 provides guidance on determining cost as well as other recognition, measurement, presentation and disclosure issues related to inventories. The adoption of this standard had no impact on the Corporation's financial statements.

Far City Mining Limited

(An Exploration Stage Company)

Management Discussion & Analysis

For the years ended September 30, 2010 and 2009

h) Goodwill and Intangible Assets

The new Handbook Section 3064 “Goodwill and Intangible Assets”, which will replace Section 3062 “Goodwill and Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard had no impact on its consolidated financial statements.

Future accounting and reporting changes

New accounting standard

CICA HB Section 1601, Consolidated Financial Statements and HB Section 1602, Non-controlling Interests replace CICA HB Section 1600, Consolidated Financial Statements. HB Section 1601 establishes standards for the preparation of consolidated financial statements. HB Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. HB Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for the Corporation for interim and annual financial statements beginning on or after January 1, 2011. The Corporation has not yet determined the impact of the adoption of these changes on its Financial Statements.

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Corporation beginning on or after January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with international financial reporting standards (IFRS). The Corporation does not anticipate that the adoption of this standard will impact its financial results.

Far City Mining Limited

(An Exploration Stage Company)
Management Discussion & Analysis
For the years ended September 30, 2010 and 2009

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 (specifically Oct 1, 2011 for the Company). The transition date of January 1, 2011 will require the 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 total financial reporting impact of the transition to IFRS cannot be fully and reasonably estimated at this time.

- a) Business combinations– IFRS 3, Business Combinations, maybe applied retrospectively or prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. We will not elect to retrospectively apply IFRS 3 to business combinations that occurred prior to the Transition Date and such business combinations will not be restated. Any goodwill arising on such business combinations before the Transition Date will not be adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions except as required under IFRS 1.
- b) Fair value as deemed cost– IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior Canadian GAAP. We will continue to apply the cost model for property, plant & equipment and will not restate property, plant & equipment to fair value under IFRS. We will use the historical bases under Canadian GAAP as deemed cost under IFRS at Transition Date.
- c) Cumulative translation differences– Retrospective application of IFRS would require us to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary or associate was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. We will not elect to reset all cumulative translation gains and losses to zero in opening retained earnings at the Transition Date.
- d) Share-based payments– IFRS 2, Share Based Payments. We will apply IFRS 2 for all liabilities arising from share-based payment transactions that existed at September 30, 2010.

Far City Mining Limited

(An Exploration Stage Company)
Management Discussion & Analysis
For the years ended September 30, 2010 and 2009

Financial Instruments and Risk Management

Fair value of financial instruments

The Corporation's financial instruments consist of cash and cash equivalents, deposit, due to related parties and loan payable. Cash equivalents consist of bankers' acceptances and term deposits, the investment terms of which are less than 90 days at the time of acquisition. The Corporation has no asset backed commercial paper. The fair values of the financial instruments approximate their amortized cost value due to their short-term nature.

The Corporation used the net present value method to estimate the fair value of non-current financial liabilities. Considering the interest rate incurred by the Corporation on similar financial liabilities, the Corporation has determined that an annual interest rate of 12.5% should be used to discount the carrying amount to fair value of these non-current financial liabilities.

Currency risk

A portion of the Corporation's financial assets and liabilities is denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. The Corporation is exposed to currency exchange rate risks to the extent of its activities in China. The Corporation does not use derivative financial instruments to reduce its foreign exchange exposure.

Future changes in exchange rates could have a material effect on the Corporation's business, financial condition and results of operations.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The Corporation does not have significant cash balances so this risk is considered to be limited. The receivable is current in nature and the Corporation does not anticipate any collection risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation manages its cash according to its operational needs and to optimize revenues from interest.

Liquidity risk

The Corporation manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date.