GRAPHITE ONE RESOURCES INC.
(Formerly Cedar Mountain Exploration Inc.)

Condensed interim consolidated financial statements

For the three months ended December 31, 2011 and 2010

(Unaudited)
(Expressed in Canadian Dollars unless otherwise stated)

GRAPHITE ONE RESOURCES INC.
Condensed Interim Consolidated Statements of Financial Position
December 31, 2011, September 30, 2011 and October 1, 2010
(Unaudited)

	Note	December 31, 2011	September 30, 2011	October 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents		$ 235,332	$ 768,011	$ 733,200
Goods and services tax receivable	5	68,596	57,329	16,300
Mineral exploration tax credits receivable	5	2,982	2,982	36,437
Prepayments		25,181	97,550	21,900
Total current assets		332,091	925,872	807,837
Non-current assets				
Equipment	6	78,660	83,982	58,344
Investment	7	20,000	20,000	-
Exploration and evaluation properties	8	4,900,221	4,788,841	1,073,872
Total non-current assets		4,998,881	4,892,823	1,132,216
Total assets		$ 5,330,972	$ 5,818,695	$ 1,940,053
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other accounts payable	9	$ 47,633	$ 359,124	$ 249,831
Total liabilities		47,633	359,124	249,831
Equity				
Share capital	10	8,674,217	8,674,217	4,307,979
Share option reserve	10	1,431,481	1,431,481	735,640
Deficit		(4,822,359)	(4,646,127)	(3,353,397)
Total equity		5,283,339	5,459,571	1,690,222
Total equity and liabilities		$ 5,330,972	$ 5,818,695	$ 1,940,053
Going concern	2			

Approved by the Board of Directors:

"Anthony Huston" Director *"Charles Chebry"* Director

The accompanying notes are an integral part of these financial statements

	Note	Three Months Ended December 31, 2011	2010
Revenue			
Interest income		$ 1,218	$ 1,475
Expenses			
Marketing and investor relations		$ 63,440	$ 12,613
Management fees and salaries	11	47,169	46,920
Share-based payments		-	78,000
Office and administration		63,107	52,026
Professional fees		8,444	7,834
		182,160	197,393
Other income (expenses)			
Foreign exchange gain		4,710	2,488
Writedown of exploration and evaluation properties		-	(1,636)
Loss before income taxes		(176,232)	(195,066)
Provision for income tax (expense) recovery:			
Deferred		-	-
Net loss and comprehensive loss for the period		$ (176,232)	$ (195,066)
Basic and diluted loss per share		$ (0.00)	$ (0.01)
Weighted average number of common shares oustanding		53,288,249	33,963,055

The accompanying notes are an integral part of these financial statements

GRAPHITE ONE RESOURCES INC.
Condensed Interim Consolidated Statements of Cash Flows
December 31, 2011 and 2010
(Unaudited)

	Three Months Ended December 31, 2011	2010
CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	$ (176,232)	$ (195,066)
Items not involving cash:		
Share-based payments	-	$ 78,000
Writedown of exploration and evaluation propeties	-	1,636
	(176,232)	(115,430)
Changes in non-cash working capital items		
Goods and services tax receivable	(11,267)	9,734
Prepayments	72,369	13,500
Trade and other accounts payable	(311,492)	(173,968)
	(426,622)	(266,164)
FINANCING ACTIVITIES		
Issuance of shares	-	20,990
	-	20,990
INVESTING ACTIVITIES		
Acquistion of exploration and evaluation properties	(16,576)	(18,894)
Exploration of exploration and evaluation properties (net of recoveries)	(89,481)	(31,651)
	(106,057)	(50,545)
Decrease in cash and cash equivalents	(532,679)	(295,719)
Cash and cash equivalents, beginning of period	768,011	733,200
Cash and cash equivalents, end of period	$ 235,332	$ 437,481
Supplemental cash flow information		
Depreciation capitalized to exploration and evaluation properties	$ 5,322	$ 3,093

The accompanying notes are an integral part of these financial statements

	Common Shares		Share Option Reserve		Total Equity
	Number	Amount		Deficit	
October 1, 2010	33,953,224	4,307,979	735,640	(3,353,397)	1,690,222
Shares issued on agent warrant exercise	4,950	1,485	(495)		990
Shares issued on warrant exercise	100,000	20,000			20,000
Share based payments	-	-	78,000	-	78,000
Loss for the period	-	-	-	(195,066)	(195,066)
December 31, 2010	34,058,174	4,329,464	813,145	(3,548,463)	1,594,146
October 1, 2011	53,288,249	8,674,217	1,431,481	(4,646,127)	5,459,571
Loss for the period	-	-	-	(176,232)	(176,232)
December 31, 2011	53,288,249	$ 8,674,217	$ 1,431,481	$ (4,822,359)	$ 5,283,339

1. NATURE OF OPERATIONS

Cedar Mountain Exploration Inc. was incorporated in Alberta and commenced operations on March 16, 2006. On October 18, 2007, the Company closed its initial public offering and began trading on the TSX-Venture exchange under the symbol CED on October 29, 2007. On March 23, 2012, the Company changed its name to Graphite One Resources Inc. ("Graphite One" or the "Company") and adopted symbol on the TSX Venture exchange of GPH effective March 27, 2012. Graphite One is the parent company of its consolidated group. The Company's address is 1280, 885 West Georgia Street, Vancouver, BC, V6C 3E8.

Graphite One is in the business of acquiring and exploring mineral properties. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable and the Company is presently, or is planning to carry out active exploration efforts on all of its mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

2. GOING CONCERN

These unaudited interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come 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 is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern.

The Company's ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

3. BASIS OF PRESENTATION

The preparation of these condensed interim consolidated financial statements resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("Canadian GAAP" or "GAAP"). The accounting policies referenced below have been applied to all periods presented in these financial statements; and are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") that the Company expects to be applicable for its annual financial statements for the year ending September 30, 2012. The interim results are not necessarily indicative of results for a full year.

3.1. Adoption of IFRS

The Company was required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on October 1, 2011. The Company's transition date to IFRS was October 1, 2010 (the "Transition Date") and the comparative statements of financial position as at September 30, 2011 and comparative statements of loss and comprehensive income (loss), changes in equity and cash flows for the three months ended December 31, 2010, have been restated in IFRS.

The guidance for adoption of IFRS is set out in IFRS 1, First-Time Adoption of International Financial Reporting Standards. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company elected to apply the requirements of IFRS 2, Stock-based payments, prospectively from the Transition Date.

Reconciliations between the Company's previously reported statements of financial position and statements of loss and comprehensive income (loss) are presented in note 14.

3.2. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "*Interim Financial Reporting"* using accounting principles consistent with IFRS as published by the IASB and IFRIC. These interim financial statements do not include all disclosure required by IFRS for annual financial statements and accordingly should be read in conjunction with the Company's audited annual financial statements for the year ended September 30, 2011 presented under Canadian GAAP.

The disclosures contained in these condensed interim consolidated financial statements exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and other additional disclosures required under IFRS, which also highlight the changes from the Company's 2011 annual financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim consolidated financial statements under IFRS as the reader will be able to refer to the annual financial statements for the year ending September 30, 2012 which will be prepared in accordance with IFRS.

3.3. Basis of measurement

These condensed interim consolidated financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, revenue and expense. Certain items are stated at fair value.

3.4. Significant judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(i) Depreciation

Mobile equipment and analyzer equipment are depreciated using the straight line method based on rates which approximate the estimated useful life of the equipment. Automobiles are depreciated, net of residual value, on a straight-line basis, over the estimated useful life of the equipment.

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

(ii) Impairment of equipment

The carrying value of equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of equipment or other assets could impact the impairment analysis.

(iii) Exploration and evaluation properties

The Company is required to make significant judgements regarding the capitalization of exploration and evaluation properties. The Company is also required to make significant judgements on the ongoing feasibility of mineral exploration, and whether there are indicators that the development of a specific area is unlikely and exploration and evaluation properties should be impaired.

(iv) Deferred taxes

The Company recognizes the deferred tax benefit related to deferred losses and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

The Company recognizes deferred tax liabilities when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgement as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow, the expected settlement amount, and future changes in tax laws.

(v) Share-based payments
Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive income (loss) over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

These financial statements have been prepared at its historical cost convention except for certain financial instruments which are measured at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Principles of consolidation
The Company consolidates its interest in entities it controls. Control comprises the power to govern an entity's financial and operating policies to obtain benefits from its activities. The Company recognizes its share of assets, liabilities, income and expenses, on a line-by-line basis, of its jointly controlled entities and jointly controlled assets. Investments in entities over which the Company has significant influence are accounted for using the equity method. All intercompany balances and transactions have been eliminated. These consolidated statements include the financial statements of the Company and its wholly owned subsidiary, Cedar Mountain Exploration (Alaska) Inc.. For the periods presented in these financial statements, the Company held a 100% ownership interest in Cedar Mountain Exploration (Alaska) Inc..

4.2 Foreign currency translation
The condensed interim consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Company and its subsidiaries. Functional currencies of the Company's individual entities represent the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the appropriate functional currency at foreign exchange rates that approximate those on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gain and losses are included in profit and loss unless they relate to a net investment in a subsidiary, in which case, the foreign exchange gains and losses are included in equity as accumulated other comprehensive income.

4.3 Cash and cash equivalents
Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

4.4 Equipment

Equipment is recorded at cost and carried net of accumulated depreciation and accumulated impairment losses. Costs of additions and improvements are capitalized. An item of equipment is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds and the carrying amount of the asset is recognized in profit or loss.

	Depreciation Rate
Analytical equipment	20%
Mobile equipment	20%

The Company provides for amortization using the straight line method at rates designed to amortize the cost of individual items over their estimated useful lives. Depreciation on operating assets is included in the statements of net loss as a component of office and administrative expenses. Depreciation of assets utilized in mineral exploration activities is capitalized as a cost of exploration and evaluation properties.

4.5 Exploration and evaluation properties

(i) Pre-license costs:
Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:
Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized as incurred, unless future economic benefit is not expected to be realized. The Company capitalizes on a property by property basis, the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, it is, abandoned, sold or considered impaired in value. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company’s title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

4.6 Decommissioning and restoration

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

The fair value of a liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is amortized on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of its provision for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

As at December 31, 2011, the Company has determined that it does not have any decommissioning and restoration obligations related to current or former operations.

4.7 Impairment of non-financial assets

For the purposes of assessing impairment, the recoverable amount of an asset, which is the higher of its fair value less costs to sell and its value in use, is estimated.

4.8 Provisions

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

4.9 Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries and joint ventures is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

4.10 Flow-through instruments
Canadian tax legislation permits a company to issue flow-through instruments whereby the deduction for tax purposes relating to qualified resource expenditures could be claimed by the investors rather than the company.

A flow-through instrument comprises transfer of income tax deductions and common shares. Proceeds from an issuance of a flow-through instrument are allocate to liability and equity components in proportion, according to their respective fair values at the date of issuance. Upon satisfaction of the spending requirements associated with the flow through share agreements, a proportionate amount of the related flow through liability recognized in previous periods in the statement of financial position will be reversed and the related deferred tax liability will be recognized. Any difference between the liability settled and the deferred tax liability recognized is accounted for as other income or income tax expense.

4.11 Share-based payments
Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain non-employees. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged either to profit or loss or exploration and evaluation properties, with the offsetting credit to share option reserve. For directors, employees and consultants, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. If options vest immediately, the expense is recognized when the options are issued. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in share option reserve are transferred to share capital.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed. The fair value of any vested share options that expire remain in share option reserve.

4.12 Related party transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

4.13 Earnings (loss) per share
Basic earnings (loss) per share are computed by dividing net earnings (loss) (the numerator) by the weighted average number of outstanding common shares for the period (denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive, therefore, basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those share options and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

During the three months ended December 31, 2011 and December 31, 2010, all the outstanding share options and warrants were anti-dilutive.

4.14 Financial instruments - recognition and measurements
Non-derivative financial assets and financial liabilities
The Company classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Available-for-sale financial assets are those financial assets that are not classified as any of the above. Financial liabilities are either classified as financial liabilities at fair value through profit or loss or as other financial liabilities.

Financial assets and financial liabilities are recognized initially at fair value.

Financial assets and financial liabilities at fair value through profit or loss are subsequently measured at fair value with changes in fair values recognized in profit or loss.

Financial assets classified as available for sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income.

Loans and receivables, held-to-maturity investments and other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company's financial instruments consist of cash and cash equivalents, receivables, investments, trade and other accounts payable.

Cash and cash equivalents and receivables are classified as loans and receivables. Marketable securities are classified as available for sale. Trade and other accounts payable are classified as other financial liabilities.

Transaction costs, other than those related to financial instruments classified as financial assets and financial liabilities at fair value through profit or loss, are added to the fair value of the financial asset and financial liability on initial recognition.

4.15 Share issuance costs

Share issue costs, which include commissions, facilitation payments, professional fees and regulatory fees are charged directly to share capital. Share issue costs incurred from the issuance of flow through shares are charged directly to share capital and expense in proportion to the value of the Company's shares at time of issue and any flow through share premium.

4.16 Comprehensive income (loss)

Total comprehensive income comprises all components of profit or loss and other comprehensive income. Other comprehensive income includes changes in revaluation surplus, actuarial gains and losses on defined benefit plans, gains and losses from translating the financial statements of a foreign operation, gains and losses on remeasuring available-for-sale financial assets and the effective portion of gains and losses on hedging instruments in a cash flow hedge.

4.17 Changes in accounting standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Accounting Standards Issued and Effective January 1, 2012

IAS 12 - *Income Taxes (Amended)* ("IAS 12"), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 - *Financial instruments: Disclosures (Amended)* require additional disclosures on transferred financial assets.

Accounting Standards Issued and Effective January 1, 2013

IFRS 9 - Financial Instruments replaces the current standard *IAS 39 Financial Instruments: Recognition and Measurement,* replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

IFRS 10 - *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

a. requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
b. defines the principle of control, and establishes control as the basis for consolidation;
c. sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and,
d. sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities.*

IFRS 11 - *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 - *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 - *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

IAS 27 - *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-) financial statements.

IAS 28 - *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

5. RECEIVABLES

The Company has $68,596 receivable from the Government of Canada and $2,982 receivable from the Province of British Columbia as at December 31, 2011 due to statutory credits and refunds and has classified these receivables as non-financial assets.

6. EQUIPMENT

	Analytical Equipment	Mobile Equipment	Total Equipment
Cost			
Balance, October 1, 2011	$ 61,415	$ 42,799	$ 104,214
Additions	-	-	-
Balance, December 31, 2011	61,415	42,799	104,214
Accumulated depreciation and amortization			
Balance, October 1, 2011	15,353	4,879	20,232
Depreciation for the period	3,071	2,251	5,322
Balance, December 31, 2011	18,424	7,130	25,554
Net book value	$ 42,991	$ 35,669	$ 78,660

	Analytical Equipment	Mobile Equipment	Total Equipment
Cost			
Balance, October 1, 2010	$ 61,415	$ -	$ 61,415
Additions	-	42,799	42,799
Balance, September 30, 2011	61,415	42,799	104,214
Accumulated depreciation and amortization			
Balance, October 1, 2010	3,071	-	3,071
Depreciation for the period	12,282	4,879	17,161
Balance, September 30, 2011	15,353	4,879	20,232
Net book value	$ 46,062	$ 37,920	$ 83,982

7. INVESTMENT

On April 28, 2011, the Company sold the Lemon Lake exploration and evaluation property located in British Columbia, Canada in exchange for 400,000 common shares with a fair value of $20,000 of Metalogic Exploration Inc. ("Metalogic"), a newly incorporated private Canadian corporation.

8. EXPLORATION AND EVALUATION PROPERTIES

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation properties:

	Canada	U.S.A.	
	British Columbia	**Kelly Creek Project**	**Total**
Balance - September 30, 2010	**$ 40,000**	**$ 1,033,872**	**$ 1,073,872**
Aqusition	-	220,658	220,658
Analysis	872	-	872
Geological consulting	-	221,662	221,662
Fieldwork	982	3,312,649	3,313,631
Mineral tax credits	-	-	-
Write-down of exploration and evaluation property	(21,854)		(21,854)
Disposition of exploration and evaluation property	(20,000)		(20,000)
Balance - September 30, 2011	**$ -**	**$ 4,788,841**	**$ 4,788,841**
Aqusition	-	16,576	16,576
Analysis	-	-	-
Geological consulting	-	13,323	13,323
Fieldwork	-	81,481	81,481
Balance - December 31, 2011	**$ -**	**$ 4,900,221**	**$ 4,900,221**

Summary			
Aqusition	$ -	572,881	572,881
Exploration	-	4,215,960	4,215,960
Balance - September 30, 2011	$ -	**$ 4,788,841**	**$ 4,788,841**

Summary			
Aqusition	-	589,457	589,457
Exploration	-	4,310,764	4,310,764
Balance - December 31, 2011	**$ -**	**$ 4,900,221**	**$ 4,900,221**

Kelly Creek Project, Alaska, United States of America

On February 15, 2010, the Company entered into an agreement ("KC Agreement") with an arm's length party (the "Vendor") to lease, with an option to purchase, a gold exploration project ("KC Project") located in the State of Alaska in the United States of America.

Under the terms of the KC Agreement, Graphite One may lease the KC Project (the "Lease") from the Vendor by paying aggregate lease payments of United States Dollars ("USD") 1.5 Million and incurring USD 2.15 Million in exploration ("Work Commitments") over six years. The Work Commitments expenditure requirements have been completed. Graphite One has the option (the "Option") to purchase 100% of the project at any time during the term of the lease for USD 1.5 Million (the "Purchase Price"), with any lease payments paid prior to exercise of the Option being deducted from the Purchase Price. The KC Agreement also requires Graphite One, during the term of the Lease, to maintain the KC Project in good standing. The KC Agreement may be terminated at any time by Graphite One. Lease payments made to date include USD 50,000 during the year ended September 30, 2010 and USD 50,000 during the year ended September 30, 2011. In each of 2012 and 2013, the KC Agreement requires a USD 100,000 lease payment, a USD 200,000 lease payment in 2014 then a USD 500,000 lease payment in each of 2015 and 2016.

Provided Graphite One exercises the Option, the Vendor would retain a production royalty equal to 5% of the net smelter returns ("NSR") and, if commercial production has not yet commenced, Graphite One must make advance royalty payments to the Vendor as follows: USD 100,000 upon exercise of the Option; USD 100,000 on the first anniversary of the exercise of the Option; and USD 200,000 on or before each subsequent anniversary of the exercise of the Option. Upon commencement of commercial production such advance royalty payments shall be recovered by deducting 50% from each NSR payment until the aggregate sum of previously paid advance royalty payments has been deducted. Graphite One may purchase up to 3/5 of the NSR at any time by paying the Vendor the sum of USD 2 Million for each 1% of the NSR, whereupon subsequent advance royalty payments, if applicable, shall be adjusted proportionately.

In conjunction with the KC Agreement, the Company agreed to pay a finder's fee ("Finder's Fee"), to an arm's length third party (the "Finder") for total consideration of USD 70,000 over five years. Provided the KC Agreement is not terminated, the Company shall pay to the Finder an aggregate USD 55,000 in cash and USD 15,000 in common shares of the Company. Should Graphite One choose to exercise the Option, the full unpaid amount of the Finder's Fee is payable within 30 days of such exercise. Finder's Fee cash payments made to date include USD 10,000 during the year ended September 30, 2010 and USD 10,000 during the year ended September 30, 2011. The Finder's Fee agreement requires the issuance of USD 5,000 in common shares in 2012 and USD 10,000 in common shares in 2013, as well as a USD 10,000 cash payment in each of these years. The final cash payment to the Finder for USD 15,000 would be due in 2014.

During the year ended September, 2011, the Company staked additional State of Alaska claims surrounding the KC Project bringing the total claims on the property to 553 covering 35,806 hectares.

Lemon Lake Property, British Columbia, Canada

During the three months ended December 31, 2010, the Company entered into a letter of intent with two arm's length individuals to sell the Company's Lemon Lake exploration and evaluation property in British Columbia, Canada to a newly incorporated private company, Metalogic, in exchange for 400,000 common shares of the private company with a deemed value of $0.10 per common share. The Company determined that this transaction was an indication of the fair value of the property as at September 30, 2010 and therefore recorded an impairment to the Lemon Lake property in the amount of $98,855, as a component of net loss, to reflect the negotiated sale value of $40,000.

On April 28, 2011, the Company amended the terms of the sale of Lemon Lake property to 400,000 common shares of Metalogic with a value of $0.05 per common share. As a result, the Company has recorded an additional impairment to the Lemon Lake Property in the amount of $20,000, recorded as a component of net loss, to reflect the amended sale value of $20,000 (Note 7).

9. TRADE AND OTHER ACCOUNTS PAYABLE

	December 31, 2011	September 30, 2011	October 1, 2010
Financial liabilities			
Trade payables	$ 31,633	$ 333,342	$ 75,814
Payroll liabilities	-	-	2,074
Accrued liabilities	16,000	25,782	171,942
	$ 47,633	$ 359,124	$ 249,831

All amounts are short term. The carrying value of trade payables, payroll accruals and accrued liabilities is considered a reasonable approximation of fair value.

10. EQUITY

10.1 Authorized

Unlimited number of common shares with no par value.

10.2 Shares issued

Shares issued and outstanding as at December 31, 2011 are 53,288,249 (September 30, 2011 – 53,288,249). There were no share transactions during the three months ended December 31, 2011.

During the year ended September 30, 2011 the following share transactions occurred:

On March 9, 2011, the Company completed a non-brokered private placement to raise gross proceeds of $4,347,250 by the issuance of 17,389,000 units (the "Units") of the Company at a price of $0.25 per Unit. Each Unit consisted of one common share of the Company ("Common Share") and one non-transferable Common Share purchase warrant (a "Warrant"). Each Warrant is exercisable to acquire one additional Common Share in the capital of the Company at an exercise price of $0.35 per Common Share until March 8, 2012 and thereafter at an exercise price of $0.45 per Common Share until March 8, 2013. The Company attributed 100% of the proceeds to common shares and no value was attributed to warrants.

The Company paid aggregate cash Finder's fees of $186,935 and issued an aggregate of 747,740 Common Share purchase warrants (each a "Finder's Warrant") as payment of finder's fees. Each Finder's Warrant is exercisable to purchase one Common Share of the Company at an exercise price of $0.26 per Common Share until March 8, 2013.

10.3 Warrants

The following warrants were outstanding as at December 31, 2011:

	Warrants	Weighted Average Exercise Price
Balance, October 1, 2010	12,236,500	0.18
Granted	17,389,000	0.35
Exercised	(1,878,500)	0.20
Price adjustment - old price October 1, 2009	(5,550,000)	0.15
Price adjustment - new price October 1, 2010	5,550,000	0.20
Price adjustment - old price July 9, 2010	(5,538,000)	0.20
Price adjustment - new price July 9, 2011	5,538,000	0.30
Expired/cancelled	-	-
Balance, September 30, 2011	27,747,000	$ 0.31
Exercised	-	-
Expired/cancelled	(4,820,000)	0.20
Balance, December 31, 2011	22,927,000	$ 0.33

As At	December 31, 2011		September 30, 2011		
Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years
-	-	-	4,820,000	0.20	-
5,538,000	0.30	0.5	5,538,000	0.30	0.8
17,389,000	*0.35	1.2	17,389,000	0.35	1.4
22,927,000	0.33	1.0	27,747,000	0.31	1.0

* The exercise price of warrants issued on March 8, 2011 shall be $0.45 if they are exercised after March 8, 2012

10.4 Share-based compensation

Pursuant to a stock option plan (the "Plan") for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the price determined by policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or $0.10 per share. Occasionally, the Company issues stock options to agents which do not fall under the plan.

Total share options granted during the three months ended December 31, 2011 were nil (2010 - 300,000). Total share-based payments recognized for the fair value of share options granted, vested and approved by the shareholders during the three months ended December 31, 2011 was nil (2010 - $78,000).

The fair value of the share options granted in the three months ended December 31, 2011 and the year ended September 30, 2011 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three Months Ended December 31, 2011	Year Ended September 30, 2011
Strike Price	n/a	$0.27
Risk free interest rate	n/a	2.61%
Expected option life	n/a	5 years
Expected stock price volatility	n/a	140%
Dividend payments during life of option	n/a	Nil
Expected forfeiture rate	n/a	Nil

Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

The following stock options issued under the employee stock option plan were outstanding as at December 31, 2011:

	Options		Weighted average exercise price
October 1, 2010	3,250,000	$	0.21
Issued	2,350,000	$	0.27
Expired/cancelled	(600,000)	$	0.17
September 30, 2011	5,000,000	$	0.24
Expired/cancelled	(225,000)	$	0.26
December 31, 2011	**4,775,000**	**$**	**0.24**

As at December 31, 2011			As at September 30, 2011		
Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)
730,000	0.40	0.8	730,000	0.40	1.0
475,000	0.15	0.8	500,000	0.15	1.0
275,000	0.15	2.1	275,000	0.15	2.3
50,000	0.12	2.7	50,000	0.12	2.9
1,195,000	0.15	3.5	1,195,000	0.15	3.8
300,000	0.30	4.0	300,000	0.30	4.2
300,000	0.28	4.2	450,000	0.28	4.4
1,450,000	0.27	4.3	1,500,000	0.27	4.6
4,775,000	0.24	3.0	5,000,000	0.24	3.3

10.5 Agent Options

	Options	Weighted average exercise price
October 1, 2010	550,300	$ 0.15
Issued	747,740	$ 0.26
Price adjustment - old price	(180,775)	$ 0.20
Price adjustment - new price	180,775	$ 0.30
Exercised	(67,525)	$ 0.20
September 30, 2011	1,230,515	$ 0.23
Expired	(302,000)	$ 0.10
December 31, 2011	**928,515**	**$ 0.27**

A summary of agent options outstanding as at December 31, 2011 is as follows:

As at December 31, 2011			As at September 30, 2011		
Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)
-	$ -	-	302,000	$ 0.10	-
180,775	0.30	0.5	180,775	0.30	0.8
747,740	0.26	1.2	747,740	0.26	1.4
928,515	0.27	1.1	1,230,515	0.23	2.7

11. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships	**Nature of the relationship**
CC Management Services Inc. ("CC")	CC is a private company controlled by an officer and current director of the Company. CC provides management services to the Company
859053 Alberta Ltd. ("859053")	859053 Alberta Ltd. is a private company controlled by an officer and director of the Company. 859053 provides management services to the Company.
Huston Financial Corp. ("Huston")	Huston Financial Corp. is a private company controlled by an officer and director of the Company. Huston provides management services to the Company.
Key management	Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President and Chief Executive Officer, Directors, Chief Financial Officer, and Senior Geologist.

Services provided for the three months ended Deceember 31, 2011	Management services
CC Management Services Inc.	$ 37,500
859053 Alberta Ltd.	9,000
Huston Financial Corp.	31,251

Services provided for the three months ended December 31, 2010	Management services
CC Management Services Inc.	$ 32,000
859053 Alberta Ltd.	9,385

Key Management compensation includes:

	Three Months Ended December 31, 2011	**2010**
Benefits	668	-
	$ 668	$ -

Amounts owing to or from related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations.

12. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as its cash and cash equivalent and share capital.

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

The Company does not pay dividends and has no long-term debt or bank credit facility. The Company is not subject to any externally imposed capital requirements.

There have not been any changes to the Company's capital management policy during the period.

13. RISK MANAGEMENT

13.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

a. Capital Risk

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain title to and explore its mineral properties. The capital structure of the Company consists of cash and share capital.

b. Credit Risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed to or owing by the Company. Management's assessment of the Company's exposure to credit risk is low despite the fact that substantially all of the Company's accounts receivable are concentrated with the Government of Canada for the reimbursement of goods and services tax input tax credits and with the Government of British Columbia for British Columbia Mineral Exploration Tax Credits receivable.

c. Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at December 31, 2011, the Company's working capital was $284,458, and it does not have any long term monetary liabilities. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had a cash and cash equivalents of $235,332 to settle current liabilities of $47,633. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

d. Market Risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals such as copper, molybdenum, tungsten, gold and silver.

13.2 Fair Values

The carrying values of cash and cash equivalents, goods and service taxes receivable, mineral exploration tax credits receivable, and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash. The carrying value of Investments is an estimate of fair value based on the most recent transaction between arm's length parties.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at December 31, 2011, the fair value of the Company's financial instruments approximate their carrying value due to either their short term nature or management's estimate of fair value. All financial instruments other than Investments are all classified as Level 1 items. Investments are classified as a Level 3 item.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

14. TRANSITION TO IFRS

The Company's IFRS accounting policies presented in Note 4 have been applied in preparing the financial statements for the period ended December 31, 2011, the comparative information and the opening statement of financial position at the Transition Date.

The Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards in preparing these first IFRS financial statements. The effects of the transition to IFRS on equity, loss and comprehensive income (loss) and reported cash flows are presented in this section and are further explained in the notes that accompany the tables presented below. There was no significant impact on the statements of cash flows as a result of adopting IFRS.

14.1 First-time adoption and exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Company has applied the mandatory exceptions and elected certain optional exemptions. Mandatory exceptions adopted by the Company include:

a. Financial assets and liabilities that have been derecognized before 1 January 2004 under Canadian GAAP have not been recognized under IFRS.
b. The Company has used estimates under IFRS that are consistent with those applied under Canadian GAAP (with adjustments for accounting policy differences) unless there is objective evidence those estimates were in error.

Optional exemptions elected by the Company include:

a. The Company has elected to not apply IFRS 2, Share-based payments to equity instruments that were granted prior to the Transition Date.

14.2 Presentation differences

Some line items are described differently under IFRS compared to Canadian GAAP. These line items are as follows (with Canadian GAAP descriptions in brackets):

- Deferred tax liability ("Future income tax liability")
- Exploration and evaluation properties ("Mineral properties")
- Trade and other accounts payable ("Accounts payable and accrued liabilities")
- Share option reserve ("Contributed surplus")
- Prepayments ("Prepaid Expenses")
- Depreciation ("Amortization")
- Share-based payments ("Stock based compensation")

14. TRANSITION TO IFRS (CONTINUED)

Adjustments required in transitioning from Canadian GAAP to IFRS are set out in the following statements:

Reconciliation of statements of financial position

		As at October 1, 2010			As of December 31, 2010			As at September 30, 2011		
		CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
ASSETS	Note				R			R		
Current										
Cash and cash equivalents		$ 733,200	$ -	$ 733,200	$ 437,481	$ -	$ 437,481	$ 768,011	$ -	$ 768,011
Goods and services tax receivable		16,300	-	16,300	6,566	-	6,566	57,329	-	57,329
Minerals exploration tax credits receivable		36,437	-	36,437	36,437	-	36,437	2,982	-	2,982
Prepaid expenses		21,900	-	21,900	8,400	-	8,400	97,550	-	97,550
		807,837	-	807,837	488,884	-	488,884	925,872	-	925,872
				-						
Plant and equipment		58,344	-	58,344	55,273	-	55,273	83,982	-	83,982
Investments		-	-		-	-	-	20,000	-	20,000
Exploration and evaluation properties	a	1,073,872	-	1,073,872	1,125,852	-	1,125,852	4,826,628	(37,787)	4,788,841
		$ 1,940,053	$ -	$ 1,940,053	$ 1,670,009	$ -	$ 1,670,009	$ 5,856,482	$ (37,787)	$ 5,818,695
LIABILITIES AND EQUITY										
Current		249,831	-	249,831	75,863	-	75,863	359,124	-	359,124
		249,831	$ -	$ 249,831	75,863	$ -	$ 75,863	359,124	$ -	$ 359,124
Flow through shares liability		-	-	-	-	-	-	-	-	-
Deferred taxes		-	-	-	-	-	-		-	-
		249,831	-	$ 249,831	75,863		$ 75,863	359,124		$ 359,124
Shareholders' equity										
Deficit	a	(3,353,397)	-	(3,353,397)	(3,548,463)	-	(3,548,463)	(4,608,340)	(37,787)	(4,646,127)
Share capital		4,307,979	-	4,307,979	4,329,464	-	4,329,464	8,674,217	-	8,674,217
Share option reserve		735,640	-	735,640	813,145	-	813,145	1,431,481	-	1,431,481
		1,690,222	-	1,690,222	1,594,146	-	1,594,146	5,497,357	-	5,459,571
		$ 1,940,053	$ -	$ 1,940,053	$ 1,670,009	$ -	$ 1,670,009	$ 5,856,482	$ -	$ 5,818,695

14. TRANSITION TO IFRS (CONTINUED)

Reconciliation of statements of loss and comprehensive income (loss)

		Three months ended December 31, 2010			Year ended September 30, 2011		
	Note	CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
Revenue							
Interest income		1,475	-	1,475	22,321	-	22,321
Expenses							
Marketing and investor relations		$ 12,613	-	$ 12,613	$ 175,233	-	175,233
Management fees and salaries		46,920	-	46,920	272,793	-	272,793
Office and administration		52,026	-	52,026	158,973	-	158,973
Professional fees		7,834	-	7,834	44,185	-	44,185
Share-based payments		78,000	-	78,000	568,000	-	568,000
Pre-acquisition costs	a	-	-	-	-	37,787	37,787
		197,393	-	197,393	1,219,184	37,787	1,256,971
Other income (expenses)							
Gain (loss) on foreign exchange		2,488	-	2,488	(36,227)	-	(36,227)
Loss on disposition of mineral property		-	-	-	-	-	-
Write down of exploration and evaluation properties		(1,636)	-	(1,636)	(21,854)	-	(21,854)
Loss before income taxes		(195,066)	-	(195,066)	(1,254,944)	(37,787)	(1,292,731)
Provision (recovery) for income taxes:							
Future		-	-	-	-	-	-
							-
Net income (loss) for the period		$ (195,066)	$ -	(195,066)	$ (1,254,944)	$ (37,787)	(1,292,731)
Comprehensive income (loss) for the period		$ (195,066)	$ -	$ (195,066)	$ (1,254,944)	$ (37,787)	$ (1,292,731)

Notes to reconciliation

a) *Restatement of exploration and evaluation properties*
Under GAAP, the Company capitalized all costs associated with the finding and development of the property. Under IFRS, costs incurred prior to acquiring the legal right to explore the property are expensed.

The Company has accordingly recalculated the capitalized values of exploration and evaluation properties and recognized the difference in the expenses recognized in the period ended September 30, 2011.

b) Foreign exchange gains and losses
Under GAAP, the Company consolidated its wholly owned U.S. subsidiary using the integrated method which resulted in mineral property and fixed asset transaction that were denominated in US dollars being translated at the exchange rate in effect at the time of the transactions (the historic rate). Balances of monetary items denominated in US dollars were translated at the exchange rate in effect at each balance sheet date (the current rate). The foreign exchange differences that resulted during the translation and consolidation of the US subsidiary were charged to the income statement. Under IFRS, translation of US dollar denominated transactions and balances into the functional currency of the US subsidiary resulted in no differences in foreign exchange gains and losses between Canadian GAAP and IFRS.

15. SUBSEQUENT EVENTS

15.1 Graphite Creek Option Agreement

On January 17, 2012, the Company announced that it had entered into an option agreement (the “Graphite Creek Option”) with an arm’s length party to earn a 100% interest in the Graphite Creek Property, an approximately 1,375 hectare property on the Seward Peninsula of Alaska. The Graphite Creek Property is an early stage exploration Property which the Company has assessed is of high prospectivity for large-flake, high grade graphite. To complete the Graphite Creek Option, the Company must incur exploration expenditures on the Graphite Creek property totalling United States dollars (“USD”) 1,525,000 over three years, and make aggregate cash payments to the vendor of the Graphite Creek project totalling USD 425,000, including: USD 25,000 upon entering the Graphite Creek Option; USD 50,000 due March 1, 2012; USD 100,000 due March 1, 2013, and; USD 250,000 on March 1, 2014.

Upon completion of the Graphite Creek Option, the Company’s interest in the Graphite Creek Property will be governed by an initial 20 year lease with provisions for renewal (the “Graphite Creek Lease”). During the term of the Graphite Creek Lease, the Company must pay an advance royalty (the “Advance Royalty”) of USD 30,000 per year for each of the first five years and increasing by USD 10,000 per year thereafter, until such time as the Graphite Creek Property commences production. Upon commencement of production, the Graphite Creek property shall be subject to a 5% net smelter royalty in favour of the vendor of the Graphite Creek Property (the “Graphite Creek NSR”), of which 50% of the total amount payable under the Graphite Creek NSR may be settled by applying advance royalties paid prior to production. The Company shall have the additional option of reducing the Graphite Creek NSR to 3% by making cash payments to the beneficiary of the Graphite Creek Royalty of USD 2,000,000 for each 1% of the total 5% Graphite Creek Royalty.

15.2 Private placement for proceeds of $6.4million

On March 6, 2012, the Company closed the private placement previously announced on February 20, 2012 and amended on February 23, 2012. The Company sold 32,000,000 units (the "Units") at a price of $0.20 per Unit for total gross proceeds of C$6.4 million (the "Offering"). The Offering consisted of both a brokered (the "Brokered Offering") and a non-brokered (the "Non-brokered Offering") component. Each Unit consists of one common share of the Company ("Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant shall be exercisable into one common share of the Company for a period of 24 months from closing at an exercise price of C$0.35 per share.

Canaccord Genuity Corp. (the "Agent") led the Brokered Offering, where the Company sold 21,000,000 Units at a price of $0.20 per Unit for gross proceeds of $4,200,000. In addition, the Agent received a cash fee on the sale of the securities equal to 6.5% of the aggregate gross proceeds raised in the Brokered Offering, 2,100,000 broker warrants (the "Broker Warrants"), which represent 10% of the securities issued pursuant to the Brokered Offering and a corporate finance fee of 350,000 Units. Each Broker Warrant shall be exercisable for one Common Share at a price of C$0.20 at any time up to 24 months after closing.

Pursuant to the Non-brokered Offering, the Company sold 11,000,000 Units at a price of $0.20 per Unit for gross proceeds of $2,200,000 under the same terms as above. In connection with the Non-brokered Offering, the Corporation paid finder's fees to registered dealers by the issuance of: (a) a cash fee for an aggregate of C$167,400 equal to 6.5% of the aggregate gross proceeds raised in the Non-brokered Offering, payable in cash; and (b) non-transferable share purchase warrants entitling such registered dealers to acquire in the aggregate, an additional 1,020,000 common shares on the same terms as the Warrants.

Securities issued under the Offering will be subject to a four month hold period which will expire on July 7, 2012. The Company intends to use the gross proceeds of the Units issued for exploration and development of the Company's Graphite Creek Property and for general working capital purposes.

15.3 Stock option grant

Following closing of the Offering mentioned above, the board of directors granted stock options pursuant to the Company's stock option plan to officers, directors and consultants of the Company to acquire an aggregate of 3,400,000 common shares of the Company, exercisable at a price of $0.28 until March 6, 2017, of which stock options to acquire 2,550,000 common shares of the Company were granted to directors and officers of the Company.