KIVALLIQ ENERGY CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

Canadian Dollars

AUDITORS' REPORT

To the Shareholders of
Kivalliq Energy Corporation

We have audited the consolidated balance sheets of Kivalliq Energy Corporation as at September 30, 2010 and 2009 and the consolidated statements of loss and deficit and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

January 24, 2011

Kivalliq Energy Corporation
(An Exploration Stage Company)
Balance Sheets

As at September 30

Canadian Dollars

ASSETS		**2010**		2009
Current				
Cash	**$**	5,222,744	$	1,170,942
Due from related party *(Note 8)*		-		28,916
Receivables		2,543		6,059
GST receivable		507,982		89,859
Prepaid expenses		342,191		13,035
		6,075,460		1,308,811
Equipment *(Note 4)*		50,452		49,213
Resource Property Costs *(Note 5) – Schedule*		11,622,913		4,054,372
	$	17,748,825	**$**	5,412,396
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	1,383,786	**$**	164,943
Future Income Tax Liability *(Note 11)*		548,300		276,100
		1,932,086		441,043
SHAREHOLDERS' EQUITY				
Share Capital *(Note 6)*		13,278,744		5,017,771
Contributed Surplus *(Note 7)*		4,807,817		969,256
Deficit		(2,269,822)		(1,015,674)
		15,816,739		4,971,353
	$	17,748,825	**$**	5,412,396

Nature of Operations (Note 1)
Subsequent Events (Note 13)

ON BEHALF OF THE BOARD:

"James Paterson", CEO, Director

"John Robins", Director

- See Accompanying Notes -

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statements of Loss and Deficit and Comprehensive Loss
For the Years Ended September 30
Canadian Dollars

	2010	2009
Expenses		
Amortization	**$ 18,347**	$ 11,881
Bank charges and interest	**3,301**	1,070
Investor relations	**31,995**	40,371
Listing and filing fees	**53,204**	25,207
Office and sundry	**110,324**	51,444
Professional fees	**125,555**	106,034
Salaries and consulting fees	**218,913**	212,785
Stock-based compensation *(Note 6)*	**683,639**	77,127
Transfer agent fees	**30,412**	14,610
Travel and conference	**90,504**	50,551
Loss before the undernoted	**(1,366,194)**	(591,080)
Other income (expenses)		
Interest	**258**	1,171
Loss on sale of marketable securities	**-**	(30,315)
Write down of resource property costs	**-**	(22,554)
Loss on foreign exchange	**(12)**	(14,591)
Loss before income taxes	**(1,365,948)**	(657,369)
Future income tax recovery *(Note 11)*	**111,800**	123,900
Net loss and comprehensive loss for the year	**(1,254,148)**	(533,469)
Deficit - beginning of year	**(1,015,674)**	(482,205)
Deficit – end of year	**$ (2,269,822)**	$ (1,015,674)
Basic and diluted loss per share	**$ (0.03)**	(0.02)
Weighted average number of shares outstanding	**48,140,754**	34,157,297

- See Accompanying Notes –

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statement of Cash Flows
For the Years Ended September 30
Canadian Dollars

		2010		2009
Cash Flows from Operating Activities				
Net loss for the year	**$**	**(1,254,148)**	$	(533,469)
Items not affected by cash:				
Amortization		**18,347**		11,881
Future income tax recovery		**(111,800)**		(123,900)
Loss on sale of marketable securities		**-**		30,315
Stock-based compensation		**683,639**		77,127
Shares for services		**-**		10,000
Write down of resource property costs		**-**		22,554
Changes in non-cash working capital:				
Receivables		**32,432**		(6,059)
Due from related party		**-**		(28,916)
GST receivable		**(418,123)**		40,924
Prepaid expenses		**(329,156)**		158,287
Accounts payable and accrued liabilities		**17,921**		(133,907)
		(1,360,888)		(475,163)
Cash Flows from Investing Activities				
Sale of marketable securities		**-**		89,685
Resource property costs		**(6,278,172)**		(1,359,598)
Equipment		**(19,586)**		(6,752)
		(6,297,758)		(1,276,665)
Cash Flows from Financing Activities				
Issuance of share capital, net of issuance costs		**11,710,448**		1,986,420
		11,710,448		1,986,420
Net Increase in Cash		**4,051,802**		234,592
Cash - Beginning of year		**1,170,942**		936,350
Cash - End of Year	**$**	**5,222,744**	$	1,170,942

Supplemental Schedule of Non-Cash Investing and Financing Activities

Accounts payables included in resource property costs	**$**	**1,345,702**	$	145,333
Issuance of shares for property acquisitions	**$**	**90,000**	$	77,500
Fair value of agents warrants	**$**	**22,000**	$	59,361
Reallocation of contributed surplus on exercise of options and warrants	**$**	**787,314**	$	-
Fair value of incentive warrants	**$**	**496,895**	$	-
Cash paid during the year for interest	**$**	**-**	$	-
Cash paid during the year for income taxes	**$**	**-**	$	-

- See Accompanying Notes -

Kivalliq Energy Corporation
(An Exploration Stage Company)
Schedule of Resource Property Costs
For the Years Ended September 30
Canadian Dollars

	2010			2009
	Acquisition Costs	Deferred Exploration Costs	**Total**	Total
Mineral Interests				
Angilak, Nunavut				
Acquisition costs – cash	$ -	$ -	**$ -**	**$ -**
Acquisition costs – shares and warrants	90,000	-	**90,000**	**77,500**
Claim maintenance	22,884	-	**22,884**	**50,010**
Recording and staking	63,076	-	**63,076**	**23,061**
Airborne Geophysics	-	1,365,597	**1,365,597**	**5,420**
Assays	-	119,360	**119,360**	**6,000**
Field and supplies	-	2,079,195	**2,079,195**	**465,208**
Geological consulting	-	2,492,405	**2,492,405**	**203,267**
Travel and accommodation	-	1,336,024	**1,336,024**	**731,787**
	175,960	7,392,581	**7,568,541**	**1,562,253**
Baker Lake, Nunavut				
Claim maintenance	-	-	**-**	**-**
Geological consulting	-	-	**-**	**101**
Option receipt – shares	-	-	**-**	**-**
	-	-	**-**	**101**
Washburn, Nunavut				
Recording and staking	-	-	**-**	**75**
Claim maintenance	-	-	**-**	**-**
Geological consulting	-	-	**-**	**206**
	-	-	**-**	**281**
Resource Property Costs for the Year	175,960	7,392,581	**7,568,541**	**1,562,635**
Write Down of Resource Property Costs	-	-	**-**	**(22,554)**
Balance, Beginning of the Year	395,954	3,658,418	**4,054,372**	**2,514,291**
Balance end of the Year	$ 571,914	$ 11,050,999	**$ 11,622,913**	**$ 4,054,372**

1. Nature of Operations

Kivalliq Energy Corporation ("Kivalliq" or "the Company") was incorporated as a wholly owned subsidiary of Kaminak Gold Corporation ("Kaminak") on February 13, 2008 as 0816479 BC Ltd. under British Columbia's Company Act. Effective February 20, 2008, 0816479 BC Ltd. changed its name to Kivalliq Energy Corp. The Company is an exploration stage company focusing on the acquisition, exploration and development of resource properties.

The Company became a reporting issuer in Alberta and British Columbia on July 4, 2008 by virtue of a reorganization transaction involving the exchange of securities between Kaminak, the Company and the shareholders of Kaminak. The reorganization transaction involved the acquisition from Kaminak of a 100% interest in Kaminak's Uranium properties (Angilak, Baker Lake and Washburn). On July 7, 2008, after completion of its private placements, the Company's shares became publicly trading on the TSX Venture Exchange under the symbol "KIV".

2. Significant Accounting Policies

a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b) Equipment

The Company provides for amortization on its equipment at an annual rate of 20% for field equipment, 30% for computer equipment, and 100% for computer software on the declining balance method. One-half of the rate is taken in the year of acquisition.

c) Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. For the years presented net loss equals comprehensive loss.

d) Capital Disclosures

The Company adopted CICA Section 1535, "Capital Disclosures". This section requires the Company to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. The disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and procedures for managing capital.

Refer to Note 10.

2. Significant Accounting Policies – *Continued*

e) Foreign Currency Transactions

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations.

f) Resource Property Costs

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain reserves that are economically recoverable.

Resource exploration and development costs are capitalized on an individual area of interest basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the reserves, while costs for the prospects abandoned are written off.

The recoverability of the amount capitalized for the undeveloped resource properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

g) Asset Retirement Obligations

The Company recognizes the fair value of legal obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost is recognized at fair value when a reasonable estimate of fair value can be estimated, in the year in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. No asset retirement costs have been recognized for the years presented as none of the Company’s properties or equipment are estimated to require any remediation or other expenditures upon their retirement.

2. Significant Accounting Policies – *Continued*

h) Income Taxes

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future income taxes for a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

i) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

j) Stock-Based Compensation

All stock-based awards are measured and recognized using a fair value based method. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

k) Loss per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted-average number of shares outstanding during the year.

l) Flow-Through Shares

The Company accounts for flow-through shares using the recommendations of the Emerging Issues Committee EIC-146. Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If the Company has sufficient unused tax losses and deductions (“losses”) to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

2. Significant Accounting Policies – *Continued*

m) Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Significant areas requiring the use of estimates relate to the determination of impairment of resource property costs useful lives for amortization of equipment and estimates relating to stock-based compensation. Actual results could differ from those estimates.

n) Impairment of Long-lived Assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

o) Financial Instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading. Due from a related party, receivables and GST receivable are classified as loans and receivables and accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost.

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

See Note 9 for relevant disclosures.

3. Future Accounting and Reporting Changes

a) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011.

The Company has completed the diagnostic phase of planning for the implementation of IFRS. It has determined that the principal areas of impact will be IFRS 1 – first time adoption; presentation of financial statements; asset retirement obligations; impairment of assets; flow through shares and share-based payments. The Company expects its detailed analysis of relevant IFRS requirements and of IFRS 1 will be complete by the end of its fiscal quarter ending June 30, 2011, along with its determination of changes to accounting policies and choices to be made. The Company has not yet reached the stage where a quantified impact of conversion on its financial statements can be measured. The Company expects to complete its quantification of financial statement impacts by the end of its fiscal year ending September 30, 2011.

b) Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after October 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. The Company does not expect the adoption of these sections to have a significant effect on its financial statements.

4. Equipment

Details are as follows:

	Cost	Accumulated Amortization	**Net Book Value September 30, 2010**
Field equipment	$ 63,073	$ 25,870	**$ 37,203**
Computer equipment	8,997	3,071	**5,926**
Computer software	14,648	7,325	**7,323**
	$ 86,718	$ 36,266	**$ 50,452**

	Cost	Accumulated Amortization	**Net Book Value September 30, 2009**
Field equipment	$ 60,380	$ 16,906	**$ 43,474**
Computer equipment	6,752	1,013	**5,739**
	$ 67,132	$ 17,919	**$ 49,213**

5. Resource Property Costs

Details are as follows:

	Acquisition Costs	Exploration Costs	**Cumulative as at September 30, 2010**	Cumulative as at September 30, 2009
Angilak, Nunavut	$ 571,914	$ 11,050,999	**$ 11,622,913**	**$ 4,054,372**
	$ 571,914	$ 11,050,999	**$ 11,622,913**	**$ 4,054,372**

General

The Company acquired from Kaminak, a related party, through the reorganization transaction (Note 1) the following uranium properties: the Angilak Property, the Baker Lake Property, and the Washburn Property.

Angilak, Nunavut

Angilak is a combination of two properties, located on Inuit Owned Lands and Federal Crown land.

Kaminak signed an Exploration Agreement (“EA”) with Nunavut Tunngavik Inc. (“NTI”) whereby Kaminak was granted a 100% interest in the minerals within privately owned Inuit Owned Lands. This parcel is located directly adjacent to Kaminak’s “Angilak (formerly Yathkyed) IOCG Project” which is comprised of staked claims located on Federal Crown land.

5. Resource Property Costs – *Continued*

In order to keep the property in good standing, Kivalliq will agree to complete the following:

- Kivalliq will issue NTI 1,000,000 (750,000 shares issued) common shares from treasury staged over 36 months beginning only after final TSX:V approval for the spin-out transaction.

- Upon completion of a feasibility study on any portion of the property, NTI has the option of taking either a 25% participating interest or a 7.5% net profits royalty in the specific area subject to the feasibility study. These terms will include any feasibility study on Kivalliq's adjacent Yathkyed property.

Upon completion of a National Instrument 43-101 compliant report that outlines a measured resource of at least 12 million pounds of uranium, Kivalliq will pay NTI a cash sum of $1,000,000.

As a consequence of the land claims settlement, the property is not subject to royalty obligations to the Government of Canada, but instead is subject to an underlying 12% net profits royalty payable on all minerals to NTI. During periods of positive operating revenue, gross uranium revenue shall be calculated as 130% of the value of the product. Starting December 31, 2008, Kivalliq will pay annual advanced royalty payments to NTI in the sum of $50,000 annually (Paid).

Baker Lake (Uranium), Nunavut:

On July 14, 2008, Kivalliq signed an amending agreement with Pacific Ridge Exploration Ltd. ("Pacific Ridge"), whereby, Pacific Ridge was to have acquired a 100% interest in the Baker Lake Uranium Project located in the Kivalliq District of central Nunavut (subject to Kivalliq's back-in right) upon the signing of a joint venture agreement between Pacific Ridge and Aurora Energy Resources Inc. ("Aurora") and the issuance to Kivalliq of 2,000,000 common shares of Pacific Ridge (received).

Kivalliq is entitled to elect to earn back a 20% interest (the "Back-In Right") by paying Pacific Ridge within 90 days of the delivery by Pacific Ridge to Kivalliq of the Pre-Feasibility study an amount equal to 40% of the expenditures incurred by Pacific Ridge on programs and the Pre-Feasibility Study.

Hunter Exploration Group has a 2% Net Smelter Return interest, Shear Minerals Ltd. has a 5% Net Profits Interest and Stornoway Diamond Corporation has a 3.5% Net Profits Interest. The agreement pertains to all commodities other than diamonds.

Washburn, Nunavut

The Washburn Uranium Property is located on Victoria Island, Nunavut. All costs associated with the Washburn property were written off during the year ended September 30, 2009.

6. Share Capital

a) Details as follows:

	Number	Amount
Authorized:		
Unlimited number of common voting shares without par value		
Common Shares Issued:		
Balance – September 30, 2008	30,778,744	$ 3,600,252
Issued for services	250,000	10,000
Flow-through income tax renunciation (Note 11)	-	(400,000)
Private placement – May 2009	2,745,000	458,321
Private placement – flow-through – May 2009	5,180,000	952,509
Private placement – flow-through – August 2009	2,000,000	459,609
Issued for finders fees and share issuance costs	150,750	2,787
Issued for resource property (Note 7)	250,000	77,500
Share issuance costs	-	(143,207)
Balance – September 30, 2009	41,354,494	5,017,771
Private placement – February 2010	10,000,000	776,643
Private placement – July 2010	24,800,000	3,913,315
Issued on warrant exercise	11,549,000	4,486,448
Issued on option exercise	42,000	9,566
Flow-through income tax renunciation (Note 11)	-	(384,000)
Issued for resource property	250,000	90,000
Returned to treasury	(2,125)	(553)
Share issuance costs	-	(630,446)
Balance – September 30, 2010	87,993,369	13,278,744

As at September 30, 2010, there were 1,094,027 (2009 – 2,538,053) common shares held in escrow.

b) Private Placements:

2010

On September 16, 2010, the Company closed a private placement of 24,800,000 units at a price of $0.25 per unit for gross proceeds of $6,200,000. Each unit sold consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant is exercisable into one common share for a period of 24 months from the date of issuance of the unit, being either July 29, 2012 or September 10, 2012, at a price of $0.35 per share. Finder's fees of $142,500 were paid in cash. The units issued are subject to a four month hold period ending on January 11, 2011.

6. Share Capital - *Continued*

b) Private Placements: - *Continued*

The warrants attached to this issuance have been valued at $2,286,685 based upon the average of the residual method and the Black-Scholes Method using the weighted average assumptions noted below:

Risk-free interest rate	1.57%
Expected dividend yield	0%
Expected stock price volatility	184%
Average expected warrant life in years	2 years

On February 22, 2010, the Company closed a private placement of 10,000,000 units at a price of $0.20 per unit for gross proceeds of $2,000,000. Each unit sold consisted of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable into one common share for a period of 24 months from closing at a price of $0.35 per share. Finder's fees of $55,752 were paid in cash. The units issued are subject to a four month hold period from the Closing date.

The warrants attached to this issuance have been valued at $1,223,357 based upon the average of the residual method and the Black-Scholes Method using the following assumptions noted below:

Risk-free interest rate	1.38%
Expected dividend yield	0%
Expected stock price volatility	201%
Average expected warrant life in years	2 years

During the year ended September 30, 2010, the Company issued 2,115,000 share purchase warrants to existing warrant holders as part of an incentive program to encourage the exercise of outstanding warrants. Under the terms of the program, each holder of an original warrant who elects to exercise their original warrant prior to July 9, 2010, received an additional share purchase warrant exercisable at a price of $0.45 per warrant for a period of 18 months. The fair value of the incentive warrants, being $496,895 was determined using the Black Scholes option pricing model.

During the year ended September 30, 2009, the Company granted 400,000 agents warrants which were exercisable for a period of two years into units comprised of one non-flow through common share and one-half of one common share purchase warrant. During the current year, the 400,000 agent warrants were exercised and accordingly, 200,000 additional share purchase warrants were issued. The fair value of the 200,000 share purchase warrants issued to the agent, being $22,000, was determined using the Black Scholes option pricing model.

6. Share Capital - *Continued*

b) Private Placements: - *Continued*

2009

On August 20, 2009, the Company closed a private placement of 2,000,000 flow-through units at a price of $0.25 per unit for gross proceeds of $500,000. Each flow-through unit sold consisted of one flow-through common share and one half of one non flow-through common share purchase warrant. Each whole common share purchase warrant is exercisable into one common share for a period of 24 months from closing at a price of $0.35 per share in the first 12 months and $0.65 per share in the subsequent 12 months. The flow-through units issued are subject to a four month hold period from the closing date.

The warrants attached to this issuance have been valued at $40,391 based upon the average of the residual method and the Black-Scholes Method using the following assumptions noted below:

Risk-free interest rate	0.51%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life in years	2 years

In connection with this private placement the Company issued 200,000 agent warrants exercisable at a price of $0.25 per agent warrant. The Company has recorded the fair value of these agent warrants as share issuance costs. The 200,000 agent warrants are exercisable for a period of two years from the date of issuance into units comprised of one non flow-through common share and one-half of one non flow-through common share purchase warrant, each whole warrant exercisable to purchase one additional non flow-through common share at a price of $0.35 per share during year one and $0.65 per share during year two. The agent warrants attached to this issuance have been valued at $23,262 based upon the average of the residual method and the Black-Scholes method using the following assumptions noted below. Finder’s fees of $25,000 were paid in cash and due diligence fees were paid through the issuance of 60,000 shares valued at $0.23 per common share.

Risk-free interest rate	1.09%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life in years	2 years

The warrants and agent warrants will be subject to an acceleration clause, whereby, if the weighted average trading price of the Corporation's shares on the Exchange is at a price greater than $0.10 above the strike price of a whole common share purchase warrant for a period of 10 consecutive trading days, the Corporation will have the right to accelerate the expiry date of the warrants. The Corporation will give written notice to the holders of the warrants that the warrants will expire within 30 days of the date notice provided by the Corporation to the warrant holders. Such notice by the Corporation to the holders of the warrants may not be given until 4 months and one day after the Closing.

6. Share Capital - *Continued*

b) Private Placements: - *Continued*

On May 27, 2009, the Company completed a non-brokered private placement offering ("Offering") of 3,180,000 flow-through units at a price of $0.20 per unit, and 2,745,000 non-flow-through units at a price of $0.20 per unit, for total gross proceeds of $1,185,000. Each flow-through unit consists of one flow-through share and one half of one non-flow-through common share purchase warrant. Each whole common share purchase warrant is exercisable into one common share at a price of $0.30 per share to May 27, 2010 and $0.60 per share to May 27, 2011. Each non-flow-through unit consists of one common share and one common share purchase warrant. Each whole common share purchase warrant is exercisable into one common share at a price of $0.30 per share to May 27, 2010 and $0.60 per share to May 27, 2011.

Risk-free interest rate	0.49%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life in years	1 year

In connection with this private placement the Company issued 441,500 agent warrants exercisable to purchase one additional non flow-through common share at a price of $0.30 per share during year one and $0.60 per share during year two. The agent warrants attached to this issuance have been valued at $16,589 based upon the average of the residual method and the Black-Scholes method using the following assumptions noted below. Finder's fees of $38,000 were paid in cash and through the issuance of 30,750 common shares valued at $0.20 per common share.

Risk-free interest rate	0.49%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life in years	2 years

The warrants will be subject to an acceleration clause, whereby, if the weighted average trading price of the Corporation's shares on the Exchange is at a price greater than $0.10 above the strike price of a whole common share purchase warrant for a period of 10 consecutive trading days, the Corporation will have the right to accelerate the expiry date of the warrants. The Corporation will give written notice to the holders of the warrants that the warrants will expire within 30 days of the date notice provided by the Corporation to the warrant holders.

On May 14, 2009, the Company completed a non-brokered private placement offering ("Offering") of 2,000,000 flow-through units at a price of $0.20 per unit for total gross proceeds of $400,000. Each flow-through unit consists of one flow-through share and one half of one non-flow-through common share purchase warrant. Each whole common share purchase warrant is exercisable into one common share at a price of $0.30 per share to May 14, 2010 and $0.60 per share to May 14, 2011.

Risk-free interest rate	0.43%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life in years	2 years

6. Share Capital - *Continued*

b) Private Placements: - *Continued*

In connection with this private placement the Company issued 200,000 agent warrants exercisable at a price of $0.20 per agent warrant. The Company has recorded the fair value of these agent warrants as share issuance costs. The 200,000 agent warrants are exercisable for a period of two years from the date of issuance into units comprised of one non flow-through common share and one-half of one non flow-through common share purchase warrant, each whole warrant exercisable to purchase one additional non flow-through common share at a price of $0.30 per share during year one and $0.60 per share during year two. The agent warrants attached to this issuance have been valued at $23,262 based upon the average of the residual method and the Black-Scholes method using the following assumptions noted below. Finder's fees of $20,000 were paid in cash and due diligence fees were paid through the issuance of 60,000 shares valued at $0.20 per common share.

Risk-free interest rate	1.10%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life in years	2 years

The warrants will be subject to an acceleration clause, whereby, if the weighted average trading price of the Company's shares on the Exchange is at a price greater than $0.10 above the strike price of a whole common share purchase warrant for a period of 10 consecutive trading days, the Company will have the right to accelerate the expiry date of the warrants. The Company will give written notice to the holders of the warrants that the warrants will expire within 30 days of the date notice provided by the Corporation to the warrant holders.

c) Warrants:

The fair value of the warrants issued was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for the warrants granted to September 30, 2010:

Risk-free interest rate	1.51%
Expected dividend yield	0%
Expected stock price volatility	198%
Average expected warrant life in years	1.98 years

The fair value of the warrants issued was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions used for the warrants granted to September 30, 2009:

Risk-free interest rate	0.48%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life in years	2 years

6. Share Capital - *Continued*

c) Warrants: - *Continued*

Details as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2008	4,400,000	$0.50
Issued	7,176,500	$0.30
Outstanding warrants, September 30, 2009	11,576,500	$0.42
Issued	24,715,000	$0.36
Exercised	(11,549,000)	$0.32
Expired	(4,457,500)	$0.60
Outstanding warrants, September 30, 2010	**20,285,000**	**$0.36**

At September 30, 2010, warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
February 22, 2012	$0.35	5,770,000	1.40
December 15, 2011	$0.45	1,250,000	1.21
December 18, 2010	$0.45	97,500	1.22
December 23, 2010	$0.45	237,500	1.23
December 29, 2010	$0.45	62,500	1.25
January 6, 2012	$0.45	32,500	1.27
January 7, 2012	$0.45	435,000	1.27
July 28, 2012	$0.35	9,950,000	1.83
September 10, 2012	$0.35	2,450,000	1.95
Weighted average of exercise price	**$0.36**	**20,285,000**	**1.66**

Refer to Note 13 for details of warrants exercised or expired subsequent to September 30, 2010.

6. Share Capital - *Continued*

d) Stock Options

Details as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding options, September 30, 2008	1,059,200	$ 0.27
Issued	2,805,000	0.15
Expired	(86,000)	0.25
Outstanding options, September 30, 2009	3,778,200	0.18
Issued	2,050,000	0.40
Exercised	(42,000)	0.18
Expired	(56,000)	0.26
Outstanding options, September 30, 2010	**5,730,200**	**$0.26**

At September 30, 2010, stock options enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Issued Number of Options	Vested and Exercisable Number of Options	Weighted Average Remaining Contractual Life in Years
January 17, 2011	$0.25	575,200	575,200	0.30
April 7, 2011	$0.25	20,000	20,000	0.52
July 21, 2011	$0.25	156,000	156,000	0.81
December 7, 2011	$0.25	40,000	40,000	1.19
April 2, 2012	$0.36	96,000	96,000	1.51
June 18, 2012	$0.36	48,000	48,000	1.72
November 12, 2013	$0.15	2,615,000	2,615,000	3.12
August 11, 2014	$0.25	150,000	150,000	3.87
January 29, 2015	$0.30	695,000	347,500	4.33
April 22, 2015	$0.45	1,315,000	1,315,000	4.56
September 8, 2015	$0.40	20,000	20,000	4.94
Weighted average of exercise price	**$0.26**	**5,730,200**	**5,382,700**	**3.22**

During the year ended September 30, 2010, the Company granted options to acquire 2,050,000 common shares with a weighted average exercise price of $0.40 per share, of which 1,682,500 vested during the year. Stock-based compensation expense under the Black-Scholes option pricing model of $683,639 was recorded in relation to options vested during the year. The weighted average fair value of the options granted was $0.37 per option.

6. Share Capital - *Continued*

d) Stock Options - *Continued*

The following weighted average assumptions were used for the valuation of stock options granted during the year ended September 30, 2010:

Risk-free interest rate	2.81%
Expected dividend yield	0%
Expected stock price volatility	197%
Average expected option life in years	5 years

During the year ended September 30, 2009, the Company granted options to acquire 2,805,000 common shares with a weighted average exercise price of $0.15 per share, of which 1,991,250 vested during the year. Stock-based compensation expense under the Black-Scholes option pricing model of $77,127 was recorded in relation to options vested during the year. The weighted average fair value of the options granted was $0.04 per option.

The following weighted average assumptions were used for the valuation of stock options granted during the year ended September 30, 2009:

Risk-free interest rate	2.74%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected option life in years	5 years

On April 20, 2010, the Company adopted a stock option plan with the following terms:

i) Options granted can not be lower than the market price of one share on the last trading day immediately preceding the day on which the option is granted, less the maximum applicable discount permitted by TSX Venture Exchange and the minimum exercise price per share must be at least $0.10.

ii) At the time of the grant:

a) the total number of shares so reserved for issuance by the Board of directors shall not exceed ten (10%) percent of the issued and outstanding shares (on a non-diluted basis);

b) the aggregate number of shares so reserved for issuance to any one optionee in a 12 month period shall not exceed five (5%) percent of the issued shares (on a non-diluted basis);

c) the aggregate number of options granted to any one consultant in a 12 month period shall not exceed 2% of the issued shares;

d) the aggregate number of options granted to employees, who provide investor relations activities must not exceed 2% of the issued shares in any 12 month period; and options issued to consultants performing investor relations services must vest in stages over 12 months with no more than one-quarter of the options vesting in any 3 month period;

e) options issued to employees vest at the discretion of the board of directors; and

f) options issued shall expire no later than 5 years from grant date.

7. Contributed Surplus

Balance consists of:

Balance – September 30, 2008	$	635,728
Stock-based compensation on options granted		77,127
Warrants issued with flow-through shares – May 2009		83,491
Warrants issued with non-flow-through shares – May 2009		90,679
Warrants issued with flow-through shares – August 2009		40,391
Agent's warrants issued		59,361
Warrant issuance costs		(17,521)
Balance – September 30, 2009		969,256
Stock-based compensation on options granted		683,639
Warrants exercised		(785,248)
Options exercised		(2,066)
Incentive warrants issued		496,895
Agent warrants issued		22,000
Warrants issued with shares – February 2010		1,223,357
Warrants issued with shares – July 2010		2,286,685
Warrant issuance costs		(86,701)
Balance – September 30, 2010	**$**	**4,807,817**

8. Related Party Transactions

Included in the current year are consulting fees of $28,786 (2009 - $23,316) included within salaries and consulting fees, rent of $50,339 (2009 - $29,897) included within office and sundry, travel and conference charges of $9,900 (2009 - $16,350), office and sundry charges of $38,347 (2009 - $12,425) and investor relations charges of $Nil (2009 - $14,702) to companies controlled by directors and officers of the Company.

During the year the Company paid $116,250 (2009 - $108,000) in consulting fees to directors and officers included within salaries and consulting fees.

At September 30, 2010, $Nil (2009 - $28,916) was due from Kaminak, $3,578 (2009 - $nil) was due to a company controlled by directors and officers of the Company, and $13,720 (2009 - $7,245) was due to directors and officers of the Company.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

The amounts due to and from related parties are non-interest bearing with no fixed terms of repayment. The fair value of the amounts due to/from related parties cannot be determined as there are no specific terms of repayment.

9. Financial Instruments

Categories of financial assets and liabilities

The fair value of the Company's receivables, due from related party, GST receivable and accounts payable and accrued liabilities approximate carrying value which is the amount recorded on the balance sheet. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets and liabilities.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote as receivables mainly relate to GST receivable from the Government of Canada.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2010, the Company had a cash balance of $5,222,744 (2009 – $1,170,942) to settle current liabilities of $1,383,786 (2009 - $164,943). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management believes that the Company has sufficient funds to meet its obligations as they become due.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of September 30, 2010, the Company had $37,533 (2009 - $25,008) in term deposits.

(b) Foreign currency risk

The Company operates predominately in Canada and is not exposed to any significant foreign currency risk.

9. Financial Instruments – *Continued*

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

10. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its resource properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders.

In the management of capital, the Company includes the components of shareholders' equity as well as cash, receivables and current liabilities.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash.

Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met. There were no changes in the Company's approach to capital management during the year ended September 30, 2010. The Company is not subject to externally imposed capital requirements.

11. Income Taxes

a) The income tax provision for the year differs from the amount obtained by applying the statutory Canadian federal and provincial income tax rates as follows:

	For the Year Ended September 30, 2010	For the Year Ended September 30, 2009
Loss before income taxes	$ (1,365,949)	$ (657,369)
Statutory Canadian federal and provincial tax rates	28.875%	30.125%
Expected tax recovery	(394,418)	(198,032)
Non deductible (deductible) expenses		
Stock-based compensation	197,401	23,235
Amortization	5,298	3,579
Loss on sale of marketable securities	-	9,832
Share issuance costs	(21,955)	(15,558)
Unrecognized benefit of non-capital losses	101,874	53,044
	-	-
Future income tax recovery	$ (111,800)	$ (123,900)

b) The components of the future income tax asset (liability) balances are as follows:

	September 30, 2010	September 30, 2009
Future income tax asset (liability)		
Equipment	$ 4,590	$ 4,480
Resource property costs	(844,300)	(429,873)
Non-capital loss carry-forwards	236,290	105,648
Share issuance costs	55,120	43,645
Future income tax asset (liability)	(548,300)	(276,100)
Valuation allowance	-	-
Future income tax liability	$ (548,300)	$ (276,100)

The effective income tax rate is the rate that is estimated to be applicable when the timing differences reverse. For 2010 and 2009 this rate is estimated to be 25%.

The Company has available for deduction against future taxable income in Canada, non-capital losses of approximately $945,000. These losses, if not utilized, will expire through 2010. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

11. Income Taxes - *Continued*

During the year ended September 30, 2009, the Company issued 7,180,000 common shares on a flow-through basis for gross proceeds of $1,534,000 which were renounced during the current year. The flow-through agreement requires the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. Future income taxes of $384,000 of the exploration expenditures to be renounced to shareholders were applied against share capital.

During the year ended September 30, 2008, the Company issued 4,000,000 common shares on a flow-through basis for gross proceeds of $1,600,000 which were renounced during the year ended September 30, 2009. The flow-through agreement requires the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. Future income taxes of $400,000 of the exploration expenditures to be renounced to shareholders were applied against share capital.

12. Segmented Information

The Company has one reportable segment, being the acquisition and exploration of mineral properties. All of the Company's equipment and resource properties are located in Canada.

13. Subsequent Events

a) Subsequent to September 30, 2010: the Company completed a non-brokered private placement offering ("Offering") of 7,142,857 common shares at a price of $0.70 per common share for total gross proceeds of $5,000,000.

b) The Company issued 2,870,000 stock options to insiders, consultants and directors of the Company with an exercise price of $0.50 per share.

c) 1,030,500 options were exercised for gross proceeds of $262,210.

d) 1,680,000 warrants were exercised for gross proceeds of $591,750.