**ROYAL NICKEL CORPORATION**

**CONDENSED INTERIM FINANCIAL STATEMENTS**
Three and Six Months Ended June 30, 2013
(Unaudited)

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# Management's Responsibility for Financial Reporting

The accompanying unaudited condensed interim financial statements for Royal Nickel Corporation are the responsibility of the Management. The unaudited condensed interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions that were complete at the balance sheet date. In the opinion of management, the unaudited condensed interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards applicable to the preparation of interim financial statements, including IAS 34.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced. Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation, as of the date of and for the periods presented by the unaudited condensed interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim financial statements together with other financial information of the Corporation and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Corporation. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim financial statements together with other financial information of the Corporation for issuance to the shareholders.

Management recognizes its responsibility for conducting the Corporation's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

/s/ Tyler Mitchelson

Tyler Mitchelson
President and Chief Executive Officer

/s/ Fraser Sinclair

Fraser Sinclair
Chief Financial Officer

Toronto, Canada

August 9, 2013

# Interim Balance Sheets

(Expressed in thousands of Canadian dollars)
(Unaudited)

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$19,922** | $10,760 |
| Amounts receivable and prepaids | **555** | 479 |
| Tax credits receivable (note 10) | **4,615** | 7,340 |
| | **25,092** | 18,579 |
| **Non-current assets** | | |
| Tax credits receivable | **633** | 2,401 |
| Deposits and prepaids | **216** | 206 |
| Property, plant and equipment | **999** | 967 |
| Intangible assets | **122** | 144 |
| Mineral property interests (note 3) | **51,240** | 56,750 |
| **Total assets** | **$78,302** | $79,047 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **$1,956** | $1,773 |
| Deferred share units (note 5) | **520** | 554 |
| Restricted share units (note 5) | **819** | 881 |
| Flow-through share premium (note 4) | **306** | - |
| Current portion of finance lease obligation | **30** | 20 |
| | **3,631** | 3,228 |
| **Non-current liabilities** | | |
| Share appreciation rights (note 5) | **20** | 2 |
| Finance lease obligation | **59** | - |
| Deferred income tax liability | **9,124** | 7,804 |
| **Total liabilities** | **12,834** | 11,034 |
| **EQUITY** | | |
| Share capital (note 4) | **98,137** | 95,922 |
| Contributed surplus | **21,778** | 22,823 |
| Deficit | **(54,447)** | (50,732) |
| **Total equity** | **65,468** | 68,013 |
| **Total liabilities and equity** | **$78,302** | $79,047 |

***The notes to the interim financial statements are an integral part of these financial statements.***

# Interim Statements of Comprehensive Loss

(Expressed in thousands of Canadian dollars, except share and per share numbers)
(Unaudited)

| | Three months ended June 30 | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Expenses** | | | | |
| General and administrative (note 7) | **$1,484** | $1,902 | **$2,880** | $4,168 |
| **Operating loss** | **(1,484)** | (1,902) | **(2,880)** | (4,168) |
| Finance income | **48** | 55 | **72** | 132 |
| **Loss before income tax** | **(1,436)** | (1,847) | **(2,808)** | (4,036) |
| Deferred income tax expense (note 10) | **496** | 250 | **907** | 567 |
| **Loss and comprehensive loss for the period** | **$(1,932)** | $(2,097) | **$(3,715)** | $(4,603) |
| **Loss per share** | | | | |
| Basic and diluted (note 8) | **$(0.02)** | $(0.02) | **$(0.04)** | $(0.05) |

***The notes to the interim financial statements are an integral part of these financial statements.***

# Interim Statements of Cash Flows

(Expressed in thousands of Canadian dollars)
(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Cash flow provided by (used in)** | | | | |
| **OPERATING ACTIVITIES** | | | | |
| **Loss for the period** | **$(1,932)** | $(2,097) | **$(3,715)** | $(4,603) |
| Items not involving cash | | | | |
| Depreciation and amortization | **22** | 30 | **44** | 59 |
| Deferred income tax expense | **496** | 250 | **907** | 567 |
| Share-based payments (note 5) | **174** | (143) | **177** | (10) |
| | **(1,240)** | (1,960) | **(2,587)** | (3,987) |
| Changes in non-cash working capital | | | | |
| Amounts receivable, prepaids and deposits | **101** | (56) | **(88)** | (130) |
| Tax credit receivable | **2** | (8) | **39** | 42 |
| Accounts payable and accrued liabilities | **(40)** | 537 | **(20)** | 446 |
| | **(1,177)** | (1,487) | **(2,656)** | (3,629) |
| **INVESTING ACTIVITIES** | | | | |
| Expenditures on mineral property interests | **(4,723)** | (4,219) | **(8,401)** | (9,081) |
| Net tax credits and mining duties received | **3,884** | - | **3,884** | 2,616 |
| Sale of NSR, net of transaction costs (note 3) | **14,542** | - | **14,542** | - |
| Proceeds from disposal of property, plant and equipment | **-** | - | **18** | - |
| Acquisition of property, plant and equipment | **-** | (58) | **(9)** | (67) |
| | **13,703** | (4,277) | **10,034** | (6,532) |
| **FINANCING ACTIVITIES** | | | | |
| Issuance of shares, net of issue costs (note 4) | **(2)** | - | **1,806** | - |
| Exercise of options and warrants for cash | **-** | - | **-** | 227 |
| Principal payments on finance leases | **(11)** | (15) | **(22)** | (29) |
| | **(13)** | (15) | **1,784** | 198 |
| **Change in cash and cash equivalents** | **12,513** | (5,779) | **9,162** | (9,963) |
| **Cash and cash equivalents, beginning of period** | **7,409** | 15,557 | **10,760** | 19,741 |
| **Cash and cash equivalents, end of period** | **$19,922** | $9,778 | **$19,922** | $9,778 |
| Components of cash and cash equivalents are as follows: | | | | |
| Cash | **$4,318** | $373 | **$4,318** | $373 |
| Cash equivalents | **15,604** | 9,405 | **15,604** | 9,405 |
| | **$19,922** | $9,778 | **$19,922** | $9,778 |
| **SUPPLEMENTAL INFORMATION** | | | | |
| Interest paid | **$30** | $2 | **$33** | $4 |
| Share-based payments/(recovery) in mineral property interests | **47** | (5) | **58** | 50 |
| Depreciation of property, plant and equipment in mineral property interests | **16** | 14 | **33** | 27 |
| Property, plant and equipment recorded pursuant to a finance lease | **-** | - | **91** | - |
| Mining property interest included in accounts payable and accrued liabilities | **1,199** | 900 | **1,199** | 900 |

***The notes to the interim financial statements are an integral part of these financial statements.***

# Interim Statements of Changes in Equity

(Expressed in thousands of Canadian dollars, except share numbers)
(Unaudited)

| | Share Capital | | Contributed | | Total |
|---|---|---|---|---|---|
| | Number | Amount | Surplus | Deficit | Equity |
| **Balance as at January 1, 2013** | **90,069,932** | **$95,922** | **$22,823** | **$(50,732)** | **$68,013** |
| Private placement – flow through common shares | 4,000,000 | 2,000 | - | - | 2,000 |
| Flow-through share premium on issuance | - | (720) | - | - | (720) |
| Private placement issue costs | - | (194) | - | - | (194) |
| Warrant valuation – private placement | - | (12) | 12 | - | - |
| Exercise of share purchase options on a cashless basis (note 5) | 42,379 | - | - | - | - |
| Fair value of share purchase options exercised (note 5) | - | 1,141 | (1,141) | - | - |
| Share-based payments | - | - | 84 | - | 84 |
| Loss and comprehensive loss for the period | - | - | - | (3,715) | (3,715) |
| **Balance as at June 30, 2013** | **94,112,311** | **$98,137** | **$21,778** | **$(54,447)** | **$65,468** |
| **Balance as at January 1, 2012** | **88,876,618** | **$95,045** | **$23,266** | **$(41,570)** | **$76,741** |
| Exercise of warrants | 650,000 | 227 | - | - | 227 |
| Fair value of warrants exercised | - | 161 | (161) | - | - |
| Shares issued for redemption of restricted share units | 3,000 | 2 | - | - | 2 |
| Shares issued for redemption of deferred share units | 262,666 | 113 | - | - | 113 |
| Share-based payments | - | - | 142 | - | 142 |
| Loss and comprehensive loss for the period | - | - | - | (4,603) | (4,603) |
| **Balance as at June 30, 2012** | **89,792,284** | **$95,548** | **$23,247** | **$(46,173)** | **$72,622** |

***The notes to the interim financial statements are an integral part of these financial statements.***

# Notes to Condensed Interim Financial Statements

(Expressed in thousands of Canadian dollars, except share and per share numbers)
(Unaudited)

## 1. NATURE OF OPERATIONS AND LIQUIDITY

Royal Nickel Corporation (the "**Corporation**" or "**RNC**") was incorporated on December 13, 2006, under the Canada Business Corporations Act. The Corporation's registered office is located at 220 Bay Street, Suite 1200, Toronto, Ontario, Canada.

The principal business of the Corporation is the acquisition, exploration, evaluation and development of mineral property interests. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for mineral property interests is dependent upon completion of the acquisition of the mineral property interests, the discovery of economically recoverable reserves, confirmation of the Corporation's interest in the underlying mineral claims, the ability of the Corporation to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such property at a profit. Changes in future conditions could require material write downs of the carrying values of mineral property interests.

Although the Corporation has taken steps to verify title to the property on which it is conducting exploration and in which it is acquiring an interest in accordance with industry standards for the current stage of exploration and evaluation of such property, these procedures do not guarantee the Corporation's title. Property title may be subject to unregistered prior agreements, aboriginal claims and noncompliance with regulatory requirements.

As at June 30, 2013, the Corporation had working capital of $21,461, had an accumulated deficit of $54,447 and incurred a loss of $1,932 for the three months then ended. Working capital included a current tax credits receivable of $4,615 and cash and cash equivalents of $19,922, of which $851 is restricted to eligible exploration expenditures pursuant to a flow-through financing.

Management believes that the Corporation has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Corporation's ability to continue future operations and fund its exploration, evaluation and development activities is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways including, but not limited to, a combination of strategic partnerships, joint venture arrangements, project debt finance, offtake financing, royalty financing and other capital markets alternatives. Management will pursue such additional sources of financing when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Corporation or that they will be available on terms which are acceptable to the Corporation.

The Corporation's financial year ends on December 31. The unaudited condensed interim financial statements were authorized for publication by the Board of Directors on August 9, 2013.

## 2. BASIS OF PREPARATION AND ADOPTION OF NEW ACCOUNTING STANDARDS

These unaudited condensed 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*.* The unaudited condensed interim financial statements should be read in conjunction with the Corporation's audited annual financial statements for the year ended December 31, 2012.

**Accounting Policies**

The accounting policies followed in these unaudited condensed interim financial statements are consistent with those of the previous financial year, except as described below.

***Changes in Accounting Policies***

The Corporation adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

The Corporation adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Corporation to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments.

The Corporation adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The Corporation adopted the amendments to IFRS 12 effective January 1, 2013. These amendments carry forward existing disclosures and also introduce significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. These changes did not result in additional disclosures as the Corporation does not have an interest in other entities.

## 3. MINERAL PROPERTY INTERESTS

On May 13, 2013, the Corporation completed a royalty financing with RK Mine Finance ("**Red Kite**"). Under the terms of the agreement, Red Kite acquired (through 8248567 Canada Limited) a 1% net smelter return royalty ("**NSR**") in the Dumont project for a purchase price of US$15 million. The investment was recorded as a reduction to Dumont's mineral property interest.

| **Exploration and evaluation expenses** | Dumont | Jefmar | Marbridge | Total |
|---|---|---|---|---|
| **Balance as at January 1, 2013** | **$55,176** | **$465** | **$1,109** | **$56,750** |
| Property acquisition costs | 167 | - | - | 167 |
| Depreciation | 33 | - | - | 33 |
| Drilling | 734 | - | 1 | 735 |
| Engineering | 4,459 | - | - | 4,459 |
| Environmental | 255 | - | - | 255 |
| Geological | 1,145 | - | - | 1,145 |
| Site activities and metallurgical testing | 1,610 | - | - | 1,610 |
| Share-based payments | 58 | - | - | 58 |
| Sale of NSR, net of transaction costs | (14,542) | - | - | (14,542) |
| Quebec refundable tax credits | 570 | - | - | 570 |
| **Balance as at June 30, 2013** | **$49,665** | **$465** | **$1,110** | **$51,240** |

**Pershimco Mineral Claims**

The Pershimco mineral claim block comprises 5 claims totalling 195.64 hectares. The claims were originally held 100% by Pershimco Resources. The Corporation purchased these claims for $30 pursuant to an agreement dated March 18, 2013. These claims are subject to a 3% NSR royalty payable to Pershimco Resources. The Corporation has the option to buy back the NSR in stages at any time by paying $1,000 for the first percent, $3,000 for the second percent and $6,000 for the third percent bought back.

## 4. SHARE CAPITAL

On March 7, 2013, the Corporation closed a brokered private placement of 4,000,000 flow-through shares at a price of $0.50 per flow-through share for gross proceeds of $2,000 (the "**Offering**"). In connection with the Offering, the Corporation recorded a $720 flow-through share premium liability calculated as the difference between the share issuance price and the market price at the time of closing. The expenses of the Offering consisted of cash issue costs of $194 and 240,000 broker warrants exercisable for one year to acquire up to 240,000 common shares at a price of $0.50 per share. The fair value of the 240,000 warrants granted was estimated at $12 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield 0%, expected volatility 75%, risk free rate of return 0.96% and an expected maturity date of 1 year.

## 5. SHARE INCENTIVE PLAN

**Share Purchase Options**

During the three months ended March 31, 2013, the Corporation amended the terms of 600,000 share purchase options, exercisable at $0.35 per share until March 31, 2013, and held by a former director of the Corporation, to add a cashless exercise feature. On March 27, 2013, all 600,000 of these share purchase options were exercised using the cashless exercise feature. The closing share price on the day prior to the exercise of these 600,000 share purchase options was $0.37 per share. A total of 42,379 common shares were issued in connection with the exercise of these share purchase options.

The following table reflects the continuity of share purchase options for the six months ended June 30, 2013:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance as at January 1, 2013 | 7,960,250 | $1.56 |
| Exercised | (600,000) | 0.35 |
| Expired | (575,000) | 2.46 |
| **Balance as at June 30, 2013** | **6,785,250** | **$1.60** |

As at June 30, 2013, the Corporation had the following share purchase options outstanding:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Exercise Price Range | Number of Options | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of Options | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price |
| $0.35–$0.99 | 2,122,000 | 7.3 | $0.44 | 1,350,667 | 6.3 | $0.43 |
| $1.00–$1.99 | 525,000 | 5.2 | $1.04 | 525,000 | 5.2 | $1.04 |
| $2.00–$2.50 | 4,138,250 | 5.8 | $2.26 | 4,138,250 | 5.8 | $2.26 |
| | **6,785,250** | **6.2** | **$1.60** | **6,013,917** | **5.8** | **$1.74** |

**Deferred Share Units**

During the six months ended June 30, 2013, 76,219 deferred share units were granted, all of which vested immediately.

The following table reflects the continuity of deferred share units for the six months ended June 30, 2013:

| | Number of Deferred Share Units |
|---|---|
| Balance as at January 1, 2013 | 1,270,124 |
| Granted | 76,219 |
| **Balance as at June 30, 2013** | **1,346,343** |

As at June 30, 2013, 1,292,178 deferred share units were vested.

**Restricted Share Units**

There was no activity in restricted share units during the period. As at June 30, 2013, there were 2,100,427 restricted share units outstanding with a weighted average remaining contractual life of 1.3 years and all restricted share units were vested.

**Share Appreciation Rights**

The fair value of each share appreciation right outstanding at the end of the period, as estimated as at June 30, 2013, was $0.19 (2012: nil). This was calculated using the Black-Scholes option pricing model, using the following assumptions:

| | Six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| Share price | **$0.39** | - |
| Base price | **$0.40** | - |
| Risk free interest rate | **1.39%** | - |
| Expected life | **3.2 years** | - |
| Expected forfeiture rate | **5%** | - |
| Expected volatility | **75%** | - |
| Expected dividends | **nil** | - |

There was no activity in share appreciation rights during the period. As at June 30, 2013, there were 837,000 share appreciation rights outstanding with a weighted average base price of $0.40 and a remaining contractual life of 9.5 years. As at the end of the period, none of the share appreciation rights were exercisable.

The expense (recovery) recognized from share-based payment transactions for services received during the period is shown in the following table:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Equity settled share-based payment transactions** | | | | |
| Share purchase options | **$28** | $40 | **$58** | $78 |
| Total equity settled share-based payment transactions | **28** | 40 | **58** | 78 |
| **Cash settled share-based payment transactions** | | | | |
| Deferred share units | **3** | 45 | **3** | 74 |
| Restricted share units | **1** | 11 | **2** | 24 |
| Share appreciation rights | **8** | - | **16** | - |
| Mark-to-market adjustment for deferred and restricted share units and share appreciation rights | **28** | (337) | **(83)** | (382) |
| Total cash settled share-based payment transactions | **40** | (281) | **(62)** | (284) |
| **Accrued share-based payment transactions** | **106** | 98 | **181** | 196 |
| **Total expense arising from share-based payment transactions** | **$174** | $(143) | **$177** | $(10) |

The carrying amounts of the liabilities relating to deferred and restricted share units and share appreciation rights at June 30, 2013, are $520, $819 and $20 respectively (at December 31, 2012: $554, $881, and $2 respectively).

## 6. WARRANTS

The following table reflects the continuity of warrants for the six months ended June 30, 2013:

| | Number of Warrants | Exercise Price |
|---|---|---|
| Balance as at January 1, 2013 | - | $- |
| Granted (note 4) | 240,000 | 0.50 |
| **Balance as at June 30, 2013** | **240,000** | **$0.50** |

As at June 30, 2013, the remaining contractual life of the outstanding warrants was 0.7 years.

## 7. GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Expense by nature** | | | | |
| Salaries, wages and benefits | **$669** | $569 | **$1,341** | $1,376 |
| Share-based payments (note 5) | **174** | (143) | **177** | (10) |
| Professional fees | **131** | 215 | **322** | 427 |
| Consulting fees | **14** | 346 | **25** | 708 |
| Public company expenses | **50** | 35 | **98** | 97 |
| Office and general | **226** | 277 | **504** | 596 |
| Conference and travel | **30** | 60 | **69** | 156 |
| Investor relations | **112** | 270 | **176** | 409 |
| Business development | **56** | 243 | **124** | 350 |
| Depreciation and amortization | **22** | 30 | **44** | 59 |
| | **$1,484** | $1,902 | **$2,880** | $4,168 |

## 8. LOSS PER SHARE

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Loss attributable to common shares | **$(1,932)** | (2,097) | **$(3,715)** | $(4,603) |
| Weighted average number of common shares | **94,112,311** | 89,538,254 | **92,612,540** | 89,485,665 |
| Loss per share – basic and diluted | **$(0.02)** | $(0.02) | **$(0.04)** | $(0.05) |

The effect of potential issuances of shares under stock options, warrants, deferred share units and restricted share units would be anti-dilutive for the six months ended June 30, 2013 and 2012, and accordingly, basic and diluted loss per share are the same.

## 9. RELATED PARTY TRANSACTIONS

The following table reflects the remuneration of key management, which consists of the Corporation's directors and executive officers, and other related party transactions:

| **Remuneration of key management** | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Management salaries and benefits | **$505** | $435 | **$896** | $870 |
| Directors fees | **91** | 61 | **189** | 152 |
| Share-based payments – Management | **160** | 168 | **282** | 340 |
| Share-based payments – Directors | **7** | 39 | **11** | 59 |
| Mark-to-market adjustment for cash settled share-based payments | **33** | (387) | **(98)** | (439) |
| | **$796** | $316 | **$1,280** | $982 |
| **Administrative and general expenses** | | | | |
| Consulting fees paid to a director | **$-** | $- | **$-** | $11 |

## 10. INCOME TAX

The Corporation incurred a loss for tax purposes for the six months ended June 30, 2013, for which no tax benefit was recorded. In addition, the Corporation recorded a refundable tax credit for mining exploration expenses and a Quebec mining duties credit on the eligible exploration expenditures incurred in the six months ended June 30, 2013. These credits were recorded as a reduction to mineral property interests. Tax laws are complex and can be subject to different interpretations. Uncertainties exist with respect to the interpretation of tax regulations, including the determination of which mining exploration expenditures are eligible for refundable tax credits and the amount and timing of collection. The amounts recognized in the financial statements are derived from the Corporation's best estimation and judgement. The Corporation may be required to change its provision for income taxes if the tax authorities ultimately are not in agreement with the Corporation's interpretation.

The deferred tax expense for the six months ended June 30, 2013, is attributable to additional deferred tax liabilities relating to Quebec mining duties partially offset by a deferred tax recovery related to the amortization of the liability for the premium on the issuance of the flow-through shares as expenditures expected to be renounced are incurred.

## 11.FINANCIAL RISK FACTORS

### Financial Instruments

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. The Corporation's management manages financial risks. The Corporation does not enter into financial instruments agreements, including derivative financial instruments, for speculative purposes. The Corporation's main financial risks exposure and its financial policies are as follows:

***Credit Risk***

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Corporation's credit risk is primarily attributable to amounts receivable and cash and cash equivalents. Amounts receivable mainly consists of interest receivable from Canadian chartered banks, goods and services tax due from the federal and Quebec governments, and mining tax credits due from the Quebec government. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal. The Corporation reduces its credit risk by diversifying its cash and cash equivalents investments with several major Canadian chartered banks.

***Liquidity Risk***

Liquidity risk is the risk that the Corporation will not have sufficient cash resources to meet its financial obligations associated with financial liabilities as they come due. The Corporation's liquidity and operating results may be adversely affected by delays in receiving the tax credits receivable from the Quebec government (or securing financing against the tax credit) and if the Corporation's access to the capital market or other alternative forms of financing is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation. The Corporation has historically generated cash flow primarily from its financing and investing activities. As at June 30, 2013, the Corporation had cash and cash equivalents of $19,922 of which $851 is restricted to eligible exploration expenditures pursuant to a flow-through financing, to settle current financial liabilities of $1,986. All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms with the exception of obligations under capital lease. The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

***Interest Rate Risk***

The Corporation has cash balances and the Corporation's current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of June 30, 2013, the Corporation had $15,604 invested with various Canadian chartered banks bearing interest at variable rates. Sensitivity to a plus or minus 1% change in the rates would affect the reported net income by approximately $156.

***Fair Value Risk***

The carrying values of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and obligations under finance leases approximate their fair values due to their relatively short periods to maturity.