KIVALLIQ ENERGY CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED MARCH 31, 2012

Canadian Dollars

Unaudited – Prepared by Management

Notice of Non-review of Condensed Interim Financial Statements

The attached condensed interim financial statements for the three and six month periods ended March 31, 2012 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)

Condensed Statements of Financial Position

(Expressed in Canadian Dollars)
Unaudited – Prepared by Management

ASSETS	Notes		As at March 31, 2012		As at September 30, 2011
Current					
Cash and cash equivalents		$	**12,885,730**	$	7,213,622
Other receivables			**45,254**		467,979
HST recoverable			**182,695**		931,236
Prepaid expenses			**279,303**		197,836
			13,392,982		8,810,673
Equipment	**3**		**753,110**		574,912
Intangible Assets	**4**		**5,954**		5,121
Exploration and Evaluation Assets *(Schedule)*	**5**		**32,099,689**		27,882,471
			46,251,735		37,273,177
LIABILITIES					
Current					
Accounts payable and accrued liabilities			**2,342,184**		3,901,304
Flow Through Share Premium Liability			**167,450**		-
Deferred Tax Liability			**2,467,069**		2,354,310
			4,976,703		6,255,614
SHAREHOLDERS' EQUITY					
Share Capital	**6**		**42,939,981**		30,991,994
Contributed Surplus			**6,626,981**		5,866,528
Deficit			**(8,291,930)**		(5,840,959)
			41,275,032		31,017,563
		$	**46,251,735**	$	37,273,177

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

APPROVED ON MAY 22, 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)
Condensed Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
Unaudited – Prepared by Management

		Three month periods ended March 31		Six month periods ended March 31	
	Notes	**2012**	2011	**2012**	2011
Expenses					
Amortization and depreciation		**$ 38,733**	$ 12,639	**$ 69,832**	$ 17,614
Bank charges and interest		**2,425**	829	**3,548**	3,167
Investor relations		**68,026**	29,602	**109,156**	75,757
Listing and filing fees		**48,084**	13,987	**48,237**	44,832
Office and sundry		**58,267**	48,043	**121,154**	73,751
Professional fees		**58,722**	67,378	**111,684**	95,654
Salaries and consulting fees		**144,806**	75,903	**324,715**	171,130
Stock-based compensation	**6**	**1,643,650**	13,810	**1,650,069**	1,430,041
Transfer agent fees		**4,274**	4,771	**5,521**	8,954
Travel and conference		**56,331**	78,346	**121,320**	106,530
Loss before the undernoted		**(2,123,318)**	(345,308)	**(2,565,236)**	(2,027,430)
Other income (expenses)					
Interest		**17,179**	-	**30,848**	217
Loss on foreign exchange		**(1,077)**	(504)	**(1,858)**	(743)
Part 12.6 tax expense		**(9,882)**	-	**(9,882)**	-
Amortization of flow-through premium liability		**292,733**	-	**292,733**	-
Flow-through share issuance expense		**-**	(93,705)	**-**	(93,705)
Loss before income taxes		**(1,824,365)**	(439,517)	**(2,253,395)**	(2,121,661)
Deferred tax recovery (expense)		**(459,093)**	(27,932)	**(197,576)**	51,445
Net loss and comprehensive loss for the period		**(2,283,458)**	(467,449)	**(2,450,971)**	(2,070,216)
Basic and diluted loss per common share		**$ (0.02)**	$ (0.00)	**$ (0.02)**	$ (0.02)
Weighted average number of common shares outstanding		**134,411,157**	98,703,069	**128,494,643**	94,511,452

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Kivalliq Energy Corporation
(An Exploration Stage Company)
Condensed Statement of Changes in Equity
(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 – non flow-through	8,550,000	2,841,761	-	-	2,841,761
Private placements – flow-through	19,476,457	12,475,505	-	-	12,475,505
Exercise of options	1,218,700	306,410	-	-	306,410
Exercise of warrants	3,035,000	1,069,500	-	-	1,069,500
Fair value of options exercised	-	194,318	(194,318)	-	-
Fair value of warrants exercised	-	412,923	(412,923)	-	-
Stock-based compensation	-	-	1,430,041	-	1,430,041
Share issuance costs	-	(853,078)	204,271	-	(648,807)
Loss for the period	-	-	-	(2,070,216)	(2,070,216)
Balance, March 31, 2011	120,273,526	29,726,083	5,881,501	(4,386,651)	31,220,933
Issued					
Private placements – non flow-through	1,750,000	2,308,239	-	-	2,308,239
Exercise of options	340,000	65,500	-	-	65,500
Fair value of options exercised	-	29,564	(29,564)	-	-
Issued for resource property	250,000	85,000	-	-	85,000
Flow-through income tax renunciation	-	(1,215,000)	-	-	(1,215,000)
Stock-based compensation	-	-	36,249	-	36,249
Share issuance costs – cash	-	(75,493)	-	-	(75,493)
Tax benefit on share issuance costs	-	250,714	-	-	250,714
Share issuance costs - warrants	-	(182,613)	(21,658)	-	(204,271)
Loss for the period	-	-	-	(1,454,308)	(1,454,308)
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	13,127,444	5,907,350	-	-	5,907,350
Private placements – flow-through	6,845,000	3,080,250	-	-	3,080,250
Exercise of options	160,000	38,500	-	-	38,500
Exercise of warrants	6,407,500	2,242,625	-	-	2,242,625
Fair value of options exercised	-	28,676	(28,676)	-	-
Fair value of warrants exercised	-	921,514	(921,514)	-	-
Stock-based compensation	-	-	1,650,069	-	1,650,069
Share issuance costs - cash	-	(295,171)	-	-	(295,171)
Share issuance costs - warrants	-	(60,574)	60,574	-	-
Tax benefit on share issuance costs	-	84,817	-	-	84,817
Loss for the period	-	-	-	(2,450,971)	(2,450,971)
Balance, March 31, 2012	**149,153,470**	**$42,939,981**	**$ 6,626,981**	**$ (8,291,930)**	**$ 41,275,032**

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Condensed Statements of Cash Flows

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

	Three month periods ended March 31		Six month periods ended March 31	
	2012	2011	**2012**	2011
Cash Flows from Operating Activities				
Net loss for the period	**$ (2,283,458)**	$ (467,449)	**$ (2,450,971)**	$ (2,070,216)
Adjustments for:				
Amortization and depreciation	**38,733**	12,639	**69,832**	17,614
Deferred tax recovery	**459,093**	27,932	**197,576**	(51,445)
Stock-based compensation	**1,643,650**	13,810	**1,650,069**	1,430,041
Flow-through share issuance expense	**-**	93,705	**-**	93,705
Amortization of flow-through premium liability	**(292,733)**	-	**(292,733)**	-
Interest income	**(17,179)**	-	**(30,848)**	(217)
Changes in non-cash working capital:				
Other receivables	**190,018**	-	**420,081**	2,543
HST recoverable	**(64,912)**	(74,985)	**748,541**	(148,817)
Prepaid expenses	**(208,803)**	(213,948)	**(81,467)**	48,880
Accounts payable and accrued liabilities	**103,392**	(1,117,325)	**109,152**	(1,104,813)
	(432,199)	(1,725,621)	**339,232**	(1,782,725)
Interest received	**3,632**	-	**33,492**	217
	(428,567)	(1,725,621)	**372,724**	(1,782,508)
Cash Flows used in Investing Activities				
Exploration and evaluation expenditures	**(1,399,815)**	914,882	**(5,885,491)**	(1,713,034)
Equipment and intangible assets	**(239,256)**	(140,805)	**(248,863)**	(151,497)
	(1,639,071)	774,077	**(6,134,354)**	(1,864,531)
Cash Flows from Financing Activities				
Issuance of share capital, net of issuance costs	**11,401,238**	11,546,364	**11,433,738**	17,184,024
	11,401,238	11,546,364	**11,433,738**	17,184,024
Net Increase in cash and cash equivalents	**9,333,600**	10,594,820	**5,672,108**	13,536,985
Cash and cash equivalents - Beginning of period	**3,552,130**	8,164,908	**7,213,622**	5,222,744
Cash and cash equivalents - End of Period	**$ 12,885,730**	$ 18,759,728	**$ 12,885,730**	$ 18,759,729

Supplemental Schedule of Non-Cash Investing Activities	**March 31, 2012**	September 30, 2011
Exploration and evaluation expenditures included in accounts payable	**$ 2,058,261**	$ 3,726,533

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Schedule of Resource Property Costs

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

	For the Six Month Period Ended March 31, 2012			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	130,442	-	**130,442**	179,118
Airborne geophysics	-	1,990,716	**1,990,716**	6,178,564
Assays	-	162,769	**162,769**	223,346
Drilling	-	190,915	**190,915**	4,236,135
Field and supplies	-	654,085	**654,085**	1,710,102
Geological consulting	-	635,166	**635,166**	2,304,320
Travel and accommodation	-	453,125	**453,125**	1,342,973
Resource Property Costs for the Period	130,442	4,086,776	**4,217,218**	16,259,558
Balance, Beginning of the Period	836,032	27,046,439	**27,882,471**	11,622,913
Balance end of the Period	$ 966,474	$31,133,215	**$ 32,099,689**	$ 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"). International Financial Reporting Standards ("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 ("CGAAP") until September 30, 2011. CGAAP 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. The accounting policies followed in these condensed interim financial statements are the same as those applied in the Company's condensed interim financial statements for the period ended December 31, 2011. 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 condensed interim financial statements, including the transitional adjustments recognized as part of the IFRS accounting framework. An explanation of how the transition from CGAAP 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.

These condensed interim financial statements should be read in conjunction with the Company's CGAAP annual financial statements for the year ended September 30, 2011, and the Company's condensed interim financial statements for the period ended December 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

b) Future Changes in Accounting Standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended March 31, 2012, and have not been applied in preparing these condensed interim financial statements. None of these is expected to have a significant effect on the 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 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**	**$ 54,048**	**$ 667,630**
Additions	**5,509**	**2,946**	**235,318**	**-**	**243,773**
Cost at March 31, 2012	**31,594**	**20,108**	**805,653**	**54,048**	**911,403**
Accumulated depreciation at September 30, 2011	**2,609**	**6,074**	**84,036**	**-**	**92,719**
Depreciation	**2,732**	**1,958**	**54,988**	**5,896**	**65,574**
Accumulated depreciation at March 31, 2012	**5,341**	**8,032**	**139,024**	**5,896**	**158,293**
Net book value at March 31, 2012	**$ 26,253**	**$ 12,076**	**$ 666,629**	**$ 48,152**	**$ 753,110**

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost at October 1, 2010	$ -	$ 8,997	$ 63,073	$ -	$ 72,070
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
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	**$**	**24,891**
Additions		**5,090**
Cost at March 31, 2012		**29,981**
Accumulated depreciation at September 30, 2011		**19,770**
Depreciation		**4,257**
Accumulated depreciation at March 31, 2012		**24,027**
Net book value at March 31, 2012	**$**	**5,954**

		Computer Software
Cost at October 1, 2010	$	14,648
Additions		10,243
Cost at September 30, 2011		24,891
Accumulated depreciation at October 1, 2010		7,325
Depreciation		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 March 31, 2012**	Cumulative as at September 30, 2011
Angilak, Nunavut	$ 966,474	$31,133,215	**$ 32,099,689**	$ 27,882,471

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 March 31, 2012, there were an unlimited number of common voting shares without par value authorized.

a) Private Placements

On February 21, 2012, the Company 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 the Company 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. The Company has recorded the fair value of these agent warrants as share issuance costs. The agent warrants attached to this issuance have been valued at $60,574 based upon the Black-Scholes valuation model using the following assumptions noted below.

Risk-free interest rate	0.92%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected warrant life	1 year

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.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

a) Private Placements: - *Continued*

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.

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.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

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	326,203	$0.52
Exercised	(6,407,500)	$0.35
Expired	(2,042,500)	$0.45
Outstanding warrants, March 31, 2012	**9,805,211**	**$0.38**

At March 31, 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
July 28, 2012	$0.35	6,350,000	0.33
September 10, 2012	$0.35	2,450,000	0.45
March 30, 2013	$0.90	370,008	1.00
March 31, 2013	$0.50	249,000	1.00
April 5, 2013	$0.50	60,000	1.01
February 21, 2014	$0.50	179,383	1.90
February 21, 2014	$0.55	146,820	1.90
Weighted average of exercise price and remaining contractual life	**$0.38**	**9,805,211**	**0.46**

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
Issued	5,700,000	$0.50
Exercised	(160,000)	$0.25
Cancelled	(385,000)	$0.48
Outstanding options, March 31, 2012	**12,257,500**	**$0.43**

At March 31, 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
April 2, 2012	$0.36	96,000	96,000	0.01
June 18, 2012	$0.36	28,000	28,000	0.22
November 12, 2013	$0.15	2,025,000	2,025,000	1.62
August 11, 2014	$0.25	150,000	150,000	2.36
January 29, 2015	$0.30	513,500	513,500	2.83
April 22, 2015	$0.45	1,040,000	1,040,000	3.06
September 8, 2015	$0.40	20,000	20,000	3.44
October 19, 2015	$0.50	2,610,000	2,610,000	3.55
February 22, 2016	$0.77	75,000	75,000	3.90
January 19, 2017	$0.50	3,350,000	3,350,000	4.81
January 25, 2017	$0.50	2,350,000	2,350,000	4.82
Weighted average of exercise price and remaining contractual life	**$0.43**	**12,257,500**	**12,257,500**	**3.70**

Refer to Note 13 for details of options expired subsequent to March 31, 2012.

(Expressed in Canadian Dollars)

6. Share Capital - *Continued*

c) Stock Options - *Continued*

During the six months ended March 31, 2012, the Company granted options to acquire 5,700,000 common shares with a weighted average exercise price of $0.50 per common share and a weighted average fair value of $0.29 per option. Share-based compensation expense under the Black-Scholes option pricing model of $1,650,069 (year ended 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%
Expected dividend yield	0%
Expected stock price volatility	107 - 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.

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 six month period ending March 31, 2012 was $1,368,656 (2011 - $1,362,434) and was comprised of the following:

		Period ending March 31, 2012		Period ending March 31, 2011
Wages, salaries and consulting fees	**$**	**409,650**	$	251,030
Stock based compensation		**946,505**		1,097,741
Non-cash benefits		**12,501**		13,663
Total remuneration	**$**	**1,368,656**	$	1,362,434

Related party transactions

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

During the six months ended March 31, 2012, the Company reimbursed $208,027 (2011 - $107,692) of rent, salaries, and office and administration expenses incurred by companies controlled by directors of the Company.

During the six months ended March 31, 2012, the Company reimbursed companies with common directors and key management personnel $110,268 (2011 - $35,182) for travel and office costs incurred on behalf of the Company.

The balance receivable from related parties at March 31, 2012 was $10,126 (September 30, 2011 - $308,270).

The balance payable to related parties at March 31, 2012 was $151,213 (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 March 31, 2012, the Company had a cash and cash equivalents balance of $12,885,730 (September 30, 2011 - $7,213,622) to settle accounts payable and accrued liabilities of $2,342,184 (September 30, 2011 – $3,901,304). 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 March 31, 2012, the Company had $7,044,518 (September 30, 2011 – $5,934,500) 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 six months ended March 31, 2012. 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	$ 27,578
Fiscal 2013	59,276
Fiscal 2014	59,276
Fiscal 2015	59,276
Fiscal 2016	34,578
Total Commitments	**$ 239,984**

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 Canadian GAAP Statement of Comprehensive (Loss) Income for the six-month period ended March 31, 2011 has been reconciled to IFRS as follows:

	Canadian GAAP	Share-based Compensation Adj	Flow-through Adj	IFRS
Ref		(i)	(iii)	
Expenses				
Amortization	$ 17,614	$ -	$ -	$ 17,614
Bank charges and interest	3,167			3,167
Investor relations	75,757			75,757
Listing and filing fees	44,832			44,832
Office and sundry	73,751			73,751
Professional fees	95,654			95,654
Salaries and consulting fees	171,130			171,130
Stock-based compensation	1,471,745	(41,704)		1,430,041
Transfer agent fees	8,954			8,954
Travel and conference	106,530			106,530
Loss before other items	(2,069,134)	41,704	-	(2,027,430)
Other Income (Expenses)				
Interest	217			217
Loss on foreign exchange	(743)			(743)
Flow through share issuance expense	-		(93,705)	(93,705)
Loss For the Period Before Taxes	(2,069,660)	41,704	(93,705)	(2,121,661)
Deferred Income Tax Recovery (Expense)	174,881		(123,436)	51,445
Net Loss For The Period	(1,894,779)	41,704	(217,141)	(2,070,216)
Deficit - beginning of period	(2,269,822)	(46,613)		(2,316,435)
Deficit - end of period	$ (4,164,601)	$ (4,909)	$ (217,141)	$ (4,386,651)

(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 March 31, 2011 has been reconciled to IFRS as follows:

	Canadian GAAP	Share-based Compensation Adj	Flow-through Adj	IFRS
Ref		(i)	(iii)	
Expenses				
Amortization	$ 12,639	$ -	$ -	$ 12,639
Bank charges and interest	829			829
Investor relations	29,602			29,602
Listing and filing fees	13,987			13,987
Office and sundry	48,043			48,043
Professional fees	67,378			67,378
Salaries and consulting fees	75,903			75,903
Stock-based compensation	22,011	(8,201)		13,810
Transfer agent fees	4,771			4,771
Travel and conference	78,346			78,346
Loss before other items	(353,509)	8,201	-	(345,308)
Other Income (Expenses)				
Loss on foreign exchange	(504)			(504)
Flow through share issuance expense	-		(93,705)	(93,705)
Loss For the Period Before Taxes	(354,013)	8,201	(93,705)	(439,517)
Deferred Income Tax Recovery (Expense)	95,504		(123,436)	(27,932)
Net Loss For The Period	(258,509)	8,201	(217,141)	(467,449)
Deficit - beginning of period	(3,906,092)	(13,110)		(3,919,202)
Deficit - end of period	$ (4,164,601)	$ (4,909)	$ (217,141)	$ (4,386,651)

(Expressed in Canadian Dollars)

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

The March 31, 2011 Canadian GAAP Statement of Financial Position has been reconciled to IFRS as follows:

	Canadian GAAP	Share-based Compensation Adj	Software reclassification	Flow-through Adj	IFRS
Ref		(i)	(ii)	(iii)	
	Mar 31 2011				Mar 31 2011
Assets					
Current					
Current assets	$ 19,709,839	$ -	$ -	$ -	$ 19,709,839
Equipment	184,336		(8,703)		175,633
Intangible assets	-		8,703		8,703
Exploration and Evaluation Assets	13,487,348				13,487,348
	33,381,523	**-**	**-**	**-**	**33,381,523**
Liabilities And Shareholders' Equity					
Accounts payable and accrued liabilties	430,375				430,375
Flow through share premium liability	-			1,233,360	1,233,360
Deferred tax liability	1,498,419			(1,001,564)	496,855
	1,928,794	-	-	231,796	2,160,590
Shareholders' equity					
Share capital	29,740,738			(14,655)	29,726,083
Contributed surplus	5,876,592	4,909			5,881,501
Deficit	(4,164,601)	(4,909)		(217,141)	(4,386,651)
	31,452,729	-	-	(231,796)	31,220,933
	$ 33,381,523	**$ -**	**$ -**	**$ -**	**$ 33,381,523**

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

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 March 31, 2011, for the six months then ended, this accounting policy change resulted in an increase in contributed surplus of $4,909, an increase in deficit of $4,909, and a decrease of $41,704 in share-based compensation expense. For the three months ended March 31, 2011, this accounting policy change resulted in a decrease of $8,201 in share-based compensation expense.

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 March 31, 2011, this accounting policy change has resulted in a $8,703 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 March 31, 2011, and for the six months then ended, this accounting policy change resulted in an increase in the flow-through share premium liability of $1,233,360, a decrease in the deferred tax liability of $1,001,564, a decrease in share capital of $14,655, an increase in deficit of $217,141, an increase in flow-through share issuance expense of $93,705 and an increase in deferred tax expense of $123,436. For the three months ended March 31, 2011, this accounting policy change resulted in an increase in flow-through share issuance expense of $93,705 and an increase in deferred tax expense of $123,436.

13. Subsequent Events

a) Subsequent to March 31, 2012, 96,000 options expired without exercise.

b) On May 7, 2012, the Company announced a brokered bought deal financing of 13 million flow-through common shares at a price of $0.50 per flow-through common share and 7.78 million non-flow-through common shares at a price of $0.45 per non-flow-through common share for total gross proceeds of $10,001,000. The underwriters have been granted the option to purchase up to an additional $2,000,000 of the offering in any combination of flow-through shares and/or non-flow-through common shares, exercisable in whole or in part at any time up to 48 hours before the closing of the offering.