KIVALLIQ ENERGY CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2011

Canadian Dollars

Unaudited – Prepared by Management

Notice of Non-review of Condensed Interim Financial Statements

The attached condensed interim financial statements for the three-month period ended December 31, 2011 have been prepared by and are the responsibility of the Company's management and have been approved by the Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed interim financial statements.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statement of Financial Position

(Expressed in Canadian Dollars)
Unaudited – Prepared by Management

ASSETS	Notes	As at December 31, 2011	As at September 30, 2011	As at October 1, 2010
Current				
Cash and cash equivalents		**$ 3,552,130**	$ 7,213,622	$ 5,222,744
Other receivables		**221,725**	467,979	2,543
HST recoverable		**117,783**	931,236	507,982
Prepaid expenses		**70,500**	197,836	342,191
		3,962,138	8,810,673	6,075,460
Equipment	3	**550,034**	574,912	43,129
Intangible Assets	4	**8,507**	5,121	7,323
Exploration and Evaluation Assets *(Schedule)*	5	**29,794,361**	27,882,471	11,622,913
		34,315,040	37,273,177	17,748,825
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**1,333,278**	3,901,304	1,383,786
Deferred Tax Liability		**2,092,793**	2,354,310	548,300
		3,426,071	6,255,614	1,932,086
SHAREHOLDERS' EQUITY				
Share Capital	6	**31,047,302**	30,991,994	13,278,744
Contributed Surplus		**5,850,139**	5,866,528	4,854,430
Deficit		**(6,008,472)**	(5,840,959)	(2,316,435)
		30,888,969	31,017,563	15,816,739
		$ 34,315,040	$ 37,273,177	$ 17,748,825

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Notes 5 and 10)*
Subsequent Events *(Note 13)*

APPROVED ON MARCH 27, 2012 ON BEHALF OF THE BOARD:

"James Paterson", CEO ,Director   *"John Robins"* ,Director

- The accompanying notes are an integral part of these condensed interim financial statements -

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statements of Operations and Comprehensive Loss

For the Three Months Ended December 31

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

	Notes	2011	2010
Expenses			
Amortization and depreciation		$ 31,099	$ 4,975
Bank charges and interest		1,123	2,338
Investor relations		41,130	46,155
Listing and filing fees		153	30,845
Office and sundry		62,887	25,709
Professional fees		52,962	28,276
Salaries and consulting fees		179,909	95,227
Stock-based compensation	6	6,419	1,416,231
Transfer agent fees		1,247	4,183
Travel and conference		64,989	28,184
Loss before the undernoted		(441,918)	(1,682,123)
Other income (expenses)			
Interest		13,669	217
Loss on foreign exchange		(781)	(239)
Loss before income taxes		(429,030)	(1,682,145)
Deferred tax recovery		261,517	79,377
Net loss and comprehensive loss for the period		(167,513)	(1,602,768)
Basic and diluted loss per common share		$ (0.00)	$ (0.02)
Weighted average number of common shares outstanding		122,642,439	90,410,957

- The accompanying notes are an integral part of these condensed interim financial statements -

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statement of Changes in Equity

For the Three Months Ended December 31, 2011

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

	Share Capital				
	Number of shares	Amount	Contributed surplus	Deficit	Total shareholders' equity
Balance, October 1, 2010	87,993,369	$13,278,744	$ 4,854,430	$ (2,316,435)	$ 15,816,739
Issued					
Private placements – flow-through	7,142,857	5,000,000	-	-	5,000,000
Exercise of options	751,000	192,160	-	-	192,160
Exercise of warrants	1,605,000	565,501	-	-	565,501
Fair value of options exercised	-	120,605	(120,605)	-	-
Fair value of warrants exercised	-	193,384	(193,384)	-	-
Stock-based compensation	-	-	1,416,231	-	1,416,231
Share issuance costs – cash	-	(120,000)	-	-	(120,000)
Loss for the period	-	-	-	(1,602,768)	(1,602,768)
Balance, December 31, 2010	97,492,226	19,230,394	5,956,672	(3,919,203)	21,267,863
Issued					
Private placements – non flow-through	10,300,000	5,150,000	-	-	5,150,000
Private placements – flow-through	12,333,600	7,475,505	-	-	7,475,505
Exercise of options	807,700	179,750	-	-	179,750
Exercise of warrants	1,430,000	503,999	-	-	503,999
Fair value of options exercised	-	103,277	(103,277)	-	-
Fair value of warrants exercised	-	219,539	(219,539)	-	-
Issued for resource property	250,000	85,000	-	-	85,000
Flow-through income tax renunciation	-	(1,215,000)	-	-	(1,215,000)
Stock-based compensation	-	-	50,059	-	50,059
Share issuance costs – cash	-	(808,571)	-	-	(808,571)
Tax benefit on share issuance costs	-	250,714	-	-	250,714
Share issuance costs - warrants	-	(182,613)	182,613	-	-
Loss for the period	-	-	-	(1,921,756)	(1,921,756)
Balance, September 30, 2011	122,613,526	30,991,994	5,866,528	(5,840,959)	31,017,563
Issued					
Exercise of options	140,000	32,500	-	-	32,500
Fair value of options exercised	-	22,808	(22,808)	-	-
Stock-based compensation	-	-	6,419	-	6,419
Loss for the period	-	-	-	(167,513)	(167,513)
Balance, December 31, 2011	122,753,526	$31,047,302	$ 5,850,139	$ (6,008,472)	$ 30,888,969

- The accompanying notes are an integral part of these condensed interim financial statements -

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statement of Cash Flows

For the Three Months Ended December 31

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

		2011		2010
Cash Flows from Operating Activities				
Net loss for the period	$	**(167,513)**	$	(1,602,768)
Adjustments for:				
Amortization and depreciation		**31,099**		4,975
Deferred tax recovery		**(261,517)**		(79,377)
Stock-based compensation		**6,419**		1,416,231
Interest income		**(13,669)**		(217)
Changes in non-cash working capital:				
Other receivables		**230,063**		2,543
HST recoverable		**813,453**		(73,832)
Prepaid expenses		**127,336**		262,828
Accounts payable and accrued liabilities		**5,760**		12,512
		771,431		(57,105)
Interest received		**29,860**		217
		801,291		(56,888)
Cash Flows used in Investing Activities				
Exploration and evaluation expenditures		**(4,485,676)**		(2,627,916)
Equipment and intangible assets		**(9,607)**		(10,692)
		(4,495,283)		(2,638,608)
Cash Flows from Financing Activities				
Issuance of share capital, net of issuance costs		**32,500**		5,637,660
		32,500		5,637,660
Net Increase in cash and cash equivalents		**(3,661,492)**		2,942,164
Cash and cash equivalents - Beginning of period		**7,213,622**		5,222,744
Cash and cash equivalents - End of Period	**$**	**3,552,130**	$	8,164,908

Supplemental Schedule of Non-Cash Investing Activities

Exploration and evaluation expenditures included in accounts payable	**$**	**1,152,747**	$	3,726,533

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Kivalliq Energy Corporation
(An Exploration Stage Company)
Schedule of Resource Property Costs

(Expressed in Canadian Dollars)
Unaudited – Prepared by Management

	For the Three Months Ended December 31, 2011			For the year ended September 30, 2011
	Acquisition Costs	**Deferred Exploration Costs**	**Total**	Total
Mineral Interests				
Angilak, Nunavut				
Acquisition costs – shares and warrants	$ -	$ -	**$ -**	$ 85,000
Claim maintenance	102,714	-	**102,714**	179,118
Airborne geophysics	-	670,090	**670,090**	6,178,564
Assays	-	153,226	**153,226**	223,346
Drilling	-	39,517	**39,517**	4,236,135
Field and supplies	-	367,395	**367,395**	1,710,102
Geological consulting	-	454,939	**454,939**	2,304,320
Travel and accommodation	-	124,009	**124,009**	1,342,973
Resource Property Costs for the Year	102,714	1,809,176	**1,911,890**	16,259,558
Balance, Beginning of the Year	836,032	27,046,439	**27,882,471**	11,622,913
Balance end of the Year	$ 938,746	$28,855,615	**$ 29,794,361**	$ 27,882,471

- The accompanying notes are an integral part of these condensed interim financial statements -

1. Nature of Operations and Going Concern

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".

Long-term continuance of the Company's operations is dependent upon achieving profitable operations and obtaining additional equity or debt financing. The recoverability of the carrying values of the Company's resource property interests is dependent upon the existence and discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties and future profitable production from or proceeds from the disposition of resource properties.

These condensed interim financial statements have been 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 business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

These condensed interim financial statements are unaudited, but in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for fair presentation of the financial position, operations and changes in financial results for the interim periods presented.

2. Significant Accounting Policies

a) Basis of Presentation

These condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These are the Company's first International Financial Reporting Standards (IFRS) condensed interim financial statements and IFRS 1, *First Time Adoption of IFRS* has been applied, as they are part of the period covered by the Company's first IFRS financial statements for the year ending September 30, 2012. The condensed interim financial statements do not include all of the information required for full annual financial statements. The Company's condensed interim financial statements were prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) until September 30, 2011. Canadian GAAP differs from IFRS in some areas and accordingly, the significant accounting policies applied in the preparation of these condensed interim financial statements are set out below and have been consistently applied to all periods presented except in instances where IFRS 1 either requires or permits an exemption. Any subsequent changes to IFRS that are reflected in the Company's financial statements for the year ending September 30, 2011 could result in the restatement of these interim financial statements, including the transitional adjustments recognized as part of the IFRS accounting framework. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported statements of operations and comprehensive loss, financial position, and cash flows of the Company is provided in Note 12. This note includes information on the provisions of IFRS 1 and the exemptions that the Company elected to apply, reconciliations of equity, net loss and comprehensive loss for comparative periods and equity at the date of transition, October 1, 2010.

b) Foreign Currency Translation

The functional currency of the Company is the Canadian dollar. Foreign currency transactions are translated into the functional currency of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate in effect at the financial statement date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the period. Exchange gains or losses arising from these translations are recognized in profit and loss for the reporting period.

c) Equipment

i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset.

When parts of equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net within other income in profit or loss.

2. Significant Accounting Policies - *Continued*

c) Equipment - *Continued*

ii) Subsequent costs

The cost of replacing equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The costs of the day-to-day servicing of equipment are expensed.

iii) Depreciation

Depreciation is calculated over the cost of an asset less its residual value. Depreciation is provided on a declining balance method at rates designed to depreciate the cost of the equipment over the estimated useful lives. The annual depreciation rates are as follows:

Computer equipment	30%
Office furniture and field equipment	20%

Depreciation of leasehold improvements is calculated straight-line over the term of the lease.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

d) Intangibles

The Company considers as intangible assets computer software which is not an integral part of the related hardware. The Company provides for depreciation of computer software using the declining balance method at the annual rate of 100%.

e) 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 periods presented net income (loss) equals comprehensive income (loss).

f) Exploration and Evaluation Assets

Resource exploration and development costs, including option payments, are capitalized on an individual area of interest basis until the properties are brought into production, at which time they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are expensed to operations. Option payments arising on the acquisition of mineral property interests exercisable at the discretion of the Company are recognized as paid or payable.

2. Significant Accounting Policies - *Continued*

f) **Exploration and Evaluation Assets –** *Continued*

Exploration and evaluation costs include cash consideration and the estimated fair market value of common shares or warrants on the date of issue as provided under the agreed terms of acquisition for the mineral property interest.

Capitalized exploration and evaluation costs are those directly attributable costs related to the search for, and evaluation of, mineral resources, that are incurred after the Company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of a mineral reserve are demonstrable. Any costs incurred prior to obtaining the right to explore a mineral property are expensed as incurred as project evaluation expenses in the statement of operations and comprehensive loss.

Management reviews the carrying value of capitalized exploration and evaluation costs each reporting period for indications of impairment. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where information is available, and conditions suggest impairment, the fair value of the mineral property is determined using net cash flows for the mineral property taking into account proven and probable reserves and resources, estimated future prices and operating, capital and reclamation costs. In the case of undeveloped projects, there may be only inferred or indicated resources to form a basis for the impairment review. In such cases, the impairment review is based on the exploration and evaluation results to-date and a status report regarding the Company's intentions for development of the mineral property.

Recovery of the resulting carrying value of exploration and evaluation costs depends on the successful development or sale of the undeveloped project. If a project does not prove to be viable, all irrecoverable costs associated with the project are expensed to operations.

Once an economically viable reserve has been determined for a property and the decision to proceed with development has been approved, acquisition, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within property and equipment.

The amount presented for exploration and evaluation assets represents costs incurred, less impairment costs, if any, to date and does not necessarily reflect present or future values.

g) **Restoration, Rehabilitation and Environmental Costs**

An obligation to incur rehabilitation and site restoration costs arises when an environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The Company is required to record as a liability the estimated present value of future cash flows associated with the statutory, contractual or legal obligations related to site restoration and rehabilitation when the liability is incurred, with a corresponding increase to the carrying value of the related assets.

The Company has no material restoration, rehabilitation or environmental liabilities as the disturbance to date is minimal.

2. Significant Accounting Policies – *Continued*

h) Income Taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date. As the Company is in a loss position there is no current tax payable.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Share-Based Compensation

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

j) Loss per Common Share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per common share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per common share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

2. Significant Accounting Policies – *Continued*

k) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas requiring significant management estimates include the assessment of the Company's ability to continue as a going concern, the evaluation and assessment of impairment of exploration and evaluation assets, the determination of depreciation rates for equipment, share-based compensation and the recognition and valuation of deferred income tax assets or liabilities. Actual results could differ from these estimates.

l) Impairment

i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

At each reporting date the carrying amounts of the Company's long-lived assets, which are comprised of equipment and exploration and evaluation assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset or its related cash generating unit. For purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The Company's cash generating unit relates to the property being explored in Nunavut, Canada.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the associated assets are reduced to their recoverable amount and the impairment loss is recognized in the profit or loss for the period.

2. Significant Accounting Policies – *Continued*

l) Impairment - *Continued*

ii) Non-financial assets - *Continued*

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized.

m) Financial Instruments

i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the financial instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets are classified into one of the following categories:

Loans and receivables

The Company has designated its cash and cash equivalents, other receivables and HST recoverable as loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. The Company holds cash and cash equivalents with a large Canadian bank that has a strong credit rating.

2. Significant Accounting Policies – *Continued*

m) **Financial Instruments** - *Continued*

i) Non-derivative financial assets - *Continued*

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not have any financial assets at fair value through profit and loss.

Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

The Company does not have any held-to-maturity financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. They are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in accumulated other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company does not have any available-for-sale financial assets.

ii) Non-derivative financial liabilities

The Company's non-derivative financial liabilities include its accounts payable and accrued liabilities and deferred tax liability, which are designated as other liabilities.

All financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities are measured at amortized cost using the effective interest method.

2. Significant Accounting Policies – *Continued*

m) **Financial Instruments** - *Continued*

ii) Non-derivative financial liabilities - *Continued*

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

iii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Flow through common shares

Canadian tax legislation permits a company to issue flow-through common shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company.

Upon issuance of flow-through common shares, the fair value of the common shares is recorded as an increase in share capital. Any difference (premium) between the amounts recognized in share capital and the amount paid by the investor is recognized as a flow-through share premium liability and is reversed into earnings at the time the flow-through expenditures have been incurred.

When flow-through expenditures have been incurred and it is the Company's intent to renounce such expenditures, the Company records the tax effect as a charge to profit or loss and an increase to deferred income tax liabilities. To the extent that the Company has deferred income tax assets that were not recognized in previous periods, a deferred income tax recovery is recorded as an offsetting recovery in profit or loss.

n) **Segment Reporting**

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties. The Company's project is located in Nunavut, Canada as identified in Note 5. All other assets are held within British Columbia, Canada.

o) **Future Changes in Accounting Standards**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 Financial Instruments and IFRS 13 Fair Value Measurements, which become mandatory for the Company's 2015 and 2013 consolidated financial statements respectively. The Company is in the process of evaluating these new standards and the impact has not yet been determined.

(Expressed in Canadian Dollars)

3. Equipment

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost at September 30, 2011	**$ 26,085**	**$ 17,162**	**$ 570,335**	**$ 54,049**	**$ 667,631**
Current period additions	**1,571**	**2,946**	**-**	**-**	**4,517**
Current period disposals	**-**	**-**	**-**	**-**	**-**
Cost at December 31, 2011	**27,656**	**20,108**	**570,335**	**54,049**	**672,148**
Accumulated depreciation at September 30, 2011	**2,609**	**6,074**	**84,036**	**-**	**92,719**
Current period retirements	**-**	**-**	**-**	**-**	**-**
Current period depreciation/depletion	**1,226**	**905**	**24,316**	**2,948**	**29,395**
Accumulated depreciation at December 31, 2011	**3,835**	**6,979**	**108,352**	**2,948**	**122,114**
Net book value at December 31, 2011	**$ 23,821**	**$ 13,129**	**$ 461,983**	**$ 51,101**	**$ 550,034**

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost at October 1, 2010	$ -	$ 8,997	$ 63,073	$ -	$ 72,070
Current period additions	26,085	8,165	507,262	54,049	595,561
Current period disposals	-	-	-	-	-
Cost at September 30, 2011	26,085	17,162	570,335	54,049	667,631
Accumulated depreciation at October 1, 2010	-	3,071	25,870	-	28,941
Current period retirements	-	-	-	-	-
Current period depreciation/depletion	2,609	3,003	58,166	-	63,778
Accumulated depreciation at September 30, 2011	2,609	6,074	84,036	-	92,719
Net book value at September 30, 2011	$ 23,476	$ 11,088	$ 486,299	$ 54,049	$ 574,912

(Expressed in Canadian Dollars)

4. Intangible Assets

		Computer Software
Cost at September 30, 2011	**$**	**24,891**
Current period additions		**5,090**
Current period disposals		**-**
Cost at December 31, 2011		**29,981**
Accumulated depreciation at September 30, 2011		**19,770**
Current period retirements		**-**
Current period depreciation/depletion		**1,704**
Accumulated depreciation at December 31, 2011		**21,474**
Net book value at December 31, 2011	**$**	**8,507**

		Computer Software
Cost at October 1, 2010	$	14,648
Current period additions		10,243
Current period disposals		-
Cost at September 30, 2011		24,891
Accumulated depreciation at October 1, 2010		7,325
Current period retirements		-
Current period depreciation/depletion		12,445
Accumulated depreciation at September 30, 2011		19,770
Net book value at September 30, 2011	$	5,121

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets

Details are as follows:

	Acquisition Costs	Exploration Costs	**Cumulative as at December 31, 2011**	Cumulative as at September 30, 2011	Cumulative as at October 1, 2010
Angilak, Nunavut	$ 938,746	$28,855,615	**$ 29,794,361**	$ 27,882,471	$ 11,622,913

General

The Company acquired from Kaminak, a related party, through the reorganization transaction (Note 1) the Angilak Property.

Angilak, Nunavut

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

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.

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

- Kivalliq will issue NTI 1,000,000 (issued) common shares from treasury staged over 36 months beginning 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.

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 (2008/2009/2010/2011 Paid).

(Expressed in Canadian Dollars)

6. Share Capital

As at December 31, 2011, there were an unlimited number of common voting shares without par value authorized.

As at December 31 2011, there were nil (September 30, 2011 – nil; October 1, 2010 – 1,094,027) common shares held in escrow.

a) Private Placements

On April 5, 2011, the Company closed a non-brokered private placement of 1,750,000 common shares at a price of $0.50 per common share for gross proceeds of $875,000.

In connection with this private placement the Company issued 60,000 finder warrants exercisable at a price of $0.50 per common share. The finder warrants are exercisable for a period of two years from the date of issuance into one common share. The finder warrants attached to this issuance have been valued at $18,116 based upon the Black-Scholes valuation model using the following assumptions noted below. Finder's fees of $61,526 were paid in cash.

Risk-free interest rate	1.86%
Expected dividend yield	0%
Expected stock price volatility	118%
Average expected warrant life	2 years

On March 31, 2011, the Company closed a non-brokered private placement of 8,550,000 common shares at a price of $0.50 per common share for gross proceeds of $4,275,000.

In connection with this private placement the Company issued 249,000 finder warrants exercisable at a price of $0.50 per common share. The finder warrants are exercisable for a period of two years from the date of issuance into one common share. The finder warrants attached to this issuance have been valued at $75,237 based upon the Black-Scholes valuation model using the following assumptions noted below. Finder's fees of $254,000 and due diligence and filing fees of $20,076 were paid in cash.

Risk-free interest rate	1.82%
Expected dividend yield	0%
Expected stock price volatility	118%
Average expected warrant life	2 years

On March 30, 2011, the Company closed a bought deal private placement of 12,333,600 flow-through common shares at a price of $0.60 per flow-through common share for gross proceeds of $7,400,160.

In connection with this private placement the Company issued 370,008 agent warrants exercisable at a price of $0.90 per common share. The agent warrants are exercisable for a period of two years from the date of issuance into one common share. The agent warrants attached to this issuance have been valued at $89,260 based upon the Black-Scholes valuation model using the following assumptions noted below. Finder's fees of $444,010 and due diligence and filing fees of $28,959 were paid in cash.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

a) Private Placements: - *Continued*

Risk-free interest rate	1.77%
Expected dividend yield	0%
Expected stock price volatility	118%
Average expected warrant life	2 years

On December 20, 2010, the Company closed a non-brokered private placement of 7,142,857 flow-through common shares at a price of $0.70 per flow-through common share for gross proceeds of $4,500,000. Finder's fees of $120,000 were paid in cash.

The warrants attached to this issuance have been valued at $1,223,357 based upon the Black-Scholes valuation model 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	2 years

For all valuation models, the risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed warrant life. The expected volatility is based on the Company's historical prices. The expected average warrant is the average expected period to exercise, based on the historical activity patterns for warrants.

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 common share 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.

b) Warrants

Details as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, October 1, 2010	20,285,000	$0.36
Issued	679,008	$0.72
Exercised	(3,035,000)	$0.35
Outstanding warrants, September 30, 2011	17,929,008	$0.38
Expired	(1,625,000)	$0.45
Outstanding warrants, December 31, 2011	**16,304,008**	**$0.37**

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

b) Warrants - *Continued*

At December 31, 2011, 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
January 6, 2012	$0.45	32,500	0.02
January 7, 2012	$0.45	385,000	0.02
February 22, 2012	$0.35	3,607,500	0.15
July 28, 2012	$0.35	9,150,000	0.58
September 10, 2012	$0.35	2,450,000	0.70
March 30, 2013	$0.90	370,008	1.25
March 31, 2013	$0.50	249,000	1.25
April 5, 2013	$0.50	60,000	1.26
Weighted average of exercise price and remaining contractual life	**$0.37**	**16,304,008**	**0.51**

Refer to Note 13 for details of warrants exercised and expired subsequent to December 31, 2011.

c) Stock Options

Under the Company's stock option plan, the board of directors may grant options for the purchase of up to 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan vest over time at the discretion of the board of directors and expire no later than five years from the date of issuance. Exercise prices on options granted under the plan cannot 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 common share must be at least $0.10.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

c) Stock Options - *Continued*

The changes in stock options issued are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding options, October 1, 2010	5,730,200	$0.26
Issued	2,945,000	$0.51
Exercised	(1,558,700)	$0.24
Cancelled	(14,000)	$0.46
Outstanding options, September 30, 2011	7,102,500	$0.37
Exercised	(140,000)	$0.23
Outstanding options, December 31, 2011	**6,962,500**	**$0.37**

At December 31, 2011 the following stock options were outstanding:

Expiry Date	Weighted Average Exercise Price	Issued Number of Options	Vested and Exercisable Number of Options	Weighted Average Remaining Contractual Life in Years
April 2, 2012	$0.36	96,000	96,000	0.25
June 18, 2012	$0.36	38,000	38,000	0.47
November 12, 2013	$0.15	2,025,000	2,025,000	1.87
August 11, 2014	$0.25	150,000	150,000	2.61
January 29, 2015	$0.30	533,500	533,500	3.08
April 22, 2015	$0.45	1,165,000	1,165,000	3.31
September 8, 2015	$0.40	20,000	20,000	3.69
October 19, 2015	$0.50	2,860,000	2,860,000	3.80
February 22, 2016	$0.77	75,000	56,250	4.15
Weighted average of exercise price and remaining contractual life	**$0.37**	**6,962,500**	**6,943,750**	**3.01**

Refer to Note 13 for details of options exercised and expired subsequent to December 31, 2011.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

c) Stock Options - *Continued*

The Company did not grant any stock options during the three months ended December 31, 2011. During the year ended September 30, 2011, the Company granted options to acquire 2,945,000 common shares with a weighted average exercise price of $0.51 per common share, of which 2,926,250 vested during the year. The weighted average fair value of the options granted was $0.48 per option for the year ended September 30, 2011. Share-based compensation expense under the Black-Scholes option pricing model of $6,419 (year ended September 30, 2011 - $1,466,291) was recorded in relation to options vested during the period.

The following weighted average assumptions were used for the valuation of stock options granted during the year ended September 30, 2011:

Risk-free interest rate	1.88%
Expected dividend yield	0%
Expected stock price volatility	175%
Expected forfeitures	0%
Average expected option life	5 years

For all valuation models, the risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed warrant life. The expected volatility is based on the Company's historical prices. The expected average warrant is the average expected period to exercise, based on the historical activity patterns for warrants. Expected forfeitures are based on historical forfeitures of the Company's options.

(Expressed in Canadian Dollars)

7. Related Party Transactions

Key management personnel compensation

Key management personnel consists of the Company's directors and officers. In addition to management and consulting fees paid to these individuals, or companies controlled by these individuals, the Company provides non-cash benefits. The aggregate value of compensation with key management personnel for the period ending December 31, 2011 was $187,755 and was comprised of the following:

		Period ending December 31, 2011		Period ending December 31, 2010
Wages, salaries and consulting fees	$	179,859	$	172,550
Non-cash benefits		7,896		8,436
Total remuneration	$	187,755	$	180,986

Related party transactions

Related party transactions and balances not disclosed elsewhere in these financial statements are as follows:

During the three months ended December 31, 2011, the Company reimbursed $101,141 (2010 - $58,827) of rent, salaries, and office and administration expenses incurred by a company controlled by directors of the Company.

During the three months ended December 31, 2011, the Company reimbursed directors and officers $20,883 (2010 - $1,761) for travel and office costs incurred on behalf of the Company.

The balance receivable from related parties at December 31, 2011 was $134,427 (September 30, 2011 - $308,270).

The balance payable to related parties at December 31, 2011 was $53,179 (September 30, 2011 - $110,455) and such payables are unsecured, non interest bearing and are expected to be repaid under normal trade terms.

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.

8. Financial Instruments

Categories of financial assets and liabilities

The fair value of the Company's cash and cash equivalents, other receivables, HST recoverable and accounts payable and accrued liabilities approximate carrying value which is the amount recorded on the balance sheet due to their short term nature.

8. Financial Instruments - *Continued*

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 other receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote as receivables relate to interest receivable from a major financial institution, related party balances, HST recoverable from the Government of Canada, and other balances which have been subsequently collected.

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 December 31, 2011, the Company had a cash and cash equivalents balance of $3,552,130 (September 30, 2011 - $7,213,622; October 1, 2010 – $5,222,744) to settle accounts payable and accrued liabilities of $1,333,278 (September 30, 2011 – $3,901,304; October 1, 2010 - $1,383,786). 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 December 31, 2011, the Company had $2,044,508 (September 30, 2011 – $5,934,500; October 1, 2010 – $37,533) in term deposits.

(b) Foreign currency risk

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

(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.

(Expressed in Canadian Dollars)

9. 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.

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 three months ended December 31, 2011. The Company is not subject to externally imposed capital requirements.

10. Commitments

The Company has entered into agreements for the rental of office space that require minimum payments in the aggregate as follows:

Fiscal 2012	$ 44,457
Fiscal 2013	59,276
Fiscal 2014	59,276
Fiscal 2015	59,276
Fiscal 2016	34,578
Total Commitments	**$ 256,863**

11. Segment Information

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

12. First-Time Adoption of International Financial Reporting Standards ("IFRS")

The Company adopted IFRS on October 1, 2011 with a transition date of October 1, 2010. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

a) ***IFRS transition options***

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

Mandatory Exceptions

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of October 1, 2010 are consistent with its GAAP estimates for the same date.

Optional Exemptions

Share-based payments

IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by October 1, 2010.

b) ***Reconciliations***

The adoption of IFRS has resulted in changes to the Company's reported financial position and results of operations. The Company's adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. In order to allow the users of the financial statements to better understand these changes, the financial statements previously presented under Canadian GAAP have been reconciled to IFRS. For a description of the changes, see the discussion in notes to the IFRS reconciliations below.

(Expressed in Canadian Dollars)

12. First-Time Adoption of International Financial Reporting Standards ("IFRS") - *Continued*

The October 1, 2010 Canadian GAAP Balance Sheets have been reconciled to IFRS as follows:

	Ref Canadian GAAP Oct 1 2010	(i) Share-based Compensation Adj	(ii) Software reclassification	IFRS Oct 1 2010
Assets				
Current				
Current assets	$ 6,075,460	$ -	$ -	$ 6,075,460
Equipment	50,452		(7,323)	43,129
Intangible assets	-		7,323	7,323
Exploration and Evaluation Assets	11,622,913			11,622,913
	17,748,825	**-**	**-**	**17,748,825**
Liabilities And Shareholders' Equity				
Accounts payable and accrued liabilties	1,383,786			1,383,786
Deferred tax liability	548,300			548,300
	1,932,086	-	-	1,932,086
Shareholders' equity				
Share capital	13,278,744			13,278,744
Contributed surplus	4,807,817	46,613		4,854,430
Deficit	(2,269,822)	(46,613)		(2,316,435)
	15,816,739	-	-	15,816,739
	$ 17,748,825	**$ -**	**$ -**	**$ 17,748,825**

(Expressed in Canadian Dollars)

12. First-Time Adoption of International Financial Reporting Standards ("IFRS") - *Continued*

The Canadian GAAP Statement of Comprehensive (Loss) Income for the three-month period ended December 31, 2010 has been reconciled to IFRS as follows:

Ref		(i)	
	Canadian GAAP	**Share-based Compensation Adj**	**IFRS**
Expenses			
Amortization and depreciation	$ 4,975	$ -	$ 4,975
Bank charges and interest	2,338		2,338
Investor relations	46,155		46,155
Listing and filing fees	30,845		30,845
Office and sundry	25,709		25,709
Professional fees	28,276		28,276
Salaries and consulting fees	95,227		95,227
Stock-based compensation	1,449,734	(33,503)	1,416,231
Transfer agent fees	4,183		4,183
Travel and conference	28,184		28,184
Loss before other items	(1,715,626)	33,503	(1,682,123)
Other Income (Expenses)			
Interest	217		217
Loss on foreign exchange	(239)		(239)
Loss For the Period Before Taxes	(1,715,648)	33,503	(1,682,145)
Deferred Income Tax Recovery	79,377		79,377
Net Loss and Comprehensive Loss For The Period	(1,636,271)	33,503	(1,602,768)
Deficit - beginning of period	(2,269,822)	(46,613)	(2,316,435)
Deficit - end of period	$ (3,906,093)	$ (13,110)	$ (3,919,203)

(Expressed in Canadian Dollars)

12. First-Time Adoption of International Financial Reporting Standards ("IFRS") - *Continued*

The December 31, 2010 Canadian GAAP Statement of Financial Position has been reconciled to IFRS as follows:

	Ref	(i)	(ii)	
	Canadian GAAP	**Share-based Compensation Adj**	**Software reclassification**	**IFRS**
	Dec 31 2010			**Dec 31 2010**
Assets				
Current				
Current assets	$ 8,826,085	$ -	$ -	$ 8,826,085
Equipment	56,169		(10,194)	45,975
Intangible assets	-		10,194	10,194
Exploration and Evaluation Assets	12,974,593			12,974,593
	21,856,847	**-**	**-**	**21,856,847**
Liabilities And Shareholders' Equity				
Accounts payable and accrued liabilties	120,062			120,062
Deferred tax liability	468,923			468,923
	588,985	-	-	588,985
Shareholders' equity				
Share capital	19,230,394			19,230,394
Contributed surplus	5,943,561	13,110		5,956,671
Deficit	(3,906,093)	(13,110)		(3,919,203)
	21,267,862	-	-	21,267,862
	$ 21,856,847	**$ -**	**$ -**	**$ 21,856,847**

(Expressed in Canadian Dollars)

12. First-Time Adoption of International Financial Reporting Standards ("IFRS") - *Continued*

The Canadian GAAP Statement of Comprehensive (Loss) Income for the year ended September 30, 2011 has been reconciled to IFRS as follows:

	Canadian GAAP	Share-based Compensation Adj	Flow-through Adj	IFRS
Ref		(i)	(iii)	
Expenses				
Amortization and depreciation	$ 76,223	$ -	$ -	$ 76,223
Bank charges and interest	6,472			6,472
Investor relations	143,617			143,617
Listing and filing fees	55,819			55,819
Office and sundry	164,470			164,470
Professional fees	195,469			195,469
Salaries and consulting fees	359,145			359,145
Stock-based compensation	1,498,932	(32,641)		1,466,291
Transfer agent fees	20,206			20,206
Travel and conference	191,124			191,124
Loss before other items	(2,711,477)	32,641	-	(2,678,836)
Other Income (Expenses)				
Interest	72,759			72,759
Loss on foreign exchange	(1,378)			(1,378)
Flow through share issuance expense	-		(93,705)	(93,705)
Amortization of flow through share premium liability	-		1,233,360	1,233,360
Loss For the Period Before Taxes	(2,640,096)	32,641	1,139,655	(1,467,800)
Deferred Income Tax Recovery (Expense)	429,687		(2,486,411)	(2,056,724)
Net Loss and Comprehensive Loss For The Year	(2,210,409)	32,641	(1,346,756)	(3,524,524)
Deficit - beginning of year	(2,269,822)	(46,613)		(2,316,435)
Deficit - end of year	$ (4,480,231)	$ (13,972)	$ (1,346,756)	$ (5,840,959)

(Expressed in Canadian Dollars)

12. First-Time Adoption of International Financial Reporting Standards ("IFRS") - *Continued*

The September 30, 2011 Canadian GAAP Statement of Financial Position has been reconciled to IFRS as follows:

	Ref	(i)	(ii)	(iii)	
	Canadian GAAP	Share-based Compensation Adj	Software reclassification	Flow-through Adj	IFRS
	Sep 30 2011				Sep 30 2011
Assets					
Current					
Current assets	$ 8,810,673	$ -	$ -	$ -	$ 8,810,673
Equipment	580,033		(5,121)		574,912
Intangible assets	-		5,121		5,121
Exploration and Evaluation Assets	27,882,471				27,882,471
	37,273,177	**-**	**-**	**-**	**37,273,177**
Liabilities And Shareholders' Equity					
Accounts payable and accrued liabilties	3,901,304				3,901,304
Flow through share premium liability	-			-	-
Deferred tax liability	1,082,899			1,271,411	2,354,310
	4,984,203	-	-	1,271,411	6,255,614
Shareholders' equity					
Share capital	30,916,649			75,345	30,991,994
Contributed surplus	5,852,557	13,971			5,866,528
Deficit	(4,480,232)	(13,971)		(1,346,756)	(5,840,959)
	32,288,974	-	-	(1,271,411)	31,017,563
	$ 37,273,177	**$ -**	**$ -**	**$ -**	**$ 37,273,177**

Notes to the IFRS reconciliations:

i) Share-based payments

Under Canadian GAAP, the fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period. Forfeitures of awards are recognized as they occur.

Under IFRS, a fair value measurement is required for each vesting instalment within the option grant. Each instalment must be valued separately, based on assumptions determined from historical data, and recognized as compensation expense over each instalment's individual tranche vesting period. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods. As at October 1, 2010, this accounting policy change resulted in an increase in contributed surplus of $46,613, and a corresponding increase in deficit. As at December 31, 2010, for the three months then ended, this accounting policy change resulted in an increase in contributed surplus of $13,110, an increase in deficit of $13,110, and a decrease of $33,503 in share-based compensation expense. As at September 30, 2011, and for the year then ended, this accounting policy change resulted in an increase in contributed surplus of $13,971, an increase in deficit of $13,971, and a decrease of $32,641 in share-based compensation expense.

12. First-Time Adoption of International Financial Reporting Standards ("IFRS") - *Continued*

ii) Software reclassification

Under Canadian GAAP, the Company carries its computer software in equipment.

Under IFRS, when computer software is not an integral part of the related hardware, computer software is treated as an intangible asset. Accordingly, the Company has reclassified its computer software (none of which is considered an integral part of the related hardware) from equipment to intangible assets. As at September 30, 2011, this accounting policy change has resulted in a $5,121 (December 31, 2010 - $10,194; October 1, 2010 – $7,323) decrease in the carrying value of equipment and a corresponding increase in the carrying value of intangible assets.

iii) Flow-through shares

The treatment of the tax effect of flow-through shares differs under Canadian GAAP and IFRS.

Under Canadian GAAP, share capital is recorded at net proceeds less the deferred tax liability related to the renounced expenditures.

Under IFRS, the increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. The incremental proceeds, or "premium", are recorded as a liability. When expenditures are renounced, a flow-through share premium recovery is recognized and the liability is reversed. When the funds from the flow-through shares are expensed, a deferred tax expense is recognized with a corresponding deferred tax liability being recorded. As at October 1, and December 31, 2010, this accounting policy change had no impact on the Company's balance sheet. As at September 30, 2011, and for the year then ended, this accounting policy change resulted in an increase in the deferred tax liability of $1,271,411, an increase in share capital of $75,345, an increase in flow-through share issuance expense of $93,705, an increase in the amortization of flow-through share premium liability of $1,233,360, and an increase in the deferred tax expense of $2,486,411.

13. Subsequent Events

a) On February 21, 2012, the Company closed a non-brokered private placement financing of 13,047,444 non-flow-through common shares at a price of $0.45 per non-flow-through common share and 6,925,000 flow-through common shares at a price of $0.52 per flow-through common share, for gross proceeds of $9,472,350. In aggregate, the financing was subject to finders' fees of $303,254 in cash commission, 167,983 finders warrants with a strike price of $0.50 and 133,470 finders warrants with a strike price of $0.55.

b) Subsequent to December 31, 2011, the Company granted options to acquire 5,700,000 common shares at an exercise price of $0.50 per common share.

c) Subsequent to December 31, 2011, 70,000 options and 6,407,500 warrants were exercised for total proceeds of $2,248,625.

d) Subsequent to December 31, 2011, 385,000 options and 417,500 warrants expired without exercise.