

TITUS ENERGY CORP.

Condensed Interim Financial Statements
Nine months ended February 28, 2013

(Expressed in Canadian Dollars)
(unaudited)

NOTICE TO READER

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 consolidated financial statements have been prepared by and are the responsibility of the management.

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

TITUS ENERGY CORP.
Condensed interim statements of financial position
(Expressed in Canadian dollars)

	Notes	February 28, 2013	May 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		\$ 1,298,901	\$ 1,565,298
Prepaid expense		1,500	
Receivables	4	24,509	
Total Current Assets		1,324,910	1,565,298
Non-Current Assets			
Exploration and evaluation assets	6	56,285	-
Total Non-Current Assets		56,285	-
TOTAL ASSETS		\$ 1,381,195	\$ 1,565,298
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	7	370	8,000
TOTAL LIABILITIES		370	8,000
EQUITY			
Share capital	5	1,687,386	1,687,386
Share-based payment reserve		35,329	35,329
Deficit		(341,890)	(165,417)
TOTAL EQUITY		1,380,825	1,557,298
TOTAL LIABILITIES AND EQUITY		\$ 1,381,195	\$ 1,565,298

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issue March 28, 2013.

Approval on behalf of the Board of Directors:

"Anita Algie"

Director

"Reza Mohammed"

Director

TITUS ENERGY CORP.
Condensed interim statements of comprehensive loss
(Expressed in Canadian dollars)

	Notes	Three month period ended		Nine month period ended	
		February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Expenses					
Office and administration		\$74,662	\$ 7,527	\$ 122,891	\$ 22,600
Filing fees		3,014	1,576	12,154	7,319
Professional fees		300	2,250	6,960	9,720
Consulting and managements Fees		35,200		35,200	
		113,176	11,353	177,205	39,639
Other Item					
Interest Income		566	3,500	732	-
Net and comprehensive loss		\$(126,610)	\$(7,853)	\$(176,473)	\$(39,639)
Weighted average number of common shares outstanding – Basic and Diluted		12,725,000	11,240,000	912,725,000	11,240,000
Loss per share – basic and diluted		\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.00)

TITUS ENERGY CORP.
Condensed interim statements of changes in equity
(Expressed in Canadian dollars)

	Notes	Share capital		Share-based payment reserve	Deficit	Total
		Number of shares	Amount			
Balance at June 1, 2011		12,725,000	\$ 1,667,386	\$ 35,329	\$ (86,470)	\$ 1,616,245
Net loss and comprehensive loss				-	(30,639)	(30,639)
Balance at February 29, 2012		12,725,000	\$ 1,667,386	\$ 35,329	\$ (117,109)	\$ 1,585,606
Balance at June 1, 2012		12,725,000	\$ 1,687,386	\$ 35,329	\$ (165,417)	\$ 1,557,298
Net loss and comprehensive loss				-	(176,473)	(176,473)
Balance at February 28, 2013		12,725,000	\$ 1,687,386	\$ 35,329	\$ (341,890)	\$ 1,380,825

TITUS ENERGY CORP.
Condensed interim statements of cash flows
(Expressed in Canadian dollars)

	Nine month period ended	
	February 28, 2013	February 29, 2012
Operating activities		
Net loss	\$ (176,473)	\$ (30,639)
Changes in non-cash working capital items:		
Prepaid Expenses	(1,500)	
Taxes recoverable	(24,509)	(4,559)
Trade payables and accrued liabilities	(8880)	(12,331)
Net cash flows used in operating activities	(211,362)	(47,529)
Investing Activities		
Exploration and evaluation assets	(56,285)	
Net cash flows provided by investing activities	(56,285)	
Change in cash and cash equivalents	(267,647)	(47,529)
Cash and cash equivalents, beginning	1,566,548	1,621,194
Cash and cash equivalents, ending	\$ 1,298,901	\$ 1,573,665
Cash and cash equivalents consist of:		
Cash	\$ 691	\$ 173,671
Guaranteed investment certificates:	\$ 1,298,210	\$ 1,399,994

1. NATURE AND CONTINUANCE OF OPERATIONS

Titus Energy Corp. (the "Company") was incorporated under the British Columbia Business Corporations Act on February 17, 2010 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange") until it completed its Qualifying Transaction on December 20, 2012.

The Company's head office, principal address and registered and records office is #313-515 West Pender Street, Vancouver, B.C., V6B 6H5.

Effective as at opening on Friday December 21st, 2012, the TSX Venture Exchange accepted for filing the Company's Qualifying Transaction (the "QT") and related transactions, all as principally described in its filing statement dated December 6, 2012 (the "Filing Statement"). As a result, the Company is no longer considered as a Capital Pool Company and has changed its name to "Titus Energy Corp.". The company's trading symbol remains TIS. Effective as at opening on Friday, December 21st, 2012, the common shares of "Titus Energy Corp." commenced trading on the TSX Venture Exchange. The Company is classified as a Tier 2 Junior Oil and Gas Exploration company and will be involved in the oil and gas resource exploration and development sector.

These unaudited condensed financial interim statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at February 28, 2013, the Company had completed its QT and is able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The financial statements were authorized for issue on March 28, 2013 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards

The interim financial statements of the Company have been prepared on an accrual basis in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these financial statements comply with International Accounting Standards ("IAS") 34 "Interim Financial Reporting".

The same accounting policies and methods of computation were followed in the preparation of these interim condensed financial statements for the nine months period ended February 28, 2012.

Basis of preparation

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of property, plant and equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Basis of preparation

and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the determination of whether an acquisition constitutes a business combination or an acquisition of assets;
- the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses;
- the classification of financial instruments

Cash and cash equivalents

Cash and cash equivalents consist of cash and financial instruments with an assigned maturity date of 90 days or less.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using a Black-Scholes pricing model that incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Income taxes

Deferred income tax:

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares:

On the issuance of flow-through shares, any premium received in excess of the closing market price of the Company's common shares is initially recorded as a liability ("flow-through tax liability"). Provided that the Company has renounced the related expenditures, or that there is a reasonable expectation that it will do so, the flow-through tax liability is reduced on a pro-rata basis as the expenditures are incurred and a deferred tax liability is recognized. The reduction to the flow-through tax liability is recognized in profit or loss as other income.

To the extent that the Company has suitable unrecognized deductible temporary differences, an offsetting recovery of deferred income taxes would be recorded.

3. STANDARDS ISSUED BUT NOT YET APPLIED

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after June 1, 2012 or later periods. The following new standards, amendments and interpretations that have not been early adopted in these financial statements, are not expected to have a material effect on the Company's future results and financial position.

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

New standard IFRS 10 "Consolidated Financial Statements"

This new standard will replace IAS 27 "Consolidated and Separate Financial Statements", and SIC-12 "Consolidation – Special Purpose Entities". Concurrent with IFRS 10, the IASB issued IFRS 11 "Joint Ventures"; IFRS 12 "Disclosures of Involvement with Other Entities"; IAS 27 "Separate Financial Statements", which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and IAS 28 "Investments in Associates and Joint Ventures", which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

3. STANDARDS ISSUED BUT NOT YET APPLIED (continued)

New standard IFRS 10 "Consolidated Financial Statements"

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 11 "Joint Arrangements"

This new standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

New standard IFRS 12 "Disclosure of Interests in Other Entities"

This new standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

New standard IFRS 13 "Fair value measurement"

This new standard replaces the fair value measurement guidance currently included in various other IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

New interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

This new IFRIC clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 "Financial Instruments: Presentation"

These amendments address inconsistencies when applying the offsetting requirements, and are effective for annual periods beginning on or after January 1, 2014.

Financial statement presentation

In June 2011, the IASB and the Financial Accounting Standards Board ("FASB") issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1 "Presentation of Financial Statements" to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for fiscal years beginning on or after July 1, 2012.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. RECEIVABLES

The Company's receivables consist of HST receivable due from the Government of Canada.

5. SHARE CAPITAL

Authorized share capital

Unlimited number of voting common shares without nominal or par value

Issued common shares

	Shares	Amount
Balance on inception		
Issued for cash by private placement	2,800,000	\$140,000
Issued for cash in initial public offering	2,500,000	200,655
Issued for cash by private placement	7,425,000	1,345,731
Balance, February 29, 2012	12,725,000	1,686,386
Balance, February 28 2013	12,725,000	\$1,686,386

On November 30, 2010, the Company closed its initial public offering ("IPO") and issued 2,500,000 common shares for gross proceeds of \$250,000. In connection with this private placement, the Company paid share issue cost of \$36,090 including a cash commission of \$25,000 and granted 250,000 warrants. Each warrant is exercisable into one common share of the Company at a price of \$0.10 per common share for a period of two years following the date the common shares were listed on the Exchange, which was December 8, 2010. The warrants have an estimated fair value of \$13,255. The fair value was estimated using the Black-Scholes options pricing model with the following average assumptions: expected life of two years, risk-free interest rate of 2.68%, expected dividend yield of 0% and an expected volatility of 100%.

On May 13, 2011, the Company closed a private placement and issued 7,425,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$1,485,000. In connection with this private placement, the Company paid share issue cost of \$122,141 including a cash commission of \$89,100 and granted 445,500 warrants. At May 31, 2011, the Company had paid \$10,000 with respect to these costs. Each warrant is exercisable into one common share of the Company at a price of \$0.20 for a period of two years. The warrants have an estimated fair value of \$19,128. The fair value estimated using the Black-Scholes options pricing model with the following average assumptions: expected life of two years, risk-free interest rate of 2.60%, expected dividend yield of 0% and an expected volatility of 100%.

On February 28, 2013, the weighted average number of shares outstanding is 12,725,000.

Shares held in escrow

Under the requirements of the Exchange, 2,800,000 common shares are held in escrow and will be released in stages over a period of three years from the date of acceptance by the Exchange of the Company's QT. As at December 20, 2012, 280,000 shares had been released from escrow.

Warrants

As at February 28, 2013, there are 445,500 (250,000 expired on Nov 30, 2012) warrants outstanding with a weighted average life and weighted average exercise price of 0.20 years and \$0.20, respectively.

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10

5. SHARE CAPITAL (continued)

Stock options (continued)

years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

Options granted typically vest one-third per year on each anniversary subsequent to the grant date.

The Company has established a stock option plan for its directors, officers and technical consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company.

During the year ended May 31, 2011, the Company granted a total of 200,000 options to the directors and officers of the Company. The options are exercisable at a price of \$0.15 per share for a period of five years following the date of issue.

The fair value of these options at the date of grant was \$5,946 and was estimated using the Black-Scholes options pricing model with the following weighted average assumptions: expected life of five years, risk-free interest rate of 2.68%; expected dividend yield of 0% and an expected volatility of 100%.

At February 28, 2013, there are 200,000 options with the weighted average life and weighted average exercise price of 2.25 years and \$0.15, respectively. At February 28, 2013, all of these options were exercisable.

6. EXPLORATION AND EVALUATION ASSETS

a) Prevail Property

On October 25, 2012, the Company entered in an agreement with an arm's length vendor, by which the Company can earn a 30% interest in the Prevail Property in the Province of Saskatchewan. Consideration for the interest is a work program commitment of \$750,000 to reactivate three selected wells and drill one infill location.

On December 20, 2012, final TSX Venture Exchange approval was received.

	Prevail Property, Saskatchewan, Canada
Balance, May 31, 2012	\$0
Expenditures	56,286
Balance, February 28, 2013	\$56,286

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	February 28, 2013	February 29, 2012
Trade payables	\$ 336	-
Accrued liabilities	34	-
	\$ 370	-

8. RELATED PARTY TRANSACTIONS

During the period ended February 28, 2013, the Company paid management fees of \$30,000 (2012 – \$NIL), office and administration services of \$12,500 (2012 - \$22,500) to a company controlled by a common director, and \$5,000 (2012 – \$NIL) to a company controlled by a common director for consulting fees.

	Nine months ended February 28, 2013	Nine months ended February 29, 2012
Management fees paid to a common director	\$ 30,000.	\$ -
Consulting fees paid to a company controlled by a common director	\$5,000	-
Office and administration services paid to a company controlled by a common director	\$12,500	\$22,500
	<u>\$ 47,500</u>	<u>\$ 22,500</u>

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Unless otherwise stated, all amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

At February 28, 2013, amount of \$34 is owing to a director and included in trade payables and accrued liabilities.

9. FINANCIAL INSTRUMENTS

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains

9. FINANCIAL INSTRUMENTS (continued)

Financial Instrument Risk Exposure

and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with one major bank in Canada so there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk on its sales tax receivable is minimal since it is recoverable from the Canadian government.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the Company's functional currency. The Company only operates in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash and cash equivalents balances at variable rates. The risk is minimal.

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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company attempts to ensure there is sufficient access to funds to meet on-going business requirements, taking into account its current cash position and potential funding sources.

10. MANAGEMENT OF CAPITAL

The Company manages the capital structure and makes adjustments to it depending on changes in economic conditions, business opportunity and risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management.

10. MANAGEMENT OF CAPITAL (continued)

Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation assets and to sustain future development of the business. The capital structure of the Company consists of equity and debt obligations, net of cash and cash equivalents.

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

The Company is subject to certain requirements in relation to its use of funds raised through the issuance of flow-through shares. These funds have to be incurred for eligible exploration expenditures in accordance with Canadian federal and certain provincial income tax acts. During the year, the Company complied with the requirements.