KIVALLIQ ENERGY CORPORATION

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Canadian Dollars

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kivalliq Energy Corporation

We have audited the accompanying financial statements of Kivalliq Energy Corporation, which comprise the statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010 and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years ended September 30, 2012 and September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

NEXIA INTERNATIONAL

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Kivalliq Energy Corporation as at September 30, 2012, September 30, 2011 and October 1, 2010 and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

January 23, 2013

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statements of Financial Position

(Expressed in Canadian Dollars)

ASSETS	**Notes**	**As at September 30, 2012**	As at September 30, 2011	As at October 1, 2010
Current			(Note 13)	(Note 13)
Cash and cash equivalents		**$ 6,663,542**	$ 7,213,622	$ 5,222,744
Other receivables		**66,904**	467,979	2,543
HST recoverable		**400,457**	931,236	507,982
Prepaid expenses		**95,937**	197,836	342,191
		7,226,840	8,810,673	6,075,460
Equipment	3	**735,678**	574,912	43,129
Intangible Assets	4	**848**	5,121	7,323
Exploration and Evaluation Assets *(Schedule)*	5	**46,998,000**	27,882,471	11,622,913
		$ 54,961,366	$ 37,273,177	$ 17,748,825
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**$ 1,013,653**	$ 3,901,304	$ 1,383,786
Deferred Tax Liability	11	**4,561,553**	2,354,310	548,300
		5,575,206	6,255,614	1,932,086
SHAREHOLDERS' EQUITY				
Share Capital	6	**53,080,461**	30,991,994	13,278,744
Contributed Surplus		**7,801,902**	5,866,528	4,854,430
Deficit		**(11,496,203)**	(5,840,959)	(2,316,435)
		49,386,160	31,017,563	15,816,739
		$ 54,961,366	$ 37,273,177	$ 17,748,825

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Notes 5 and 10)*
Subsequent Events *(Note 14)*

APPROVED ON BEHALF OF THE BOARD:

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

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statements of Operations and Comprehensive Loss

For the Years Ended September 30

(Expressed in Canadian Dollars)

	Notes		2012		2011
Expenses					(Note 13)
Amortization and depreciation		**$**	**165,543**	$	76,223
Bank charges and interest			**7,731**		6,472
Investor relations			**166,090**		143,617
Listing and filing fees			**91,924**		55,819
Office and sundry			**238,378**		164,470
Professional fees			**180,420**		195,469
Salaries and consulting fees			**762,130**		359,145
Stock-based compensation	**6**		**2,594,741**		1,466,291
Transfer agent fees			**18,099**		20,206
Travel and conference			**259,715**		191,124
Loss before the undernoted			**(4,484,771)**		(2,678,836)
Other income (expenses)					
Interest			**116,210**		72,759
Loss on foreign exchange			**(7,788)**		(1,378)
Part XII.6 tax expense			**(9,882)**		-
Amortization of flow-through share premium liability			**1,225,341**		1,139,655
Loss before income taxes			**(3,160,890)**		(1,467,800)
Deferred tax expense	11		**(2,494,354)**		(2,056,724)
Net loss and comprehensive loss for the year		**$**	**(5,655,244)**	$	(3,524,524)
Basic and diluted loss per common share		**$**	**(0.04)**	$	(0.03)
Weighted average number of common shares outstanding			**147,043,358**		108,439,725

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

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statement of Changes in Shareholders' Equity
For the Years Ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

	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 – non flow-through	10,300,000	5,150,000	-	-	5,150,000
Private placements – flow-through	19,476,457	12,475,505	-	-	12,475,505
Exercise of options	1,558,700	371,910	-	-	371,910
Exercise of warrants	3,035,000	1,069,500	-	-	1,069,500
Fair value of options exercised	-	223,882	(223,882)	-	-
Fair value of warrants exercised	-	412,923	(412,923)	-	-
Issued for exploration and evaluation asset	250,000	85,000	-	-	85,000
Flow-through income tax renunciation	-	(1,215,000)	-	-	(1,215,000)
Stock-based compensation	-	-	1,466,290	-	1,466,290
Share issuance costs – cash	-	(928,571)	-	-	(928,571)
Tax benefit on share issuance costs	-	250,714	-	-	250,714
Share issuance costs - warrants	-	(182,613)	182,613	-	-
Loss for the year	-	-	-	(3,524,524)	(3,524,524)
Balance, September 30, 2011	122,613,526	30,991,994	5,866,528	(5,840,959)	31,017,563
Issued					
Private placements – non flow-through	20,251,444	9,113,150	-	-	9,113,150
Private placements – flow-through	23,617,900	10,628,055	-	-	10,628,055
Exercise of options	258,000	59,080	-	-	59,080
Exercise of warrants	6,607,500	2,312,625	-	-	2,312,625
Fair value of options exercised	-	35,253	(35,253)	-	-
Fair value of warrants exercised	-	956,692	(956,692)	-	-
Stock-based compensation	-	-	2,594,741	-	2,594,741
Share issuance costs – cash	-	(970,921)	-	-	(970,921)
Share issuance costs - warrants	-	(332,578)	332,578	-	-
Tax benefit on share issuance costs	-	287,111	-	-	287,111
Loss for the year	-	-	-	(5,655,244)	(5,655,244)
Balance, September 30, 2012	173,348,370	$53,080,461	$ 7,801,902	$ (11,496,203)	$ 49,386,160

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statement of Cash Flows

For the Years Ended September 30

(Expressed in Canadian Dollars)

	2012	2011
Cash Flows used in Operating Activities		
Net loss for the year	**$ (5,655,244)**	$ (3,524,524)
Adjustments for:		
Amortization and depreciation	**165,543**	76,223
Deferred tax expense	**2,494,354**	2,056,724
Stock-based compensation	**2,594,741**	1,466,291
Interest income	**(116,210)**	(72,759)
Amortization of flow-through share premium liability	**(1,225,341)**	(1,139,655)
Changes in non-cash working capital:		
Other receivables	**411,668**	(465,436)
HST recoverable	**530,779**	(423,254)
Prepaid expenses	**101,899**	144,355
Accounts payable and accrued liabilities	**(116,625)**	136,686
	(814,436)	(1,745,349)
Interest received	**105,617**	72,759
	(708,819)	(1,672,590)
Cash Flows used in Investing Activities		
Exploration and evaluation assets	**(21,886,555)**	(13,793,727)
Equipment and intangible assets	**(322,036)**	(605,804)
	(22,208,591)	(14,399,531)
Cash Flows from Financing Activities		
Issuance of share capital, net of issuance costs	**22,367,330**	18,062,999
Net Increase (Decrease) in Cash and Cash Equivalents	**(550,080)**	1,990,878
Cash and Cash Equivalents - Beginning of Year	**7,213,622**	5,222,744
Cash and Cash Equivalents - End of Year	**$ 6,663,542**	$ 7,213,622

Supplemental Schedule of Non-Cash Investing Activities	**2012**	2011
Exploration and evaluation assets included in accounts payable	**$ 955,507**	$ 3,726,533

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

Kivalliq Energy Corporation
(An Exploration Stage Company)
Schedule of Exploration and Evaluation Assets

(Expressed in Canadian Dollars)

	For the Year Ended September 30, 2012			For the year ended September 30, 2011
	Acquisition Costs	**Deferred Exploration Costs**	**Total**	Total
Mineral Interests				
Angilak, Nunavut				
Land Administration	$ 143,059	$ -	**$ 143,059**	$ 266,263
Air Support and Transportation	-	6,024,944	**6,024,944**	5,902,508
Drilling	-	5,261,059	**5,261,059**	4,236,135
Field and General Operations	-	1,765,418	**1,765,418**	1,186,645
Field Contractors and Consultants	-	2,074,227	**2,074,227**	2,304,321
Fuel	-	1,408,670	**1,408,670**	909,050
Laboratory Costs	-	399,997	**399,997**	223,346
Salaries and Wages	-	1,263,012	**1,263,012**	676,237
Travel and Accommodation (Project)	-	775,143	**775,143**	555,053
Exploration and Evaluation Assets for the Year	143,059	18,972,470	**19,115,529**	16,259,558
Balance, Beginning of the Year	861,383	27,021,088	**27,882,471**	11,622,913
Balance, End of the Year	$ 1,004,442	$ 45,993,558	**$ 46,998,000**	$ 27,882,471

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's head office is located at Suite 1020, 800 West Pender Street, Vancouver, BC, V6C 2V6.

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 exploration and evaluation assets 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 these properties.

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

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

2. Significant Accounting Policies

a) Statement of Compliance

These financial statements, including comparatives, have been prepared in accordance with and in full compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee effective for the Company's reporting period ended September 30, 2012. The Company's 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 financial statements are set out below and have been consistently applied to all periods presented except in instances where IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") either requires or permits an exemption. 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 13. 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 September 30, 2011.

These financial statements were authorized for issue by the Board of Directors on January 23, 2013.

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 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	20%
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) Tax

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 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 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) Stock-Based Compensation

The grant date fair value of stock-based payment awards granted to employees and consultants, including directors and officers, 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 calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive share equivalents, such as stock options and warrants and assumes the receipt of proceeds upon exercise of the options to determine the number of shares assumed to be purchased at the average market price during the period.

2. Significant Accounting Policies – *Continued*

k) Use of Estimates and Judgments

The following are the critical judgments and estimates that the Company has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Critical Judgments

The preparation of these financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the financial statements include:

Share based compensation

Share based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share based compensation expense for the years ended September 30, 2012 and 2011 along with the assumptions and model used for estimating fair value for share based compensation transactions are disclosed in Note 6.

Deferred tax assets and liabilities

The measurement of deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future tax provisions or recoveries could be affected.

2. Significant Accounting Policies – *Continued*

k) Use of Estimates and Judgments - *Continued*

Useful life of equipment

Each significant component of an item of Equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, and the potential for technological obsolescence.

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of the Company's exploration and evaluation assets do not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

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.

2. Significant Accounting Policies – *Continued*

l) **Impairment** - *Continued*

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.

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.

2. Significant Accounting Policies – *Continued*

m) Financial Instruments - *Continued*

i) Non-derivative financial assets - *Continued*

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.

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 or 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.

2. Significant Accounting Policies – *Continued*

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

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.

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, net of share issuance costs.

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 tax liabilities. To the extent that the Company has deferred tax assets that were not recognized in previous periods, a deferred tax recovery is recorded as an offsetting recovery in profit or loss.

2. Significant Accounting Policies – *Continued*

n) **Future Changes in Accounting Standards**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended September 30, 2012, and have not been applied in preparing these financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.

Amendments to IAS 32, *Financial Instruments: Presentation,* are effective for annual periods beginning on or after January 1, 2014. This provides for amendments relating to offsetting financial assets and financial liabilities.

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 year additions	5,510	2,945	304,027	4,464	316,946
Cost at September 30, 2012	31,595	20,107	874,362	58,513	984,577
Accumulated depreciation at September 30, 2011	2,609	6,074	84,036	-	92,719
Current year depreciation	5,631	4,062	133,721	12,766	156,180
Accumulated depreciation at September 30, 2012	8,240	10,136	217,757	12,766	248,899
Net book value at September 30, 2012	$ 23,355	$ 9,971	$ 656,605	$ 45,747	$ 735,678

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost at October 1, 2010	$ -	$ 8,997	$ 63,073	$ -	$ 72,070
2011 additions	26,085	8,165	507,262	54,049	595,561
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
2011 depreciation	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	**$**	**24,891**
Current year additions		**5,090**
Cost at September 30, 2012		**29,981**
Accumulated depreciation at September 30, 2011		**19,770**
Current year depreciation		**9,363**
Accumulated depreciation at September 30, 2012		**29,133**
Net book value at September 30, 2012	**$**	**848**

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

5. Exploration and Evaluation Assets

Details are as follows:

	Acquisition Costs	Exploration Costs	**Cumulative as at September 30, 2012**	Cumulative as at September 30, 2011	Cumulative as at October 1, 2010
Angilak, Nunavut	$1,004,442	$45,993,558	**$ 46,998,000**	$ 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 1,000,000 (issued) common shares from treasury to NTI 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.

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets - *Continued*

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 – 2012 paid).

6. Share Capital

As at September 30, 2012, there were an unlimited number of common voting shares without par value authorized.

As at September 30, 2012, there were nil (September 30, 2011 – nil; October 1, 2010 – 1,094,027) common shares held in escrow.

a) Private Placements

On May 29, 2012, Kivalliq closed a bought deal private placement of 16,772,900 flow-through common shares at a price of $0.50 per flow-through common share and 7,124,000 non-flow-through common shares at a price of $0.45 per non-flow-through common share for total gross proceeds of $11,592,250.

In connection with this private placement Kivalliq issued 1,393,783 agent warrants exercisable at a price of $0.45 per common share for a period of two years from the date of this private placement. Finder's fees consisted of cash payments of $685,908 in commissions and $63,330 in advisory fees. Kivalliq has recorded the fair value of these agent warrants as share issuance costs. The agent warrants attached to this issuance have been valued at $253,898 based upon the Black-Scholes valuation model using the following assumptions noted below.

Risk-free interest rate	1.21%
Expected dividend yield	0%
Expected stock price volatility	91%
Average expected warrant life	2 years

On February 21, 2012, Kivalliq closed a non-brokered private placement of 13,127,444 common shares at a price of $0.45 per common share, and 6,845,000 flow-through common shares at a price of $0.52 per flow-through common share for gross proceeds of $9,466,750.

In connection with this private placement Kivalliq issued 179,383 agent warrants exercisable at a price of $0.50 per common share and 146,820 agent warrants exercisable at a price of $0.55 per common share. Finder's fees consisted of cash payments of $303,254 in commissions and $10,884 in advisory fees. Kivalliq has recorded the fair value of these agent warrants as share issuance costs. The agent warrants attached to this issuance have been valued at $78,680 based upon the Black-Scholes valuation model using the following assumptions noted below.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

a) Private Placements: - *Continued*

Risk-free interest rate	1.13%
Expected dividend yield	0%
Expected stock price volatility	93%
Average expected warrant life	2 years

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 6,428,572 flow-through common shares and 714,285 common shares at a price of $0.70 per common share and flow-through common share for gross proceeds of $5,000,000. 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.

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
Issued	1,719,986	$0.46
Exercised	(6,607,500)	$0.35
Expired	(10,642,500)	$0.37
Outstanding warrants, September 30, 2012	**2,398,994**	**$0.54**

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

b) Warrants - *Continued*

At September 30, 2012, 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
March 30, 2013	$0.90	370,008	0.50
March 31, 2013	$0.50	249,000	0.50
April 5, 2013	$0.50	60,000	0.51
February 21, 2014	$0.50	179,383	1.39
February 21, 2014	$0.55	146,820	1.39
May 29, 2014	$0.45	1,393,783	1.66
Weighted average exercise price and remaining contractual life	**$0.54**	**2,398,994**	**1.30**

Refer to Note 14 for details of warrants exercised and expired subsequent to September 30, 2012.

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.

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
Issued	10,755,000	$0.48
Exercised	(258,000)	$0.23
Cancelled	(619,500)	$0.49
Outstanding options, September 30, 2012	**16,980,000**	**$0.43**

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

c) Stock Options - *Continued*

At September 30, 2012 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
November 12, 2013	$0.15	1,955,000	1,955,000	1.12
August 11, 2014	$0.25	150,000	150,000	1.86
January 29, 2015	$0.30	500,000	500,000	2.33
April 22, 2015	$0.45	1,040,000	1,040,000	2.56
September 8, 2015	$0.40	20,000	20,000	2.94
October 19, 2015	$0.50	2,610,000	2,610,000	3.05
January 19, 2017	$0.50	3,350,000	3,350,000	4.31
January 25, 2017	$0.50	2,300,000	2,300,000	4.32
September 7, 2017	$0.45	5,055,000	5,055,000	4.94
Weighted average exercise price and remaining contractual life	**$0.43**	**16,980,000**	**16,980,000**	**3.75**

Refer to Note 14 for details of options exercised and expired subsequent to September 30, 2012.

During the year ended September 30, 2012, Kivalliq granted options to acquire 10,755,000 common shares with a weighted average exercise price of $0.48 per common share and a weighted average fair value of $0.24 per option. Share-based compensation expense under the Black-Scholes option pricing model of $2,594,741 (September 30, 2011 - $1,466,291) was recorded in relation to options vested during the period.

The fair value of stock options for all options issued was estimated at the grant date based on the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.00 – 1.08%
Expected dividend yield	0%
Expected stock price volatility	87 - 108%
Expected forfeitures	0%
Average expected option life	2.5 years

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 (September 30, 2011 - $1,466,291) was recorded in relation to options vested during the period.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

c) Stock Options - *Continued*

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/option life. The expected volatility is based on the Company's historical prices. The expected average warrant/option life is the average expected period to exercise, based on the historical activity patterns for warrants/options. Expected forfeitures are based on historical forfeitures of the Company's warrants/options.

7. Related Party Transactions

Key management compensation

Key management 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 for the year ended September 30, 2012 was $2,286,583 (2011 - $1,576,525) and was comprised of the following:

	Year ended September 30, 2012	Year ended September 30, 2011
Wages, salaries and consulting fees	$ 792,449	$ 460,230
Non-cash benefits	29,041	16,109
Share-based compensation	1,465,093	1,100,186
Total remuneration	$ 2,286,583	$ 1,576,525

Related party transactions

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

During the year ended September 30, 2012, the Company reimbursed $421,418 (2011 - $233,840) of rent, salaries, and office and administration expenses incurred by companies controlled by directors of the Company.

During the year ended September 30, 2012, the Company reimbursed companies with common directors and key management $188,221 (2011 - $155,316) for travel and office expenses incurred on behalf of the Company.

7. Related Party Transactions - *Continued*

During the year ended September 30, 2012, the Company incurred expenses on behalf of companies with common directors of $34,900 (2011 - $154,702) for consulting and office expenses.

The balance receivable from related parties at September 30, 2012 was $11,349 (September 30, 2011 - $308,270; October 1, 2010 - $nil).

The balance payable to related parties at September 30, 2012 was $34,077 (September 30, 2011 - $110,455; October 1, 2010 - $17,298) 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 statement of financial position due to their short term nature.

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 cash and cash equivalents, other receivables and HST recoverable. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, other receivables and HST recoverable is remote as they relate to deposits and interest receivable from major financial institutions, related party balances, HST recoverable from the Government of Canada, and other balances which have been subsequently collected. The maximum credit risk as at September 30, 2012 was $7,130,903 (September 30, 2011 - $8,612,837; October 1, 2010 - $5,733,269).

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, 2012, the Company had a cash and cash equivalents balance of $6,663,542 (September 30, 2011 - $7,213,622; October 1, 2010 – $5,222,744) to settle accounts payable and accrued liabilities of $1,013,653 (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.

8. Financial Instruments - *Continued*

(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, 2012, the Company had $5,044,541 (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.

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 exploration and evaluation assets and to maintain a 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 year ended September 30, 2012. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

10. Commitments

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

Fiscal 2013	35,747
Fiscal 2014	35,747
Fiscal 2015	35,747
Fiscal 2016	20,852
Total Commitments	**$ 128,093**

11. Income Taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27.38% (2011 – 27.43%) to the income for the year and is reconciled as follows:

	Year ended September 30, 2012	Year ended September 30, 2011
Loss before income taxes	$ (3,160,890)	$ (1,467,800)
Statutory Canadian federal and provincial tax rates	27.38%	27.43%
Expected tax recovery	(865,294)	(402,636)
Non-deductible (deductible) expenses		
Difference between current and future tax rate	2,779	36,201
Stock based compensation and other	644,433	(63,252)
Flow-through share renunciation	3,225,380	3,213,043
Investment tax credits	(512,944)	(726,632)
	$ 2,494,354	$ 2,056,724

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

The tax effects on the temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

	2012	2011
Net operating losses	$ 2,762,412	$ 774,108
Equipment	75,069	12,249
Non-refundable tax credits	(458,474)	726,632
Share issuance costs	409,612	257,494
Deferred tax asset	2,788,619	1,770,483
Exploration and evaluation assets	(7,350,172)	(4,124,793)
Net deferred tax liability	$ (4,561,553)	$ (2,354,310)

11. Income Taxes - *Continued*

At September 30, 2012, the Company had estimated net operating losses carried forward of approximately $3,942,000 (expiring in various years from 2029 to 2032) available to reduce future taxable income (September 30, 2011 - $2,867,000).

Tax attributes are subject to review and potential adjustment by tax authorities.

12. 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.

13. First-Time Adoption of International Financial Reporting Standards

The Company adopted IFRS on October 1, 2011 with a transition date of October 1, 2010. Under IFRS 1, 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 1 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.

(Expressed in Canadian Dollars)

13. First-Time Adoption of International Financial Reporting Standards - *Continued*

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.

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

	Ref	(i)	(ii)	
	Canadian GAAP	SBC Adj	Software reclass	IFRS
	Oct 1 2010			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)

13. First-Time Adoption of International Financial Reporting Standards - *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	SBC Adj	FT 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 Year 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)

13. First-Time Adoption of International Financial Reporting Standards - *Continued*

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

	Ref Canadian GAAP Sep 30 2011	(i) SBC Adj	(ii) Software reclass	(iii) FT Adj	IFRS 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**

13. First-Time Adoption of International Financial Reporting Standards - *Continued*

Notes to the IFRS reconciliations:

i) Share-based payments ("SBC Adj")

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 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.

ii) Software reclassification ("Software reclass")

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 (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 "(FT Adj")

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, 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.

14. Subsequent Events

a) Subsequent to September 30, 2012, 550,000 options were exercised for total proceeds of $90,000.

b) Subsequent to September 30, 2012, 1,225,000 options expired without exercise.