

LORNEX CAPITAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and six months ended June 30, 2014

LORNEX CAPITAL INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2014

Lornex Capital Inc. (the "Company") is a natural resource company currently engaged in the acquisition, exploration and development of mineral properties. The Company continues to actively evaluate new potential projects. The Company is listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "LOM".

This management's discussion and analysis ("MD&A") reports on the consolidated operating results and financial condition of the Company for the six months ended June 30, 2014 and is prepared as of August 12, 2014, in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2014 and 2013 and audited consolidated financial statements for the year ended December 31, 2013, which were prepared in accordance with IFRS.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

Cautionary Note Regarding Forward-Looking Information

This document may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation.

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its planned exploration activities, the adequacy of its financial resources and statements with respect to the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual consolidated financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual

results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Mineral Property

AMI Copper-Molybdenum-Silver-Lead Property - Yukon

The Company holds a 100% interest in the AMI claims. The property is subject to a 1% NSR royalty.

During the year ended December 31, 2012, certain claims have lapsed and as a result, the Company recognized a full impairment of \$92,317 on the property.

During the six months ended June 30, 2014, the Company paid property fees on all active claims and recorded an additional impairment of \$3,360 (2013 - \$3,360).

The AMI property is located 60 kilometres west of Dawson City, Yukon Territory and consists of 50 contiguous mineral claims covering approximately 1045 hectares. The Company has a 100% interest in the AMI property which is subject to a 1% net smelter return royalty.

Risk Factors

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Due to the nature of the Company's business and the present stage of exploration of its mineral property (which is primarily an early stage exploration property with no known resources or reserves that have not been explored by modern methods), the following risk factors, among others, will apply:

Mining Industry is Intensely Competitive: The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

Resource Exploration and Development is Generally a Speculative Business: Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. The great majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.

Fluctuation of Metal Prices: Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no

assurance that the price of any mineral deposit will be such that its mineral property could be mined at a profit.

Permits and Licenses: The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays or a failure to obtain such licenses and permits or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

No Assurance of Profitability: The Company has no history of earnings and, due to the nature of its proposed business, there can be no assurance that the Company will ever be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the sale of its common shares or, possibly, the sale or optioning of a portion of its interest in its mineral property. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its property, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

Consolidated financial statements have been prepared assuming the Company will continue on a going concern basis: The consolidated financial statements have been prepared on the basis that it will continue as a going concern. At June 30, 2014 the Company had working capital of \$621,370 as compared to working capital of \$746,751 as at December 31, 2013. Management has estimated that the Company has adequate funds from existing working capital to meet its obligations for the next twelve months. If the Company is unable to obtain adequate additional financing, it may be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would likely differ significantly from their going concern assumption carrying values.

Uninsured or Uninsurable Risks: Exploration, development and mining operations involve various hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structural cave-ins or slides, flooding, fires, metal losses and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to or destruction of mineral properties, facilities or other property, personal injury, environmental damage, delays in operations, increased cost of operations, monetary losses and possible legal liability. The Company may not be able to obtain insurance to cover these risks at economically feasible premiums or at all. The Company may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

Government Regulation: Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In addition, the profitability of any mining prospect is affected by the market for precious and/or base metals which is influenced by many factors including changing production costs, the supply and demand for metals, the rate of inflation, the inventory of metal producing corporations, the political environment and changes in international investment patterns.

Environmental Restrictions: The activities of the Company are subject to environmental regulations promulgated by government agencies in different countries from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural

resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

Share Price Volatility: During the past year, worldwide securities markets, particularly those in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Most significantly, the share prices of junior natural resource companies have experienced an unprecedented decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. In addition, significantly higher redemptions by holders of mutual funds has forced many of such funds (including those holding the Company's securities) to sell such securities at any price. As a consequence, despite the Company's past success in securing significant equity financing, market forces may render it difficult or impossible for the Company to secure places to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all. Therefore, there can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely impact on the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

Financing Risks: The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfil its obligations under any applicable agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its project with the possible loss of such property.

Insufficient Financial Resources: The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of all of its planned exploration and development programs. Future property acquisitions and the development of the Company's property will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing, short or long-term borrowings or other means. There is no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its property. In particular, failure by the Company to raise the funding necessary to maintain in good standing its various option agreements could result in the loss of its rights to such property.

Dilution to the Company's existing shareholders: The Company will require additional equity financing be raised in the future. The Company may issue securities on less than favourable terms to raise sufficient capital to fund its business plan. Any transaction involving the issuance of equity securities or securities convertible into common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

Dependence Upon Others and Key Personnel: The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral property; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the property held by the Company. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company and its consultants

and employees. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities. This is especially true as the competition for qualified geological, technical and mining personnel and consultants is particularly intense in the current marketplace.

Surface Rights and Access: Although the Company acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights can be costly and time consuming. In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdictions.

Title: Although the Company has taken steps to verify the title to the mineral property in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such property, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

Results of Operations

Three months ended June 30, 2014 compared with the three months ended June 30, 2013

During the three months ended June 30, 2014, the Company reported a loss of \$104,068 or \$0.014 per share compared to a loss of \$42,653 or \$0.007 per share during the three months ended June 30, 2013, representing an increase in loss by \$61,415. The increase in loss was primarily attributable to an increase in general and administrative expenses of \$54,654.

During the three months ended June 30, 2014, the Company paid consulting fees of \$25,000 for project evaluation. No such expenses were incurred in the prior period.

Office, rent and administration increased by \$9,478 during the three months ended June 30, 2014, as a result of higher fees charged by a related company for shared rent and office administration. Office administration included accounting, financial reporting and administrative services.

Regulatory fees increased by \$11,758 from \$2,595 for the three months ended June 30, 2013 to \$14,353 for the three months ended June 30, 2014, as a result of the Company's listing on the CSE.

Share-based compensation of \$20,181 was recorded during the three months ended June 30, 2014 for stock options granted and for the amendment of terms of previously granted stock options. During the three months ended June 30, 2014, the Company recorded share-based compensation of \$500 for stock options vested during the period.

Six months ended June 30, 2014 compared with the six months ended June 30, 2013

During the six months ended June 30, 2014, the Company reported a loss of \$150,204 or \$0.021 per share compared to a loss of \$94,144 or \$0.02 per share during the six months ended June 30, 2013,

representing an increase in loss by \$56,060. The increase in loss was primarily attributable to an increase in general and administrative expenses of \$49,250.

During the six months ended June 30, 2014, the Company paid consulting fees of \$25,000 for project evaluation. No such expenses were incurred in the prior period.

Office, rent and administration increased by \$21,356 during the six months ended June 30, 2014, as a result of higher fees charged by a related company for shared rent and office administration. Office administration included accounting, financial reporting and administrative services.

Regulatory fees increased by \$12,258 from \$1,396 for the six months ended June 30, 2013 to \$20,053 for the six months ended June 30, 2014, as a result of the Company's listing on the CSE.

Share-based compensation of \$24,520 was recorded during the three months ended June 30, 2014 for stock options granted and for the amendment of terms of previously granted stock options. During the three months ended June 30, 2014, the Company recorded share-based compensation of \$1,396 for stock options vested during the period.

Summary of quarterly information

Selected consolidated financial information from continuing operations for the most recent eight quarters. The quarter results presented in the table below were prepared in accordance with IFRS.

Three Months Ended	Jun-14	Mar-14	Dec-13	Sep-13	Jun-13	Mar-13	Dec-12	Sep-12
Finance Income	\$1,728	\$2,207	\$2,343	\$2,363	\$2,107	\$2,256	\$2,435	\$2,604
Loss	\$104,068	\$46,136	\$36,950	\$49,349	\$42,653	\$51,491	\$142,056	\$54,006
Loss per common share	\$0.01	\$0.01	-	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01

The following discussion outlines the reasons for some of the variations in the quarterly numbers but, as with most junior mineral exploration companies, the results of operations (including finance income and net losses) are not the main factor in establishing the financial health of the Company. Of far greater significance is the resource property in which the Company has, or may earn an interest, its working capital and how many shares it has outstanding. The variation seen over such quarters is primarily dependent upon the success of the Company's ongoing property evaluation program and the timing and results of the Company's exploration activities on its then current property, none of which are possible to predict with any accuracy.

There are no general trends regarding the Company's quarterly results, and the Company's business of resource exploration is not seasonal, as it can work on its property on a year-round basis (funding permitting). Quarterly results may vary significantly depending on whether the Company has abandoned any properties, recorded impairment on its assets or granted any stock options, and these are the factors that account for material variations in the Company's quarterly net income (losses), none of which are predictable. Impairment of exploration and evaluation assets can have a material effect on quarterly results as and when they occur, as it may be seen in the quarter ended December 31, 2012. The other major factor which may cause a material variation in net loss on a quarterly basis is the grant of stock options due to the resulting stock-based compensation charges which may be significant when they arise. This may be seen in the quarter ended June 30, 2014. General and administrative costs tend to be quite similar from period to period, except in certain cases when there is an increase in corporate activities. The variation in income is related solely to the interest earned on funds held by the Company, which is dependent upon the success of the Company in raising the required financing for its activities which will vary with overall market conditions, and is therefore difficult to predict.

Liquidity and Capital Resources

The Company has no revenue generating operations from which it can internally generate funds. The Company has financed its operations and met its capital requirements primarily through the issuance of capital stock by way of private placements and the exercise of stock options and share purchase warrants previously issued. As at June 30, 2014, the Company had working capital of \$621,370 as compared to working capital of \$745,751 as at December 31, 2013, representing a decrease in working capital by \$125,381.

Net cash and cash equivalents decreased by \$134,882, from \$746,216 at December 31, 2013 to \$611,334 at June 30, 2014. The decrease in cash and cash equivalents resulted mainly from cash used for operations.

Current assets excluding cash and cash equivalents at June 30, 2014 consisted of amounts receivable of \$3,864 and prepaid expenses and deposits of \$7,000 as compared to amounts receivable of \$6,659 and prepaid expenses and deposits of \$7,000 at December 31, 2013. Amounts receivable consisted primarily of GST recoverable of \$3,105 (December 31, 2013 - \$1,184) and interest receivable of \$483 (December 31, 2013 - \$5,475).

As of the date of this MD&A, financing for the Company's operations is also potentially available through the exercise of its outstanding exercisable options and share purchase warrants (See Summary of Outstanding Share Data). However, there can be no assurance that any of these outstanding convertible securities will be exercised, particularly if the trading price of the common shares on the CSE does not exceed, by a material amount and for a reasonable period, the exercise price of such convertible securities at some time prior to their expiry dates.

The Company presently has sufficient funds to continue its anticipated ongoing operations for the next twelve months. However, if the Company's plans change (as, for example, if it determines to acquire additional properties or accelerate its presently contemplated work programs) or its current assumptions change or prove inaccurate, the Company may be required to seek additional financing through the issuance of shares or disposition of interests in its mineral properties (by options, joint ventures or outright sales).

The Company's financial performance is dependent on many external factors. The Company expects that any revenues it may earn from its operations in the future will be from the sale of minerals. Both prices and markets for metals and minerals are cyclical, difficult to predict, volatile, subject to government price fixing and controls and respond to changes in domestic and international political, social and economical environments. In addition, the availability and cost of funds for exploration, development and production costs are difficult to predict.

Related Party Transactions

During the six months ended June 30, 2014, the Company entered into certain transactions with related parties. These transactions are in the normal course of business operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

A description of the related party transactions is as follows:

Name and Relationship to Company	Transaction	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
Avarone Metals Inc. (formerly Remstar Resources Ltd.), a company with common directors and officers	Office, rent and administration ⁽¹⁾	\$27,050	\$18,150	\$55,650	\$34,450

Mosam Ventures Inc., a company controlled by a director and an officer of the Company	Management fees	\$-	\$16,200	\$-	\$32,400
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- (1) The Company entered into a month-to-month arrangement for the rental of office premises and the provision of accounting, financial reporting and administrative services with Avarone Metals Inc., a public company related by common directors and officers. Of the fees paid to Avarone, \$15,000 (2013 - \$13,200) was allocated to the services of Nilda Rivera, CFO of the Company, during the six months ended June 30, 2014.

Included in prepaid expenses is a rent deposit of \$2,000 (December 31, 2013 - \$2,000) paid to a company having directors and officers in common.

Use of Estimates and Judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and share-based payments and other equity-based payments and the estimated useful life and recoverability of equipment. Actual results may differ from those estimates and judgments.

New Accounting Pronouncements

The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded herein.

IFRS 9, Financial Instruments

IFRS 9 Financial Instruments was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in *IAS 39 Financial Instruments – Recognition and Measurement* for financial assets with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 amends some of the requirements of *IFRS 7 Financial Instruments – Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. In December 2011, amendments to IFRS 7 were issued to require additional disclosures on transition from IAS 39 to

IFRS 9. In November 2013, IFRS 9 was amended to include guidance on hedge accounting and to allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in the entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income (without having to adopt the remainder of IFRS 9).

In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015 but rather be left open pending the finalization of the impairment and classification and measurement requirements. The Corporation has not yet determined what the impact will be on its financial statements from the adoption of IFRS 9.

Financial Instruments and Other Instruments

(a) Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, interest receivable and accounts payable and accrued liabilities. Cash and cash equivalents and other receivables are classified as loans and receivables and are carried at their amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are carried at their amortized cost.

The carrying values of the Company's financial assets and liabilities approximate their fair values due to the relatively short periods to maturity of these instruments. These estimates are subjective and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company has no financial instrument assets or liabilities recorded in the statements of financial position at fair value at June 30, 2014 and 2013.

(b) Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes:

(i) 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 contractual obligations. The Company is subject to credit risk on the cash balances and short-term bank guaranteed investment certificates at the bank and amounts receivable. The investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the

Canadian Deposit Insurance Corporation. Other receivables consist of interest receivables of \$483.

(ii) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at June 30, 2014, the Company had a cash balance of \$611,334 to settle accounts payable and accrued liabilities of \$552 that are considered short term and settled within 30 days. Management expects that the Company has sufficient liquidity and additional financing will be available to meet its requirements for the next twelve months.

(iii) Market risk

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.

The Company's cash attract interest at floating rates and have maturities of 90 days or less. The Company's short-term investments are invested in GICs with greater than 90 day terms but not greater than one year. These GICs have a fixed interest rate for the term of the deposit. The interest on cash and GICs is typical of Canadian banking rates, which are low at present and the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

Summary of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares. As at August 12, 2014, there were 7,190,662 shares issued and outstanding.

The following stock options were outstanding as at August 12, 2014:

Number of Options	Exercise Price	Expiry Date	Exercisable
71,667	\$0.10	April 17, 2019	71,667
31,667	\$0.10	June 14, 2020	31,667
204,000	\$0.10	October 5, 2021	204,000
80,000	\$0.10	January 5, 2022	80,000
195,000	\$0.10	March 20, 2024	195,000
<u>582,334</u>			<u>582,334</u>

Additional Information

Additional information relating to Lornex Capital Inc. can be accessed under the Company's public filings found at www.sedar.com.