



ROYAL NICKEL CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011
(unaudited)



Royal Nickel Corporation

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Royal Nickel Corporation

Management's Responsibility for Financial Reporting

The accompanying unaudited condensed interim financial statements for Royal Nickel Corporation are the responsibility of the Management. The unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards applicable to the preparation of interim financial statements, including IAS 34 and 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 unaudited condensed interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim 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 unaudited condensed interim 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

November 9, 2011



Royal Nickel Corporation

Interim Balance Sheets

(Expressed in thousands of Canadian dollars)
(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 26,899	\$ 47,482
Amounts receivable and prepaids	1,275	586
Tax credits receivable	2,763	2,121
	30,937	50,189
Non-current assets		
Tax credits receivable	6,374	842
Property, plant and equipment (note 3)	957	872
Intangible assets (note 4)	169	171
Mineral property interests (note 5)	50,682	34,489
Total assets	\$ 89,119	\$ 86,563
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,892	\$ 3,068
Deferred share units (note 7)	564	1,575
Restricted share units (note 7)	360	1,010
Current portion of capital lease obligation	33	33
	4,849	5,686
Non-current liabilities		
Deferred share units (note 7)	79	59
Restricted share units (note 7)	61	32
Capital lease obligation	-	24
Other liability	-	1,176
Deferred income tax liability	5,750	2,776
Total Liabilities	10,739	9,753
EQUITY		
Share capital (note 6)	95,045	88,600
Contributed surplus	23,133	22,029
Deficit	(39,798)	(33,819)
Total equity	78,380	76,810
Total liabilities and equity	\$ 89,119	\$ 86,563

The notes to the interim financial statements are an integral part of these financial statements



Royal Nickel Corporation

Interim Statements of Comprehensive Loss

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Expenses				
General and administrative (note 9)	\$ 1,486	\$ 1,396	\$ 4,388	\$ 8,205
Operating Loss	(1,486)	(1,396)	(4,388)	(8,205)
Interest income	63	2	370	19
Liquidity entitlement	-	(360)	-	(1,080)
Loss before income tax	(1,423)	(1,754)	(4,018)	(9,266)
Deferred income tax expense (recovery) (note 13)	(241)	80	1,961	973
Loss and comprehensive loss for the period	\$ (1,182)	\$ (1,834)	\$ (5,979)	\$ (10,239)
Loss per share				
Basic and diluted (note 10)	\$ (0.01)	\$ (0.03)	\$ (0.07)	\$ (0.17)

The notes to the interim financial statements are an integral part of these financial statements



Royal Nickel Corporation

Interim Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Cash flow provided by (used in)				
OPERATING ACTIVITIES				
Loss	\$ (1,182)	\$ (1,834)	\$ (5,979)	\$ (10,239)
Items not involving cash:				
Depreciation and amortization	35	28	93	82
Deferred income tax expense (recovery)	(241)	80	1,961	973
Liquidity entitlement	-	360	-	1,080
Share based payments (note 9)	(312)	488	(1,024)	5,495
Shares issued for consulting services	-	66	-	66
	(1,700)	(812)	(4,949)	(2,543)
Changes in working capital				
Amounts receivable and prepaids	232	242	(689)	(251)
Accounts payable and accrued liabilities	(200)	181	(812)	93
	(1,668)	(389)	(6,450)	(2,701)
INVESTING ACTIVITIES				
Expenditures on mineral property interests	(6,974)	(2,732)	(20,420)	(8,236)
Tax credits and mining rights received (paid)	(519)	-	(186)	264
Variation in short term investments	-	1,025	-	2,519
Acquisition of intangible assets (note 4)	(27)	-	(40)	-
Acquisition of property plant and equipment (note 3)	(77)	(5)	(171)	(138)
	(7,597)	(1,712)	(20,817)	(5,591)
FINANCING ACTIVITIES				
Issuance of shares, net of issue costs	-	111	5,947	847
Exercise of options and warrants for cash	-	102	761	102
Principal payments on capital leases	(8)	(3)	(24)	(3)
	(8)	210	6,684	946
Change in cash and cash equivalents	(9,273)	(1,891)	(20,583)	(7,346)
Cash and cash equivalents, beginning of period	36,172	2,164	47,482	7,619
Cash and cash equivalents, end of period	\$ 26,899	\$ 273	\$ 26,899	\$ 273
Components of cash and cash equivalents are as follows:				
Cash	\$ 337	\$ 273	\$ 337	\$ 273
Cash equivalents	26,562	-	26,562	-
	\$ 26,899	\$ 273	\$ 26,899	\$ 273
SUPPLEMENTAL INFORMATION				
Interest paid	\$ 1	\$ -	\$ 30	\$ -
Share based payments in mineral property interests	(110)	229	4	1,724
Depreciation of property, plant and equipment in mineral property interests	13	9	34	24
Mining property interest included in accounts payable and accrued liabilities	2,855	544	2,855	544
Property, plant and equipment recorded pursuant to a capital lease	-	68	-	68
Shares issued for mineral property acquisition	-	5	-	5

The notes to the interim financial statements are an integral part of these financial statements



Royal Nickel Corporation

Interim Statements of Changes in Equity

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

(Unaudited)

	Share Capital		Contributed Surplus	Deficit	Total Equity
	Number	Amount			
Balance as at January 1, 2010	60,545,023	\$ 44,956	\$ 10,106	\$ (18,889)	\$ 36,173
Shares issued for liquidity entitlement	540,000	1,080	-	-	1,080
Shares issued for mineral property acquisition	2,500	5	-	-	5
Shares issued for consulting services	33,125	66	-	-	66
Private placement — flow-through common shares	408,055	816	-	-	816
Broker warrant valuation	-	(48)	48	-	-
Warrant valuation	-	(144)	144	-	-
Cost of issue, net of deferred income tax of \$18	-	(38)	-	-	(38)
Exercise of stock options	200,000	103	-	-	103
Fair value of stock options exercised	-	377	(377)	-	-
Share based payments	-	-	5,933	-	5,933
Comprehensive loss for the period	-	-	-	(10,239)	(10,239)
Balance as at September 30, 2010	61,728,703	\$ 47,173	\$ 15,854	\$ (29,128)	\$ 33,899
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	-	-	660	-	660
Comprehensive loss for the period	-	-	-	(5,979)	(5,979)
Balance as at September 30, 2011	88,876,618	\$ 95,045	\$ 23,133	\$ (39,798)	\$ 78,380

The notes to the interim financial statements are an integral part of these financial statements



Royal Nickel Corporation

Notes to Condensed Interim Financial Statements

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

(Unaudited)

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, Canada.

The principal business of the Corporation is the acquisition, exploration 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.

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 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 September 30, 2011, the Corporation had a working capital of \$26,088, including cash and cash equivalents of \$26,899, an accumulated deficit of \$39,798 and incurred a loss of \$1,182 for the three months 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 development 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 September 30, 2012 and fund its exploration and development 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 Corporation's financial year ends on December 31. The unaudited condensed interim financial statements were authorized by the Board of Directors on November 9, 2011.



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2. 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 after January 1, 2011. Accordingly, the Corporation commenced reporting on this basis in its 2011 interim financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These unaudited condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in these unaudited condensed interim financial statements are the same as those applied in the Corporation’s unaudited condensed interim financial statements for the period ended March 31, 2011. The Corporation has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

Note 14 discloses the impact of the transition to IFRS on the Corporation’s reported equity as at September 30, 2010 and comprehensive loss for the three and nine months ended September 30, 2010, 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.

The accounting policies applied in these unaudited condensed interim financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of November 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation’s annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including transition adjustments recognized on change-over to IFRS.

The unaudited condensed interim financial statements should be read in conjunction with the Corporation’s Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Corporation’s unaudited condensed interim financial statements for the quarters ended March 31, 2011 and September 30, 2011, prepared in accordance with IFRS applicable to interim financial statements.



3. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Vehicles	Furniture and equipment	Computer equipment	Total
Nine months ended						
September 30, 2011						
Opening net book amount	\$ 102	\$ 563	\$ 51	\$ 106	\$ 50	\$ 872
Additions	-	23	64	66	18	171
Depreciation for the period	-	(35)	(18)	(20)	(13)	(86)
Closing net book amount	\$ 102	\$ 551	\$ 97	\$ 152	\$ 55	\$ 957
At September 30, 2011						
Cost	\$ 102	\$ 724	\$ 218	\$ 259	\$ 107	\$ 1,410
Accumulated depreciation	-	(173)	(121)	(107)	(52)	(453)
Net book amount	\$ 102	\$ 551	\$ 97	\$ 152	\$ 55	\$ 957

4. INTANGIBLE ASSETS

Nine months ended September 30, 2011	
Opening net book amount	\$ 171
Additions	40
Amortization for the period	(42)
Closing net book amount	\$ 169
At September 30, 2011	
Cost	\$ 362
Accumulated amortization	(193)
Net book amount	\$ 169

**5. MINERAL PROPERTY INTERESTS**

	Dumont	Jefmar	Marbridge	Total
Balance January 1, 2010	\$ 22,653	\$ 469	\$ 1,057	\$ 24,179
Property acquisition costs	506	-	10	516
Depreciation	24	-	-	24
Assays and analysis	239	-	-	239
Drilling	1,323	-	-	1,323
Engineering	660	-	-	660
Environmental	29	-	-	29
Site activities and metallurgical testing	5,131	-	9	5,140
Advances for metallurgical testing, net	358	-	-	358
Travel and accommodation	39	-	-	39
Share based payment	1,163	-	-	1,163
Quebec refundable tax credits	(1,129)	-	-	(1,129)
Balance September 30, 2010	\$ 30,996	\$ 469	\$ 1,076	\$ 32,541
	Dumont	Jefmar	Marbridge	Total
Balance December 31, 2010	\$ 32,935	\$ 469	\$ 1,085	\$ 34,489
Property acquisition costs	34	-	-	34
Depreciation	35	-	-	35
Drilling	12,071	-	-	12,071
Engineering	2,757	-	-	2,757
Environmental	857	-	-	857
Geological	1,217	26	9	1,252
Site activities and metallurgical testing	5,191	-	-	5,191
Share based payments	4	-	-	4
Option payment received	-	(20)	-	(20)
Quebec refundable tax credits	(5,988)	-	-	(5,988)
Balance September 30, 2011	\$ 49,113	\$ 475	\$ 1,094	\$ 50,682

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.

6. SHARE CAPITAL

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



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\$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.

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 similar to those adopted by other Canadian companies and 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.

7. SHARE PURCHASE OPTION AND DEFERRED AND RESTRICTED SHARE UNIT PLANS

On March 29, 2011, the Corporation granted an aggregate of 100,000 stock options to an employee of the Corporation at an exercise price of \$1.97 for a period of ten years. Vesting of these options is 33.33% immediately, 33.33% on the first anniversary and 33.34% on the second anniversary. The fair value of these options was estimated at \$138 using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield 0%; expected volatility 80%; expected forfeiture rate 3%; risk free rate of return 2.74% and expected maturity of six years.

On June 14, 2011 the Corporation granted an aggregate of 60,000 stock options to two employees of the Corporation at an exercise price of \$1.14 for a period of ten years. Vesting of these options is 33.33% immediately, 33.33% on the first anniversary and 33.34% on the second anniversary. The fair value of these options was estimated at \$46 using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield 0%; expected volatility 75%; expected forfeiture rate 3%; risk free rate of return 2.47% and expected maturity of six years.



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The following table reflects the continuity of stock options for the nine months ended September 30, 2011:

	Number of Options	Weighted Average Exercise Price
Balance December 31, 2010	8,297,583	\$ 1.78
Granted	160,000	1.66
Exercised	(600,000)	0.35
Forfeited	(241,333)	2.23
Balance September 30, 2011	7,616,250	\$ 1.88

Share purchase options

As at September 30, 2011, the Corporation had the following stock options outstanding:

Options Granted	Exercise Price	Options Vested and Exercisable	Remaining Contractual Life (Years)	Expiry Date
525,000	\$2.50	525,000	0.02	October 9, 2011
99,999	2.50	99,999	0.52	April 6, 2012
8,334	2.00	8,334	0.52	April 6, 2012
700,000	0.35	700,000	5.42	March 2, 2017
150,000	0.35	150,000	5.44	March 8, 2017
250,000	0.35	250,000	5.48	March 22, 2017
25,000	0.35	25,000	5.49	March 26, 2017
150,000	0.35	150,000	5.53	April 10, 2017
200,000	1.00	200,000	5.77	July 9, 2017
300,000	1.00	300,000	5.88	August 15, 2017
25,000	1.00	25,000	5.91	August 27, 2017
890,000	2.50	890,000	6.21	December 14, 2017
15,000	2.50	15,000	6.28	January 11, 2018
525,000	2.50	525,000	6.74	June 27, 2018
250,000	2.50	250,000	6.80	July 17, 2018
250,000	2.50	250,000	7.13	November 17, 2018
925,000	2.50	925,000	7.29	January 15, 2019
896,667	2.00	896,667	7.96	September 17, 2019
623,584	2.00	383,922	8.02	October 9, 2019
25,000	2.00	16,667	8.20	December 11, 2019
15,000	2.00	10,000	8.33	January 28, 2020
150,000	2.00	150,000	8.52	April 6, 2020
100,000	2.00	66,667	8.55	April 19, 2020
75,000	2.00	50,000	8.67	June 1, 2020
150,000	2.00	100,000	8.86	August 9, 2020
180,000	2.00	60,000	9.05	October 18, 2020
19,333	2.15	7,332	9.20	December 10, 2020
33,333	1.97	33,333	9.49	March 29, 2021
60,000	1.14	20,000	9.71	June 14, 2021
7,616,250	\$1.88	7,082,921	6.24	

The weighted average exercise price of options vested and exercisable is \$1.87.



Deferred share units

In June 2011, the Corporation granted 49,342 deferred share units to a director, which vested immediately, at a notional value of \$1.14 per share, in lieu of a quarterly director fee cash payment of \$56.

In July 2011, the Corporation granted 29,481 deferred share units to a director, which vested immediately, at a notional value of \$1.06 per share, in lieu of a quarterly director fee cash payment of \$31.

The following table reflects the continuity of deferred share units for the nine months ended September 30, 2011:

	Number of Deferred Share Units
Balance December 31, 2010	1,079,167
Granted	78,823
Balance September 30, 2011	1,157,990

As at September 30, 2011, 724,651 deferred share units are vested.

Restricted share units

In March 2011, the Corporation granted 50,000 restricted share units to an employee, of which 33.33% vested immediately, and 33.33% on the first anniversary and 33.34% on the second anniversary.

In June 2011, the Corporation granted 35,000 restricted share units to two employees, of which 33.33% vested immediately, 33.33% on the first anniversary and 33.34% on the second anniversary.

The following table reflects the continuity of restricted share units for the nine months ended September 30, 2011:

	Number of Restricted Share Units
Balance December 31, 2010	802,000
Granted	85,000
Redeemed	(16,665)
Forfeited	(39,335)
Balance September 30, 2011	831,000

As at September 30, 2011, 398,999 restricted share units are vested.



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8. WARRANTS AND COMPENSATION WARRANTS

The following table reflects the continuity of warrants for the nine months ended September 30, 2011:

	Number of Warrants	Weighted Average Exercise Price
Balance December 31, 2010	15,793,627	\$ 2.38
Issued pursuant to initial public offering over-allotment	1,462,500	3.00
Issued as payments of agent fees pursuant to initial public offering over-allotment	175,500	2.25
Exercised	(1,103,750)	0.50
Balance September 30, 2011	16,327,877	\$ 2.56

As at September 30, 2011, the following warrants and compensation warrants were outstanding:

Compensation Warrants	Warrants	Exercise Price	Expiry Date
113,959	-	\$ 2.25	December 3, 2011
-	712,239	3.00	December 3, 2011
49,777	-	2.25	December 22, 2011
-	333,611	3.00	December 22, 2011
-	650,000	0.35	January 19, 2012
-	1,345,500 ¹	2.25	June 15, 2012
-	177,777	3.00	June 16, 2012
35,555	-	2.25	June 16, 2012
-	500,000	1.00	July 4, 2012
-	1,300,000	0.35	July 19, 2012
-	26,250	3.00	August 20, 2012
-	70,000	2.50	December 14, 2012
-	11,212,500	3.00	December 15, 2012
199,291	16,327,877		

¹ Broker warrants issued pursuant to the initial public offering underwriting agreement

**9. GENERAL AND ADMINISTRATIVE EXPENSES**

Expense by nature:	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Salaries and benefits (see details below)	\$ 594	\$ 871	\$ 1,194	\$ 6,712
Professional fees	196	155	699	449
Consulting fees	79	57	279	159
Public company expenses	16	-	107	-
Office and general	269	175	925	346
Conference and travel	16	22	170	129
Investor relations	213	74	781	303
Business development	68	14	140	25
Depreciation and amortization	35	28	93	82
	\$ 1,486	\$ 1,396	\$ 4,388	\$ 8,205

Salaries and benefits:	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Salaries, benefits and wages	\$ 906	\$ 383	\$ 2,218	\$ 1,217
Share based payments ¹	(312)	488	(1,024)	2,013
Share based payments – option extension	-	-	-	3,482
	\$ 594	\$ 871	\$ 1,194	\$ 6,712

¹ Includes the mark-to-market adjustment for deferred share units and restricted share units of \$(413) and \$(1,433) for the three and nine months ended September 30, 2011 respectively (\$nil and \$nil for the three and nine months ended September 30, 2010 respectively).

10. LOSS PER SHARE

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Loss available to common shareholders	\$ (1,182)	\$ (1,834)	\$ (5,979)	\$ (10,239)
Weighted average number of common shares	88,869,085	61,285,270	88,372,174	60,871,752
Loss per share — basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.07)	\$ (0.17)



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 three months ended September 30, 2011 and 2010, and accordingly, basic and diluted loss per share are the same.

11. RELATED PARTY TRANSACTIONS

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

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Management salaries and benefits	\$ 473	\$ 267	\$ 1,418	\$ 860
Directors fees	139	79	320	245
Share based payments – Management ¹	(161)	444	(556)	2,269
Share based payments – Directors ¹	(126)	123	(523)	3,262
	\$ 325	\$ 913	\$ 659	\$ 6,636
Administrative and general expenses:				
Consulting fees to director and officer	\$ 33	\$ 44	\$ 120	\$ 140

¹ Inclusive of mark-to-market adjustment of \$(460) and \$(1,556) for the three and nine months ended September 30, 2011 respectively.

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.

12. 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 \$1,610 for the next five years.

13. INCOME TAX

The Corporation recognized income tax benefits on non-capital losses and financing costs to the extent that they offset deferred tax liabilities in connection with the incurrence of flow-through share expenditures in the interim period. In addition, the Corporation recorded a resource credit on the eligible exploration expenditures incurred in the interim period.

Additional deferred tax liabilities relating to Quebec mining duty were recognized as a result of additional exploration expenditures incurred in the interim period.



14. 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**

	September 30, 2010
Adjustment to share capital	\$ 1,875
Adjustment to mineral property interest	\$ (715)
Adjustment to deferred income tax liability	\$ 2,113
Adjustment to deficit	\$ (4,703)

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

Reconciliation of equity

	September 30, 2010
Equity as reported under Canadian GAAP	\$ 36,727
Accounting for flow-through shares	(236)
Accounting for Quebec mining duties	(2,592)
Equity as reported under IFRS	\$ 33,899



Reconciliation of interim balance sheet

		September 30, 2010		
	Ref.	Canadian GAAP ¹	IFRS Adj.	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		\$ 273	\$ -	\$ 273
Short term investments		50	-	50
Amounts receivable and prepaids		404	-	404
Tax credits receivable		3,869	-	3,869
		4,596	-	4,596
Non-current assets				
Tax credits receivable		1,007	-	1,007
Property, plant and equipment		872	-	872
Intangible assets		183	-	183
Mineral property interests	<i>d</i>	33,256	(715)	32,541
Total assets		\$ 39,914	\$ (715)	\$ 39,199
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 1,089	\$ -	\$ 1,089
Deferred share units		725	-	725
Current portion of capital lease obligation		33	-	33
		1,847	-	1,847
Non-current liabilities				
Restricted share units		67	-	67
Capital lease obligation		33	-	33
Deferred income tax liability	<i>a,b,d</i>	1,240	2,113	3,353
Total liabilities		3,187	2,113	5,300
EQUITY				
Share capital	<i>a,c</i>	45,298	1,875	47,173
Contributed surplus		15,854	-	15,854
Deficit	<i>a,b,c</i>	(24,425)	(4,703)	(29,128)
Total equity		36,727	(2,828)	33,899
Total liabilities and equity		\$ 39,914	\$ (715)	\$ 39,199

¹ The reconciliation includes the following reclassification of comparative figures to conform to the presentation adopted for the current period:

- Intangible assets of \$183 as at September 30, 2010 have been reclassified from property, plant and equipment.



Reconciliation of statements of comprehensive loss

	Ref.	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		Canadian GAAP ¹	IFRS Adj.	IFRS	Canadian GAAP ¹	IFRS Adj.	IFRS
Expenses							
General and administrative		\$ 1,396	\$ -	\$ 1,396	\$ 8,205	\$ -	\$ 8,205
Operating loss		(1,396)	-	(1,396)	(8,205)	-	(8,205)
Interest income		2	-	2	19	-	19
Liquidity entitlement		(360)	-	(360)	(1,080)	-	(1,080)
Loss before income tax		(1,754)	-	(1,754)	(9,266)	-	(9,266)
Deferred income tax expense (recovery)	<i>a,b</i>	(137)	217	80	(575)	1,548	973
Loss and comprehensive loss		\$ (1,617)	\$ (217)	\$ (1,834)	\$ (8,691)	\$ (1,548)	\$ (10,239)
Loss per share – basic and diluted		\$ (0.03)	\$ (0.00)	\$ (0.03)	\$ (0.14)	\$ (0.03)	\$ (0.17)
Weighted average number of common shares		61,285,270		61,285,270	60,871,752		60,871,752

Certain amounts on the unaudited interim statements 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.



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	September 30, 2010
d)	\$ (715)
	\$ (715)

Deferred income tax liability Reference	September 30, 2010
a)	\$ 236
b)	2,592
d)	(715)
	\$ 2,113

Share capital Reference	September 30, 2010
a)	\$ 1,423
c)	452
	\$ 1,875

Deferred income tax expense (recovery) Reference	Three months ended September 30, 2010	Nine months ended September 30, 2010
a)	\$ 99	\$ 706
b)	118	842
Impact on net loss	\$ 217	\$ 1,548

Deficit Reference	September 30, 2010
Net income impact (per above)	\$ (1,548)
a)	(953)
b)	(1,750)
c)	(452)
	\$ (4,703)

- 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 at the time of conversion. 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 tax occurring without variation of temporary differences in a future period are 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 arose 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 taxes resulting from such a transaction are not recorded.

(iii) Adjustments to the statement of cash flows

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