ROYAL NICKEL CORPORATION

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Table of Contents

Royal Nickel Corporation

Management's Responsibility for Financial Reporting

The accompanying financial statements for Royal Nickel Corporation are the responsibility of the Management. The financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions that were complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards applicable to the preparation of financial statements, including IFRS 1.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced. Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Corporation and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Corporation. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Corporation for issuance to the shareholders.

Management recognizes its responsibility for conducting the Corporation's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

/s/ Tyler Mitchelson

Tyler Mitchelson
President and Chief Executive Officer

/s/ Fraser Sinclair

Fraser Sinclair
Chief Financial Officer

Toronto, Canada

March 15, 2012

March 15, 2012

Independent Auditor's Report

To the Shareholders of Royal Nickel Corporation

We have audited the accompanying financial statements of Royal Nickel Corporation, which comprise the balance sheets as at December 31, 2011 and 2010 and January 1, 2010 and the statements of comprehensive loss, cash flows and changes in equity for the years ended December 31, 2011 and 2010, and the related notes, which comprise 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.

Auditor's 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 audits 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 auditor's 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.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Royal Nickel Corporation as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditor permit no. 20910

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., Chartered Accountants
1250 René-Lévesque Boulevard West, Suite 2800, Montréal, Quebec, Canada H3B 2G4
T: 514 205 5000, F: 514 876 1502, www.pwc.com/ca

Royal Nickel Corporation

Balance Sheets

(Expressed in thousands of Canadian dollars)

	December 31, 2011	December 31, 2010 (note 16)	January 1, 2010 (note 16)
ASSETS			
Current assets			
Cash and cash equivalents	**$ 19,741**	$ 47,482	$ 7,619
Short term investments	-	-	2,569
Amounts receivable and prepaids	**855**	586	152
Tax credits receivable	**10,450**	2,121	3,945
	31,046	50,189	14,285
Non-current assets			
Tax credits receivable	**630**	842	-
Property, plant and equipment (note 3)	**1,000**	872	836
Intangible assets (note 4)	**153**	171	119
Mineral property interests (note 5)	**53,539**	34,489	24,179
Total assets	**$ 86,368**	$ 86,563	$ 39,419
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**$ 2,420**	$ 3,068	$ 962
Deferred share units (note 9)	**699**	1,575	-
Restricted share units (note 9)	**808**	1,010	-
Current portion of finance lease obligation (note 7)	**46**	33	-
	3,973	5,686	962
Non-current liabilities			
Deferred share units (note 9)	**1**	59	-
Restricted share units (note 9)	**2**	32	-
Finance lease obligation (note 7)	**20**	24	-
Other liability	**-**	1,176	503
Deferred income tax liability (note 15)	**5,631**	2,776	1,782
Total Liabilities	**9,627**	9,753	3,247
EQUITY			
Share capital (note 8)	**95,045**	88,600	44,956
Contributed surplus	**23,266**	22,029	10,106
Deficit	**(41,570)**	(33,819)	(18,890)
Total equity	**76,741**	76,810	36,172
Total liabilities and equity	**$ 86,368**	$ 86,563	$ 39,419

Statements of Comprehensive Loss

(Expressed in thousands of Canadian dollars, except share and per share numbers)

	Year ended December 31, 2011	2010 (note 16)
Expenses		
General and administrative (note 11)	**$ 6,354**	$ 12,392
Operating Loss	**(6,354)**	(12,392)
Interest income	**445**	26
Liquidity entitlement (note 8(c))	**-**	(1,320)
Loss before income tax	**(5,909)**	(13,686)
Deferred income tax expense (note 15)	**1,842**	1,243
Loss and comprehensive loss for the year	**$ (7,751)**	$ (14,929)
Loss per share		
Basic and diluted (note 12)	**$ (0.09)**	$ (0.24)

Royal Nickel Corporation

Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Year ended December 31, 2011	2010
Cash flow provided by (used in)		
OPERATING ACTIVITIES		
Loss	**$ (7,751)**	$ (14,929)
Items not involving cash:		
Depreciation and amortization	**128**	110
Deferred income tax expense	**1,842**	1,243
Liquidity entitlement (note 8(c))	**-**	1,320
Share based payments (note 11)	**(506)**	8,070
Shares issued for consulting services	**-**	66
	(6,287)	(4,120)
Changes in working capital:		
Amounts receivable and prepaids	**(269)**	(434)
Accounts payable and accrued liabilities	**(1,266)**	1,484
	(7,822)	(3,070)
INVESTING ACTIVITIES		
Expenditures on mineral property interests	**(26,157)**	(10,055)
Tax credits and mining rights received (paid)	**(186)**	2,813
Variation in short term investments	**-**	2,569
Acquisition of intangible assets (note 4)	**(40)**	(103)
Acquisition of property plant and equipment (note 3)	**(208)**	(59)
	(26,591)	(4,835)
FINANCING ACTIVITIES		
Issuance of shares, net of issue costs	**5,947**	47,205
Exercise of options and warrants for cash	**761**	574
Proceeds from loan payable (note 6)	**-**	1,800
Loan payable repayment (note 6)	**-**	(1,800)
Principal payments on finance leases	**(36)**	(11)
	6,672	47,768
Change in cash and cash equivalents	**(27,741)**	39,863
Cash and cash equivalents, beginning of period	**47,482**	7,619
Cash and cash equivalents, end of period	**$ 19,741**	$ 47,482
Components of cash and cash equivalents are as follows:		
Cash	**$ 117**	$ 295
Cash equivalents	**19,624**	47,187
	$ 19,741	$ 47,482
SUPPLEMENTAL INFORMATION		
Interest paid	**$ 30**	$ 7
Share based payments in mineral property interests	**151**	1,388
Depreciation of property, plant and equipment in mineral property interests	**53**	32
Mining property interest included in accounts payable and accrued liabilities	**1,750**	1,132
Property, plant and equipment recorded pursuant to a finance lease	**45**	68
Shares issued for mineral property acquisition	**-**	45

Royal Nickel Corporation

Statements of Changes in Equity

(Expressed in thousands of Canadian dollars, except share numbers)

	Share Capital		Contributed Surplus	Deficit	Total Equity
	Number	Amount (note 16)		(note 16)	(note 16)
Balance as at January 1, 2010	**60,545,023**	**$ 44,956**	**$ 10,106**	**$ (18,890)**	**$ 36,173**
Shares issued for liquidity entitlement (note 8)	660,000	1,320	-	-	1,320
Shares issued for mineral property acquisition	22,500	45	-	-	45
Shares issued for consulting services	33,125	66	-	-	66
Private placement – flow-through common shares (note 8)	408,055	816	-	-	816
Shares issued per Sunhu Agreement (note 8)	2,500,000	5,000	-	-	5,000
Initial public offering (note 8)	19,500,000	43,875	-	-	43,875
Initial public offering broker warrant valuation, net of issue costs (note 8)	-	(522)	522	-	-
Warrant valuation – initial public offering (note 8)	-	(5,584)	5,584	-	-
Initial public offering cash issue costs, net of deferred income taxes of $893	-	(2,408)	(466)		(2,874)
Compensation warrant valuation – private placement	-	(48)	48	-	-
Warrant valuation – private placement	-	(144)	144	-	-
Share issue costs, net of deferred income taxes of $33	-	(37)	-	-	(37)
Exercise of stock options	308,750	320	-	-	320
Fair value of stock options exercised	-	577	(577)	-	-
Exercise of warrants	253,750	254	-	-	254
Fair value of warrants exercised	-	114	(114)	-	-
Extension of warrants	-	-	5	-	5
Share based payment	-	-	6,777	-	6,777
Loss and comprehensive loss for the year	-	-	-	(14,929)	(14,929)
Balance as at December 31, 2010	**84,231,203**	**$ 88,600**	**$ 22,029**	**$ (33,819)**	**$ 76,810**

Statements of Changes in Equity (continued)

(Expressed in thousands of Canadian dollars, except share numbers)

	Share Capital		Contributed Surplus	Deficit	Total Equity
	Number	Amount			
Balance as at January 1, 2011	**84,231,203**	**$ 88,600**	**$ 22,029**	**$ (33,819)**	**$ 76,810**
Shares issued for exercise of over-allotment option	2,925,000	6,581	-	-	6,581
Share issue costs of over-allotment option, net of deferred income taxes of $163	-	(391)	(81)	-	(472)
Warrant valuation of over-allotment option	-	(812)	812	-	-
Broker warrant valuation of over-allotment option	-	(121)	121	-	-
Exercise of stock options	600,000	210	-	-	210
Fair value of stock options exercised	-	164	(164)	-	-
Exercise of warrants	1,103,750	552	-	-	552
Fair value of warrants exercised	-	244	(244)	-	-
Shares issued for redemption of restricted share units	16,665	18	-	-	18
Share based payments	-	-	793	-	793
Loss and comprehensive loss for the year	-	-	-	(7,751)	(7,751)
Balance as at December 31, 2011	**88,876,618**	**$ 95,045**	**$ 23,266**	**$ (41,570)**	**$ 76,741**

Notes to Financial Statements

(Expressed in thousands of Canadian dollars, except share and per share numbers)

1. NATURE OF OPERATIONS AND LIQUIDITY

Royal Nickel Corporation (the "Corporation" or "RNC") was incorporated on December 13, 2006 under the Canada Business Corporations Act. The Corporation's registered office is located at 220 Bay Street, Suite 1200, Toronto, Ontario, Canada.

The principal business of the Corporation is the acquisition, exploration, evaluation and development of mineral property interests. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for mineral property interests is dependent upon completion of the acquisition of the mineral property interests, the discovery of economically recoverable reserves, confirmation of the Corporation's interest in the underlying mineral claims, the ability of the Corporation to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such property at a profit. Changes in future conditions could require material write downs of the carrying values of mineral property interests.

Although the Corporation has taken steps to verify title to the property on which it is conducting exploration and in which it is acquiring an interest, in accordance with industry standards for the current stage of exploration and evaluation of such property, these procedures do not guarantee the Corporation's title. Property title may be subject to unregistered prior agreements, aboriginal claims and noncompliance with regulatory requirements.

As at December 31, 2011, the Corporation had a working capital of $27,073, including cash and cash equivalents of $19,741, an accumulated deficit of $41,570 and incurred a loss of $7,751 for the year then ended.

Management of the Corporation believes that it has sufficient funds to pay its ongoing general and administrative expenses, to pursue its budgeted exploration and evaluation expenditures and to meet its liabilities, obligations and existing commitments for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Corporation's ability to continue future operations beyond December 31, 2012 and fund its exploration and evaluation expenditures is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways including but not limited to, the issuance of new debt or equity instruments. Management will pursue such additional sources of financing when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Corporation or that they will be available on terms which are acceptable to the Corporation.

The financial statements were authorized by the Board of Directors on March 15, 2012 for publication.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The significant accounting policies used in the preparation of these financial statements are described below.

(a) Basis of preparation and adoption of IFRS

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Corporation's first annual financial statements prepared in accordance with IFRS. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 16, the Corporation has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 16 discloses the impact of the transition to IFRS on the Corporation's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation's financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

The accounting policies set out below have been applied consistently to both years presented in these financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 (note 16) for the purposes of the transition to IFRS, as required by first time adoption of International Financial Reporting Standards ("IFRS 1").

(b) Basis of measurement

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(c) Financial Instruments

Financial assets:

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statements of comprehensive loss. Gains and losses arising from changes in fair value are presented in the statements of comprehensive loss within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of comprehensive loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive loss as part of other gains and losses when the Corporation's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of comprehensive loss and are included in other gains and losses.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities and capital lease obligation. Accounts payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. Accounts payables and accrued liabilities are measured at amortized cost using the effective interest method. Capital lease obligation are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Corporation's financial instruments consist of the following:

Financial assets:	Classification:
Cash and cash equivalents	Loans and receivables
Short-term investments	Loans and receivables
Amounts receivable	Loans and receivables

Financial liabilities:	Classification:
Accounts payable and accrued liabilities	Other financial liabilities
Finance lease obligation	Other financial liabilities

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive loss. This amount represents the cumulative loss in accumulated other comprehensive loss that is reclassified to net loss.

(iii) Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

(d) Property, plant and equipment

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Repairs and maintenance costs are charged to the statements of comprehensive loss during the period in which they are incurred.

Depreciation is recognized based on the cost of an item of PPE, less its estimated residual value, over its estimated useful life at the following rates:

Detail	Percentage	Method
Land	nil	none
Building	5%	Declining balance
Building under finance lease	30%	Declining balance
Vehicles	30%	Declining balance
Furniture and equipment	20%	Declining balance
Computer equipment	30%	Declining balance

An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

An item of PPE is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statements of comprehensive loss.

Where an item of PPE consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(e) Identifiable intangible assets

The Corporation's intangible assets include computer software with finite useful lives. These assets are capitalized and amortized at a 30% declining balance basis in the statements of comprehensive loss.

(f) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statements of comprehensive loss in the period in which they are incurred.

(g) Mineral property interest

The Corporation is in the exploration and evaluation stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration and evaluation of mineral claims and crediting all proceeds received for farm-out arrangements or recovery of costs against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling.

The Corporation recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Upon transfer of "Exploration and evaluation expenses" into "Mine Development", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within "Mine development". After production starts, all assets included in "Mine development" are transferred to "Producing Mines". At such time as commercial production commences, these costs will be charged to operations on a unit of production method based on proven and probable reserves.

(h) Impairment of non-financial assets

Property, plant and equipment, intangible assets and mineral property interests are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

(i) Flow-through shares

The Corporation finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Corporation recognizes a deferred tax liability for flow-through shares and a deferred tax expense, at the moment the eligible expenditures are incurred. The difference between the quoted price of the common shares or the amount recognized in common shares and the amount the investors pay for the shares (the "premium") is recognized as an other liability which is reversed as a deferred tax recovery when eligible expenditures have been made.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and highly liquid investments, including high interest savings accounts with daily distribution of interest, having maturity dates of three months or less from the date of purchase, which are readily convertible to known amounts of cash.

(k) Provisions

A provision is recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Share based payment transactions

Stock options:

The fair value of share options granted to employees is recognized as an expense, or capitalized to mineral property interest over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Corporation.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Deferred share units and restricted share units:

A liability for deferred share units and restricted share units is measured at fair value on the grant date and is subsequently adjusted at each financial position reporting date for changes in fair value. The liability is recognized over the vesting period, with a corresponding charge as an expense or capitalized to mineral property interests.

(m) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or in equity, in which case it is recognized in other comprehensive income or in equity, respectively.

Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes since such taxes are based on a percentage of mining profits.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are not recognized where the temporary difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that does not affect either accounting or taxable profit or loss, other than where the initial recognition of such an asset or liability arises in a business combination. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as non-current. Assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities or deferred tax assets against deferred tax liabilities and the respective assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(n) Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, evaluation, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The Corporation also records a corresponding asset amount which is amortized over the remaining service life of the asset.

(o) Loss per share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, compensation warrants, options, deferred and restricted share units outstanding that may add to the total number of common shares.

(p) Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs.

(q) Refundable tax credits for mining exploration expenses

The Corporation is entitled to a refundable tax credit on qualified mining exploration expenses incurred in the province of Quebec. The credit is accounted for against the related exploration and evaluation expenses incurred in mineral property interests.

(r) Segment disclosures

The Corporation currently operates in a single segment - the acquisition, exploration, evaluation and development of mineral properties. All of the Corporation’s activities are conducted in Quebec, Canada.

(s) Significant judgments in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements require management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the financial statements.

Areas of significant judgment and estimates affecting the amounts recognized in the financial statements include:

1. Impairment of non-financial assets

   The Corporation's fair value measurement with respect to the carrying amount of non-financial assets is based on numerous assumptions and may differ significantly from actual fair values. The fair values are based, in part, on certain factors that may be partially or totally outside of the Corporation's control. This evaluation involves a comparison of the estimated fair values of non-financial assets to their carrying values. The Corporation's fair value estimates are based on numerous assumptions. The fair value estimates may differ from actual fair values and these differences may be significant and could have a material impact on the Corporation's financial position and result of operations. Assets are reviewed for an indication of impairment at each balance sheet date or when a triggering event is identified. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities and a significant drop in current or future nickel prices.

   A number of judgments were made in the determination of our asset groups. If a different conclusion had been reached for any one of those assumptions, it could have resulted in the identification of asset groups different from those we actually identified.

2. Recognition of deferred income tax assets and the measurement of income tax expense

   Management continually evaluates the likelihood that it is probable that its deferred tax assets will be realized. This requires Management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, Management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

3. Valuation of share based payments

   The Corporation records all share based payments using the fair value method. The Corporation uses the Black-Scholes model to determine the fair value of stock options, warrants and broker warrants and a binominal model for compensation options. The main factor affecting the estimates of the fair value of stock options, warrants, broker warrants and compensation options is the stock price expected volatility used. The Corporation currently estimates the expected volatility of its common shares based on comparable information derived from the trading history of guideline public companies which are in a similar situation to the Corporation taking into consideration the expected life of the options.

4. Cash and cash equivalents

   The Corporation holds investments in highly liquid money market investment funds (i.e. high interest savings funds). The determination of whether a money market fund qualifies as a cash equivalent requires significant judgment. In determining whether such investments qualify as cash equivalents, the Corporation considers the following criteria: whether all investments held by the fund qualify individually as cash equivalents, the fund's management and investment policies, and any position papers issued by the associated financial institution or others.

(t) New accounting standards not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

IFRS 7 – Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 9 - Financial instruments

IFRS 9, Financial Instruments, was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation — Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 – Joint Arrangements

IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IFRIC 20 – Stripping Costs

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, *Inventories*. The latter should be accounted for as an addition to or enhancement of an existing asset.

3. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Vehicles	Furniture and equipment	Computer equipment	Total
At January 1, 2010[(1)]						
Cost	$ 102	$ 614	$ 154	$ 184	$ 59	**$ 1,113**
Accumulated depreciation	-	(107)	(81)	(62)	(27)	**(277)**
Net book amount	**$ 102**	**$ 507**	**$ 73**	**$ 122**	**$ 32**	**$ 836**
Year ended December 31, 2010[(1)]						
Opening net book amount	$ 102	$ 507	$ 73	$ 122	$ 32	**$ 836**
Additions	-	88	-	9	30	**127**
Depreciation for the year	-	(32)	(22)	(25)	(12)	**(91)**
Closing net book amount	**$ 102**	**$ 563**	**$ 51**	**$ 106**	**$ 50**	**$ 872**
At December 31, 2010[(1)]						
Cost	$ 102	$ 702	$ 154	$ 193	$ 89	**$ 1,240**
Accumulated depreciation	-	(139)	(103)	(87)	(39)	**(368)**
Net book amount	**$ 102**	**$ 563**	**$ 51**	**$ 106**	**$ 50**	**$ 872**
Year ended December 31, 2011						
Opening net book amount	$ 102	$ 563	$ 51	$ 106	$ 50	**$ 872**
Additions	-	59	64	112	18	**253**
Depreciation for the year	-	(47)	(25)	(36)	(17)	**(125)**
Closing net book amount	**$ 102**	**$ 575**	**$ 90**	**$ 182**	**$ 51**	**$ 1,000**
At December 31, 2011						
Cost	$ 102	$ 761	$ 218	$ 305	$ 107	**$ 1,493**
Accumulated depreciation	-	(186)	(128)	(123)	(56)	**(493)**
Net book amount	**$ 102**	**$ 575**	**$ 90**	**$ 182**	**$ 51**	**$ 1,000**

(1) The table includes a reclassification of $102 from buildings to land as at December 31, 2010 and January 1, 2010 to conform to the presentation adopted in the current year.

The carrying value of property, plant and equipment held under finance leases at December 31, 2011 was $85 (2010: $66). Additions during the year include $45 (2010: $68) of property, plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

4. INTANGIBLE ASSETS

	Computer Software
At January 1, 2010	
Cost	$ 219
Accumulated amortization	(100)
Net book amount	**$ 119**
Year ended December 31, 2010	
Opening net book amount	$ 119
Additions	103
Amortization for the year	(51)
Closing net book amount	**$ 171**
At December 31, 2010	
Cost	$ 322
Accumulated amortization	(151)
Net book amount	**$ 171**
Year ended December 31, 2011	
Opening net book amount	$ 171
Additions	40
Amortization for the period	(58)
Closing net book amount	**$ 153**
At December 31, 2011	
Cost	$ 362
Accumulated amortization	(209)
Net book amount	**$ 153**

5. MINERAL PROPERTY INTERESTS

Exploration and evaluation expenses	Dumont	Jefmar	Marbridge	Total
Balance January 1, 2010	**$ 22,653**	**$ 469**	**$ 1,057**	**$ 24,179**
Property acquisition costs	678	-	10	688
Depreciation	32	-	-	32
Assays and analysis	321	-	-	321
Drilling	1,704	-	-	1,704
Engineering	930	-	-	930
Environmental	48	-	-	48
Site activities and metallurgical testing	6,666	-	18	6,684
Advances for metallurgical testing, net	317	-	-	317
Travel and accommodation	64	-	-	64
Share based payment	1,388	-	-	1,388
Quebec refundable tax credits	(1,866)	-	-	(1,866)
Balance December 31, 2010	**$ 32,935**	**$ 469**	**$ 1,085**	**$ 34,489**

	Dumont	Jefmar	Marbridge	Total
Exploration and evaluation expenses				
Balance December 31, 2010	**$ 32,935**	**$ 469**	**$ 1,085**	**$ 34,489**
Property acquisition costs	40	-	-	40
Depreciation	53	-	-	53
Drilling	14,370	-	-	14,370
Engineering	3,505	-	-	3,505
Environmental	1,049	-	-	1,049
Geological	1,303	26	10	1,339
Site activities and metallurgical testing	6,494	-	-	6,494
Share based payments	151	-	-	151
Option payment received	-	(20)	-	(20)
Quebec refundable tax credits	(7,931)	-	-	(7,931)
Balance December 31, 2011	**$ 51,969**	**$ 475**	**$ 1,095**	**$ 53,539**

(a) Dumont Property

The Dumont Property consists of contiguous mineral claims. Specifically, the property is located primarily in Launay and partly in Trecesson townships in the Abitibi Region in the province of Quebec.

(i) Griffis International Mineral Claims:

The Griffis International Ltd. ("Griffis") mineral claim block was originally held by Griffis, but a 100% interest in the claims was sold and transferred to the Corporation under an agreement dated January 15, 2007. The agreement with Griffis was not subject to any further future consideration, work commitment requirement or Net Smelter Returns royalty ("NSR").

(ii) Marbaw International Nickel Corporation Mineral Claims:

The Marbaw International Nickel Corporation ("Marbaw") mineral claim block was held by Marbaw and was sold and transferred to the Corporation, for future consideration, under an agreement dated March 8, 2007.

The future consideration is the issuance of 7 million shares in the Corporation to Marbaw upon the property being placed into commercial production or upon transfer of the property to a third party.

The Corporation has also committed to incurring a minimum expenditure of $8,000 on the property prior to ceasing operations, which commitment has been completed. The Marbaw mineral claims are also subject to a 3% NSR royalty payable to Marbaw and the Corporation has the right to buy back half of the 3% NSR for $10,000 at any time.

(iii) Sheridan-Ferderber Mineral Claims:

The Sheridan-Ferderber mineral claim block comprises contiguous claims that were originally held on a 50% basis by Terrence Coyle and 50% basis by Michel Roby, but they were optioned to Patrick Sheridan and Peter Ferderber under an agreement dated October 26, 2006. The option agreement was subsequently assigned to the Corporation through an agreement dated May 4, 2007.

Royal Nickel exercised its option to acquire 100% interest during 2008.

These claims are subject to a 2% NSR royalty payable to Terrence Coyle (1%) and Michel Roby (1%). The Corporation has the right to buy back half of this 2% NSR for $1,000 at any time. An advance royalty of $5 per year, which began on October 26, 2011, is also payable to Coyle-Roby ($5 paid in 2011).

If the Corporation decides not to continue with the claims, it must reassign the claims in good standing to Sheridan-Ferderber.

(iv) Frigon-Robert Mineral Claims

The Frigon-Robert mineral claim block comprises 2 contiguous claims totalling 83.84 hectares. The claims were originally held 50% by Jacques Frigon and 50% by Gérard Robert. They were transferred to RNC through a purchase agreement dated November 1, 2010.

These claims are subject to a 2% NSR royalty payable to Jacques Frigon (1%) and Gérard Robert (1%). The Corporation has the right to buy back half of this 2% NSR for $1,000 at any time.

(b) Jefmar Property

On March 26, 2008, the Corporation acquired from Jefmar Inc. ("Jefmar") a 100% interest in 14 mining claims ("Jefmar Property") in the La Motte Township in the province of Quebec. These claims are subject to a 2% NSR payable to Jefmar Inc. The Corporation has the right to buy back half of this 2% NSR for $1,000 at any time with a minimum of 60 days notice to Jefmar.

On April 26, 2011, the Corporation finalized an agreement with Glen Eagle Resources Inc. (“Glen Eagle”). Under the terms of the agreement, the Corporation granted an option and established the terms of a joint venture agreement regarding 70% of an undivided specific claim included in the Corporation's Jefmar property. The Corporation received cash option payments of $20. The agreement requires Glen Eagle to pay additional option payments totalling $40 and to spend $450 in exploration expenses over three years to earn its 70% in the claim.

(c) Marbridge property

On April 22, 2009, the Corporation finalized an agreement to acquire a 100% ownership interest in the Marbridge property, from Xstrata Nickel for a total cash consideration of $1,000, comprised of two mining concessions in the La Motte Township in the province of Quebec.

6. LOAN PAYABLE

On September 20, 2010, the Corporation entered into a credit agreement with National Bank of Canada to borrow $2,000 secured by hypothecs on its 2008 and 2009 Quebec tax credits receivable, a general assignment of book debts and $200 cash pledge to Investissement Quebec, the guarantor of the loan. The loan was repayable upon collection of the Quebec tax credits, which were assigned to the lender. The loan proceeds were received on October 5, 2010 and the loan was repaid on December 21, 2010.

7. FINANCE LEASE LIABILITIES

	2011	2010
Gross finance lease liabilities – minimum lease payments		
Within one year	$ 50	$ 37
Between two and five years	21	25
	71	62
Future finance charges on finance leases	(5)	(5)
Present value of finance lease liabilities	66	57
Present value of finance lease liabilities are repayable as follows:		
Within one year	46	33
Between one and five years	20	24

8. SHARE CAPITAL

(a) Initial Public Offering

On December 16, 2010, pursuant to an underwriting agreement dated December 9, 2010, the Corporation completed its initial public offering (the "Offering") of 14,500,000 units (the "Units") at a price of $2.25 per Unit and 5,000,000 flow-through units (the "Flow Through Units") at a price of $2.50 per Flow-Through Unit for gross proceeds of $45,125. Each Unit consisted of one common share and one-half of one common share purchase warrant, and each Flow Through unit consisting of one common share issued on a flow-through basis and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $3.00 until December 15, 2012. The fair value of the 9,750,000 warrants issued in the Offering was estimated at $5,584 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield 0%, expected volatility 75%, risk free rate of return 1.67% and an expected maturity of two years.

The expenses of the Offering and underwriters' commissions were $3,768. In addition, the Corporation granted the underwriters non-transferable warrants to purchase such number of common shares equal to 6% of the aggregate number of securities sold under the Offering at a price of $2.25 per common shares, for a period of 18 months from the date of closing. The fair value of the 1,170,000 warrants was estimated at $596 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield 0%, expected volatility 60%, risk free rate of return 1.67% and an expected maturity of 1.5 years.

An issue cost of $540 including income tax and including a portion of warrants granted to the underwriters, was allocated to the warrants.

The Corporation also granted an option (the "Over Allotment Option") to the underwriters, at any time until the date that is 30 days following the date of the closing of the Offering, to purchase up to: (i) that number of additional shares that does not exceed 15% of the number of offered shares at a price of $2.15 per additional share; or (ii) that number of additional warrants that does not exceed 15% of the number of offered warrants at a price of $0.20 per warrant; or (iii) any combination of additional shares and warrants. On January 13, 2011, the underwriters exercised the Over Allotment Option.

On January 13, 2011, pursuant to the underwriting agreement dated December 9, 2010, the Corporation issued 2,925,000 units (the “Units”) at a price of $2.25 per Unit for gross proceeds of $6,581. Each Unit consisted of one common share and one-half of one common share purchase warrant, pursuant to the exercise of the Over-Allotment Option by a syndicate of underwriters. Each whole warrant entitles the holder to acquire one common share at a price of $3.00 until December 15, 2012. The fair value of the 1,462,500 warrants issued was estimated at $812 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield 0%; expected volatility 75%; risk free rate of return 1.77% and expected maturity of two years.

The Corporation granted the underwriters non-transferable warrants to purchase such number of common shares equal to 6% of the aggregate number of securities sold pursuant to the Over-Allotment Option at a price of $2.25 per common shares, for a period of 18 months from the date of closing. The fair value of the 175,500 warrants was estimated at $121 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield 0%, expected volatility 60%, risk free rate of return 1.67% and an expected maturity of 1.5 years.

(b) Flow-Through Issuances

On June 16, 2010, the Corporation closed a brokered private placement of 355,555 units at $2.25 per unit for gross proceeds of $800. Each unit consisted of one flow-through common share and one-half warrant. Each warrant entitles the holder to purchase one common share for $3.00 until June 16, 2012. In connection with this offering, the Corporation granted 35,555 compensation warrants to brokers to acquire 35,555 units with each compensation warrant entitling the holder to purchase one unit at $2.25 until June 16, 2012. Each unit consists of one common share and one-half warrant, entitling the holder to acquire one common share at an exercise price of $3.00, exercisable until June 16, 2012. The fair value of the 177,777 warrants was estimated at $123 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 95%; risk-free interest rate - 1.77%; and an expected life of 2 years. The fair value of the agent’s compensation warrants was estimated using a binomial pricing model based on the following assumptions: dividend yield of 0%, volatility of 95%, risk-free interest rate of 1.77% and an expected life of two years. As a result, the fair value of the compensation warrants was estimated at $48.

On August 20, 2010, the Corporation closed a brokered private placement of 52,500 units at $2.25 per unit for gross proceeds of $118. Each unit consisted of one flow-through common share and one-half warrant. Each warrant entitles the holder to purchase one common share for $3.00 until August 20, 2012. The fair value of the 26,250 warrants was estimated at $21 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%; expected volatility - 95%; risk-free interest rate - 1.30%; and an expected life of 2 years.

(c) Liquidity Entitlement

In 2010, the Corporation issued 660,000 common shares at a value of $2.00 per share regarding the liquidity entitlement arising from the private placement completed on February 15, 2007. Accordingly, $1,320 representing the value of the shares was expensed as liquidity entitlement, which ceased when the Corporation completed the Offering.

(d) Sunhu Agreement

On October 15, 2010, the Corporation entered into a subscription agreement (the “Sunhu Agreement”) with Ningbo Sunhu Chem. Products Co., Ltd. (“Sunhu”). Pursuant to the terms of the Sunhu Agreement, Sunhu agreed to purchase 2,500,000 common shares at a price of $2.00 per common share (the "Sunhu Subscription"). Pursuant to the terms of the Sunhu Agreement, Sunhu also had an option to purchase up to an additional 2,500,000 common shares at a price of $2.00 per common share until November 30, 2010 (the “First Sunhu Option”). Additionally, Sunhu had a second option to purchase up to an additional 5,900,000 common shares, plus any common shares not yet purchased but subject to the First Sunhu Option, at a price of $2.00 per common share until December 30, 2010 (the "Second Sunhu Option").

As at December 31, 2010, the Corporation had received a payment of $5,000, representing full payment of the Sunhu Subscription, and had issued 2,500,000 common shares.

As at December 31, 2010, the First and Second Sunhu Options were not exercised and were not extended by the Corporation.

Pursuant to the Sunhu Agreement, Sunhu is entitled to nominate one person to serve as its representative on the Corporation's Board of Directors in the event that Sunhu achieves and maintains ownership of a minimum of 8% of the common shares issued and outstanding.

(e) Rights Plan

The Corporation announced on May 4, 2011, that its board of directors had approved the adoption of a shareholder rights plan (the “Rights Plan”) designed to encourage the fair and equal treatment of shareholders in connection with any takeover bid for the outstanding securities of the Corporation. At the Annual and Special Meeting of shareholders held on June 22, 2011, shareholders approved the Rights Plan.

The Rights Plan is intended to provide the Corporation's board with adequate time to assess a takeover bid, to consider alternatives to a takeover bid as a means of maximizing shareholder value, to allow competing bids to emerge, and to provide the Corporation's shareholders with adequate time to properly assess a takeover bid without undue pressure.

9. SHARE INCENTIVE PLAN

In June 2010, the shareholders adopted a new share incentive plan (the "Plan"), replacing the previous stock option plan. The Plan provides for the acquisition of common shares by participants for the purpose of advancing the interests of the Corporation through the motivation, attraction and retention of key officers, directors, employees and consultants of the Corporation. The maximum number of common shares made available pursuant to the stock options and to other awards (such as restricted share units, deferred share units, restricted shares, performance shares and performance share units and other equity based or equity related awards) shall not exceed 15% and 10% respectively of the issued and outstanding common shares at the date of grant.

Annually, up to $125 (prior to April 2011, up to $225) of the fees otherwise payable to a director can be taken in the form deferred share units, subject to limits under the Plan.

Share purchase options

The aggregate number of common shares which may be issued under the Plan will not exceed 15% of the issued and outstanding shares at the time of the grant. The normal vesting under the Plan, unless otherwise determined by the Board of Directors, is the following: 33.33% at the first anniversary of the grant, 33.33% on the second anniversary of the grant, and 33.34% on the third anniversary of the grant.

In December 2009, the Corporation amended the stock option plan by extending the exercise period from 5 to 10 years for future grants. Moreover, all options issued and outstanding were also extended with an exercise period of 10 years from the date they were granted. The amendment was approved by shareholders at the annual general meeting held on June 3, 2010.

Stock-based compensation costs for the extension of the exercise period to 10 years of the issued and outstanding stock options amounting to $4,553 were recorded as at June 3, 2010 and represents the cost for the vested options as at June 3, 2010 for an average estimated fair value of $0.65 per option. The fair value of the extended stock options was estimated, considering the fair value of the original option left at the date of the modification, since a modification of the term of an instrument that makes it more valuable should be treated for accounting purposes as an exchange of the original instrument for a new instrument and results in an additional cost equal to the incremental value of the new instrument over the value of the old instrument at the modification date.

The vesting of the stock based compensation costs for the extension is based on the remaining vesting period at the grant date. Stock based compensation costs for stock options which were fully vested at the time of the extension have been recorded during the year ended December 31, 2010. The fair value of the extended stock options was estimated, considering the fair value of the original option left at the date of the modification, using the Black-Scholes option pricing model with no expected dividend yield, an expected volatility of 110%, a risk free interest rate of 3.39% and an expected life of options of 10 years.

In 2011, 740,000 options were granted (701,000 in 2010) and the weighted average fair value of share purchase options granted during the year, as estimated at the time of grant, was $0.54 (2010: $1.72). The exercise price of the granted options was equal to the market price of the shares on the date of the grant. This was calculated using the Black-Scholes option pricing model, using the following weighted average assumptions:

	Year ended December 31, 2011	**Year ended December 31, 2010**
Share price	$0.80	$2.00
Exercise price	$0.80	$2.01
Risk free interest rate	1.6%	3.1%
Expected life	6 years	8.7 years
Expected forfeiture rate	3%	3%
Expected volatility	76%	101%
Expected dividends	nil	nil

The following table reflects the continuity of share purchase options for the years ended December 31, 2011 and 2010:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2010	8,422,000	$ 1.77
Granted	701,000	2.01
Exercised	(308,750)	1.04
Forfeited	(138,887)	2.40
Expired	(377,780)	2.40
Balance December 31, 2010	8,297,583	$ 1.78
Granted	740,000	0.80
Exercised	(600,000)	0.35
Forfeited	(121,332)	2.03
Expired	(1,074,668)	2.24
Balance December 31, 2011	**7,241,583**	**$ 1.73**

The related weighted average share price at the date of the exercise was $1.93 per share (2010: $2.00).

As at December 31, 2011, the Corporation had the following share purchase options outstanding:

Options Granted	Exercise Price ($)	Options Vested and Exercisable	Remaining Contractual Life (Years)	Expiry Date
99,999	2.50	99,999	0.27	April 6, 2012
8,334	2.00	8,334	0.27	April 6, 2012
700,000	0.35	700,000	5.17	March 2, 2017
150,000	0.35	150,000	5.19	March 8, 2017
250,000	0.35	250,000	5.22	March 22, 2017
25,000	0.35	25,000	5.23	March 26, 2017
150,000	0.35	150,000	5.28	April 10, 2017
50,000	1.00	50,000	5.52	July 9, 2017
300,000	1.00	300,000	5.62	August 15, 2017
25,000	1.00	25,000	5.66	August 27, 2017
825,000	2.50	825,000	5.95	December 14, 2017
525,000	2.50	525,000	6.49	June 27, 2018
250,000	2.50	250,000	6.54	July 17, 2018
250,000	2.50	250,000	6.88	November 17, 2018
820,000	2.50	820,000	7.04	January 15, 2019
850,000	2.00	850,000	7.71	September 17, 2019
610,250	2.00	610,250	7.77	October 9, 2019
25,000	2.00	25,000	7.95	December 11, 2019
15,000	2.00	10,000	8.08	January 28, 2020
150,000	2.00	150,000	8.27	April 6, 2020
100,000	2.00	66,667	8.30	April 19, 2020
75,000	2.00	50,000	8.42	June 1, 2020
150,000	2.00	100,000	8.61	August 9, 2020
180,000	2.00	120,000	8.80	October 18, 2020
18,000	2.15	12,000	8.94	December 10, 2020
60,000	1.14	20,000	9.45	June 14, 2021
580,000	0.56	193,333	9.96	December 16, 2021
7,241,583	$1.73	6,635,583	6.65	

The weighted average exercise price of options vested and exercisable is $1.79.

Deferred share units

Under the share incentive plan, a participant is only entitled to payment in respect of the deferred share units when the participant ceases to be an employee or director of the Corporation or any affiliate thereof for any reason. Upon termination, the Corporation shall on such date as determined by the Corporation redeem each deferred share unit for, at the option of the participant, the (i) number of underlying common shares or (ii) the redemption value of the deferred share units in cash. The expense is recorded in the statement of comprehensive loss in general and administrative expenses or capitalized to mineral property interests and credited to liabilities under deferred share units since the payment in cash or common shares is at the option of the participant.

During the period, 306,387 deferred share units (2010: 1,096,875) were granted, 181,387 (2010: 563,542) of which vested immediately, and the remaining vests 33.33% on the first anniversary and 33.34% on the second anniversary.

The expected forfeiture rate for the year ended December 31, 2011 was 0% (2010: 0%).

The following table reflects the continuity of deferred share units for the years ended December 31, 2011 and 2010:

	Number of Deferred Share Units
Balance January 1, 2010	-
Granted	1,096,875
Cancelled	(17,708)
Balance December 31, 2010	1,079,167
Granted	306,387
Balance December 31, 2011	**1,385,554**

As at December 31, 2011, 993,882 deferred share units are vested.

Restricted share units

Under the share incentive plan, redemption of vested restricted share units shall take place on the redemption date which shall not be later than the third anniversary of the date of grant. Upon redemption, the participant has the option to receive (i) the number of underlying common shares or (ii) cash equal to the multiple obtained if the number of vested restricted units is multiplied by the fair market value of a common share on the redemption date, or iii) a combination of common shares and cash. The expense is recorded in the statement of comprehensive loss in general and administrative expenses or capitalized to mineral property interests and credited to liabilities under restricted share units since the payment in cash or common shares is at the option of the participant.

During the period, 764,239 restricted share units (2010: 802,000) were granted, 707,572 (2010: 354,000) of which vested immediately, and the remaining vests 33.33% on the first anniversary and 33.34% on the second anniversary. Included in the restricted share units which vested immediately were 679,239 units (2010: 130,000 units) that management elected to receive in lieu of a portion of an annual cash bonus.

The expected forfeiture rate for the year ended December 31, 2011 was 0% (2010: 0%).

The following table reflects the continuity of restricted share units for the years ended December 31, 2011 and 2010:

	Number of Restricted Share Units
Balance January 1, 2010	-
Granted	802,000
Balance December 31, 2010	802,000
Granted	764,239
Redeemed	(16,665)
Forfeited	(39,335)
Balance December 31, 2011	**1,510,239**

As at December 31, 2011, 1,265,902 restricted share units are vested.

The expense (recovery) recognized from share based transaction for employee services received during the year is shown in the following table:

	2011	2010
Equity settled share-based payment transactions		
Share purchase options	$ 551	$ 1,913
Share purchase options - extension	-	3,482
Total equity settled share-based payment transactions	551	5,395
Cash settled share-based payment transactions		
Deferred share units	530	1,258
Restricted share units	615	866
Mark-to-market adjustment for deferred and restricted share units	(2,202)	551
Total cash settled share-based payment transactions	(1,057)	2,675
Total expense (recovery) arising from share-based payment transactions	**$ (506)**	**$8,070**

The carrying amounts of the liabilities relating to deferred and restricted share units at December 31, 2011, are $700 and $810 respectively (2010: $1,634 and $1,042 respectively).

10. WARRANTS AND COMPENSATION WARRANTS

The following table reflects the continuity of warrants for the year ended December 31, 2011 and 2010:

	Number of Warrants	Weighted Average Exercise Price
Balance January 1, 2010	5,178,350	$ 1.20
Issue pursuant to initial public offering	9,750,000	3.00
Issue pursuant to flow-through issuances	204,027	3.00
Issued as payments of agent fees pursuant to initial public offering (note 8(a))	1,170,000	2.25
Exercised	(253,750)	1.00
Expired	(255,000)	3.50
Balance December 31, 2010	15,793,627	$ 2.38
Issued pursuant to initial public offering over-allotment (note 8(a))	1,462,500	3.00
Issued as payments of agent fees pursuant to initial public offering over-allotment (note 8(a))	175,500	2.25
Exercised	(1,103,750)	0.50
Expired	(1,045,850)	3.00
Balance December 31, 2011	**15,282,027**	**$ 2.53**

The related weighted average share price at the date of the exercise was $1.91 per share (2010: $2.05).

The following table reflects the continuity of compensation warrants for the year ended December 31, 2011 and 2010:

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance January 1, 2010	185,976	$ 2.28
Issued as payments of agent fees (note 8(b))	35,555	2.25
Expired	(22,240)	2.50
Balance December 31, 2010	199,291	$ 2.25
Expired	(163,736)	2.25
Balance December 31, 2011	**35,555**	**$ 2.25**

As at December 31, 2011, the following warrants and compensation warrants were outstanding:

Compensation Warrants	Warrants	Exercise Price ($)	Remaining Contractual Life (Years)	Expiry Date
-	650,000	0.35	0.05	January 19, 2012
-	1,345,500 [1]	2.25	0.46	June 15, 2012
-	177,777	3.00	0.46	June 16, 2012
35,555	-	2.25	0.46	June 16, 2012
-	500,000	1.00	0.52	July 9, 2012
-	1,300,000	0.35	0.55	July 19, 2012
-	26,250	3.00	0.64	August 20, 2012
-	70,000	2.50	0.96	December 14, 2012
-	11,212,500	3.00	0.96	December 15, 2012
35,555	15,282,027	2.53	0.82	

[1] *Broker warrants issued pursuant to the initial public offering underwriting agreement and the over-allotment option*

During November 2010, the expiry date of 1,300,000 warrants previously granted to a company controlled by a director and an officer was extended by six months to a revised expiry date of July 19, 2012. Total costs for the extension amounted to $5, and was estimated using the fair value of the original warrants left at the date of the modification, using the Black-Scholes model with no expected dividend yield, an expected volatility of 60%, risk-free rate of 1.6% and expected life of 18 months.

11. GENERAL AND ADMINISTRATIVE EXPENSES

Expense by nature:	Year ended December 31, 2011	December 31, 2010
Salaries, wages and benefits	**$ 2,390**	$ 1,977
Share based payments (note 9)	**(506)**	8,070
Professional fees	**960**	624
Consulting fees	**393**	280
Public company expenses	**122**	8
Office and general	**1,172**	545
Conference and travel	**290**	181
Investor relations	**1,061**	427
Business development	**344**	170
Depreciation and amortization	**128**	110
	$ 6,354	$ 12,392

12. LOSS PER SHARE

	Year ended December 31, 2011	December 31, 2010
Loss available to common shareholders	**$ (7,751)**	$ (14,929)
Weighted average number of common shares	**88,507,830**	62,275,569
Loss per share – basic and diluted	**$ (0.09)**	**$** (0.24)

The effect of potential issuances of shares under stock options, warrants, compensation warrants, deferred share units and restricted share units would be anti-dilutive for the years ended December 31, 2011 and 2010, and accordingly, basic and diluted loss per share are the same.

13. RELATED PARTY TRANSACTIONS

Remuneration of key management (includes the Corporation's directors and executive team)

	Year ended	
	December 31, 2011	December 31, 2010
Management salaries and benefits	**$ 1,535**	$ 1,098
Directors fees	**274**	386
Share based payments – Management	**1,380**	4,199
Share based payments - Directors	**508**	3,222
Mark-to-market adjustment for share based payments	**(2,435)**	544
	$ 1,262	$ 9,449
Administrative and general expenses:		
Consulting fees paid to director and officer and to a company controlled by director and officer	**$ 142**	$ 184

A director elected to take his annual director fees of $150 (2010: $113) in deferred share units which were accounted for as share based payments.

These transactions are in the normal course of operations and all of the transactions are measured at the exchange amount of consideration established and agreed to by the parties.

14. CONTINGENCIES AND COMMITMENTS

In 2011, the Corporation entered into a sub-lease agreement and a head lease agreement that obligates the Corporation for aggregate rental payments of $1,536 for the next five years.

Under the agreement dated March 8, 2007 to acquire 100% interest of Marbaw mineral claims in the Dumont Property, the Corporation will issue 7 million shares to Marbaw upon the property being placed into commercial production or upon transfer of the property to a third party.

15. INCOME TAX

The major components of income tax expense are as follows:

	2011	2010
Tax expense applicable to:		
Current Taxes	$ -	$ -
Deferred Taxes		
Income taxes – origination and reversal of temporary differences	630	188
Mining taxes – origination and reversal of temporary differences	1,036	995
Relating to change in tax rates/imposition of new tax laws	1,050	390
Relating to unrecognized temporary differences	302	348
Relating to amortization of flow through share premium	(1,176)	(678)
	1,842	1,243
Total tax expense	$ 1,842	$ 1,243

A reconciliation between tax expense and the product of accounting loss multiplied by the Corporation's domestic tax rate is as follows:

	2011	2010
Statutory tax rate	**27.37%**	29.34%
Tax benefit of statutory rate	$ (1,617)	$ (4,016)
Expenses not deductible/(taxable) for income tax purposes	(178)	2,761
Tax effect of renounced flow through share expenditures	2,445	1,468
Amortization of flow through share premiums	(1,176)	(678)
Quebec mining duties, net of tax	1,036	995
Impact of change in federal deferred income tax rate	(29)	390
Impact of change in Quebec mining duties rate, net of tax	1,079	-
Tax effect of unrecognized temporary difference	302	348
Other	(20)	(25)
Total tax expense	$ 1,842	$ 1,243

The 2011 statutory tax rate of 27.37% differs from the 2010 statutory tax rate of 29.34% because of enacted federal tax rate reductions.

The Corporation offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefits of the following temporary differences have been recognized in the financial statements:

	Balance January 1, 2011	Recognized in Profit and Loss	Recognized in Equity	Balance December 31, 2011
Deferred tax assets/(liabilities)				
Loss carry-forward	$ 2,676	$ 2,973	$ -	$ 5,649
Property, plant and equipment	81	(95)	-	(14)
Financing costs	1,105	(377)	163	891
Mining property interests	(6,657)	(5,512)	-	(12,169)
Other	19	(7)	-	12
Net deferred tax assets/(liabilities)	$ (2,776)	$ (3,018)	$ 163	$ (5,631)

	Balance January 1, 2010	Recognized in Profit and Loss	Recognized in Equity	Balance December 31, 2010
Deferred tax assets/(liabilities)				
Loss carry-forward	$ 1,841	$ 835	$ -	$ 2,676
Property, plant and equipment	63	18	-	81
Financing costs	346	(167)	926	1,105
Mining property interests	(4,035)	(2,622)	-	(6,657)
Other	3	16	-	19
Net deferred tax assets/(liabilities)	$ (1,782)	$ (1,920)	$ 926	$ (2,776)

The tax benefits of the following unused tax losses and deductible temporary differences have not been recognized in the financial statements:

	2011	2010
Tax loss carry-forwards Expire 2031	$ 5,914	$ 4,770

The Corporation is subject to federal income taxes, provincial income taxes, and provincial mining taxes. Tax laws are complex and can be subject to different interpretations. The Corporation has prepared its tax provision based on the interpretations of tax laws which it believes represent the probable outcome. The Corporation may be required to change its provision for income taxes if the tax authorities ultimately are not in agreement with the Corporation's interpretation.

16. CONVERSION TO IFRS

The effect of the Corporation's transition to IFRS, described in note 2, is summarized in these notes as follows:

(i) Impact on balance sheet

	January 1, 2010	December 31, 2010
Adjustment to share capital	$ 862	$ 625
Adjustment to mineral property interest	$ (219)	$ (691)
Adjustment to other liability	$ 503	$ 1,176
Adjustment to deferred income tax liability	$ 1,572	$ 2,593
Adjustment to deficit	$ (3,156)	$ (5,085)

(ii) Reconciliation of equity, balance sheet and comprehensive loss as previously reported under Canadian GAAP to IFRS and explanatory notes

Reconciliation of equity

	January 1, 2010	December 31, 2010
Equity as reported under Canadian GAAP	$ 38,466	$ 81,270
Accounting for flow-through shares	(544)	(1,684)
Accounting for Quebec mining duties	(1,750)	(2,776)
Equity as reported under IFRS	$ 36,172	$ 76,810

Reconciliation of balance sheet

		January 1, 2010			December 31, 2010		
	Ref.	Canadian GAAP [1]	IFRS Adj.	IFRS	Canadian GAAP [1]	IFRS Adj.	IFRS
ASSETS							
Current assets							
Cash and cash equivalents		$ 7,619	$ -	$ 7,619	$ 47,482	$ -	$ 47,482
Short term investments		2,569	-	2,569	-	-	-
Amounts receivable and prepaids		152	-	152	586	-	586
Tax credits receivable		3,945	-	3,945	2,121	-	2,121
		14,285	-	14,285	50,189	-	50,189
Non-current assets							
Tax credits receivable		-	-	-	842	-	842
Property, plant and equipment		836	-	836	872	-	872
Intangible assets		119	-	119	171	-	171
Mineral property interests	*d*	24,398	(219)	24,179	35,180	(691)	34,489
Total assets		$ 39,638	$ (219)	$ 39,419	$ 87,254	$ (691)	$ 86,563
LIABILITIES AND EQUITY							
Current liabilities							
Accounts payable and accrued liabilities		$ 962	$ -	$ 962	$ 3,068	$ -	$ 3,068
Deferred share units		-	-	-	1,575	-	1,575
Restricted share units		-	-	-	1,010	-	1,010
Current portion of capital lease obligation		-		-	33	-	33
		962	-	962	5,686	-	5,686
Non-current liabilities							
Deferred share units		-	-	-	59	-	59
Restricted share units		-	-	-	32	-	32
Capital lease obligation		-	-	-	24	-	24
Other liability	*a*	-	503	503	-	1,176	1,176
Deferred income tax liability	*a,b,d*	210	1,572	1,782	183	2,593	2,776
Total liabilities		1,172	2,075	3,247	5,984	3,769	9,753
EQUITY							
Share capital	*a,c*	44,094	862	44,956	87,975	625	88,600
Contributed surplus		10,106	-	10,106	22,029	-	22,029
Deficit	*a,b,c*	(15,734)	(3,156)	(18,890)	(28,734)	(5,085)	(33,819)
Total equity		38,466	(2,294)	36,172	81,270	(4,460)	76,810
Total liabilities and equity		$ 39,638	$ (219)	$ 39,419	$ 87,254	$ (691)	$ 86,563

[1] Reflects the following reclassification to conform to the presentation adopted under IFRS:

Deferred share units liability of $59 has been reclassified to long term liabilities as at December 31, 2010.

Restricted share units liability of $32 has been reclassified to long term liabilities as at December 31, 2010.

Intangible assets have been reclassified from property, plant and equipment of $171 as at December 31, 2010 and $119 as at January 1, 2010.

Land has been reclassified from buildings for $102 as at December 31, 2010 and January 1, 2010.

Reclassification of statement of comprehensive loss

		Year ended December 31, 2010		
	Ref.	Canadian GAAP [1]	IFRS Adj.	IFRS
Expenses				
General and administrative		$ 12,392	$ -	$ 12,392
Operating loss		(12,392)	-	(12,392)
Interest income		26	-	26
Liquidity entitlement		(1,320)	-	(1,320)
Loss before income tax		(13,686)	-	(13,686)
Deferred income tax expense (recovery)	*a,b*	(686)	1,929	1,243
Loss and comprehensive loss		$ (13,000)	$(1,929)	$ (14,929)
Loss per share – basic and diluted		$ (0.21)	$ (0.03)	$ (0.24)
Weighted average number of common shares		62,275,569		62,275,569

Certain amounts on the statement of comprehensive loss have been reclassified to conform to the presentation adopted under IFRS, as the statement of comprehensive loss incorporates expenses by function and by nature which is not permitted under IFRS. The Corporation has elected to present the statement of comprehensive loss by function; therefore, adjustments to the classification of expenses were made for the year ended December 31, 2010 and are presented in note 11.

Explanatory notes

As a result of the adjustments related to differences between Canadian GAAP and IFRS identified in points a) to d) below, mineral property interests, deferred income tax liability, share capital, deficit and the deferred income tax expense (recovery) have been adjusted to give effect to adjustments as follows:

Mineral property interests Reference	**January 1, 2010**	**December 31, 2010**
d)	$ (219)	$ (691)
	$ (219)	$ (691)

Other liability Reference	**January 1, 2010**	**December 31, 2010**
a)	$ 503	$ 1,176
	$ 503	$ 1,176

Deferred income tax liability Reference	**January 1, 2010**	**December 31, 2010**
a)	$ 41	$ 507
b)	1,750	2,777
d)	(219)	(691)
	$ 1,572	$ 2,593

Share capital Reference	**January 1, 2010**	**December 31, 2010**
a)	$ 411	$ 173
c)	451	452
	$ 862	$ 625

Deferred income tax expense (recovery) Reference	**December 31, 2010**
a)	$ 903
b)	1,026
Impact on net loss	$ 1,929

Deficit Reference	**January 1, 2010**	**December 31, 2010**
Net income impact (per above)	$ -	$ (1,929)
a)	(955)	(954)
b)	(1,750)	(1,750)
c)	(451)	(452)
	$ (3,156)	$ (5,085)

(a) Under Canadian GAAP, when flow-through shares are issued, they are initially recorded in share capital at their issue price. When the expenses are renounced (by filing the prescribed forms) to the investors, a future tax liability is recognized as a cost of issuing the shares (a reduction in share capital). Under IFRS, when flow-through shares are issued, the amount recorded in share capital is the estimated fair market value of the shares issued without the premium for the flow through feature of the shares. The difference between the amount recognized in common shares and the amount the investors pays for the shares ("premium") is recognized as an other liability which is reversed into earnings as deferred tax recovery when eligible expenditures have been made. The deferred tax effect resulting from the renunciation of expenditures is recorded, when eligible expenditures have been made, as deferred tax expense.

(b) Under Canadian GAAP, no deferred tax liability ("DTL") was recorded for Quebec mining duties ("QMD"). Under Canadian GAAP, where the tax basis differs depending on the expected manner of recovery, the tax basis is determined to be the highest of potential amounts, regardless of the corporation's intention. Therefore because a sale of the assets would not be taxable for QMD purposes, the tax basis for determining the QMD liability under Canadian GAAP was considered equal to its carrying value (and therefore no deferred tax liability was recorded).

Under IFRS, the tax basis of the assets will be determined based on the expected manner of recovery of the assets. In most situations, and particularly in the situation of the Corporation, there is evidence that the mining assets would be recovered through use. Accordingly, the tax basis of the mining property for QMD is not its carrying amount (as in Canadian GAAP) but the amount depreciable for QMD purposes, which is $nil as at December 31, 2010 and January 1, 2010. Such DTL is recorded as a deferred tax expense in the statement of comprehensive loss.

(c) In accordance with Canadian GAAP, future income taxes were recognized in net income, unless specific rules as specified in paragraph 63 of the CICA Handbook Section 3465 – Income Taxes apply. Any subsequent variations of future taxes occurring without variation of temporary differences in a subsequent period were recognized in the income statement.

Under IFRS, deferred income taxes expense or recovery should be allocated to the statement of comprehensive loss or elsewhere in the financial statements, such as other comprehensive income or in equity, depending where the initial recognition of the temporary difference occurred. This method is known as "backward tracing". Unlike Canadian GAAP, changes in tax balances that arise in a different period should not be recognized by default in the statement of comprehensive loss.

(d) Under Canadian GAAP, future income taxes on the acquisition of an asset in a transaction that is not a business combination and that arise from the difference between the carrying amounts of the assets acquired and their tax basis should be recognized.

Under IFRS, deferred income taxes resulting from such a transaction are not recorded by virtue of the initial recognition exemption.

(iii) <u>Adjustments to the statement of cash flows</u>

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Corporation.

17. FINANCIAL RISK FACTORS

Financial Instruments

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. The Corporation's management manages financial risks. The Corporation does not enter into financial instruments agreements, including derivative financial instruments for speculative purposes. The Corporation’s main financial risks exposure and its financial policies are as follows:

Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Corporation's credit risk is primarily attributable to amounts receivable and cash and cash equivalents. Amounts receivable mainly consists of interest receivable from reputable financial institutions, and goods and services tax due from the Federal and Quebec Governments. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal. The Corporation reduces its risk by maintaining its cash and cash equivalents investments in financial instruments, held with major Canadian chartered banks and large financial institutions.

Liquidity risk

Liquidity risk is the risk that the Corporation will not have sufficient cash resources to meet its financial obligations as they come due. The Corporation’s liquidity and operating results may be adversely affected if the Corporation’s access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation. The Corporation generates cash flow primarily from its financing activities. As at December 31, 2011, the Corporation had a cash and cash equivalent of $19,741 of which $nil is restricted pursuant to flow-through financings (December 31, 2010 - $47,482 of which $11,292 was restricted pursuant to flow-through financings) to settle current liabilities of $3,973 (December 31, 2010 - $5,686). All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms with the exception of obligations under capital lease. The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates.

Interest rate risk

The Corporation has cash balances and the Corporation's current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of December 31, 2011, the Corporation had $19,624 (December 31, 2010 - $47,188) invested in various financial institutions bearing interest at variable rates (at variable rates as at December 31, 2010). Sensitivity to a plus or minus 1% change in the rates would affect the reported net income by approximately $196.

Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and obligations under capital lease approximate their fair values due to their relatively short periods to maturity.

18. CAPITAL MANAGEMENT

The capital of the Corporation consists of items included in shareholder's equity of $76,741 as at December 31, 2011 ($76,810 as at December 31, 2010). The properties in which the Corporation currently has an interest are in the exploration and the evaluation stage. As such the Corporation is dependent on external financing to fund its activities. In order to carry out the planned exploration and evaluation program and pay for administrative costs, the Corporation will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions and manages its capital with the following objectives by:

(i) maintaining a liquidity cushion in order to address any potential disruptions or industry downturns;

(ii) minimizing discretionary disbursements;

(iii) reducing or eliminating exploration and evaluation expenditures which are of limited strategic value; and

(iv) exploring alternate sources of liquidity.

In light of the above, the Corporation will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is appropriate.

There were no changes in the Corporation's approach to capital management during year ended December 31, 2011. The Corporation is not subject to externally imposed capital requirements with the exception of funds restricted pursuant to flow through financing disclosed (nil as at December 31 2011). Changes in capital are described in the Statement of Changes of in Equity.