Consolidated Financial Statements of

UCORE RARE METALS INC.

Years ended December 31, 2011 and 2010

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To the Shareholders of Ucore Rare Metals Inc.

We have audited the accompanying consolidated financial statements of Ucore Rare Metals Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ucore Rare Metals Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

Halifax, Canada
June 26, 2012

UCORE RARE METALS INC.

Consolidated Statements of Financial Position

Expressed in Canadian dollars

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
ASSETS		(Note 12)	(Note 12)
Current assets			
Cash	268,265	9,306,218	183,830
Short-term deposits (note 6)	7,285,967	2,306,363	1,993,533
Marketable securities	8,500	30,500	15,000
Accounts receivable (note 9)	216,160	64,700	36,987
Prepaid expenses	291,742	25,691	21,551
	8,070,634	11,733,472	2,250,901
Equipment (Note 7)	58,021	66,273	67,365
Resource properties and related deferred costs (Note 8)	23,570,263	17,834,046	16,276,518
	31,698,918	29,633,791	18,594,784
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	776,333	369,015	310,231
Shareholders' equity			
Share capital (note 11)	37,510,977	31,102,550	20,306,580
Contributed surplus (note 11)	4,495,138	3,818,574	2,936,293
Warrants (note 11)	2,740,011	4,884,270	2,320,708
Accumulated other comprehensive loss	(176,666)	(428,896)	(24,500)
Deficit	(13,646,875)	(10,111,722)	(7,254,528)
	30,922,585	29,264,776	18,284,553
	31,698,918	29,633,791	18,594,784

Nature of operations (note 1)

Subsequent event (note 13)

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

(s) Jim McKenzie
Jim McKenzie, Director

(s) Jos De Smedt
Jos De Smedt, Director

UCORE RARE METALS INC.

Consolidated Statements of Comprehensive Loss
Expressed in Canadian dollars
for the years ended December 31

	2011	2010
	$	$
		(Note 12)
EXPENSES		
Amortization	24,785	28,316
Investor relations and marketing	349,878	296,285
Office and premises	255,173	144,723
Professional services	478,983	50,095
Salaries and consultants	957,865	844,616
Securities and regulatory	113,046	117,043
Share-based payments	650,947	383,157
Travel	318,443	290,930
Impairment of marketable securities	37,250	-
Write-down of resource properties	431,193	1,166,133
	3,617,563	3,321,298
OTHER INCOME (LOSS)		
Interest income	79,604	10,765
Foreign exchange	2,806	(36,726)
	82,410	(25,961)
LOSS BEFORE INCOME TAXES	(3,535,153)	(3,347,259)
INCOME TAXES RECOVERABLE	-	(490,065)
NET LOSS	(3,535,153)	(2,857,194)
Net Loss per share - basic and diluted	(0.02)	(0.03)
Weighted average number of basic and diluted common shares outstanding	148,499,138	100,158,182
COMPREHENSIVE LOSS:		
Net loss for the periods	(3,535,153)	(2,857,194)
Foreign currency translation difference arising on translation of foreign subsidiaries	236,980	(413,646)
Unrealized gain (loss) on available-for-sale securities	(22,000)	9,250
	(3,320,173)	(3,261,590)

The accompanying notes form an integral part of these consolidated financial statements.

UCORE RARE METALS INC.

Consolidated Statement of Changes in Equity

Expressed in Canadian dollars

	Number of Shares	Share Capital	Contributed Surplus	Warrants	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance at January 1, 2010	86,475,198	$ 20,306,580	$ 2,936,293	$ 2,320,708	$ (24,500)	$ (7,254,528)	$ 18,284,553
Net Loss						(2,857,194)	(2,857,194)
Unrealised gain on marketable securities					9,250		9,250
Foreign currency translation adjustment					(413,646)		(413,646)
Share-based payments			415,346				415,346
Shares issued on exercise of warrants	6,936,237	1,565,023					1,565,023
Fair value of warrants exercised		1,135,218		(1,135,218)			-
Shares issued on exercise of options	60,000	6,000					6,000
Fair value of options exercised		5,400	(5,400)				-
Expiry of warrants			962,400	(962,400)			-
Tax effect of expired warrants			(490,065)				(490,065)
Private placement (net of costs)	43,181,818	8,084,329		4,661,180			12,745,509
Balance at December 31, 2010	136,653,253	$ 31,102,550	$ 3,818,574	$ 4,884,270	$ (428,896)	$ (10,111,722)	$ 29,264,776
Balance at January 1, 2011	136,653,253	$ 31,102,550	$ 3,818,574	$ 4,884,270	$ (428,896)	$ (10,111,722)	$ 29,264,776
Net Loss						(3,535,153)	(3,535,153)
Unrealised loss on marketable securities					(22,000)		(22,000)
Impairment on marketable securities					37,250		37,250
Foreign currency translation adjustment					236,980		236,980
Share-based payments			714,314				714,314
Shares issued on exercise of warrants	14,636,499	4,186,418					4,186,418
Fair value of warrants exercised		2,144,259		(2,144,259)			-
Shares issued on exercise of options	75,000	40,000					40,000
Fair value of options exercised		37,750	(37,750)				-
							-
Balance at December 31, 2011	151,364,752	$ 37,510,977	$ 4,495,138	$ 2,740,011	$ (176,666)	$ (13,646,875)	$ 30,922,585

The accompanying notes form an integral part of these consolidated financial statements.

UCORE RARE METALS INC.

Condensed Consolidated Statements of Cash Flows
Expressed in Canadian dollars

	2011	2010
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(3,535,153)	(2,857,194)
Adjustments for items not involving cash:		
Amortization	24,785	28,316
Share based payments	650,947	383,157
Deferred income tax recovery	-	(490,065)
Impairment of marketable securities	37,250	-
Write-down of resource properties	431,193	1,166,133
	(2,390,978)	(1,769,653)
Change in non-cash operating working capital:		
Increase in accounts receivable	(151,460)	(27,713)
Increase in prepaid expenses	(266,051)	(4,140)
Increase (decrease) in accounts payable and accruals	(6,797)	153,773
	(2,815,286)	(1,647,733)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares and warrants for cash	-	14,000,000
Issuance of common shares on exercise of options and warrants	4,226,418	1,571,023
Issue costs of common shares and warrants	-	(1,254,491)
	4,226,418	14,316,532
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(16,533)	(27,224)
Resource property interests and options	(5,452,948)	(3,206,357)
Purchases of short-term deposits	(10,000,000)	(3,000,000)
Proceeds from redemption of short-term deposits	5,020,396	2,687,170
	(10,449,085)	(3,546,411)
INCREASE (DECREASE) IN CASH	(9,037,953)	9,122,388
CASH, beginning of year	9,306,218	183,830
CASH, end of year	268,265	9,306,218
Non-cash financing and investment activities:		
Accounts payable and accrued liabilties related to resource properties and related deferred costs	414,115	94,989
Issuance (receipt) of common shares on payment of property option agreements	-	(6,250)
Issuance of warrants as compensation pursuant to private placement financing	-	707,954

The accompanying notes form an integral part of these consolidated financial statements.

1. Nature of operations:

Ucore Rare Metals Inc. ("Ucore" or the "Company") is a Corporation domiciled in Canada. The address of the Company’s head office is 454 Voyageur Way, Hammonds Plains, N.S., B4B 2A7. The Company is engaged in the exploration for rare earth elements. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage enterprise.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to liquidate its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

The ability of the the Company to continue as a going concern and the recoverability of amounts shown for resource properties are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development ; and the future profitable production or proceeds from disposition of such properties. These consolidated financial statements do not give effect to adjustments necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. Basis of presentation and first-time adoption of IFRS:

Statement of compliance

These are the Company’s first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 12. The policies applied in these consolidated financial statements are presented in Note 3 and have been applied consistently to all periods presented, including the opening balance sheet at January 1, 2010. The exemptions the Company has taken in applying IFRS for the first time are set out in note 12. The date the Board of Directors approved the consolidated financial statements is June 26, 2012.

2. Basis of presentation and first-time adoption of IFRS (continued):

Basis of measurement

The audited annual consolidated financial statements have been prepared on the historical cost basis except for available for sale financial assets which are measured at fair value.

Functional Currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Ucore Rare Metals Inc.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The determination of estimates requires the exercise of judgments based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimate of recovery for non-financial assets

Events or changes in circumstances may give rise to significant impairment charges or reversals of impairment in a particular year.

In accordance with the Company's accounting policy, each non-financial asset unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is generated and an impairment loss is recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use.

2. Basis of presentation and first-time adoption of IFRS (continued):

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Share-based payments

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

Taxation

The Company's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probably that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Ucore Resources LP (NS) Inc., Rare Earth One LLC (AK), Mineral Solutions LLC (AK) and Landmark Alaska Limited Partnership (AK), Landmark Minerals Inc., 5621 N.W.T. Ltd. and Landmark Minerals US.

(i) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquire, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the parent Company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

3. Significant accounting policies (continued):

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealised income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Resource properties and related deferred costs:

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalised by property. Exploration and evaluation costs are capitalised.

Resource properties are initially measured at cost and classified as tangible assets. These assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, metallurgical studies, and other direct costs related to exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Where a project is determined to be technically and commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant resource property asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

An impairment review of resource properties is performed when there are indicators the carrying amount of the assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount in the financial year in which this is determined. Resource property assets are reassessed on a regular basis and these costs are carried forward provided at least one of the conditions below is met:

- Such costs are expected to be recouped in full through successful development and exploration of the area of interest, or alternatively, by its sale; or

- Exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

3. Significant accounting policies (continued):

(c) Foreign currency translation:

i. Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in the cumulative translation account and reclassified to profit or loss on repayment of the monetary items.

ii. Foreign operations

The results and financial position of all subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate on the date of the statement of financial position;
- Income and expenses for each income statement presented are translated at average exchange rates for the period;
- All resulting exchange differences are recognised in Accumulated Other Comprehensive Loss.

On the loss of control of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are recognised in the income statement as part of the gain or loss on sale.

(d) Financial instruments:

(i) Financial assets

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

The Company derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

3. Significant accounting policies (continued):

The Company has the following non-derivative financial assets: loans and receivables and available for sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise accounts receivable, cash and short term deposits.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. The Company's investments in marketable securities are classified as available for sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange differences on available for sale equity instruments are recognised in other comprehensive income and presented within equity. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Fair value is determined based on current bid prices for all quoted investments.

(ii) Financial liabilities

The Company initially recognises other financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument.

The Company derecognises financial liabilities when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative other financial liabilities: accounts payable and accrued liabilities.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

3. Significant accounting policies (continued):

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

(e) Impairment

(i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructure of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for available for sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be an objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amount of the Company's non-financial assets, excluding resource properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discount ted 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating-unit" or "CGU").

3. Significant accounting policies (continued):

The Company's assets do not generate separate cash inflows. If there is an indication that a company asset may be impaired, then the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised directly against the carrying amount of the asset whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU's are allocated first to the goodwill and then to the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment loses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Resource assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the resource assets' carrying amount exceeds their recoverable amount. Where the assets are not associated with a specific cash generating unit, the recoverable amount is assessed using fair value less cost to sell for the specific assets.

(f) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable on respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

3. Significant accounting policies (continued):

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not recognised for the following temporary difference: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortisation and depreciation on property plant and equipment, tax losses carried forward and fair value adjustments on assets acquired in business combinations.

(g) Share based payments:

The Company has a share-based compensation plan, which is described in note 11. Awards of options to employees and others providing similar services under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to share-based compensation in shareholders' equity. Fair value is measured using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Equity-settled share based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Consideration paid by employees on the exercise of stock options is credited to share capital together with the amounts originally recorded as share based compensation related to the exercised options.

(h) Loss per share:

The calculation of basic loss per common share is based on net loss divided by the weighted average number of common shares outstanding during the period. The Company follows the treasury stock method of calculating diluted per share amounts. Since the Company has a net loss for all years being presented, the effect of the exercise of options and warrants has not been included in the calculation as it would be anti-dilutive.

3. Significant accounting policies (continued):

(i) Equipment:

Equipment is recorded at cost less accumulated amortisation and impairment losses. The Company provides for amortization using the declining balance method at rates designed to amortize the cost of the equipment over their estimated useful lives. The annual amortization rates are as follows:

Asset	Basis	Rate
Office equipment	Declining balance	30%
Exploration equipment	Declining balance	30%

(j) Flow-through shares:

The Company has financed portions of its exploration activities through the issuance of flow-through shares. The income tax attributes of the related exploration expenditures are renounced to investors in accordance with income tax legislation. The proceeds received on the issue of flow-through shares are allocated between share capital and the obligation to deliver the tax deduction to investors. This allocation is based on the difference between the quoted price of the Company's non-flow through shares and the amount the investor pays for the flow-through shares. The premium liability is removed pro-rata based on the actual amount of flow-through eligible expenditures incurred during the reporting period. The reduction of the premium is recognized through profit and loss as other income.

(k) Warrants

From time to time the Company issues warrants in conjunction with share capital. Proceeds are allocated between share capital and warrants based on the relative fair value of each instrument. The fair value of the warrants is estimated using an appropriate option pricing model, as outlined in Note 11.

(l) Future accounting policies:

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009, addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 29 for debt instruments with a mixed measurement model having only two categories: amortised cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognised at fair value through profit and loss or at fair value through other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 2, 2015. The Company has not early adopted IFRS 9 and is currently evaluating the impact on its financial statements.

3. Significant accounting policies (continued):

IAS 1, Presentation of Financial Statements was amended to revise the presentation of other comprehensive income. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company has not early adopted the amendments to IAS 1 and is currently evaluating the impact on its financial statements.

IFRS 10, Consolidated Financial Statements was issued by the IASB on May 12, 2011 and replaces the current IAS 27, Consolidated and Separate Financial Statements. The new standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. This new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this new standard.

IFRS 11, Joint Arrangements was issued by the IASB on May 12, 2011 and replaces the current IAS 31, Interests in Joint Ventures. The new standard classifies joint arrangements as either joint ventures or joint operations. Interests in joint ventures will be accounted for using equity accounting, eliminating the proportionate consolidation option currently available under IAS 31. This new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this new standard.

The IASB issued IFRS 12, Disclosure of Interest in Other Entities on May 12, 2011. This standard establishes disclosure requirements for interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet entities. This new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this standard.

IFRS 13, Fair Value Measurement was issued by the IASB on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure of fair value measurements across various IFRS standards. IFRS 13 provides a definition of fair value, sets out a single IFRS framework for measuring fair value, and outlines requirements for disclosure of fair value measurements. The new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this new standard.

IAS 19, Employee Benefits was issued by the IASB and introduced changes to the accounting for defined benefit plans and other employee benefits. The amendments to other employee benefits include modification of the accounting and termination benefits and classification of other employee benefits. The Company does not anticipate the application of IAS 19 to have a material impact on its consolidated financial statements.

4. Capital Management:

The Company's capital consists of shareholders' equity of $30,922,585 (2010: $29,264,776). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financings. Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

5. Financial instruments:

Fair value

Marketable securities are measured at fair value on a recurring basis using level 1 inputs. The fair value of the financial assets and liabilities using level 2 and 3 inputs was nil. During the years ended December 31, 2011 and 2010, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following items shown in the consolidated statement of financial position as at December 31, 2011 and 2010 and January 1, 2010 are measured at fair value on a recurring basis using level 1 inputs.

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Marketable securities	8,500	30,500	15,000
	$ 8,500	$ 30,500	$ 15,000

Due to their short-term nature, the carrying value of cash, short term deposits, accounts receivable and accounts payable and accrued liabilities approximates their fair value.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with the financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities are due within six months. Their contractual cash flow is equal to their carrying value. Short-term deposits are held in interest bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

5. Financial instruments (continued):

Market Risk

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

Foreign currency risk

A significant portion of the Company's transactions occur in United States dollars and accordingly, the related financial assets are subject to fluctuations in the respective exchange rates. At year end, the Company had net US dollar denominated financial liabilities of $140,000. A 10% weakening in the exchange rate would result in a foreign exchange loss of $14,000. (A 10% strengthening would have an equal but opposite impact).

Interest rate risk

The Company has cash and short-term deposits. The Company’s short term funds are held primarily in guaranteed investment certificates, the rates of which are fixed for periods ranging up to one year. Therefore, a change in interest rates at the reporting date would not affect interest income.

6. Short-term deposits:

Short-term deposits consist of Guaranteed Investment Certificates, the rates of which are fixed for periods ranging up to one year. The deposits can be redeemed without penalty at any time.

7. Equipment:

	Office Equipment			Exploration Equipment			Total		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Balance, January 1, 2010	75,059	45,964	29,095	101,152	62,881	38,270	176,211	108,846	67,365
Additions	27,224	-	27,224	-	-	-	27,224	-	27,224
Depreciation for the year	-	16,855	- 16,855	-	11,461	- 11,461	-	28,316	- 28,316
Balance, December 31, 2010	102,283	62,819	39,463	101,152	74,342	26,809	203,434	137,161	66,273
Balance, January 1, 2011	102,283	62,819	39,463	101,152	74,342	26,809	203,434	137,161	66,273
Additions	16,533	-	16,533	-	-	-	16,533	-	16,533
Depreciation for the year	-	16,757	- 16,757	-	8,029	- 8,029	-	24,786	- 24,786
Balance, December 31, 2011	118,816	79,576	39,240	101,152	82,371	18,781	219,968	161,947	58,021

8. Resource properties and related exploration costs:

The Company's interests in resource properties consist of:

	December 31, 2010	Acquisition Costs	Deferred Exploration Costs	Impairment	Movement in exchange rates	December 31, 2011
Bokan Mountain, Alaska	$ 14,602,853	$ 229,863	$ 5,666,065	$ -	$ 180,222	$ 20,679,003
Lost Pond, Newfoundland	2,800,000	-	-	-	-	$ 2,800,000
Ray Mountains, Alaska	-	52,413	38,847	-	-	$ 91,260
Canada - Other	431,193	-	-	(431,193)	-	$ -
	$ 17,834,046	$ 282,276	$ 5,704,912	$ (431,193)	$ 180,222	$ 23,570,263

	December 31, 2009	Acquisition Costs	Deferred Exploration Costs	Impairment	Movement in exchange rates	December 31, 2010
Bokan Mountain, Alaska	$ 11,905,304	$ 123,585	$ 2,987,610	$ -	$ (413,646)	$ 14,602,853
Lost Pond, Newfoundland	3,832,255	1,112	-	(1,033,367)	-	$ 2,800,000
Canada - Other	538,959	25,000	-	(132,766)	-	$ 431,193
	$ 16,276,518	$ 149,697	$ 2,987,610	$ (1,166,133)	$ (413,646)	$ 17,834,046

Bokan Mountain, Alaska

Ucore Rare Metals Inc. holds the right to acquire up to a 100% interest in the Bokan Mountain uranium and rare earth element property, subject to certain royalties.

The Company holds a 100% interest in five separate option agreements to acquire a 100% interest in a parcel of unpatented mineral claims from underlying owners and staked a 100% interest in an additional parcel of prospective ground. The option agreements provide for the Company to acquire a 100% interest in the optioned claims in exchange for total remaining payments of US$90,000. The five vendors will retain Net Smelter Royalties ("NSR") ranging from 2% to 4% on their specific claims. The Company has the right to purchase between 33% and 100% of the NSR for cash payments of US$500,000 to US$1,000,000 per vendor.

Lost Pond, Newfoundland

The Company holds a 100% interest in the Lost Pond uranium and rare earth element property, located east of Stephenville, Newfoundland. The Company's 100% interest is subject to a 2% NSR (1% on contiguous claims optioned from third parties), 50% of which can be purchased by the Company for cash payments of $500,000 to $1,000,000 to each of three different vendors.

8. Resource properties and related exploration costs (continued):

The Company has entered into a Letter Agreement with Kirrin Resources Inc. ("Kirrin") pursuant to which Kirrin may earn up to a 50% interest in the Lost Pond property by completing work commitments of $2,045,000 on the property by December 31, 2014 and by issuing 300,000 Kirrin common shares (split adjusted) to the Company. A minimum of $900,000 of this work must be completed by June 30, 2012. At the date of these financial statements, Kirrin has met the June 30, 2012 work commitment.

During 2010, Kirrin announced drill results associated with their exploration work on the property for uranium, concluding that the results did not meet the objectives set. Subsequent to this announcement, the agreement with Kirrin was renegotiated, resulting in the above noted work commitments, which are lower than those originally established. Based on the renegotiated agreement, Kirrin would be able to acquire this interest in the property for less than the Company's amount of capitalised exploration expenditures on the property. As a result, the Company tested this asset for impairment at December 31, 2010.

The recoverable amount was determined based on the fair value of the property less costs to sell. The fair value was based on the amount that Kirrin was willing to pay to acquire a 50% interest in the property, which represented the best information available. Based on this assessment in 2010, the recoverable amount of the asset was approximately $2,800,000 resulting in an impairment of $1,033,367. The assumptions used to estimate the recoverable value are subject to further change which could lead to further write-downs or the reversal of the previously recognised impairment.

Canada - Other

Sandybeach Lake, Nunavut

The Company holds a 100% interest in the Sandybeach Lake uranium property located northeast of the northern extent of Neultin Lake, in Nunavut. The Company undertook an impairment review with respect to the Sandybeach Lake property at December 31, 2010, which resulted in a write-down of $107,766, to bring capitalized costs associated with this property to nil.

Newfoundland and Labrador

(i) Central Mineral Belt/Makkovik River

During 2006, the Company acquired a 100% interest in a number of claims in the Makkovik River area of the Central Mineral Belt, located in Labrador. Subsequently, the Company entered into a Letter Agreement with Bayswater Uranium Corporation ("Bayswater") to provide for, on a 50/50 basis, the joint ownership and exploration of their mutual uranium properties in the Central Mineral Belt, now referred to as the Makkovik River Project. During the year, Bayswater notified the Company of its intention to terminate this agreement. As a result, the Company undertook an impairment review with respect to this property and the carrying amount of this property was written down to nil. The resulting impairment charge totalled $431,193.

8. Resource properties and related exploration costs (continued):

(ii) Notakwanon River, Labrador

The Company owns a 100% interest in the Notakwanon River property. The vendor retains 2% NSR, 50% of which may be purchased by the Company for $500,000. The carrying value of this property is nominal.

9. Related party transactions:

Compensation of key management personnel:

	2011	2010
Director' fees	$ 42,000	$ 28,000
Share-based payments to directors	154,833	53,516
Key management short-term benefits	434,138	438,750
Share-based payments to key management	196,972	179,473
	$ 827,943	$ 699,739

As at December 31, 2011, the Company has recorded an advance, for corporate expenses, to an Officer of the Company in the amount of $13,095 (December 31, 2010 - $13,095; January 1, 2010 - $13,095), which is non-interest bearing with no fixed terms of repayment. This amount is included in accounts receivable.

During the year ending December 31, 2011, the Company paid $81,750 (2010 - $24,125) in consulting fees to Directors of the Company. Additionally, travel expenditure in the amount of $9,871 (2010 - $4,984) was reimbursed to directors of the Company.

During the year ended December 31, 2010, the Company contracted a company owned by an Officer of the Company to conduct airborne surveys, resulting in total fees paid of $43,970. No such work was contracted in 2011.

All related party transactions were in the normal course of operations and were valued at the exchange amount agreed to between the parties.

10. Deferred Income taxes:

Future income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 30.5% (2010 - 32.0%) to net loss before income taxes. The reasons for the difference are as follows:

	2011	2010
Computed tax recovery	$ (1,078,000)	$ (1,365,000)
Stock-based compensation, not deductible for tax purposes	199,000	142,000
Impact of reduction in future statutory tax rates	42,000	114,000
Benefit of deductible temporary difference and unused tax losses not recognized	833,000	626,000
Other temporary and permanent differences	4,000	(7,065)
	$ -	$ (490,065)

The following temporary differences and non-capital losses have not been recognised in the consolidated financial statements:

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Non-capital losses carried forward	$ 8,870,000	$ 6,092,000	$4,885,000
Share issue costs	948,000	1,349,000	513,000
Property, plant and equipment	162,000	137,000	109,000
Resource properties	694,000	263,000	(903,000)
Marketable securities	37,000	-	-
	$ 10,711,000	$ 7,841,000	$ 4,604,000

10. Deferred Income taxes (continued):

The Company has accumulated losses for Canadian tax purposes of approximately $8,870,000, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

2013	$ 91,000
2014	151,000
2025	471,000
2026	851,000
2027	1,561,000
2028	1,119,000
2029	641,000
2030	1,207,000
2031	2,778,000

11. Share capital:

Authorized:
Unlimited number of common voting shares
Unlimited number of first preferred non-voting shares issuable in series
Unlimited number of second preferred non-voting shares issuable in series

a) Private placements

On June 18, 2010, the Company completed a brokered private placement financing of 18,181,818 units at a price of $0.22 per unit, for aggregate gross proceeds of $4,000,000. Each unit consisted of one common share and one half warrant, with each full warrant entitling the holder to purchase an additional common share at a price of $0.30 until June 18, 2012. The value allocated to the common shares was $2,909,091 and the value allocated to the warrants was $1,090,909. The Company paid broker fees of 7% of the gross proceeds in cash and broker warrants equal to 7% of the units issued. Each broker warrant gives the right to purchase one common share at a price of $0.22 for a period of two years. A total of $280,000 and 1,272,727 broker warrants were paid and issued. Other costs associated with the private placement totaled $103,105.

11. Share capital (continued):

Expected volatility is estimated by considering historic average share price volatility. The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility of 115% and an expected life of 2 years, resulting in the following allocation of proceeds and costs between common shares and warrants:

	Common Shares Value $	Warrants Value $	Total $
Gross Proceeds	**2,909,091**	**1,090,909**	**4,000,000**
Cash costs	**(278,622)**	**(104,483)**	**(383,105)**
Broker Warrants	**(165,454)**	**165,454**	**-**
Net Proceeds	**2,465,015**	**1,151,880**	**3,616,895**

On December 9, 2010, the Company completed a brokered private placement financing of 25,000,000 units at a price of $0.40 per unit, for aggregate gross proceeds of $10,000,000. Each unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.55 until December 9, 2012. The value allocated to the common shares was $6,780,000 and the value allocated to the warrants was $3,250,000. The Company paid finder’s fees of 7% of the gross proceeds in cash and issued broker’s warrants equal to 7% of the units issued. Each broker’s warrant gives the holder the right to purchase one common share at an exercise price of $0.40 for a period of two years. A total of $700,000 and 1,750,000 broker’s warrants were paid and issued. Other costs associated with the private placement totaled $171,385. $283,200 of the issued costs have been allocated to the issue of the warrants. An officer of the Company purchased 75,000 of the units issued. A director of the Company purchased 50,000 of the units issued.

11. Share capital (continued):

Expected volatility is estimated by considering historic average share price volatility. The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility of 88% and an expected life of 2 years, resulting in the following allocation of proceeds and costs between common shares and warrants:

	Common Shares Value $	Warrants Value $	Total $
Gross Proceeds	**6,750,000**	**3,250,000**	**10,000,000**
Cash costs	**(588,186)**	**(283,200)**	**(871,386)**
Broker Warrants	**(542,500)**	**542,500**	**-**
Net Proceeds	**5,619,314**	**3,509,300**	**9,128,614**

b) Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants to the Company (“the Plan”). Pursuant to the terms of the Plan, up to 10% of the issued and outstanding common shares have been reserved for issuance as options, with no one individual being granted more than 5% of the issued and outstanding common shares. Options granted under the plan generally vest over periods between 18 months and 2 ½ years. Stock options expire up to five years after the date of grant.

Stock options may also be granted to agents in certain public and private placements. Options granted to agents vest immediately and generally expire two years after the date of grant.

11. Share capital (continued):

For the year ended December 31, 2011, the Company recognized share based payments of $714,314 (2010 - $496,040) for options granted to directors, employees and non employees of which $63,367 (2010 - $26,930) was capitalized in resource properties and related deferred costs and $650,947 (2010 - $469,110) was charged to earnings.

The fair value of options granted during the year has been estimated using the Black Scholes option pricing model. The weighted average assumptions used in the pricing model for options granted during the year are as provided below:

	2011	2010
Risk-free interest rate	1.29%	1.98%
Expected life	3.5 years	3 years
Expected volatility	150%	164%
Expected dividends	nil	nil
Weighted average grant date fair value	$0.51	$0.57
Rate of forfeiture	10%	10%

Expected volatility is estimated by considering historic average share price volatility.

A summary of changes in stock options during the year is as follows:

	2011			2010		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of year	5,269,920	$	0.61	4,177,420	$	0.59
Granted	2,370,000		0.58	1,670,000		0.58
Exercised	(75,000)		0.53	(60,000)		0.10
Forfeited	(1,199,600)		0.88	(517,500)		0.48
Balance, end of year	6,365,320	$	0.54	5,269,920	$	0.61

11. Share capital (continued):

The weighted average share price on the date on which options were exercised during 2011 was $0.95 (2010: $0.46).

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2011:

Exercise price per share	Number of outstanding options	Expiry date	Number of exercisable options
$ 0.10	425,000	April 24, 2014	425,000
0.21	150,000	June 10, 2014	150,000
0.35	250,000	August 6, 2014	250,000
0.38	200,000	February 2, 2015	200,000
0.40	300,000	August 19, 2015	200,000
0.45	150,000	July 2, 2013	150,000
0.47	850,000	March 31, 2013	850,000
0.49	20,000	December 1, 2015	13,333
0.55	1,920,000	November 7, 2016	-
0.56	150,000	November 17, 2016	-
0.67	1,150,000	September 29, 2015	766,666
0.75	300,000	July 29, 2016	-
0.84	250,000	September 21, 2014	187,500
1.00	100,000	February 1, 2012	100,000
1.22	50,320	March 14, 2012	50,320
1.25	100,000	June 13, 2012	100,000
	6,365,320		3,442,819

The final three tranches noted in the table above expired subsequent to the balance sheet date of these financial statements.

(c) Share purchase warrants

The fair value of warrants have been estimated using the Black-Scholes option pricing model (see (a)). No warrants were granted during 2011.

11. Share capital (continued):

A summary of the Company's share purchase warrants at December 31, 2011 and 2010, and the changes for the years then ended, is presented below:

	2011		2010	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	32,514,896	$ 0.39	18,538,750	$ 0.30
Granted	-	-	24,613,633	0.43
Exercised	(14,636,499)	0.23	(6,936,237)	0.23
Expired	-	-	(3,701,250)	0.55
Balance, end of year	17,878,397	$ 0.30	32,514,896	$ 0.39

The weighted average share price on the date on which warrants were exercised during 2011 was $0.83 (2010: $0.57).

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2011.

Exercise price per share	Expiry date	Number of exercisable warrants
$ 0.30	June 18, 2012(note 13)	5,185,272
0.22	June 18, 2012(note 13)	50,000
0.55	December 9, 2012	11,674,999
0.40	December 9, 2012	968,126
		17,878,397

12. Transition to IFRS:

As stated in note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for both the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The transition from Canadian GAAP to IFRS has had no effect upon the reported cash flows generated by the Company. The reconciling items between the Canadian GAAP presentation and the IFRS presentation have no impact on the cash flows generated.

IFRS 1 – First time adoption of International Financial Reporting Standards ("IFRS") sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the date of transition with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010.

Business combination election
The election allows the Company to adopt IFRS 3 prospectively from the date of transition.

Cumulative translation differences
The election allows the Company to deem the cumulative translation difference to zero at the transition date.

Share based payments
The election allows application of IFRS 2, Share-Based Payments only to equity instruments granted after November 7, 2002 that had not vested by the transition date.

(a) Functional currency and foreign operations

IFRS requires that the functional currency of each entity in the consolidated Company be determined separately in accordance with IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's reporting currency is the Canadian dollar.

12. Transition to IFRS (continued):

Under IFRS, the results and financial position of all Company entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet are translated at the closing rate at the date of the balance sheet;
- Income and expenses are translated at the average rates;
- All resulting exchange differences are recognized as a separate component of equity.

As a result of the conversion to IFRS, non-monetary assets, which include resource properties and related deferred costs, are now translated at the closing rate at the date of the balance sheet. Under Canadian GAAP, these assets were translated at historic exchange rates in effect at the time of acquisition of the asset. This difference has resulted in a change in the carrying value of resource properties and related deferred costs and the Cumulative translation account, as outlined in the following schedules.

(b) Flow-through shares

Under IFRS, the premium received on flow through shares represents the value of the liability relating to the transfer of income tax credits foregone and owing to investors upon renunciation. The liability has been reclassified from equity to other liability and recycled into income as the associated exploration expenditures are incurred. Under Canadian GAAP, renunciations related to flow-through shares results in an increase in deferred taxes payable and a decrease in equity. Under Canadian GAAP, the estimated deferred income tax impact of the renunciation of expenditures was charged to share capital.

(c) Stock based payments

Under IFRS, each tranche of a stock-based award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value was amortized over the vesting period of the respective tranches. Forfeiture estimates are recognized in the period they were estimated, and revised for actual forfeitures in subsequent periods.

Under Canadian GAAP the fair value of stock-based awards with graded vesting was calculated as a single grant and the resulting fair value was recognized on a straight-line basis over the vesting period for the grant. Forfeitures were recognized as they occurred. As a result of the conversion to IFRS, resource properties, contributed surplus, loss, and deficit balances were adjusted as follows.

12. Transition to IFRS (continued):

(d) Income tax

Under IFRS a deferred tax asset / liability is not recognised when an asset or liability is acquired in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit/loss nor taxable profit/loss. Thus deferred taxes are not recognised on initial recognition or subsequently. Subsequent changes in the unrecognised deferred tax asset or liability are not recognised as the asset is depreciated. This differs from Canadian GAAP which requires the recognition of a deferred tax asset/liability. The carrying amount of the underlying asset or liability was then adjusted by the amount of the deferred tax asset / liability.

12. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS at January 1, 2010

		Effect of transition to IFRS				
	Canadian GAAP	Functional Currency Note 12(a)	Flow-through Shares Note 12(b)	Stock-based Compensation Note 12(c)	Income tax Note 12(d)	IFRS
	$					$
ASSETS						
Current assets						
Cash	183,830					183,830
Short-term deposits	1,993,533					1,993,533
Marketable securities	15,000					15,000
Accounts receivable	36,987					36,987
Prepaid expenses	21,551					21,551
	2,250,901					2,250,901
Capital assets	67,365					67,365
Resource properties and related deferred costs	18,089,688	(60,938)		(14,994)	(1,737,238)	16,276,518
	20,407,954					18,594,784
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	310,231					310,231
Future income tax liability	878,000				(878,000)	-
	1,188,231					310,231
Shareholders' equity						
Share capital	19,690,320		616,260			20,306,580
Contributed surplus	3,064,561			(128,268)		2,936,293
Warrants	2,320,708					2,320,708
Accumulated other comprehensive loss	(24,500)					(24,500)
Deficit	(5,831,366)	(60,938)	(616,260)	113,274	(859,238)	(7,254,528)
	19,219,723					18,284,553
	20,407,954					18,594,784

12. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS at December 31, 2010

		Effect of transition to IFRS				
	Canadian GAAP	Functional Currency Note 12(a)	Flow-through Shares Note 12(b)	Stock-based Compensation Note 12(c)	Income tax Note 12(d)	IFRS
	$					
ASSETS						
Current assets						
Cash	9,306,218					9,306,218
Short-term deposits	2,306,363					2,306,363
Marketable securities	30,500					30,500
Accounts receivable	64,700					64,700
Prepaid expenses	25,691					25,691
	11,733,472					11,733,472
Capital assets	66,273					66,273
Resource properties and related deferred costs	19,243,927	(474,584)		(57,297)	(878,000)	17,834,046
	31,043,672	(474,584)		(57,297)		29,633,791
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	369,015					369,015
Future income tax liability	878,000				(878,000)	-
	1,247,015					369,015
Shareholders' equity						
Share capital	30,486,290		616,260			31,102,550
Contributed surplus	4,048,491			(229,917)		3,818,574
Warrants	4,884,270					4,884,270
Accumulated other comprehensive loss	(15,250)	(413,646)				(428,896)
Deficit	(9,607,144)	(60,938)	(616,260)	172,620		(10,111,722)
	29,796,657					29,264,776
	31,043,672					29,633,791

12. Transition to IFRS (continued)

Reconciliation of loss and comprehensive loss for the year ended December 31, 2010

		Effect of transition to IFRS			
	Canadian GAAP	Functional Currency Note 12(a)	Stock-based Compensation Note 12(c)	Income tax Note 12(d)	IFRS
	$				
EXPENSES					
Amortization	28,316				28,316
Investor relations and marketing	296,285				296,285
Office and premises	144,723				144,723
Professional services	50,095				50,095
Salaries and consultants	844,616				844,616
Securities and regulatory	117,043				117,043
Share-based payments	442,503		(59,346)		383,157
Travel	290,930				290,930
Write-down of resource properties	2,025,371			(859,238)	1,166,133
	4,239,882		(59,346)	(859,238)	3,321,298
OTHER INCOME (LOSS)					
Interest income	10,765				10,765
Gain (loss) on disposal of equipment	-				-
Foreign exchange	(36,726)				(36,726)
	(25,961)		-	-	(25,961)
LOSS BEFORE INCOME TAXES	(4,265,843)		59,346	859,238	(3,347,259)
FUTURE INCOME TAX RECOVERY	(490,065)				(490,065)
NET LOSS FOR THE PERIODS	(3,775,778)		59,346	859,238	(2,857,194)
COMPREHENSIVE LOSS:					
Net loss for the periods	(3,775,778)				(2,857,194)
Foreign currency translation difference arising on translation of foreign subsidiaries	-	(413,646)			(413,646)
Unrealized gain (loss) on available-for-sale securities	9,250				9,250
	(3,766,528)				(3,261,590)

13. Subsequent events:

(a) Subsequent to December 31, 2011 a total of 275,525 shares were issued pursuant to the exercise of warrant agreements, for total proceeds of $79,000. Additionally, 25,000 shares were issued pursuant to the exercise of option agreements, for total proceeds of $2,500.

(b) On June 18, 2012, a total of 4,959,747 warrants expired unexercised.

(c) Subsequent to December 31, 2012, the Company entered into an operating lease for the rental of premises in Bedford, Nova Scotia. The term of the lease is from July 1, 2012 to June 30, 2017. Annual commitments total $111,824.