EVOLVING GOLD CORP

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Expressed in US dollars

For the six month period ended September 30, 2013 and 2012

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 condensed consolidated interim financial statements have been prepared by and are the responsibility of 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 the interim financial statements by an entity's auditor.

Contents

Evolving Gold Corp.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

Unaudited -Expressed in United States Dollars

For the six month period ended September 30, 2013

	Note	September 30, 2013	March 31, 2013
Assets			
Current Assets			
Cash and cash equivalents	**5**	$ 17,875	$ 129,517
Available for sale securities	**6**	295,315	1,261,134
GST receivable		6,685	26,529
Other receivable		-	94,661
Prepaid expenses		74,462	105,362
Assets held for sale	**7**	12,316,466	12,056,318
		12,710,803	13,673,521
Non-Current Assets			
Property, plant and equipment	**9**	88,632	127,503
Exploration and evaluation assets	**8**	24,537,638	31,505,645
Total Assets		**$ 37,337,073**	**$ 45,306,669**
Liabilitites			
Current Liabilities			
Accounts payable and accrued liabilities	**15**	$ 1,328,521	$ 1,291,010
Asset retirement obligation - asset held for sale	**10**	286,000	286,000
		1,614,521	1,577,010
Warrant liability	**11**	176,815	421,330
Asset retirement obligation	**10**	400,273	400,273
		577,088	821,603
Shareholders' Equity			
Share Capital	**11**	75,482,448	75,331,448
Reserves	**11**	8,891,636	8,875,576
Accumulated other comprehensive income (loss)		(553,062)	-
Deficit		(48,675,558)	(41,298,968)
Total Equity		35,145,464	42,908,056
Total Liabilities and Shareholders' Equity		**$ 37,337,073**	**$ 45,306,669**

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

" R. Bruce Duncan" — Director

" William Majcher" — Director

The accompanying notes form an integral part of these consolidated financial statements

Evolving Gold Corp.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE LOSS

Unaudited - Expressed in United States Dollars

For the six month period ended September 30, 2013

		Three months ended September 30,		Six months ended September 30,	
	Note	2013	2012	2013	2012
Expenses					
Accounting and audit		$ 44,988	$ 4,308	$ 45,038	$ 10,630
Depreciation	**9**	15,954	20,767	32,701	46,970
Bank charges and interest		1,744	13,568	3,287	14,541
Consulting		-	18,803	4,886	32,664
Directors fees	**15**	-	25,917	-	50,516
Legal		-	42,497	3,404	58,137
Management fees	**15**	91,400	91,612	182,800	178,246
Office, rent and salaries		71,108	251,154	142,196	476,310
Promotion and advertising		-	10,657	-	26,522
Property Investigation costs		-	-	-	1,713
Share-based payments	**12**	16,060	400,686	16,060	743,710
Transfer agent and filing fees		12,955	32,598	61,516	50,990
Travel			16,276	2,446	74,153
		(254,209)	(928,843)	(494,334)	(1,765,102)
Other Items					
Write down of exploration properties		(7,131,122)	-	(7,131,122)	-
Foreign Exchange		10,134	157,711	(6,332)	(57,559)
Change in fair value of warrants		5,605	30,564	368,268	30,564
Interest and other income		(394)	13,873	29,018	43,860
Net income (loss) for the period		**$ (7,369,986)**	**$ (726,695)**	**$ (7,234,502)**	**$ (1,748,237)**
Other comprehensive loss					
Unrealized gain (loss) on available for sale securities		(142,087)	(164,643)	(142,087)	(1,613,004)
Total comprehensive loss for the period attributable to the owners of the parent		**$ (7,512,073)**	**$ (891,338)**	**$ (7,376,589)**	**$ (3,361,241)**
Loss per share from continuing operations:					
- basic		(0.05)	(0.01)	(0.05)	(0.02)
- diluted		(0.05)	(0.01)	(0.05)	(0.02)

The accompanying notes form an integral part of these consolidated financial statements

Evolving Gold Corp.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Unaudited - Expressed in United States Dollars

For the six month period ended September 30, 2013

		Share Capital					
	Note	Number of shares	Amount	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total Shareholders' Equity
Balance at March 31, 2012		**139,013,445**	**72,258,755**	**11,952,510**	**-**	**(29,551,240)**	**54,660,025**
Shares issued in relation to a private placement	9	12,000,000	3,587,313	-	-	-	3,587,313
Warrant liability valuation on Private place.	9	-	(1,523,394)	-	-	-	(1,523,394)
Share-based payments	10	-	-	743,710	-	-	743,710
Warrants expired	9	-	-	(3,974,332)	-	3,974,332	-
Unrealized loss on available for sale securities	4	-	-	-	(1,613,004)	-	(1,613,004)
Net loss for the period		-	-	-	-	(1,748,237)	(1,748,237)
Balance at September 30, 2012		**151,013,445**	**$ 74,322,674**	**$ 8,721,888**	**$ (1,613,004)**	**$ (27,325,145)**	**$ 54,106,413**
Shares issued in exchange for 1,176,470 shares of Pinetree Capital	10	5,555,555	1,003,100	-	-	-	1,003,100
Shares issued for property payments	9	20,000	5,674	-	-	-	5,674
Share-based payments		-	-	153,688	-	-	153,688
Warrants expired	9	-	-	-	-	-	-
Unrealized loss on available for sale securities	4	-	-	-	1,613,004	-	1,613,004
Net loss for the year		-	-	-	-	(13,973,823)	(13,973,823)
Balance at March 31, 2013		**156,589,000**	**$ 75,331,448**	**$ 8,875,576**	**$ -**	**$ (41,298,968)**	**$ 42,908,056**
Shares issued in relation to a private placement	9	6,000,000	289,260	-	-	-	289,260
Warrant liability valuation on Private place.	9	-	(138,260)	-	-	-	(138,260)
Share-based payments	10	-	-	16,060	-	-	16,060
Unrealized loss on available for sale securities	4	-	-	-	(553,062)	-	
Net loss for the period		-	-	-	-	(7,376,589)	
Balance at September 30, 2013		**162,589,000**	**$ 75,482,448**	**$ 8,891,636**	**$ (553,062)**	**$ (48,675,557)**	

The accompanying notes form an integral part of these consolidated financial statements

Evolving Gold Corp

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

Unaudited - Expressed in United States Dollars

For the six month period ended September 30, 2013

	Six Months ended September 30,	
	2013	2012
Operating Activities		
Net income (loss) for the period	$ (7,376,590)	$ (1,748,237)
Adjustments to reconcile net loss to cash used in operating activities:		
Share-based payments	16,060	743,710
Amortization	32,701	46,970
Write down of exploration assets	7,131,122	
Changes in assets and liabilities:		
Receivables	114,673	34,014
Prepaid expenses & other current assets	30,900	(13,754)
Accounts payable & accrued liabilities	37,511	(139,156)
Change in fair value of warrants	(382,775)	(30,564)
Cash used in operating activities - continuing operations	(396,398)	(1,107,017)
Financing activities:		
Issuance of common stock	289,260	3,587,313
Funds received from sale of marketable securities	412,758	-
Refund of bonds and other	138,705	-
Cash provided by financing activities	**840,723**	**3,587,313**
Investment activities:		
Mineral property expenditures	(561,968)	(6,175,279)
Proceeds from disposition of discontinued operations	-	1,190,706
Acquistion of property and equipment	6,002	(82,620)
Cash used in investment activities	**(555,966)**	**(5,067,193)**
Net change in cash and cash equivalents	(111,641)	(2,586,897)
Cash and cash equivalents, beginning balance	129,517	5,408,363
Cash and cash equivalents, ending balance	**$ 17,876**	**$ 2,821,466**

The accompanying notes form an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

Evolving Gold Corp. (the "Company" or "Evolving") was incorporated as 6109527 Canada Ltd. on June 19, 2003, under the Canada Business Corporation Act and is in the business of acquiring, exploring and evaluating mineral properties. On September 30, 2003, the Company changed its name to Evolving Gold Corp. The Company is in the exploration stage and has interests in mineral properties located in the United States of America. Effective December 7, 2010, the common shares of the Company were listed on the Toronto Stock Exchange ("TMX") and trade under the symbol EVG.

The head office, principal address and records office of the Company are located at 1166 Alberni Street, Suite 605, Vancouver, BC, Canada, V6E 3Z3. The Company's registered address is Suite 1500, 1055 West Georgia Street, Vancouver, BC V6E 4N7.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on November 13, 2013.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and derivative liabilities at fair value through profit or loss.

The financial statements are presented in United States dollars, which is also the Company's functional currency, unless otherwise indicated. The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

		Percentage owned	
	incorporation Jurisdiction	Sept. 30, 2013	March 31, 2013
Evolving Gold Corporation	USA	100%	100%
5210 Nunavut Ltd.	Nunavut	100%	100%
Exemplar Gold Corp.	Canada	100%	100%
Rattlesnake Mining Corporation	Canada	100%	100%
Rattlesnake Mining Company (Wyoming)	USA	100%	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

2. BASIS OF PREPARATION (CONTINUED)

c) Nature of Operations

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of the business for the foreseeable future. As at September 30, 2013, the Company has incurred a net loss of $7,376,590 for the six month period ended September 30, 2013 and has an accumulated deficit of $48,675,558 since inception. These conditions indicate the existence of material uncertainty which casts significant doubt about the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon obtaining, in the short term, the necessary financing to meet the Company's operating and mineral property commitments as they come due and to finance future exploration and development of potential business acquisitions, economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in Note 3 to the annual audited Consolidated Financial Statements as of and for the year ended March 31, 2013, which are incorporated herein by reference. The reader is referred to those statements for a detailed discussion of the accounting policies.

These condensed consolidated interim financial statements as at and for the six month period ended September 30, 2013 have been prepared in accordance with the policies described in the annual audited Consolidated Financial Statements, which have been applied consistently to these financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The estimates and assumptions of the Company are set out in Note 4 to the annual audited Consolidated Financial Statements as of and for the year ended March 31, 2013, which are incorporated herein by reference. The reader is referred to those statements for a detailed discussion of the accounting policies.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Unaudited - Expressed in United States Dollars

5. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earn interest at floating rates based on daily bank deposit rates.

6. AVAILABLE-FOR-SALE SECURITIES

Available-for-sale securities consist of an investment in common shares of Prosperity Goldfields Corp., NV Gold Corp and Pinetree Capital Corp. and therefore have no fixed maturity date or coupon rate. The fair value of the listed available-for-sale securities has been determined directly by reference to published price quotations in an active market:

	Fair Value ($US)	
	Sept. 30, 2013	**March 31, 2013**
Prosperity Goldfields Corp		
September 2013- 4,008,704 shares; March 2013 – 4,008,704 shares	$116,629	$535,153
NV Gold Corp		
September 2013- nil shares; March 2013- 829,500 shares	-	32,593
Pinetree Capital Corp		
September 2013- 550,000 shares; March 2013 - 1,176,470 shares	178,686	693,388
	$295,315	$1,261,134

During the six month period ended September 30, 2013, the Company recorded a comprehensive loss of $553,062 on the available of sale securities (March 31, 2013 - an impairment write-down of $2,352,100 attributable to the prolonged and significant decline in the market value of available for sale securities). The Company also realized $412,758 from the sale of securities (2013 - $nil).

Unaudited - Expressed in United States Dollars

7. DISCONTINUED OPERATIONS

During the period, the Company initiated a plan to sell its Rattlesnake Hills mineral property. Although no agreement for the sale of this property has been executed, management expects the completion of an agreement to occur by March 31, 2014. Accordingly, the Rattlesnake Hills property and its associated asset retirement obligation has been accounted for as discontinued operations and classified in the consolidated financial statements as follows as at September 30, 2013:

		Sept. 30, 2013		**March 31, 2013**
STATEMENT OF FINANCIAL POSITION				
Current Assets				
Acquisition costs	$	4,311,500	$	4,179,130
Deferred exploration costs		7,432,966		19,615,611
Reclamation bond		286,000		286,000
Asset retirement obligation		286,000		286,000
Write-down and payments received		-		(12,310,423)
Asset held for sale	**$**	**12,316,466**	**$**	**12,056,318**
Current Liabilities				
Asset retirement obligation	**$**	**286,000**	**$**	**286,000**
STATEMENT OF COMPREHENSIVE LOSS				
Write-down of mineral properties	$	-	$	(11,085,765)
Gain on disposal of interest		-		-
Gain / (loss) from discontinued operations	**$**	**-**	**$**	**(11,085,765)**
Earnings / loss per share from discontinued operations:				
- Basic		(0.00)		(0.08)
- Diluted		(0.00)		(0.08)
STATEMENT OF CASH FLOWS				
Investment Activities				
Mineral property expenditures	$	(260,148)	$	(377,970)
Property payments received		-		200,178
Proceeds from disposal of interest in Prosperity		-		-
Cash provided by (used in) investment activities – discontinued operations	$	(260,148)	$	(177,792)

Unaudited - Expressed in United States Dollars

8. EXPLORATION AND EVALUATION ASSETS

	Carlin	Humboldt	Jake Creek	Malone	**September 30, 2013**	**March 31, 2013**
Acquisition costs						
Opening Balance	$ 2,553,789	$ 2,533,445	$ -	$ -	**$ 5,087,234**	**$ 4,891,607**
Reclassification of opening balance	-	-	-	-	**-**	**3,233,179**
Additions	33,804	26,853	47,123	-	**35,004**	**1,141,578**
Write down of mineral properties	-	(2,470,578)	-	-	**(2,470,578)**	**-**
	2,587,592	89,720	47,123	-	**2,724,435**	**9,266,364**
Deferred exploration costs						
Opening balance	18,634,195	3,746,829	2,393,125	863,716	**25,637,865**	**40,862,539**
Reclassification of opening balance	-	-	-	-	**-**	**(3,233,179)**
Assays and reports	7,612	-	-	-	7,612	**119,529**
Drilling	4,563	-	-	-	4,563	**5,869,482**
Field expenses	56,458	-	-	-	56,458	**352,146**
Geological consulting	132,217	-	253	-	132,470	**810,960**
Geophysical and geological studies	600	-	-	-	600	**149,082**
Staking and recording	38,396	-	-	-	38,396	**322,917**
	18,874,041	3,746,829	2,393,378	863,716	**25,877,964**	**45,253,476**
Reclamation bonds	195,511	-	-	-	**195,511**	**666,273**
Asset retirement obligation	320,273	-	30,000	-	**350,273**	**686,273**
Write-down of mineral properties	-	(3,746,829)	-	(863,716)	**(4,610,545)**	**(11,110,245)**
Property and other payments received	-	-	-	-	**-**	**(1,200,178)**
Transfer to assets held for sale	-	-	-	-	**-**	**(12,056,318)**
	515,784	(3,746,829)	30,000	(863,716)	**(4,064,761)**	**(23,014,195)**
	$ 21,977,417	**$ 89,720**	**$ 2,470,501**	**$ -**	**$ 24,537,638**	**$ 31,505,645**

8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

In September 2007, the Company signed a Letter of Intent to enter into an agreement with Newmont USA Limited, Newmont Capital Limited and Elko Land and Livestock Company (collectively "Newmont") concerning an exploration partnership on the Sheep Creeks, Boulder Valley, Carlin and Cottonwood Creek properties. A fifth property, identified as Susie Creek, has not had any activity to date and accordingly no interest in this property is reflected in these financial statements.

Sheep Creeks was released back to Newmont in 2009. During fiscal 2010 the Company terminated the Cottonwood portion of the agreement. During fiscal 2012, the Company decided to terminate any further exploration on Boulder Valley, and wrote off $1,588,118 of deferred exploration costs.

In addition, the Company acquired the Humboldt Properties adjacent to the above mentioned Carlin properties as well as additional properties which fell within the Carlin Agreement boundary.

A Mineral Lease, Sublease and Agreement which was signed effective November 28, 2007 continues to govern the Company's interest in the Boulder Valley and Carlin mineral properties. Under the terms of this Agreement, Newmont would lease or sublease to the Company its interest in certain lands, unpatented mining claims and fee interests in these areas, subject to a back-in right in exchange for the Company:

- Assuming all of Newmont's lease obligations insofar as they pertain to these project areas.
- Incurring exploration expenditures of $3,500,000 for each of the two properties for a total of $7,000,000 over five years with 70% of such expenditures in direct drilling costs:
    - On or before November 28, 2008 – $200,000 (incurred);
    - On or before June 20, 2009 – $200,000 (incurred);
    - On or before November 28, 2009 – additional $600,000 (incurred);
    - On or before November 28, 2010 – additional $1,200,000 (incurred);
    - On or before November 28, 2011 – additional $2,000,000 (incurred);
    - On or before November 28, 2012 – additional $2,800,000 (incurred);

  In the event Newmont or the Company acquires any interest in minerals within the Susie Creek project area, the Company will need to incur $3,500,000 in exploration expenditures over a similar five year period from the acquisition date then determined.
- Reimbursing Newmont for all payments and filings necessary to keep each property in good standing.
- Providing semi-annual reports to Newmont for each project area's work program and costs incurred.
- After six years, paying an annual rental on each project area, if $750,000 was not incurred on exploration expenditures during the preceding lease year on that project area. Annual rental would be calculated at $10 per acre, escalating by 5% each year.
- Paying a 3% to 5% sliding scale net smelter return ("NSR") royalty on production from each property less any underlying royalties, with a minimum of 2%.

Newmont can elect to terminate the agreement and enter into one or more joint venture agreements with the Company covering all or a portion of each project area. Newmont may earn a 51% interest in each joint venture property by expending on the property 200% of the exploration expenditures made by the Company from the date of the agreement to the date Newmont elects to exercise its joint venture option and may elect to earn an additional 19% interest in the joint venture property by expending on the property an additional 150% of the Company's expenditures on the joint venture property. If the Company decides to commence mineral production of the project area and Newmont elects not to exercise the joint venture option or elects not to complete its earn-in expenditures, Newmont would agree to sell its interest in the project area property to the Company.

The Company has the right to provide sixty days written notice at any time to surrender the agreement as to all or any part of this property.

<u>Carlin Property</u>

The Carlin property also forms part of the Newmont Agreement aforementioned under the Boulder Valley property.

On January 11, 2010, the Company signed a ten-year surface lease agreement for the lands described as the Carlin property in exchange for cash of $16,000 (paid) and $10,000 payable annually on January 11, 2011 and each year thereafter. Prior to commencement of commercial production the Company is obligated to purchase the area for $2,000 per applicable acre. The agreement can be terminated by Evolving after thirty days written notice is provided and can be extended if certain conditions are met including providing compensation for surface area disturbance.

8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Carlin Property (continued)

On March 29, 2010, the Company signed a purchase and royalty reservation agreement for a 50% undivided fee interest in additional lands on the Carlin property in exchange for cash of $10,000, cash of $190,000 paid on completion and the issue of non-interest bearing promissory notes for $1,200,000 payable in annual $300,000 instalments commencing May 27, 2011. During the year ended March 31, 2012, the Company paid first instalment of $300,000 and in June 2012, the Company paid the second promissory note instalment of $300,000.

On April 13, 2010 the Company signed an additional purchase agreement for a 100% undivided fee interest in additional adjacent lands in exchange for cash paid on signing of $10,000, cash of $290,000 paid on completion and the issue of promissory notes for $2,200,000 payable in annual $550,000 instalments, commencing August 10, 2011. During the 2012 fiscal year, the Company re-negotiated the terms of the Carlin Property promissory note. The note was revised to the following:

$2,200,000 bearing an interest rate of 4% until February 10, 2016, at which time the interest rate shall be the Wall Street Journal bank prime lending rate plus 1%. Payments of $360,000 are due on February 10, 2012 (paid) and each year thereafter until February 10, 2018 at which time the balance remaining shall become due and payable.

In addition with respect to both the March 29, 2010 and the April 13, 2010 aforementioned agreements, the Company will be committed to pay up to 1.0% NSR royalty on production.

During the six month period ended September 30, 2013, the Company notified the Carlin property vendors that it would be unable to comply with payment obligations totaling $660,000 on their due dates. The Company approached the vendors to discuss the renegotiation of the terms of the agreements, but ultimately decided not to hold the additional properties, aside from the "Gutsy" claims which are still held with payments deferred for one year.

Humboldt Property

On March 29, 2010, the Company signed a purchase and royalty reservation agreement for a 50% undivided fee interest in additional lands on the Humboldt property in exchange for cash paid of $15,000, cash of $285,000 paid on completion, and the issue of non-interest bearing promissory notes for $2,800,000 payable in annual $700,000 instalments, commencing May 27, 2011. During the year ended March 31, 2011, the Company paid the first promissory note instalment of $700,000 and in June 2012, the Company paid the second instalment of $700,000.

At April 13, 2010 the Company also signed two other purchase agreements for a 100% undivided fee interest in additional adjacent lands in exchange for cash of $20,000 paid, cash of $480,000 paid on closing and the issue of non-interest bearing promissory notes for $1,800,000 and $3,200,000 payable in annual $450,000 and $800,000 instalments respectively, commencing August 10, 2011. In addition with respect to both the March 29, 2010 and the April 13, 2010 aforementioned Humboldt agreements, the Company will be committed to pay up to 1.0% NSR on production.

During the 2012 fiscal year, the Company re-negotiated the terms of the Humboldt Property promissory notes. The notes were revised to the following:

1) $3,200,000 bearing an interest rate of 4% until February 10, 2016, at which time the interest rate shall be the Wall Street Journal bank prime lending rate plus 1%. Payments of $523,000 are due on February 10, 2012 (paid) and each year thereafter until February 10, 2018 at which time the balance remaining shall become due and payable. During the year ended March 31, 2013, the Company negotiated an extension of the $523,000 payment originally due February 10, 2013 to a new due date of May 27, 2013.

2) $1,800,000 bearing an interest rate of 4% until February 10, 2016, at which time the interest rate shall be the Wall Street Journal bank prime lending rate plus 1%. Payments of $295,000 are due on February 10, 2012 (paid) and each year thereafter until February 10, 2018 at which time the balance remaining shall become due and payable. During the year ended March 31, 2013, the Company negotiated an extension of the $295,000 payment originally due February 10, 2013 to a new due date of May 27, 2013.

During the six month period ended September 30, 2013, the Company notified the Carlin property vendors that it would be unable to comply with payment obligations totaling $660,000 on their due dates. The Company approached the vendors to discuss the renegotiation of the terms of the agreements, but ultimately decided not to hold the additional properties. Substantially all of the Humboldt property was written off during the period, aside from certain claims immediately adjacent to the Carlin project.

8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Jake Creek Property

In December 2007, the Company increased its exploration activities in north-central Nevada and acquired additional claims near the Sheep Creeks area (the "Jake Creek property").

Carlin and Humboldt Properties

On October 26, 2009 the Company signed a mineral lease and property option agreement comprising sixty-two unpatented mining claims located in Elko County, Nevada, part of the Humboldt property. In addition on February 28, 2010 the Company signed a mineral lease and royalty buy down agreement comprising eight unpatented mining claims located adjacent to those Humboldt claims acquired in the aforementioned October 26, 2009 agreement.

Both agreements have a primary term of fifteen years and so long thereafter as exploration, development or mining is being conducted on the property but can be terminated at any time in whole or in part after the Company provides thirty days written notice. Pursuant to the terms of these two agreements the Company is required to pay:

Cash of $ 25,000 (paid)

Advance royalty payments:

- $ 10,000 (paid)
- $ 12,500 (paid)
- $ 15,000 on October 26, 2011 (paid)
- $ 17,500 on October 26, 2012 (paid)
- $ 20,000 on October 26, 2013
- $ 25,000 on October 26, 2014 and
- $25,000 consumer price index adjusted, to be paid annually on October 26, 2015 and each year thereafter for the duration of the lease

Advance royalty payments:

- $ 10,000 on February 28, 2011 to 2015 (paid $30,000)
- $ 15,000 on February 28, 2016 to 2020
- $ 20,000 on February 28, 2021 and
- $ 20,000 consumer price index adjusted, to be paid annually on February 28, 2021 and each year thereafter for the duration of the lease

Shares to be issued:

- 50,000 shares to be issued (or cash equivalent) by October 26, 2014
- 50,000 shares to be issued (or cash equivalent) by February 28, 2015
- 200,000 shares to be issued (or cash equivalent), at commencement of production.

Pay claim maintenance fees and filings to maintain the unpatented claims.

The agreements are subject to a royalty of 2.775% to 3% of net smelter returns which the Company can, with respect to the 8 unpatented claims, reduce to 2% with the payment of $1,000,000 for each 0.5% reduction.

Pursuant to the terms of the October 26, 2009 Agreement, the Company has the right to acquire ownership of the 62 unpatented claims (and royalty) in exchange for a cash payment of $4,000,000 subject to recoupment of any royalty payments made by the Company.

On April 13, 2010, the Company signed a ten year surface lease agreement for the lands in exchange for cash of $42,503 on execution and on each anniversary thereafter if acreage is not decreased. The Company will also pay a onetime payment of $1,500 for each drill site and $100 per acre per year for other surface disturbance if ranching and grazing is not possible. One half of these lands have been allocated to each of the Carlin and Humboldt properties. During the six month period ended September 30, 2013, the Company approached certain vendors to discuss the renegotiation of the terms of the agreements, resulting in the "Gutsy" claims being held with payments deferred for one year.

8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

On April 13, 2010 the Company signed two mineral lease agreements encompassing a total of 4,635.76 acres of additional lands in the Elko and Eureka counties in Nevada in exchange for cash paid for advance mineral royalties of $55,725. One half of these lands have been allocated to each of the Carlin and Humboldt properties.

Future royalties will be payable annually based on the amount of acreage utilized but will be at least $20,000. The term of each lease is ten years which can be extended if certain conditions are achieved.

Pursuant to the terms of both leases the Company can decrease the leased acreage or can otherwise terminate the lease after thirty days written notice is provided and has also been granted the right of first refusal to purchase either property. The agreements are subject to a non-participating production royalty of 5% of net smelter returns.

Rattlesnake Property

In July 2007, the Company entered into a Letter of Intent with Golden Predator Mines, Inc. and Golden Predator Mines Inc. (collectively “GPM”) for the acquisition of Golden Predator’s mining option on a 100% interest in Bald Mountain Mining Company’s (“BMM”) Rattlesnake Hills mineral property located in Natrona County, Wyoming. The Company is required to make payments of $20,000 per year to the owners of the property as long as the Company continues to make option payments on this property. On December 11, 2007, BMM signed an amended and restated Option Agreement with GPM with respect to BMM acquiring a 100% interest in this property. On January 15, 2008 a Letter of Agreement was signed to formalize the terms by which BMM would assign its interest in the amended and restated Rattlesnake Hills Option Agreement to the Company. Under the terms of the January 15, 2008 Letter of Agreement, the Company would acquire its interest in the property option from BMM in exchange for the issue of cash of $200,000 (paid) and the issuance of 400,000 shares which were valued at the share trading price at the date of issuance. On January 16, 2008, the Company signed a property option agreement with GPM. Under the terms of this Agreement, the Company could acquire up to a 100% interest in the Rattlesnake Hills Property in exchange for the issue of 3,000,000 shares to be issued in three separate tranches of 1,000,000 shares each, over approximately a two year period. A finder’s fee was paid by the issue of 75,000 shares in connection with this transaction.

In February 2010, the Company exercised its option to complete the acquisition of 100% of the Rattlesnake Hills Property by issuing the final tranche of 1,000,000 shares to GPM. Each of the three 1,000,000 share issues has been valued at the share price at the date of its issuance.

As part of the agreement GPM will retain a 0.5% NSR royalty with respect to the property and the Company will have the option to purchase one-half of the NSR royalty for $375,000, reducing it to 0.25%. The property is currently subject to a 4% production royalty payable to the underlying owners and equal to the gross proceeds less a deduction for all milling, smelting, refining, treatment and other processing costs. Prior to the Company completing the acquisition of this mineral property option, GPM had the right to purchase up to 10% of the shares offered in private placements undertaken by the Company, such purchases to be at the same terms and conditions as other purchasers participating in the offering. Pursuant to these terms 1,000,000 units were issued to GPM in April, 2008 for proceeds of $1,000,000 and an additional 1,234,578 units were issued as part of the November, 2009 private placement for proceeds of $1,111,120. Each unit was comprised of one common share and one-half of a share purchase warrant. The 500,000 warrants attached to the April, 2008 unit have now expired.

On May 9, 2011, the Company announced that it had signed a Letter Agreement with a subsidiary of Agnico–Eagle Mines Ltd. to form a joint venture on its Rattlesnake Hills project in Wyoming. Under the terms of the Letter Agreement, Agnico–Eagle (A) Ltd. (Agnico-Eagle) had the option to earn up to a 70% interest in the Rattlesnake Hills project by carrying Evolving Gold through completion of a feasibility study. In order to earn a 70% interest over a seven-year period Agnico-Eagle was required to make payments to EVG totalling $12 million, to purchase C$23 million in the common shares of EVG, and to expend a minimum of $41 million on exploration/development work on the project. A binding joint venture agreement was completed on June 24, 2011, and a drill program followed. Agnico-Eagle’s minimum work expenditure for the first year was $3 million. The 2011 exploration program included drilling extensions of the two main gold zones, drilling targets between these two zones, testing previously identified targets in the core area, and completing a regional program to define additional drill targets on the large Rattlesnake Hills property.

On May 28, 2012, Agnico-Eagle provided notice of its intent to terminate the joint venture, effective June 30, 2012. A termination agreement was subsequently negotiated and signed.

8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Rattlesnake Property (Continued)

Rattlesnake Plan of Arrangement

On February 7, 2013, the Company announced, subject to shareholder and regulatory approval, a Plan of Arrangement (the "Arrangement") whereby Evolving's wholly owned subsidiary, Evolving US, would transfer specific Rattlesnake net assets to a newly incorporated US company named Rattlesnake Mining (Wyoming) Company ("Rattlesnake Wyoming"). Rattlesnake Wyoming's parent is Rattlesnake Mining Corp. ("RMC"), a wholly owned subsidiary of Evolving. The net assets transferred include the mineral interests in the Rattlesnake property and the related reclamation bond, and asset retirement obligation. Consideration for the transfer will be a note payable for $11,700,000. The valuation of the assets was determined by an independent valuation, as a result of which capitalized exploration and evaluation expenditure were written down in these financial statements by $11,110,245 to reflect fair market value.

RMC will issue 58,500,000 shares to Evolving in exchange for the Rattlesnake Wyoming Note with a value of $11,700,000. Under the terms of the Arrangement, RMC shares will be distributed to Evolving's shareholders by way of the Arrangement on the basis of one share of Rattlesnake Mining Corp. for every ten Evolving common shares held. Shares received in excess of the distribution to Evolving Shareholders will be retained by Evolving.

As part of the Arrangement, holders of Evolving warrants and options who have not exercised as of the effective date of the Plan of Arrangement will be entitled to receive one share of Rattlesnake Mining Corp. for every 10 Evolving warrants or options they exercise after the effective date.

Concurrent with the completion of the Plan of Arrangement, RMC will offer a minimum of 15,000,000 and a maximum of 25,000,000 units at a price of $0.20 Cdn per unit, for minimum proceeds of $3,000,000 Cdn and maximum proceeds of $5,000,000 Cdn. Each unit will be comprised of one RMC share and one-half of a warrant, each whole warrant entitling the holder thereof to purchase an additional RMC share for $0.30 Cdn per share, for a period of three years from issuance.

During the six month period ended September 30, 2013, the Company was approached by third parties to exploring the possible sale of the Rattlesnake project. Due to general market conditions and the difficulty of raising funds in this market, the Company decided to explore this option as well as the proposed plan of arrangement. As a result, the Rattlesnake property has been classified as being held for sale (Note 7). The Company has not made a final determination as to which course of action is most beneficial to the Company.

Malone Property

On April 17, 2006 the Company entered into a quitclaim deed and royalty agreement with Newmont North America Exploration Limited whereby the Company was granted all rights, title, estate and interest in unpatented mineral claims located in Lordsburg, New Mexico in exchange for cash paid of $20,000. The agreement is subject to a royalty of 2% of net smelter returns.

During the six month period ended September 30, 2013, the Company decided not to pursue any further activities on the Malone property, and accordingly the property was dropped and written off in these financial statements.

Unaudited - Expressed in United States dollars

9. PROPERTY PLANT AND EQUIPMENT

	Office furniture and equipment	Computer equipment and software	Leasehold Improvements	Exploration Vehicles		Total
Cost:						
March 31, 2013	136,744	137,952	18,910	105,254		398,860
Additions	1,074	-	-	-		1,074
Disposals & adjustments	(4,324)	(23,524)	-	(19,175)		(47,023)
September 30, 2013	133,494	114,428	18,910	86,079	-	352,911
Depreciation						
March 31, 2013	(119,055)	(87,585)	(5,682)	(59,035)		(271,357)
Additions	(10,031)	(12,184)	(2,046)	(8,608)		(32,869)
Disposals & adjustments	17,213	24,199	-	(1,465)		39,947
September 30, 2013	(111,873)	(75,570)	(7,728)	(69,108)	-	(264,279)
Net Book Value						
March 31, 2013	**$ 17,689**	**$ 50,367**	**$ 13,228**	**$ 46,219**		**$ 127,503**
September 30, 2013	**$ 21,621**	**$ 38,858**	**$ 11,182**	**$ 16,971**		**$ 88,632**

	Office furniture and equipment	Computer equipment	Leasehold Improvements	Exploration Vehicles		Total
Cost:						
March 31, 2012	136,782	224,559	68,502	172,753		602,596
Additions	11,872	65,424	8,722	-		86,018
Disposals	(11,910)	(152,030)	(58,314)	(67,499)		(289,753)
March 31, 2013	**136,744**	**137,953**	**18,910**	**105,254**	-	**398,861**
Depreciation						
March 31, 2012	(109,651)	(215,289)	(49,607)	(101,098)		(475,645)
Additions	(21,314)	(24,326)	(14,389)	(25,436)		(85,465)
Disposal	11,910	152,030	58,314	67,499		289,753
March 31, 2013	**(119,055)**	**(87,585)**	**(5,682)**	**(59,035)**	-	**(271,357)**
Net Book Value						
March 31, 2012	**$ 27,131**	**$ 9,270**	**$ 18,895**	**$ 71,655**		**$ 126,951**
March 31, 2013	**$ 17,689**	**$ 50,367**	**$ 13,228**	**$ 46,219**		**$ 127,503**

Unaudited - Expressed in United States dollars

10. ASSET RETIREMENT OBLIGATIONS

The Company has estimated the present value of its Rattlesnake Hills Mineral Property future reclamation obligation as legally required by the United States Federal and State Government permitting requirements. The increase in the asset retirement obligation since March 31, 2009 results from an increase in exploration activity on various properties. The Company fulfils its site restoration obligations as required when a drill site is abandoned, and accordingly no discounted present value was calculated due to the expected short term nature of the obligation. Management will continue to assess asset retirement obligations as future exploration activity is undertaken.

During the year ended March 31, 2013, the Company requested a re-evaluation of its asset retirement liability on the Rattlesnake property. As a result of this re-evaluation, the Company increased its cash bond on Rattlesnake by $136,000 to $286,000, the amount calculated by the State of Wyoming. The letter of credit previously required to secure the obligation was cancelled November 5, 2012 resulting in a net increase of $11,000 in the asset retirement obligations of the Company.

The balances are as follows:	**Sept. 30, 2013**	**March 31, 2013**
Opening balance	$686,273	$485,000
Additions during the period	-	201,273
	$686,273	$686,273
Asset retirement obligations are classified in the Statement of Financial Position as follows:		
Asset retirement obligation – discontinued operations	$286,000	$286,000
Asset retirement obligation	400,273	400,273
	$686,273	$686,273

Unaudited - Expressed in United States dollars

11. SHARE CAPITAL AND RESERVES

- **Common Shares**

The Company is authorized to issue an unlimited number of common shares, issuable in series.

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The changes to share capital during the year ended March 31, 2013, are summarized in the Consolidated Statement of Shareholders' Equity included in these financial statements.

During the six month period ended September 30, 2013, the Company completed the following transactions:

- 6,000,000 units were issued pursuant to a private placement offering for net proceeds of $289,260 (Canadian $300,000). Each Unit consisted of one common share and one common share purchase warrant, for a total of 6,000,000 warrants for which proceeds of $138,260 were allocated at their fair value determined by the Black Scholes pricing model using the following inputs: Exercise Price - CDN$0.08; Share price - $CDN 0.05; expected life – 3.0 years; volatility – 85%; dividend yield – 0.00% . Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of CDN$0.08 until August 33, 2016. All securities issued in the Offering are subject to a four-month hold period ending December 22, 2013 in accordance with applicable Canadian securities laws.

During the year ended March 31, 2013, the Company completed the following share related transactions:

- 12,000,000 units were issued pursuant to a private placement offering for net proceeds of $3,587,313. Each Unit consisted of one common share and one common share purchase warrant, for a total of 12,000,000 warrants for which proceeds of $1,523,394 were allocated at their fair value determined by the Black Scholes pricing model using the following inputs: Exercise Price - CDN$0.40; Share price - $CDN 0.30; expected life – 3.0 years; volatility – 85%; dividend yield – 0.00% . Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of CDN$0.40 until August 13, 2015. In connection with the Offering, the Company also issued finder's compensation warrants totaling 49,000 warrants having a fair value of $28,928 and recorded as a share issue cost. These compensation warrants are exercisable into one common share of the Company at a price of CDN$0.30 until August 13, 2014. All securities issued in the Offering are subject to a four-month hold period ending December 14, 2012 in accordance with applicable Canadian securities laws.
- 5,555,555 common shares were issued in consideration for the issuance of 1,176,470 common shares of Pinetree Capital at a price of $0.85 CAD cents per share based on the quoted market price of Pinetree Capital on the date of the transaction for a total of $1,003,100.
- 20,000 shares were issued with respect to the acquisition of the Kiyuk property for Prosperity Goldfields Corp., pursuant to the property agreement previously signed by the Company prior to the sale of Prosperity. The value attributed to these shares was $5,674 based on the quoted market price of the Company's shares on the date of their issuance. The Company received 25,250 additional Prosperity shares as repayment for this issuance.

a) **Reserves**

	Sept. 30, 2013	March 31, 2013
Warrants	$ -	$ -
Stock Options	8,891,636	8,875,576
Reserves	$ 8,891,636	$ 8,875,576

Unaudited - Expressed in United States dollars

11. SHARE CAPITAL AND RESERVES (CONTINUED)

b) **Share Purchase Warrants**

The following is a summary of changes in warrants for the six month period ended September 30, 2013 and the year ended March 31, 2013:

	September 30, 2013		March 31, 2013	
	Number of warrants	Weighted average exercise price (CDN $)	Number of warrants	Weighted average exercise price (CDN $)
Warrants outstanding, beginning of period	17,145,000	$ 0.51	5,145,000	$ 0.75
Warrants issued	6,000,000	0.08	12,000,000	0.40
Warrants exercised	-	-	-	-
Warrants expired	-	-	-	-
Warrants outstanding, end of period	23,145,000	$ 0.40	17,145,000	$ 0.51

During the year ended March 31, 2013, in addition to the warrants above, the Company issued 49,000 (2012 - 110,400) agent warrants exercisable into one common share of the Company at a price of CDN$0.30 (2012 - $0.60).

On January 21, 2013 the Company announced that it has received approval from Toronto Stock Exchange to extend the term of 5,145,000 warrants that were set to expire on February 23, 2013 to February 23, 2014 and to reduce the exercise price of the Warrants from $0.75 per share to $0.40 per share. These Warrants were originally issued on August 23, 2011 as part of a private placement.

As at September 30, 2013 and March 31, 2013, the Company had total outstanding warrants, including Agent's warrants, as follows:

	Number of warrants	Exercise price	Expiry
Share purchase warrants	5,145,000	CDN$0.40	February 23, 2014
	12,000,000	CDN$0.40	August 13, 2015
	6,000,000	CDN $0.08	August 23, 2016
Share purchase warrants, excluding agents warrants	23,145,000		
	49,000	CDN$0.30	August 13, 2014
	23,194,000		

The Company re measures the fair value of share purchase warrants granted to unit holders denominated in currencies other than that of the functional currency of the entity every reporting period using the Black-Scholes option pricing model.

As at September 30, 2013, the fair value of these warrants was $176,815. The fair value of these warrants were measured using the Black-Scholes option pricing model using the following assumptions: stock price: $CDN0.05, exercise price: $CDN 0.08 - 0.40, volatility: 90%, risk-free discount rate: 4.20%, dividend rate: 0.0%. For the six month period ended September 30, 2013, the Company has recorded the change in fair value of its warrant liabilities totaling $382,775.

As at March 31, 2013, the Company re-measured its warrant liabilities and determined their fair value to be $421,330 (2012: $92,860) The fair value of these warrants were measured using the Black-Scholes option pricing model using the following assumptions: stock price: $CDN0.28, exercise price: $CDN 0.40 - $CDN 0.75, volatility: 90-99%, risk-free discount rate: 4.20%, dividend rate: 0.0%. As a result, for the year ended March 31, 2013, the Company has recorded the change in fair value of its warrant liabilities totaling $1,194,924.

Unaudited - Expressed in United States dollars

11. SHARE CAPITAL AND RESERVES (CONTINUED)

c) **Nature and Purpose of Reserves**

Reserves

- **Stock option reserve**
  The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

- **Warrant reserves**
  The warrant reserve records items recognized as the value of warrants issued with respect to financings and not classified as liabilities until such time as the warrants are exercised, at which time the corresponding amount will be transferred to share capital. The value of the warrants which eventually expire unexercised is reallocated to deficit upon their expiry.

- **Deficit**
  Deficit is used to record the Company's change in deficit from earnings and losses from period to period and to record the value of expired options and warrants that were originally accounted for as equity instruments.

- **Accumulated Other Comprehensive Income (Loss)**
  Accumulated Other Comprehensive Income (Loss) is used to record the unrecognized changes in fair value of the Company's holdings of available for sale securities

12. STOCK BASED PAYMENTS

The Company established a share purchase option plan (the "Plan") in September 2004. In September, 2007 shareholder approval was obtained to adopt a "rolling" stock option plan. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants or advisors. All options granted under the Plan shall expire not later than the tenth anniversary of the date the options were granted. The exercise price of an option is determined by the Board of Directors, but shall not be less than the market price of the common shares of the Company on the TSX on the last business day before the date on which the options are granted, less any discount permitted by the rules of the exchange. Vesting and terms are at the discretion of the Board of Directors. The vesting of options range from vested immediately, a vesting period of three months to a two year period from the date of the grant, at 25% and 20% respectively. Options granted for Investor relations vest in accordance with TSX regulation. The changes in options during the respective periods are as follows:

		September 30, 2013		March 31, 2013
	Number of options	**Weighted average exercise price (CDN $)**	**Number of options**	**Weighted average exercise price (CDN $)**
Options outstanding, beginning of period	10,349,000	$ 0.84	9,524,000	$ 0.84
Options granted	-	-	3,175,000	$ 0.32
Options exercised	-	-	-	-
Options cancelled	-	-	(280,000)	$ 0.90
Options expired	(709,000)	$ 0.59	(2,070,000)	$ 0.83
Options outstanding, end of period	9,640,000	$ 0.42	10,349,000	$ 0.52
Options exercisable, end of period	9,640,000	$ 0.42	8,232,333	$ 0.57

Unaudited - Expressed in United States dollars

12. STOCK BASED PAYMENTS (CONTINUED)

Details of options outstanding as at June 30, 2013 are as follows:

Expiry Date	Exercise Price (CDN$)	Options Outstanding
November 30, 2014	$1.25	695,000
May 21, 2015	$0.92	350,000
December 2, 2015	$1.14	140,000
January 24, 2016	$0.97	500,000
February 2, 2016	$0.94	1,000,000
February 27, 2017	$0.37	1,985,000
November 14, 2018	$0.17	1,070,000
January 15, 2019	$0.35	350,000
April 15, 2019	$0.35	50,000
May 26, 2019	$0.42	350,000
July 12, 2017	$0.32	3,150,000
		9,640,000

Fair Value of Options Issued During the Period

No options were issued during the six month period ended September 30, 2013. Subsequent to the period end, the Company issued 2,900,000 options exercisable at $0.05 to October 25, 2018. 3,175,000 options granted during the year ended March 31, 2013. The weighted average fair value at grant date of options granted during the year ended March 31, 2013 was $0.25.

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Options Issued to Non-Employees

Options issued to non-employees, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

The model inputs for options granted during the year ended March 31, 2013 included:

Expiry Date	Share Price at Grant Date	Exercise Price	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
July 12, 2017	**CDN$ 0.32**	**CDN$0.32**	**4.20%**	**60 months**	**103.80%**	**0%**

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the six month period ended September 30, 2013 was $16,060 (year ended March 31, 2013 as part of employee benefit expense were $897,398).

Amounts Capitalized Arising from Share-based Payment transactions

No amounts were capitalized during the six month period ended September 30, 2013 or the year ended March 31, 2013.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, polices and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

- **Market Risk**

  Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

- **Foreign Currency Risk**

  Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company has significant exposure to foreign exchange rate fluctuation. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in US dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. The Company holds balances in Canadian dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the US dollar to the Canadian dollar would affect the reported loss and comprehensive loss by approximately $38,312 (March 31, 2013: $9,964) as detailed below:

Canadian Dollar Denominated Balances	**Sept. 30, 2013**	**March 31, 2013**
Cash	23,398	129,517
Available for sale securities	304,511	1,261,134
Accounts payable	(711,028)	(1,291,010)
	(383,119)	99,641
10% change in exchange rate impact	**$ (38,312)**	**$ 9,964**

Unaudited - Expressed in United States dollars

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

- **Credit Risk**

  Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand.

- The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at September 30, 2013 and March 31, 2013 relating to cash and cash equivalents of $17,875 and $129,517 respectively. All cash and cash equivalents are held in deposits at a Canadian chartered bank. The Company considers this credit risk to be minimal for all cash and cash equivalent assets based on changes that are reasonably possible at the reporting date

- **Liquidity Risk**

  Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

  Typically, the Company attempts to ensure that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditure.

  The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

  The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

Accounts payable and other liabilities	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Over 5 years	Total
September 30, 2013	$ 1,614,521	$ -	$ -	$ -	$ 1,614,521
March 31, 2013	$ 1,291,010	$ -	$ -	$ -	$ 1,291,010

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for cash and cash equivalents, restricted cash and trade and other payables approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The available-for-sale securities are based on quoted prices and are therefore considered to be Level 1.

The fair value of the warrant liabilities are determined with the use of a fair value pricing model and are determined to be Level 3 liabilities.

14. CAPITAL MANAGEMENT

The company monitors its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business.

The company is not exposed to any externally imposed capital requirements nor were there any changes in the Company's capital management processes during the period.

Unaudited - Expressed in United States dollars

15. RELATED PARTY TRANSACTIONS

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Payments to key management are recorded as management, consulting and directors' fees.

During the six month period ended September 30, 2013, the Company incurred share-based payment charges for its key management totaling $11,473 (2013: $650,204), in addition to the following:

	Six month period ended September 30, 2013	Year ended March 31, 2012
Consulting fees	$ -	$ 71,832
Directors fees	-	99,618
Management fees	182,800	572,055
Office rent	-	-
	$ 182,800	$ 743,505
Accrued management fees included in accounts payable	$ 170,523	$ -

16. LOSS PER SHARE

Basic loss per share amounts is calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year. (six months ended September 30, 2013: 157,834,902; Year ended March 31,2013: 147,735,508)

The basic and diluted loss per share is the same as there are no instruments that have a dilutive effect on earnings. Diluted loss per share for each of years presented excludes the effect of potentially dilutive securities including 9,640,000 share purchase options (2013: 10,349,000 options) and 23,194,000 share purchase warrants (2013: 17,194,000 warrants) as their inclusion in the calculation of diluted loss per share would have been anti-dilutive.

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on October 25, 2013, the Company issued 2,900,000 stock options exercisable at a price of $0.05 per share and expiring on October 25, 2018.