

INTERIM CONDENSED FINANCIAL STATEMENTS OF

SGX RESOURCES INC.

June 30, 2013
(unaudited)

SGX RESOURCES INC.

Statements of Financial Position
(unaudited)

	<u>As at June 30, 2013</u>	<u>As at December 31, 2012</u>
ASSETS		
Current assets		
Cash	\$ 365,969	\$ 1,243,185
Share subscriptions	-	300,000
Short-term investments (note 3)	1,391,246	5,280,574
GST/HST recoverable	226,194	317,890
Accounts receivable	413,517	-
Prepaid expenses	207,048	84,553
	<u>2,603,974</u>	<u>7,226,202</u>
Mining claims (note 4)	<u>6,018,370</u>	<u>5,847,910</u>
	<u>\$ 8,622,344</u>	<u>\$ 13,074,112</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 559,331	\$ 705,842
Flow-through share premium	397,948	812,161
	957,279	1,518,003
Equity	<u>7,665,065</u>	<u>11,556,109</u>
	<u>\$ 8,622,344</u>	<u>\$ 13,074,112</u>

Approved by the Board:

"Hugh Wynne" Director

"Michael Power" Director

SGX RESOURCES INC.

Statements of Net Loss and Comprehensive Loss
(unaudited)

	<u>Three months ended June 30, 2013</u>	<u>Three months ended June 30, 2012</u>	<u>Six months ended June 30, 2013</u>	<u>Six months ended June 30, 2012</u>
Exploration expenditures	\$ 1,015,210	\$ 2,252,895	\$ 3,610,858	\$ 3,200,313
General and administrative	<u>356,801</u>	<u>376,188</u>	<u>754,445</u>	<u>735,814</u>
Net loss before interest income and income tax	(1,372,011)	(2,629,083)	(4,365,303)	(3,936,127)
Interest income	<u>7,362</u>	<u>24,611</u>	<u>21,453</u>	<u>24,746</u>
Net loss before income tax	(1,364,649)	(2,604,472)	(4,343,850)	(3,911,381)
Future income tax benefit	<u>131,429</u>	<u>190,113</u>	<u>414,213</u>	<u>256,116</u>
Net loss and comprehensive loss	<u>\$ (1,233,220)</u>	<u>\$ (2,414,359)</u>	<u>\$ (3,929,637)</u>	<u>\$ (3,655,265)</u>
Net loss per share - basic and diluted (note 8)	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>

SGX RESOURCES INC.

Statements of Changes in Equity
(unaudited)

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance December 31, 2011	\$ 11,875,720	\$ 1,180,637	\$ (11,520,027)	\$ 1,536,330
Private placement	12,051,428	-	-	12,051,428
Proceeds allocated to warrants issued	(2,705,368)	2,705,368	-	-
Proceeds allocated to flow-through share premium	(638,615)	-	-	(638,615)
Issued for mining claims	4,109,085	-	-	4,109,085
Exercise of warrants	63,538	(7,105)	-	56,433
Exercise of options	437,758	(149,758)	-	288,000
Share issue costs	(1,013,016)	-	-	(1,013,016)
Options cancelled	-	(18,752)	18,752	-
Net loss	-	-	(3,655,265)	(3,655,265)
Balance June 30, 2012	\$ 24,180,530	\$ 3,710,390	\$ (15,156,540)	\$ 12,734,380
Private placement	5,035,170	-	-	5,035,170
Proceeds allocated to warrants issued	(778,463)	778,463	-	-
Proceeds allocated to flow-through share premium	(651,851)	-	-	(651,851)
Issued for mining claims	53,900	-	-	53,900
Extension of warrant expiration	(196,041)	196,041	-	-
Share issue costs	(527,438)	-	-	(527,438)
Options granted	-	823,300	-	823,300
Net loss	-	-	(5,911,352)	(5,911,352)
Balance December 31, 2012	\$ 27,115,807	\$ 5,508,194	\$ (21,067,892)	\$ 11,556,109
Issued for mining claims	52,960	-	-	52,960
Extension of warrant expiration	(6,762)	6,762	-	-
Share issue costs	(14,367)	-	-	(14,367)
Net loss	-	-	(3,929,637)	(3,929,637)
Balance June 30, 2013	<u>\$ 27,147,638</u>	<u>\$ 5,514,956</u>	<u>\$ (24,997,529)</u>	<u>\$ 7,665,065</u>

SGX RESOURCES INC.

Statements of Cash Flows
(unaudited)

	<u>Three months ended June 30, 2013</u>	<u>Three months ended June 30, 2012</u>	<u>Six months ended June 30, 2013</u>	<u>Six months ended June 30, 2012</u>
Cash flows from operating activities				
Interest income	\$ 7,362	\$ 24,611	\$ 21,453	\$ 24,746
Payments to suppliers	<u>(1,900,419)</u>	<u>(2,805,569)</u>	<u>(4,956,130)</u>	<u>(4,210,376)</u>
	(1,893,057)	(2,780,958)	(4,934,677)	(4,185,630)
Cash flows from financing activities				
Proceeds from share capital	150,000	-	300,000	12,297,602
Proceeds from warrants exercised	-	-	-	56,433
Proceeds from options exercised	-	167,500	-	288,000
Share issue costs	<u>(14,367)</u>	<u>-</u>	<u>(14,367)</u>	<u>(1,013,016)</u>
	135,633	167,500	285,633	11,629,019
Cash flows from investing activities				
Change in short-term investments	2,019,384	(7,020,320)	3,889,328	(7,020,320)
Payments for mining claims	<u>(97,500)</u>	<u>(361,200)</u>	<u>(117,500)</u>	<u>(361,200)</u>
	<u>1,921,884</u>	<u>(7,381,520)</u>	<u>3,771,828</u>	<u>(7,381,520)</u>
Change in cash	164,460	(9,994,978)	(877,216)	61,869
Cash, beginning of period	<u>201,509</u>	<u>10,650,500</u>	<u>1,243,185</u>	<u>593,653</u>
Cash, end of period	<u><u>\$ 365,969</u></u>	<u><u>\$ 655,522</u></u>	<u><u>\$ 365,969</u></u>	<u><u>\$ 655,522</u></u>

SGX RESOURCES INC.

Notes to the Interim Condensed Financial Statements
For the six months ended June 30, 2013 and 2012
(unaudited)

1. Organization:

SGX Resources Inc. (the "Company") was incorporated under the Canada Business Corporations Act on December 5, 2008. The Company acquires, explores, and develops mineral properties in the Timmins region of Ontario, Canada.

The Company's corporate head office is located at 646 Erin Street, Winnipeg, Manitoba, R3G 2V9. The registered office of the Company is Aikins, MacAulay & Thorvaldson LLP, 30th Floor, 360 Main Street, Winnipeg, MB R3C 4G1. The Company is listed on the TSX Venture Exchange. The Company's common shares trade under the symbol "SXR".

For the six months ended June 30, 2013, the Company had a loss of \$3,929,637 (December 31, 2012 - \$9,566,617) and a deficit of \$24,997,529 (December 31, 2012 - \$21,067,892). In addition to ongoing working capital requirements, the Company may be required to secure sufficient funding for exploration and development programs, general and administration costs. Although management may have been successful in the past in undertaking financings, there can be no assurance that management will be able to do so in the future on terms acceptable to the Company.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and statement of financial position classifications that may be necessary were the going concern assumption inappropriate. These adjustments could be material.

The Company's interim condensed financial statements for the six months ended June 30, 2013, were authorized for issue by the Board of Directors on August 9, 2013, after which date the interim condensed financial statements may only be amended with Board of Directors approval.

2. Summary of significant accounting policies:

a) Basis of presentation:

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. Accordingly, certain disclosures included in the annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted and these interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2012. The accounting policies applied in preparation of these interim financial statements are consistent with those applied and disclosed in the Company's audited annual financial statements for the year ended December 31, 2012.

These interim financial statements are presented in Canadian dollars, which is also the Company's functional currency as it is the currency of the primary economic environment in which the transactions are undertaken. All reference to dollars (\$) are to Canadian dollars unless otherwise noted. The financial statements have been prepared on a historical cost basis, except for short-term investments.

SGX RESOURCES INC.

Notes to the Interim Condensed Financial Statements
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2. Summary of significant accounting policies (continued):

b) Accounting estimates

The preparation of interim financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the reporting period. The critical accounting estimates and judgments applied in the preparation of the Company's interim financial statements are consistent with those applied and disclosed in the Company's audited annual financial statements for the year ended December 31, 2012.

c) Recent accounting pronouncements

Effective January 1, 2013, the Company adopted IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS 12 - Disclosure of Interests in Other Entities and IFRS 13 - Fair Value Measurement. The new standards did not have a material impact to the consolidated financial statements.

IFRS 9 - replaces IAS 39 – Financial Instruments: Recognition and Measurement, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

3. Short-term investments:

Short-term investments consist of guaranteed investment certificates held with a chartered bank and a term deposit held with a credit union bearing interest at 1.1% to 1.75% maturing on December 7, 2013.

SGX RESOURCES INC.

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4. Mining claims:

Partner	Location	Agreement entered	June 30, 2013 Carrying Value	Commitment for option
Bristol-Carscallen Claims	Timmins, Ontario 15 claims	May 2008	\$845,300 (2012 - \$845,300) 2% net smelter return with the right to buy back 1% for \$1,000,000	As at June 30, 2013 commitments were met.
Croxall, Kangas, Miller, Salo, Bryant Claims	Timmins Ontario 36 claims	May 2010	\$170,895 (2012 - \$111,895) 2% net smelter return with the right to buy back 1% for \$1,000,000 multiplied by the percentage increase in the CPI from the month the property is transferred to the Company to the month the net smelter return is purchased	As at June 30, 2013 commitments were met.
Shoreacres Claim	Timmins, Ontario 1 claim	May 2010	\$219,460 (2012 - \$161,000) 2% net smelter return with the right to buy back 1% for \$1,500,000	\$62,500 and 250,000 shares of the Company on or before May 17, 2014. There is no required work commitment from the Company pursuant to the agreement.
Canada Lithium	Timmins, Ontario 50% interest in 18 claims	September 2010	\$404,000 (2012 - \$404,000)	The properties have a 5% net profits interest with Talisman Energy Inc., and a net profits interest acquisition agreement with Falconbridge Limited where Falconbridge Limited is entitled to a one-time cash payment of 0.1% of the gold price set forth in a feasibility study leading to production on the claims multiplied by the number of recoverable ounces of gold identified in the feasibility study due at the commencement of commercial production as defined by the agreement. Falconbridge Limited is also entitled to a 0.5% net smelter royalty on all ounces produced over and above those identified in the feasibility study.
2205730 Ontario Inc.	Timmins, Ontario 3 claims	September 2010	\$23,040 (2012 - \$23,040) 1% net smelter return with the right to buy back 0.5% for \$1,000,000	There is no required work commitment from the Company pursuant to the agreement.
Rousseau, Rochon Claims	Timmins, Ontario 3 claims	November 2010	\$nil (2012 - \$nil) 2% net smelter return with the right to buy back 1% for \$1,000,000	As at June 30, 2013 commitments were not met.

SGX RESOURCES INC.

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4. Mining claims (continued):

Partner	Location	Agreement entered	June 30, 2013 Carrying Value	Commitment for option
Cunnison, Londry, Pyke and Raine Claims	Timmins, Ontario 2 claims	January 2011	\$43,000 (2012 - \$nil) 3% net smelter return to January 13, 2016 with the right to buy back 2% for \$1,000,000, if 2% buy back not exercised 5% subsequent to January 13, 2016 with the right to buy back 2% for \$1,000,000	\$40,000 on or before January 13, 2014, \$60,000 on or before January 13, 2015 and \$80,000 and 100,000 shares of the Company on or before January 13, 2016. Additionally, an exploration commitment of \$500,000 before January 3, 2016 with a drilling commitment of 1000 metres by January 13, 2013.
Creighton Claims	Timmins, Ontario 1 claim	September 2011	\$98,500 (2012 - \$98,500) 2.2% net smelter return with the right to buy back 1% for \$1,000,000	\$100,000 and 150,000 shares of the Company on or before September 8, 2013. Additionally, an exploration commitment of \$250,000 before September 8, 2012, an additional \$400,000 before September 8, 2013 and an additional \$500,000 before September 8, 2014.
Salo Claims	Cochrane, Ontario 5 claims	December 2011	\$38,000 (2012 - \$38,000) 2% net smelter return with the right to buy back 1% for \$1,000,000	There is no required work commitment from the Company pursuant to the agreement.
Bremner Claims	Cochrane, Ontario 4 claims	December 2011	\$35,600 (2012 - \$35,600) 2% net smelter return with the right to buy back 1% for \$1,000,000	There is no required work commitment from the Company pursuant to the agreement.
Verroneau Claims	Timmins, Ontario 3 claims	April 2012	\$7,645 (2012 - \$7,645)	There is no required work commitment from the Company pursuant to the agreement.
Laurion Claims	Timmins, Ontario 25 claims	April 2012	\$4,030,000 (2012 - \$4,030,000) 2% net smelter return	There is no required work commitment from the Company pursuant to the agreement.
Croxal Claims	Timmins, Ontario 7 claims	June 2012	\$20,200 (2012 - \$20,200) 2% net smelter return with the right to buy back 1% for \$1,000,000 indexed to the CPI from the month in which the property is transferred to SGX	30,000 shares of the Company on or before July 1, 2013, \$25,000 and 40,000 shares of the Company on or before June 1, 2014 and \$50,000 and 150,000 shares of the Company on or before June 1, 2015. Additionally, an exploration commitment of \$200,000 by June 1, 2015.
Salo, Tremblay, Robert Claims	Timmins, Ontario 8 claims	July 2012	\$23,230 (2012 - \$23,230) 2% net smelter return with the right to buy back 1% for \$1,000,000	\$10,000 and 42,000 shares of the Company on or before July 9, 2013, \$24,000 and 60,000 shares of the Company on or before July 9, 2014 and \$48,000 and 150,000 shares of the Company on or before July 9, 2015. Additionally, an exploration commitment \$27,200 on or before April 7, 2013.

SGX RESOURCES INC.

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4. Mining claims (continued):

Partner	Location	Agreement entered	June 30, 2013 Carrying Value	Commitment for option
Shoreacres, 2090720 Ontario Inc., 2229667 Ontario Inc. Claims	Timmins, Ontario 8 claims	August 2012	\$49,500 (2012 - \$49,500) 1% net smelter return, with a further 2% net smelter return with the right to buy back 1% for \$1,000,000. Should a technical report prepared in accordance with National Instrument 43-101 <i>Standards of Disclosure for Mineral Projects</i> demonstrate an aggregate minimum of 1,000,000 ounces of gold, or polymetallics of equivalent market value in the measured and indicated mineral resources, the Company is subject to make a pre-royalty lump sum payment of \$1,000,000 representing an advance against future royalties	\$25,000 and 100,000 shares of the Company on or before August 21, 2013, \$25,000 and 100,000 shares of the Company on or before August 21, 2014 and \$37,500,150,000 shares of the Company on or before August 21, 2015 and \$62,500 and 250,000 shares of the Company on or before August 21, 2016.
Clayton Larche	Timmins, Ontario 1 claim	June 2013	\$10,000 (2012 - nil) 2% net smelter return with the right to buy back 1% for \$1,000,000	There is no required work commitment from the Company pursuant to the agreement.
Total			\$6,018,370 (2012 - \$5,847,910).	

The Company agreed to enter into a right of first refusal agreement with San Gold Corporation. Pursuant to the agreement

property held by the Company. The agreement requires that until December 4, 2014, the Company must first offer to San Gold Corporation the Company's interest in the option agreements, the properties or any mineral property or interest in any mineral property held by the Company that the Company desires to sell before selling to a third party, on terms and conditions that are the same as those contained in the offer to San Gold Corporation.

SGX RESOURCES INC.

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5. Share capital:

Authorized:

Unlimited number of common shares

	June 30, 2013		December 31, 2012	
	Number of shares	Amount	Number of shares	Amount
Share capital, beginning of period	126,459,169	\$ 27,115,807	79,439,736	\$ 11,875,720
Private placement	-	-	37,294,250	17,086,598
Proceeds allocated to warrants issued	-	-	-	(3,483,831)
Proceeds allocated to flow through share premium	-	-	-	(1,290,466)
Issued for mining claims	512,000	52,960	8,499,778	4,162,985
Exercise of warrants	-	-	125,405	63,538
Exercise of options	-	-	1,100,000	437,758
Extension of warrant expiration	-	(6,762)	-	(196,041)
Share issue costs	-	(14,367)	-	(1,540,454)
Share capital, end of period	126,971,169	\$ 27,147,638	126,459,169	\$ 27,115,807

6. Share options:

The Company may grant options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding shares exercisable for a period of up to 10 years. The maximum number of shares that may be issued to any officer, director or employee shall not exceed 5% of the total number of issued and outstanding shares. The maximum number of shares that may be issued to technical consultants, including investor relation consultants, shall not exceed 2% of the total number of issued and outstanding shares.

During the year ended December 31, 2012, the fair value of each share option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions used for the grant: dividend yield of 0%, expected volatility of 129%, risk free interest rate of 1.39% and expected life of 1,825 days.

SGX RESOURCES INC.

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6. Share options (continued):

A summary of the status of the Company's outstanding options as of June 30, 2013 and December 31, 2012 and changes during the periods then ended are as follows:

	June 30, 2013	Average Price	December 31, 2012	Average Price
Options, beginning of the period	8,600,000	\$ 0.27	6,350,000	\$ 0.26
Options issued	-	-	3,500,000	0.28
Options exercised	-	-	(1,100,000)	0.26
Options cancelled	-	-	(150,000)	0.26
	<u>8,600,000</u>	<u>\$ 0.27</u>	<u>8,600,000</u>	<u>\$ 0.27</u>
Options outstanding and vested, end of period				
	<u>8,600,000</u>	<u>\$ 0.27</u>	<u>8,600,000</u>	<u>\$ 0.27</u>
Weighted average remaining life (years)	<u>3.13</u>		<u>3.62</u>	

The share options outstanding as at June 30, 2013 are:

Exercise price	Number outstanding and vested	Remaining outstanding contractual life (years)
\$ 0.25	2,700,000	1.93
0.30	100,000	2.16
0.27	2,100,000	3.05
0.24	200,000	3.36
0.28	3,500,000	4.11
<u>\$ 0.27</u>	<u>8,600,000</u>	<u>3.13</u>

7. Warrants:

During the year ended December 31, 2012, the fair value of each warrant grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants: dividend yield of 0%, expected volatility of 105% to 124%, risk free interest rate of 1.08% to 1.19% and expected life of 730 days.

During the year ended December 31, 2012, the Company received approval to extend the expiry date of 3,817,845 warrants with an exercise price of \$0.45 to July 20, 2013.

During the six months ended June 30, 2013, the Company received approval to extend the expiry date of 1,500,000 warrants with an exercise price of \$0.35 to April 27, 2014.

SGX RESOURCES INC.

Notes to the Interim Condensed Financial Statements
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7. Warrants (continued):

A summary of the status of the Company's outstanding warrants as of June 30, 2013 and December 31, 2012 and changes during the periods then ended are as follows:

	June 30, 2013	Average Price	December 31, 2012	Average Price
Warrants, beginning of the period	23,964,970	\$ 0.53	5,443,250	\$ 0.42
Warrants issued	-	-	18,647,125	0.56
Warrants exercised	-	-	(125,405)	0.45
Warrants outstanding and vested, end of period	<u>23,964,970</u>	<u>\$ 0.53</u>	<u>23,964,970</u>	<u>\$ 0.53</u>
Weighted average remaining life (years)	<u>0.85</u>		<u>1.29</u>	

Th

e warrants outstanding as at June 30, 2013 are:

Exercise price	Number outstanding and vested	Remaining outstanding contractual life (years)
\$ 0.45	3,817,845	0.05
0.35	1,500,000	0.82
0.60	5,480,000	0.75
0.65	5,974,025	0.75
0.45	4,502,350	1.44
0.45	1,709,750	1.47
0.45	981,000	1.50
<u>\$ 0.53</u>	<u>23,964,970</u>	<u>0.85</u>

8. Net loss per share:

The weighted average basic and diluted common shares outstanding for the three and six months ended June 30, 2013 are 126,787,169 and 126,671,589 (June 30, 2012 – 109,755,257 and 94,897,564) respectively. Net loss available to common shareholders for the three and six months ended June 30, 2013 are \$1,233,220 and \$3,929,637 (June 30, 2012 - \$2,414,359 and \$3,655,265) respectively. Outstanding options and warrants are anti-dilutive.

SGX RESOURCES INC.

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9. Income taxes:

Significant components of the Company's deferred income tax asset (liability) are as follows:

	June 30, 2013	December 31, 2012
Non-capital loss carryforward	\$ 1,336,600	\$ 1,078,200
Canadian exploration and development expense pools	2,180,600	1,178,500
Share issue costs	337,900	402,100
Mining claims	(1,594,900)	(1,549,700)
Deferred income tax asset	2,260,200	1,109,100
Valuation allowance	(2,260,200)	(1,109,100)
Deferred income tax asset, end of period	\$ -	\$ -

The Company has non-capital loss carry forward amounts available for income tax purposes of \$5,044,000 that expire \$9,000 in 2028, \$116,000 in 2029, \$162,000 in 2030, \$1,862,000 in 2031, \$1,919,000 in 2032, and \$976,000 in 2033. The Company has \$8,229,000 (2012 - \$4,537,000) of unused cumulative Canadian exploration and development costs available to offset future taxable income. The tax benefits pertaining to these expenses are available for carry forward indefinitely.

The Company has issued flow-through shares to finance certain of its exploration activities. The Company intends to renounce expenditures totaling the amount of the purchase price of the flow-through shares issued to the purchasing shareholders and as a result, tax deductibility of these costs will not be available to the Company. As at June 30, 2013, the Company had an obligation to spend \$3,074,000 (December 31, 2012 - \$6,684,800) of flow-through capital that was already renounced to shareholders.

10. Related party transactions:

Included in accounts payable is \$217,550 (2012 - \$217,550) payable to San Gold Corporation for the issue of share capital by San Gold Corporation to meet certain mining claim commitments net of costs incurred by the Company on behalf of San Gold Corporation.

Included in accounts receivable is \$326,626 (2012 - \$300,000) owed from a San Gold Corporation for their proportionate share of exploration expenses on mining options.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly and indirectly, include any director (whether executive or otherwise) of the Company. Total salaries and other short-term compensation expense for the three and six months ended June 30, 2013 is \$135,249 and \$271,997 (June 30, 2012 - \$151,176 and \$371,879).

The Company paid \$18,126 and \$35,369 to a spouse of a member of key management for services during the three and six months ended June 30, 2013 (2012 - \$nil and \$nil).

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11. Commitments:

The Company has entered into lease commitments for equipment and premises with minimum lease payments as follows:

2013	32,894
2014	31,793
2015	15,630
2016	2,215

The Company is committed to issue 600,000 share options to investor relations consultants subject to approval from the TSX Venture Exchange. The share options will be exercisable at a price that is the market price of the common shares as at the date of issuance, and be exercisable for a period of 24 months from the date of issuance. 25% of the share options will vest every three months during the first year of the term of the share options.

12. Capital management:

The Company's total capital of \$7,665,065 (2012 - \$11,556,109) consists of \$27,147,638 (2012 - \$27,115,807) of share capital, \$5,514,956 (2012 - \$5,508,194) of contributed surplus and an offsetting deficit of \$24,997,529 (2012 - \$21,067,892).

The Company's objectives when managing capital, which consists of shareholders' equity, are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. 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 adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

13. Risk management and fair values:

Management's risk management policies are typically performed as a part of the overall management of the Company's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Company has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk. The risks and the actions taken to manage them include the following:

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13. Risk management and fair values (continued):

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company's main sources of liquidity are its operations and external borrowings. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Company's financial obligations associated with financial liabilities. Accounts payable are due within one year.

Credit risk

Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable, which may include the analysis of the financial position of the debtor and review of credit limits. The Company also may review credit history before establishing credit and review credit performance. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The Company has no financial assets that are past due and does not have an allowance for doubtful accounts receivable.

Market risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or expense. The Company only enters into transactions in Canadian dollars and is not exposed to currency risk.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. In general, the risk of investing cash equivalents into fixed interest rate investments is mitigated by the short terms in which the investments mature.

Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. Mineral prices are affected by numerous factors such as the sale or purchase by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the US dollar and other foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world.

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13. Risk management and fair values (continued):

Fair values

The fair values of the Company's financial assets and liabilities consisting of cash and share subscriptions, other accounts receivable and accounts payable approximate their recorded values as at June 30, 2013 and December 31, 2012 due to their short-term nature.

Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at the end of the periods may not represent fair values at any other date. The determination of fair value is also affected by the use of judgment and by uncertainty.

The fair value hierarchy of financial instruments measured at fair value on the statement of financial position is level 2 for short-term investments at June 30, 2013 (December 31, 2012 - level 2).

14. Subsequent events:

Subsequent to June 30, 2013 the Company received approval from the TSX Venture Exchange to extend the maturity date of certain outstanding common share purchase warrants. The TSX Venture Exchange has approved the extension of the maturity date of 3,817,845 warrants exercisable at \$0.45 from July 20, 2013 to July 31, 2014. No other terms of the warrants have changed.

Subsequent to June 30, 2013 the Company issued 72,000 common shares to meet certain mining claim commitments.