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**SINCHAO METALS CORP.**

*(An Exploration Stage Company)*

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED JUNE 30, 2008**

*(Unaudited)*

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

**SINCHAO METALS CORP.***(An Exploration Stage Company)***INTERIM CONSOLIDATED BALANCE SHEETS***(Expressed in Canadian Dollars, except where noted)*

	<b>June 30, 2008</b>	March 31, 2008
	<b>(unaudited)</b>	(audited)
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	2,165,425	3,543,839
Accounts receivable	127,318	66,202
Due from related parties (Note 8)	301,173	77,895
Prepaid expenses	22,463	76,673
	<b>2,616,379</b>	3,764,609
<b>Mineral properties (Note 4)</b>	<b>27,039,598</b>	25,735,740
<b>Equipment (Note 5)</b>	<b>81,919</b>	78,984
	<b>29,737,896</b>	29,579,333
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	602,300	494,841
Due to related parties (Note 8)	239,999	-
	<b>842,299</b>	494,841
<b>Future income tax liabilities</b>	<b>5,609,829</b>	6,080,372
	<b>6,452,128</b>	6,575,213
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	21,928,580	21,922,243
Warrants (Note 6(d))	2,604,930	2,615,286
Contributed surplus (Note 7)	2,008,844	1,714,507
Deficit	(3,256,586)	(3,247,916)
	<b>23,285,768</b>	23,004,120
	<b>29,737,896</b>	29,579,333

**GOING CONCERN (Note 1)**

APPROVED BY THE DIRECTORS

"ANDREW GOURLAY"

DIRECTOR

"BRYAN MORRIS"

DIRECTOR

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

**SINCHAO METALS CORP.***(An Exploration Stage Company)***INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS,  
COMPREHENSIVE INCOME (LOSS) AND DEFICIT***(unaudited)**(Expressed in Canadian Dollars, except where noted)*

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	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>OPERATING EXPENSES</b>		
Administrative and management services	<b>95,712</b>	84,199
Investor relations	<b>54,161</b>	20,938
Office salaries and sundry	<b>21,305</b>	14,042
Professional fees	<b>29,115</b>	3,691
Stock based compensation (Note 6(f))	<b>240,353</b>	309,135
Depreciation	<b>3,645</b>	541
	<b>444,291</b>	432,546
<b>LOSS BEFORE OTHER ITEMS</b>	<b>(444,291)</b>	(432,546)
<b>OTHER INCOME (EXPENSE)</b>		
Interest and other income	<b>12,638</b>	2,209
Bank charges and interest	<b>-</b>	(4,012)
Foreign exchange gain (loss)	<b>422,983</b>	545,337
	<b>435,621</b>	543,534
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<b>(8,670)</b>	110,988
<b>DEFICIT - BEGINNING OF PERIOD</b>	<b>(3,247,916)</b>	(1,368,248)
<b>DEFICIT - END OF PERIOD</b>	<b>(3,256,586)</b>	(1,257,260)
<b>PER SHARE INFORMATION</b>		
Weighted average number of common shares outstanding (basic and diluted)	<b>70,103,514</b>	53,728,462
Net income (loss) per common share (basic and diluted)	<b>(0.000)</b>	0.002

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

**SINCHAO METALS CORP.***(An Exploration Stage Company)***INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****(Expressed in Canadian Dollars, except where noted)**

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>CASH PROVIDED FROM (USED FOR):</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	(8,670)	110,988
Adjustments for items not affecting cash:		
Stock based compensation	240,353	309,135
Unrealized foreign exchange (gain) loss related to future income tax liability	(470,612)	(576,907)
Depreciation	3,645	541
	<b>(235,284)</b>	<b>(156,243)</b>
Net changes in non-cash working capital items:		
Accounts receivable	(61,116)	(3,955)
Due from related parties	16,721	56,311
Prepaid expenses	54,210	(39,986)
Accounts payable	107,459	(63,405)
	<b>(118,010)</b>	<b>(207,278)</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	(1,260,230)	(466,738)
Equipment	(6,511)	(4,096)
	<b>(1,266,741)</b>	<b>(470,834)</b>
<b>FINANCING ACTIVITIES</b>		
Common shares issued for cash	-	705,000
Share issue costs	6,337	-
	<b>6,337</b>	<b>705,000</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>(1,378,414)</b>	<b>26,888</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>3,543,839</b>	<b>137,441</b>
<b>CASH AND CASH EQUIVALENTS -END OF PERIOD</b>	<b>2,165,425</b>	<b>164,329</b>

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

# SINCHAO METALS CORP.

(An Exploration Stage Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars, except where noted)

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### 1. Incorporation and Nature of Operations

Sinchao Metals Corp. (“Sinchao”, or the “Company”) was incorporated on March 15, 2006, under the Business Corporations Act of Alberta. With the acquisition of Corporacion Minera Sinchao S.A.C. (“Minera Sinchao”), the Company’s principal business is the exploration of mineral properties located in Peru.

On December 15, 2006, the Company and Dolce Enterprises Inc. (“Dolce”), a capital pool company listed on the TSX Venture Exchange, were amalgamated into a new company. The new company retained the name Sinchao Metals Corp.

The Company is in the process of exploring and evaluating its mineral properties in Peru. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral properties and related deferred costs are entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. The amount shown as mineral properties and deferred explorations costs represents net costs to date, and does not necessarily represent present or future values.

As at June 30, 2008, the Company has an accumulated deficit of \$3,256,586. These interim unaudited consolidated financial statements have been prepared under the assumptions of a going-concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Failure to arrange adequate financing on acceptable terms and to achieve profitability would have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the consolidated financial statements.

### 2. Basis of Presentation

These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements do not include all of the disclosure required by Canadian generally accepted accounting principles (“Canadian GAAP”) for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2008. They have been prepared using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended March 31, 2008.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

### 3. Adoption of New Accounting Policies

#### *Current Changes in Accounting Policies*

On April 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections. There was no material impact on the Company’s financial condition or operating results as a result of the adoption of these new standards:

- (a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories (see Note 11).

# SINCHAO METALS CORP.

(An Exploration Stage Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars, except where noted)

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### 3. Adoption of New Accounting Policies (Continued)

#### *Current Changes in Accounting Policies (Continued)*

- (b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users’ understanding of the significance of financial instruments to an entity’s financial position, performance and cash flows (see Note 11).
- (c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity’s capital and how it is managed (see Note 10). Under this standard, the Company will be required to disclose the following:
- qualitative information about its objectives, policies and processes for managing capital;
  - summary quantitative data about what it manages as capital;
  - whether during the period it complied with any externally imposed capital requirement to which it is subject; and
  - when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.
- (d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern (see Note 1).

#### *Future Changes in Accounting Policies*

- (a) 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 the publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 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.

- (b) Goodwill and Intangible Assets

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. The adoption of this new section is not expected to have a material impact on the Company’s earnings and financial position.

**SINCHAO METALS CORP.***(An Exploration Stage Company)***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)**(Expressed in Canadian Dollars, except where noted)***4. Mineral Properties**

	<u>June 30, 2008</u>	<u>March 31, 2008</u>
<b>Sinchao properties</b>	<b>\$</b>	<b>\$</b>
Acquisition costs	<b>14,554,266</b>	14,554,266
Deferred exploration costs	<b>5,581,690</b>	4,390,132
Future income tax	<b>6,080,372</b>	6,080,372
Refundable IGV Tax (Peru)	<b>486,194</b>	417,522
Stock based compensation	<b>337,076</b>	293,448
	<u><b>27,039,598</b></u>	<u>25,735,740</u>

The Sinchao mineral properties (the "Sinchao Project") are located within the Yanacocha-Hualgayoc mining district in the department of Cajamarca, northern Peru. The Sinchao Project is comprised of four exploration rights, covering 1,300 hectares, that overlie sixteen mining concessions and one claim as well as two additional claims, which lie outside the four exploration rights.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures including confirmation by the Peruvian government's Mine Registry Offices and National Cadastral Plans, do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

**5. Equipment**

	<u>June 30, 2008</u>				<u>March 31, 2008</u>		
	<u>Cost</u>	<u>Additions</u>	<u>Accumulated</u>		<u>Cost</u>	<u>Accumulated</u>	
			<u>Amortization</u>	<u>Net Book Value</u>		<u>Amortization</u>	<u>Net Book Value</u>
	\$	\$	\$	\$	\$	\$	\$
Field equipment	<b>70,543</b>	<b>1,861</b>	<b>7,537</b>	<b>64,867</b>	70,543	4,494	66,049
Office furniture and equipment	<b>14,515</b>	<b>4,650</b>	<b>2,113</b>	<b>17,052</b>	14,515	1,580	12,935
	<u><b>85,058</b></u>	<u><b>6,511</b></u>	<u><b>9,650</b></u>	<u><b>81,919</b></u>	85,058	6,074	78,984

**SINCHAO METALS CORP.***(An Exploration Stage Company)***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)**(Expressed in Canadian Dollars, except where noted)***6. Share Capital****(a) Authorized**

The Company has authorized an unlimited number of common shares, with no par value.

**(b) Issued and Outstanding**

	<u>Number of Shares</u>	<u>Amount \$</u>
Balance, March 31, 2007	49,154,120	17,214,223
Private placement	15,700,000	6,280,000
Stock options exercised	60,000	60,000
Warrants exercised	5,189,394	907,936
Value assigned to options exercised	-	33,975
Value assigned to warrants exercised	-	100,369
Fair value of warrants issued	-	(1,946,388)
Share issue costs - cash	-	(45,151)
Share issue costs - stock	-	(682,721)
Balance, March 31, 2008	<u>70,103,514</u>	<u>21,922,243</u>
Share issue costs - cash	-	6,337
Balance, June 30, 2008	<u>70,103,514</u>	<u>21,928,580</u>

**(c) Escrowed shares**

Pursuant to a CPC Escrow Agreement dated May 10, 2006, 366,667 common shares, held by the former shareholders of Dolce, were held in escrow. In accordance with the agreement an initial release of 10% thereof occurred on the initial trading date, December 21, 2006, and 15% thereof will be released on each six months anniversary of that date.

Pursuant to an Escrow Agreement dated September 15, 2006, 36,325,000 common shares, held by the former shareholders of the Company, were deposited in escrow. In accordance with the Escrow Agreement, an initial release of 10% thereof occurred on the initial trading date December 21, 2006, on each six months anniversary of that date, 5,448,750 shares will be released, so that all shares will have been released by the sixth anniversary date.

**SINCHAO METALS CORP.***(An Exploration Stage Company)***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)**(Expressed in Canadian Dollars, except where noted)***6. Share Capital (Continued)****(d) Warrants**

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at June 30, 2008 and the changes for the period ending on that date is as follows:

	<u>Number of Warrants</u>	<u>Amount</u>
		\$
Balance, March 31, 2007	8,276,212	367,530
Issued pursuant to private placement	7,500,000	1,776,507
Broker warrants issued pursuant to private placement	1,250,000	572,602
Exercised	(5,189,394)	(100,369)
Expired	(50,000)	(984)
Balance, March 31, 2008	<u>11,786,818</u>	<u>2,615,286</u>
Expired	(36,818)	(10,356)
Balance, June 30, 2008	<u>11,750,000</u>	<u>2,604,930</u>

The following table summarizes information about the warrants outstanding and exercisable at June 30, 2008:

<u>Expiry Date</u>	<u>Exercise price</u>	<u>Number</u>
	\$	
June 15, 2008/2009 <sup>(1)</sup>	2.00/5.00	3,000,000
November 21, 2009	0.60	6,250,000
December 12, 2009	0.60	2,500,000
		<u>11,750,000</u>

<sup>(1)</sup> Exercisable price \$2.00 expiring June 15, 2008; from June 15, 2008 to June 14, 2009 the exercise price is \$5.00.

**(e) Stock Options**

The Company has established a Stock Option Plan for directors, officers, employees and consultants. The maximum number of common shares that may be reserved under the Plan may not exceed 10% of the outstanding shares at that time. Options granted under the plan generally have a term of five years. Stock options granted under the Plan vest over varying periods ranging from 0 – 24 months. The exercise price of each option equals or exceeds the market price of the Company's common shares on the date of the grant.

# SINCHAO METALS CORP.

(An Exploration Stage Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars, except where noted)

### 6. Share Capital (Continued)

#### (e) Stock Options (continued)

A summary of stock option activity at June 30, 2008 and the changes for the period then ended is as follows:

	Number	Weighted Average Exercise Price
At March 31, 2007	4,280,000	1.00
Issued	790,000	0.68
Exercised	(60,000)	1.00
Forfeited	(500,000)	1.00
At March 31, 2008	4,510,000	1.00
Issued	-	-
Exercised	-	-
Forfeited	-	-
At June 30, 2008	4,510,000	0.94

Number				Number		Exercise		
Outstanding				Outstanding		Price		
March 31,				June 30,		Per		
2008		Issued	Exercised	Forfeited	2008		Share	Expiry date
3,220,000	-	-	-	-	3,220,000	\$	1.00	December 27, 2009 (i)
500,000	-	-	-	-	500,000	\$	1.00	January 3, 2010 (i)
290,000	-	-	-	-	290,000	\$	0.66	October 29, 2012 (i)
500,000	-	-	-	-	500,000	\$	0.70	January 10, 2011 (i)
4,510,000	-	-	-	-	4,510,000	\$	0.66 - \$1.00	December 29, 2009 - October 29, 2012

(i) As of June 30, 2008, 3,313,333 options are fully vested

**SINCHAO METALS CORP.***(An Exploration Stage Company)***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)**(Expressed in Canadian Dollars, except where noted)***6. Share Capital (Continued)****(e) Stock Options (continued)**

A summary of stock option activity at June 30, 2007 and the changes for the period then ended is as follows:

Number					Number	Exercise		
Outstanding					Outstanding	Price		
March 31,					June 30,	Per		
2007	Issued	Exercised	Forfeited	2007	Share	Expiry date		
3,780,000	-	(7,500)	-	3,772,500	\$ 1.00	December 27, 2009 (i)		
500,000	-	-	-	500,000	\$ 1.00	January 3, 2010 (i)		
						December 29, 2009 -		
4,280,000	-	(7,500)	-	4,272,500	\$0.66 - \$1.00	October 29, 2012		

(i) As of June 30, 2007, 977,917 options are fully vested

**(f) Stock Based Compensation**

The Company accounts for stock-based compensation, including stock options and warrants, using the fair value based method as prescribed by CICA 3870. Under this method, the fair value of stock options and warrants at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in contributed surplus. During the three months ended June 30, 2008 the Company recorded stock-based compensation of \$283,981 (2007 - \$309,135) of this \$43,628 was capitalized to resource properties (2007 - \$nil).

**7. Contributed Surplus**

The Company's contributed surplus as at June 30, 2008 and the changes for the period ending on that date are as follows:

	\$
Balance, March 31, 2007	369,217
Stock based compensation on stock options	1,378,281
Reallocation on exercise of stock options	(33,975)
Reallocation on expiry of warrants	984
Balance, March 31, 2008	<u>1,714,507</u>
Stock based compensation on stock options	283,981
Reallocation on expiry of warrants	10,356
Balance, June 30, 2008	<u><u>2,008,844</u></u>

# SINCHAO METALS CORP.

(An Exploration Stage Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars, except where noted)

### 8. Related Party Transactions

Amounts due from (owed to) related parties are as follow:

	<u>June 30, 2008</u>	<u>March 31, 2008</u>
	\$	\$
<b>Due from related parties</b>	<b>301,173</b>	77,895
<b>Due to related parties</b>	<b>(239,999)</b>	-

Due from related parties includes amounts receivable from Invicta Mining Corp SAC of \$290,828 and Misti Gold SAC of \$10,345. Due to related parties includes amounts owed to Andean American Mining Corp.

During the three months ended June 30, 2008, the Company paid to a related company, Andean American Mining Corp., and its subsidiaries \$91,008 (2007 - \$94,623) for geological and administrative services including a 100% mark-up in accordance with the Share Exchange Agreement.

During the three months ended June 30, 2008 the Company was billed \$21,000 (2007 - \$24,600) for geological consulting services provided by an officer of the Company.

The foregoing related party transactions are recorded at their exchange amount, which is the amount of consideration paid or received as established and agreed to between the related parties. The exchange amount was negotiated and established and agreed to by the related parties as if they were dealing at arm's length.

### 9. Segmented Information

The Company's only activities are the exploration of the Sinchao Project in Peru. The principal assets in Canada consist of cash and cash equivalents and accounts receivable.

### 10. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to bring its mineral interest projects in Peru to commercial production.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash, all held with major Canadian financial institutions.

# SINCHAO METALS CORP.

(An Exploration Stage Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars, except where noted)

### 11. Financial Instruments

#### Categories of financial assets and liabilities

As at June 30, 2008, the carrying and fair value amounts of the Company's financial instruments are the same. The carrying value of the Company's financial instruments is classified into the following categories:

	June 30, 2008	March 31, 2008
Held for trading	\$ 1,751,617	\$ 3,193,096

The fair values of the Company's cash and cash equivalents, accounts receivable, GST receivable, and accounts payables and accrued liabilities approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and commodity price risk.

#### (a) Currency risk

The Company's property interests in Peru make it subject to foreign currency fluctuations (Peruvian Soles and US Dollar) and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

The Company is exposed to foreign currency fluctuations to the extent cash and accounts payable and accrued liabilities of the Company are not denominated in Canadian dollars. As at June 30, 2008, the Company had \$260,149 of cash denominated in US dollars (March 31, 2008 - \$85,148); and \$817 in Peruvian Soles (March 31, 2008 - \$4,054). As at June 30, 2008, there were \$84,994 of liabilities denominated in US dollars (March 31, 2008 - \$127,843); and \$139,068 in Peruvian Soles (March 31, 2008 - \$808,963). These liabilities were included in accounts payable and accrued liabilities.

#### (b) Credit risk

The Company's cash and cash equivalents are held in Canadian and Peruvian financial institutions (Peruvian Soles and US Dollar). The Company does not have any asset-backed commercial paper in its cash and cash equivalents. The Company's amount receivable consists primarily of goods and services tax due from the federal government of Canada.

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

#### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

# SINCHAO METALS CORP.

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## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)*

*(Expressed in Canadian Dollars, except where noted)*

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### 11. Financial Instruments (Continued)

(e) Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company are directly related to the market price of gold. The Company has not hedged any of its future gold sales. The Company's input

costs are also affected by the price of fuel. The Company closely monitors gold and fuel prices to determine the appropriate course of action to be taken by the Company. At this time the Company does not generate sales and as a result is not impacted by commodity prices.