

**KIVALLIQ ENERGY CORPORATION**

**FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED MARCH 31, 2011 AND 2010**

**Canadian Dollars**

**Unaudited – Prepared by Management**

## **Notice of Non-review of Interim Financial Statements**

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

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# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Balance Sheets

Canadian Dollars

Unaudited – Prepared by Management

<b>ASSETS</b>	<b>As at March 31, 2011</b>	<b>As at September 30, 2010</b>
<b>Current</b>		
Cash	\$ 18,759,729	\$ 5,222,744
Receivables	-	2,543
GST receivable	656,799	507,982
Prepaid expenses	293,311	342,191
	19,709,839	6,075,460
<b>Equipment</b> (Note 4)	184,336	50,452
<b>Resource Property Costs</b> (Note 5) – Schedule	13,487,348	11,622,913
	\$ 33,381,523	\$ 17,748,825
 <b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 430,375	\$ 1,383,786
<b>Future Income Tax Liability</b> (Note 11)	1,498,419	548,300
	1,928,794	1,932,086
 <b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 6)	29,740,738	13,278,744
<b>Contributed Surplus</b> (Note 7)	5,876,592	4,807,817
<b>Deficit</b>	(4,164,601)	(2,269,822)
	31,452,729	15,816,739
	\$ 33,381,523	\$ 17,748,825

Nature of Operations (Note 1)

ON BEHALF OF THE BOARD:

“James Paterson”, CEO \_\_\_\_\_, Director

“John Robins” \_\_\_\_\_, Chairman of the Board

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Statements of Loss and Deficit and Comprehensive Loss

Canadian Dollars

Unaudited – Prepared by Management

	For the three months ended March 31, 2011	For the three months ended March 31, 2010	For the six months ended March 31, 2011	For the six months ended March 31, 2010
<b>Expenses</b>				
Amortization	\$ 12,639	\$ 4,497	\$ 17,614	\$ 7,352
Bank charges and interest	829	229	3,167	303
Investor relations	29,602	14,630	75,757	18,072
Listing and filing fees	13,987	20,507	44,832	20,507
Office and sundry	48,043	27,860	73,752	33,882
Professional fees	67,378	46,815	95,654	62,765
Salaries and consulting fees	75,903	19,664	171,130	64,644
Stock-based compensation (Note 6)	22,011	42,016	1,471,745	55,657
Transfer agent fees	4,771	4,436	8,954	6,636
Travel and conference	78,346	26,146	106,530	44,118
<b>Loss before the undernoted</b>	<b>(353,509)</b>	<b>(206,800)</b>	<b>(2,069,135)</b>	<b>(313,936)</b>
<b>Other income (expenses)</b>				
Interest	-	12	217	30
Gain (loss) on foreign exchange	(504)	(22)	(743)	(22)
<b>Income (loss) before income taxes</b>	<b>(354,013)</b>	<b>(206,810)</b>	<b>(2,069,661)</b>	<b>(313,928)</b>
<b>Future income tax recovery (Note 11)</b>	<b>95,504</b>	<b>55,596</b>	<b>174,881</b>	<b>67,960</b>
<b>Net loss for the period</b>	<b>(258,509)</b>	<b>(151,214)</b>	<b>(1,894,780)</b>	<b>(245,968)</b>
<b>Deficit - beginning of period</b>	<b>(3,906,092)</b>	<b>(1,110,426)</b>	<b>(2,269,821)</b>	<b>(1,015,672)</b>
<b>Deficit – end of period</b>	<b>\$ (4,164,601)</b>	<b>\$ (1,261,640)</b>	<b>\$ (4,164,601)</b>	<b>\$ (1,261,640)</b>
<b>Net loss for the period</b>				
	\$ (258,509)	\$ (151,214)	\$ (1,894,780)	\$ (245,968)
Changes in fair value of marketable securities	-	-	-	-
<b>Total comprehensive loss for the period</b>	<b>\$ (258,509)</b>	<b>\$ (151,214)</b>	<b>\$ (1,894,780)</b>	<b>\$ (245,968)</b>
<b>Basic and diluted loss per share</b>				
	\$ (0.00)	\$ (0.00)	\$ (0.02)	\$ (0.01)
<b>Weighted average number of shares outstanding</b>				
	98,703,069	46,064,463	94,511,452	43,683,599

- See Accompanying Notes -

**Kivalliq Energy Corporation**  
*(An Exploration Stage Company)*  
**Statement of Cash Flows**

Canadian Dollars  
 Unaudited – Prepared by Management

	For the three months ended March 31, 2011	For the three months ended March 31, 2010	For the six months ended March 31, 2011	For the six months ended March 31, 2010
<b>Cash Flows from Operating Activities</b>				
Net loss for the period	\$ (258,509)	\$ (151,212)	\$ (1,894,780)	\$ (245,966)
Items not affected by cash:				
Amortization	12,639	4,497	17,614	7,352
Future income tax recovery	(95,504)	328,404	(174,881)	316,040
Stock-based compensation	22,011	42,016	1,471,745	55,657
Changes in non-cash working capital:				
Receivables	-	(10,000)	2,543	(3,941)
GST receivable	(74,985)	(20,880)	(148,817)	(26,006)
Prepaid expenses	(213,948)	(45,733)	48,880	(51,913)
Accounts payable and accrued liabilities	(1,117,324)	10,832	(1,104,812)	11,561
	<b>(1,725,620)</b>	<b>157,924</b>	<b>(1,782,508)</b>	<b>62,784</b>
<b>Cash Flows from Investing Activities</b>				
Resource property costs	914,882	(360,722)	(1,713,034)	(651,812)
Equipment	(140,805)	(6,568)	(151,497)	(10,145)
	<b>774,077</b>	<b>(367,290)</b>	<b>(1,864,531)</b>	<b>(661,957)</b>
<b>Cash Flows from Financing Activities</b>				
Issue of share capital, net	11,546,364	2,641,217	17,184,024	2,641,217
	<b>11,546,364</b>	<b>2,641,217</b>	<b>17,184,024</b>	<b>2,641,217</b>
<b>Net Increase in Cash</b>	<b>10,594,821</b>	<b>2,431,851</b>	<b>13,539,985</b>	<b>2,042,044</b>
Cash – Beginning of Period	8,164,908	781,135	5,222,744	1,170,942
<b>Cash - End of Period</b>	<b>18,759,729</b>	<b>3,212,986</b>	<b>\$ 18,759,729</b>	<b>\$ 3,212,986</b>

**Supplemental Schedule of Non-Cash Investing  
and Financing Activities**

Accounts payables included in resource property costs	\$ 151,401	\$ 141,584	\$ 220,867	\$ 141,584
Shares issued for consulting fees	\$ -	\$ -	\$ -	\$ -
Cash paid during the period for interest	\$ -	\$ -	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -	\$ -	\$ -

- See Accompanying Notes -

**Kivalliq Energy Corporation**  
*(An Exploration Stage Company)*  
**Schedule of Resource Property Costs**  
*Canadian Dollars*  
*Unaudited – Prepared by Management*

Schedule

	For the Six Months Ended March 31, 2011			For the Year Ended September 30, 2010
	Acquisition Costs	Deferred Exploration Costs	Total	
<b>Mineral Interests</b>				
<b><i>Angilak, Nunavut</i></b>				
Acquisition costs – shares and warrants	\$ -	\$ -	\$ -	90,000
Claim maintenance	89,772	-	89,772	22,884
Recording and staking	-	-	-	63,076
Airborne Geophysics	-	604,435	604,435	1,365,597
Assays	-	87,150	87,150	119,360
Field and supplies	-	342,698	342,698	2,079,195
Geological consulting	-	566,141	566,141	2,492,405
Travel and accommodation	-	174,239	174,239	1,336,024
	89,772	1,774,663	1,864,435	7,568,541
<b><i>Baker Lake, Nunavut</i></b>				
Geological consulting	-	-	-	-
<b><i>Washburn, Nunavut</i></b>				
Recording and staking	-	-	-	-
Geological consulting	-	-	-	-
	-	-	-	-
<b>Resource Property Costs for the Year</b>	89,772	1,774,663	1,864,435	7,568,541
<b>Write Down of Resource Property Costs</b>	-	-	-	-
Balance, Beginning of the Year	571,914	11,050,999	11,622,913	4,054,372
<b>Balance, End of the Year</b>	\$ 661,686	\$ 12,825,662	\$13,487,348	\$ 11,622,913

- See Accompanying Notes -

**Kivalliq Energy Corporation**  
*(An Exploration Stage Company)*  
**Notes to Financial Statements**  
**March 31, 2011**  
*Canadian Dollars*  
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**1. Nature of Operations**

Kivalliq Energy Corporation (“Kivalliq” or “the Company”) was incorporated as a wholly owned subsidiary of Kaminak Gold Corporation (“Kaminak”) on February 13, 2009 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”.

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**2. Significant Accounting Policies**

These interim financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements do not include all disclosures required by Canadian Generally Accepted Accounting Principles for annual financial statements and accordingly, the interim financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company as at September 30, 2010.

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**3. Future Accounting and Reporting Changes**

**a) International Financial Reporting Standards (“IFRS”)**

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

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

**Kivalliq Energy Corporation**  
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**3. Future Accounting and Reporting Changes - Continued**

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

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

**4. Equipment**

Details are as follows:

	Cost	Accumulated Amortization	Net Book Value March 31, 2011
Field equipment	\$ 201,498	\$ 36,511	\$ 164,987
Computer equipment	15,347	4,701	10,646
Computer software	21,371	12,668	8,703
	<b>\$ 238,216</b>	<b>\$ 53,880</b>	<b>\$ 184,336</b>

Details are as follows:

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



**Kivalliq Energy Corporation**  
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**5. Resource Property Costs:**

Details are as follows:

	Acquisition Costs	Exploration Costs	Cumulative as at March 31, 2011	Cumulative as at September 30, 2010
Angilak, Nunavut	\$ 661,686	\$ 12,825,662	\$ 13,487,348	\$ 11,622,913

**General**

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

**Angilak, Nunavut**

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

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

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

- Kivalliq will issue NTI 1,000,000 (500,000 shares issued) common shares from treasury staged over 36 months beginning only after final TSX:V approval for the spin-out transaction.
- Upon completion of a feasibility study on any portion of the property, NTI has the option of taking either a 25% participating interest or a 7.5% net profits royalty in the specific area subject to the feasibility study. These terms will include any feasibility study on Kivalliq’s adjacent Yathkyed property.

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

As a consequence of the land claims settlement, the property is not subject to royalty obligations to the Government of Canada, but instead is subject to an underlying 12% net profits royalty payable on all minerals to NTI. During periods of positive operating revenue, gross uranium revenue shall be calculated as 130% of the value of the product. Starting December 31, 2009, Kivalliq will pay annual advanced royalty payments to NTI in the sum of \$50,000 annually (Paid).

**Baker Lake (Uranium), Nunavut:**

On July 14, 2009, Kivalliq signed an amending agreement with Pacific Ridge Exploration Ltd. (“Pacific Ridge”), whereby, Pacific Ridge was to have acquired a 100% interest in the Baker Lake Uranium Project located in the Kivalliq District of central Nunavut (subject to Kivalliq’s back-in right) upon the signing of a joint venture agreement between Pacific Ridge and Aurora Energy Resources Inc. (“Aurora”) and the issuance to Kivalliq of 2,000,000 common shares of Pacific Ridge (received).

**Kivalliq Energy Corporation**  
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**5. Resource Property Costs: - Continued**

***Baker Lake (Uranium), Nunavut: - Continued***

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

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

**6. Share Capital**

a) Details as follows:

	Number	Amount
Authorized:		
Unlimited number of common voting shares without par value		
Common Shares Issued:		
<b>Balance – September 30, 2009</b>	41,354,494	5,017,771
Private placement – February 2010	10,000,000	776,643
Private placement – July 2010	24,800,000	3,913,315
Issued on warrant exercise	11,549,000	4,486,448
Issued on option exercise	42,000	9,566
Flow-through income tax renunciation (Note 11)	-	(384,000)
Issued for resource property	250,000	90,000
Returned to treasury	(2,125)	(553)
Share issuance costs	-	(630,446)
<b>Balance – September 30, 2010</b>	87,993,369	13,278,744
Private placement – December 2010	7,142,857	5,000,000
Private placement – March 2011	20,883,600	11,456,921
Issued on warrant exercise	3,035,000	1,482,423
Issued on option exercise	1,218,700	500,728
Flow-through income tax renunciation (Note 11)	-	(1,125,000)
Share issuance costs	-	(853,078)
<b>Balance – March 31, 2011</b>	<b>120,273,526</b>	<b>29,740,738</b>

As at March 31, 2011, there were 547,013 (2010 – 1,094,027) common shares held in escrow.

## Kivalliq Energy Corporation

(An Exploration Stage Company)

### Notes to Financial Statements

March 31, 2011

Canadian Dollars

Unaudited – Prepared by Management

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#### 6. Share Capital - Continued

b) Private Placements:

##### 2011

On March 31, 2011, the Company closed a non-brokered private placement of 8,550,000 non-flow-through 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 finder warrant. The finder warrants are exercisable for a period of two years from the date of issuance into units comprised of one non flow-through common share. The finder warrants attached to this issuance have been valued at \$93,045 based upon the average of the residual method and the Black-Scholes method 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.

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Risk-free interest rate	1.82%
Expected dividend yield	0%
Expected stock price volatility	166%
Average expected warrant life in years	2 years

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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 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 agent warrant. The agent warrants are exercisable for a period of two years from the date of issuance into units comprised of one non flow-through common share. The agent warrants attached to this issuance have been valued at \$125,193 based upon the average of the residual method and the Black-Scholes method 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.

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Risk-free interest rate	1.77%
Expected dividend yield	0%
Expected stock price volatility	166%
Average expected warrant life in years	2 years

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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 common share for gross proceeds of \$5,000,000. Finder's fees of \$120,000 were paid in cash.

**Kivalliq Energy Corporation**  
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**6. Share Capital - Continued**

b) Private Placements:

**2010**

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

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

---

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

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

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

---

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

---

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

**Kivalliq Energy Corporation**  
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**6. Share Capital - Continued**

c) Warrants:

The fair value of the warrants issued was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for the warrants granted to March 31, 2011:

Risk-free interest rate	1.80%
Expected dividend yield	0%
Expected stock price volatility	166%
Average expected warrant life in years	2 years

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

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

Details as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2009	11,576,500	\$0.42
Issued	24,715,000	\$0.36
Exercised	(11,549,000)	\$0.32
Expired	(4,457,500)	\$0.60
<b>Outstanding warrants, September 30, 2010</b>	<b>20,285,000</b>	<b>\$0.36</b>
Issued	619,008	\$0.74
Exercised	(3,035,000)	\$0.35
<b>Outstanding warrants, March 31, 2011</b>	<b>17,869,008</b>	<b>\$0.37</b>

**Kivalliq Energy Corporation**  
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**6. Share Capital - Continued**

c) Warrants: - *Continued*

At March 31, 2011, warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
February 22, 2012	\$0.35	3,607,500	0.90
December 15, 2011	\$0.45	1,250,000	0.71
December 18, 2011	\$0.45	75,000	0.72
December 23, 2011	\$0.45	237,500	0.73
December 29, 2011	\$0.45	62,500	0.75
January 6, 2012	\$0.45	32,500	0.77
January 7, 2012	\$0.45	385,000	0.77
July 28, 2012	\$0.35	9,150,000	1.33
September 10, 2012	\$0.35	2,450,000	1.45
March 30, 2013	\$0.90	370,008	2.00
March 31, 2013	\$0.50	249,000	2.00
<b>Weighted average of exercise price</b>	<b>\$0.37</b>	<b>17,869,008</b>	<b>1.21</b>

d) Stock Options

Details as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding options, September 30, 2009	3,778,200	0.18
Issued	2,050,000	0.40
Exercised	(42,000)	0.18
Expired	(56,000)	0.26
<b>Outstanding options, September 30, 2010</b>	<b>5,730,200</b>	<b>\$0.26</b>
Issued	2,945,000	0.51
Exercised	(1,218,700)	0.25
<b>Outstanding options, March 31, 2011</b>	<b>7,456,500</b>	<b>\$0.36</b>

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**6. Share Capital - Continued**

d) Stock Options - Continued

At March 31, 2011, stock options enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Issued Number of Options	Vested and Exercisable Number of Options	Weighted Average Remaining Contractual Life in Years
July 21, 2011	\$0.25	130,000	130,000	0.31
December 7, 2011	\$0.25	40,000	40,000	0.69
April 2, 2012	\$0.36	96,000	96,000	1.01
June 18, 2012	\$0.36	42,000	42,000	1.22
November 12, 2013	\$0.15	2,275,000	2,275,000	2.62
August 11, 2014	\$0.25	150,000	150,000	3.37
January 29, 2015	\$0.30	593,500	593,500	3.84
April 22, 2015	\$0.45	1,165,000	1,165,000	4.06
September 8, 2015	\$0.40	20,000	20,000	4.44
October 19, 2015	\$0.50	2,870,000	2,870,000	4.56
February 22, 2016	\$0.77	75,000	-	4.90
<b>Weighted average of exercise price</b>	<b>\$0.36</b>	<b>7,456,500</b>	<b>7,381,500</b>	<b>3.65</b>

During the period ended March 31, 2011 the Company granted options to acquire 2,945,000 common shares with a weighted average exercise price of \$0.51 per share, of which 2,870,000 vested during the period. Stock-based compensation expense under the Black-Scholes option pricing model of \$1,471,745 was recorded in relation to options vested during the period. The weighted average fair value of the options granted was \$0.48 per option.

The following weighted average assumptions were used for the valuation of stock options granted during the period ended March 31, 2011:

Risk-free interest rate	1.87%
Expected dividend yield	0%
Expected stock price volatility	175%
Average expected option life in years	5 years

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

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**6. Share Capital - Continued**

d) Stock Options - Continued

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

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

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

- i) Options granted 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 share must be at least \$0.10.
  - ii) At the time of the grant:
    - a) the total number of shares so reserved for issuance by the Board of directors shall not exceed ten (10%) percent of the issued and outstanding shares (on a non-diluted basis);
    - b) the aggregate number of shares so reserved for issuance to any one optionee in a 12 month period shall not exceed five (5%) percent of the issued shares (on a non-diluted basis);
    - c) the aggregate number of options granted to any one consultant in a 12 month period shall not exceed 2% of the issued shares;
    - d) the aggregate number of options granted to employees, who provide investor relations activities must not exceed 2% of the issued shares in any 12 month period; and options issued to consultants performing investor relations services must vest in stages over 12 months with no more than one-quarter of the options vesting in any 3 month period;
    - e) options issued to employees vest at the discretion of the board of directors; and
    - f) options issued shall expire no later than 5 years from grant date.
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**7. Contributed Surplus**

Balance consists of:

Balance – September 30, 2009	\$	969,256
Stock-based compensation on options granted		683,639
Warrants exercised		(785,248)
Options exercised		(2,066)
Incentive warrants issued		496,895
Agent warrants issued		22,000
Warrants issued with shares – February 2010		1,223,357
Warrants issued with shares – July 2010		2,286,685
Warrant issuance costs		(86,701)
Balance – September 30, 2010	\$	4,807,817
Stock-based compensation on options granted		1,471,745
Warrants exercised		(412,923)
Options exercised		(194,318)
Warrants issues with shares – March 2011		218,238
Warrant issuance costs		(13,967)
Balance – March 31, 2011	\$	<b>5,876,592</b>

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**8. Related Party Transactions**

Included in the current period are consulting fees of \$45,035 (2010 - \$15,144), travel and conference charges of \$19,433 (2010 - \$9,900) and office and sundry charges of \$43,224 (2010 - \$28,434) to companies controlled by directors and officers of the Company.

During the period the Company paid \$135,950 (2010 - \$45,500) in consulting fees to directors and officers.

At March 31, 2011, \$12,933 (September 30, 2010 - \$3,578) was due to a company controlled by directors and officers of the Company, and \$9,880 (September 30, 2010 - \$13,720) was due to directors and officers of the Company.

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

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

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## 9. Financial Instruments

### Categories of financial assets and liabilities

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

#### *Credit risk*

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

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2011, the Company had a cash balance of \$18,759,729 (September 30, 2010 – \$5,222,744) to settle current liabilities of \$430,375 (September 30, 2010 - \$1,383,786). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management believes that the Company has sufficient funds to meet its obligations as they become due.

#### *Market risk*

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

##### (a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of March 31, 2011, the Company had \$72,069 (September 30, 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.

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**10. Capital Management**

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

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

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

Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met. There were no changes in the Company's approach to capital management during the period ended March 31, 2011. The Company is not subject to externally imposed capital requirements.

**11. Income Taxes**

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

	<b>For the Period Ended March 31, 2011</b>	For the Year Ended September 30, 2010
Loss before income taxes	\$ (2,069,661)	\$ (1,365,949)
Statutory Canadian federal and provincial tax rates	<b>28.875%</b>	28.875%
Expected tax recovery	<b>(597,615)</b>	(394,418)
Non deductible (deductible) expenses		
Stock-based compensation	<b>424,966</b>	197,401
Amortization	<b>5,086</b>	5,298
Loss on sale of marketable securities	-	-
Share issuance costs	<b>(14,443)</b>	(21,955)
Unrecognized benefit of non-capital losses	<b>7,125</b>	101,874
	-	-
Future income tax recovery	<b>\$ (174,881)</b>	\$ (111,800)

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**11. Income Taxes - Continued**

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

	<b>March 31, 2011</b>	September 30, 2010
Future income tax asset (liability)		
Equipment	\$ 4,404	\$ 4,590
Resource property costs	(1,969,213)	(844,300)
Non-capital loss carry-forwards	393,770	236,290
Share issuance costs	72,620	55,120
Future income tax asset (liability)	(1,498,419)	(548,300)
Valuation allowance	-	-
Future income tax liability	\$ (1,498,419)	\$ (548,300)

The effective income tax rate is the rate that is estimated to be applicable when the timing differences reverse. For 2011 and 2010 this rate is estimated to be 25%.

The Company has available for deduction against future taxable income in Canada, non-capital losses of approximately \$7,124. These losses, if not utilized, will expire through 2011. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

During the period ended March 31, 2011, the Company issued 6,428,571 common shares on a flow-through basis for gross proceeds of \$4,500,000, which were renounced during the period ended March 31, 2011. The flow-through agreement requires the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. Future income taxes of \$1,125,000 of the exploration expenditures to be renounced to shareholders were applied against share capital.

During the year ended September 30, 2009, the Company issued 7,180,000 common shares on a flow-through basis for gross proceeds of \$1,534,000 which were renounced during the year ended September 30, 2010. The flow-through agreement requires the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. Future income taxes of \$384,000 of the exploration expenditures to be renounced to shareholders were applied against share capital.

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**12. Segmented Information**

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

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**13. Subsequent Events**

- a) Subsequent to March 31, 2011, 10,000 options were exercised for gross proceeds of \$3,000.
- b) Subsequent to March 31, 2011, 14,000 options expired without exercise.
- c) Subsequent to March 31, 2011, the Company closed the remaining \$875,000 of the previously announced non-brokered private placement, issuing 1,750,000 common shares. Finders fees payable were a cash commission of \$60,000 and 60,000 finders warrants at an exercise price of \$0.50 for a period of 24 months from closing.