(Formerly Alderon Resource Corp.)

(An Exploration-Stage Company)

Consolidated Financial Statements
As of and for the years ended December 31, 2011 and 2010
(in Canadian dollars)

DAVIDSON & COMPANY LLP — Chartered Accountants — A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Alderon Iron Ore Corp.
(formerly Alderon Resource Corp.)

We have audited the accompanying consolidated financial statements of Alderon Iron Ore Corp. (formerly Alderon Resource Corp.), which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010 and the consolidated statements of changes in shareholders' equity, comprehensive loss and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Alderon Iron Ore Corp. (formerly Alderon Resource Corp.) as at December 31, 2011 and 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada　　　　Chartered Accountants

March 27, 2012

Alderon Iron Ore Corp. (formerly Alderon Resource Corp.)
Consolidated Statements of Financial Position
(in Canadian dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
ASSETS			
Current assets			
Cash and cash equivalents	**7,759,933**	24,376,060	1,504,920
Receivables (note 5)	**2,776,834**	515,405	11,173
Prepaid expenses and other current assets	**2,050,481**	656,726	-
	12,587,248	25,548,191	1,516,093
Mineral properties (note 4)	**88,668,710**	88,668,710	-
Property, plant and equipment (note 6)	**373,409**	304,290	-
	101,629,367	114,521,191	1,516,093
LIABILITIES			
Current liabilities			
Payables and accrued liabilities (note 7)	**7,376,731**	896,088	181,861
Due to related parties (note 8)	**156,863**	131,097	44,824
Flow-through share premium obligation (note 9)	**216,460**	-	-
	7,750,054	1,027,185	226,685
SHAREHOLDERS' EQUITY			
Share capital and warrants (notes 9 and 10)	**149,573,447**	142,973,784	20,164,894
Subscriptions received in advance	**-**	-	1,500,000
Other capital	**13,096,693**	2,867,971	256,477
Deficit	**(68,790,827)**	(32,347,749)	(20,631,963)
	93,879,313	113,494,006	1,289,408
	101,629,367	114,521,191	1,516,093

Basis of preparation and nature of operations (note 1)
Commitments and contingencies (note 18)
Subsequent events (note 22)

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

Approved by the Board of Directors

"Bruce Humphrey"
Bruce Humphrey
Director

"Brad Boland"
Brad Boland
Director

Alderon Iron Ore Corp. (formerly Alderon Resource Corp.)
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2011 and 2010
(in Canadian dollars, except share data)

	Common shares	Share capital and warrants	Subscrip-tions received in advance	Other capital	Deficit	Total
	(number)	$	$	$	$	$
Balance – January 1, 2010	**9,279,081**	**20,164,894**	**1,500,000**	**256,477**	**(20,631,963)**	**1,289,408**
Fractional rounding from share consolidation (note 9)	(80)	-	-	-	-	-
Issuance pursuant to acquisition of 0860132 BC Ltd. (note 4)	5,000,000	9,000,000	-	-	-	9,000,000
Issuance pursuant to acquisition of Kami Property (note 4)	32,285,006	79,421,114	-	-	-	79,421,114
Issuances pursuant to private placements, net of transaction costs (note 9)	29,125,000	29,702,400	(1,500,000)	-	-	28,202,400
Issuance pursuant to flow-through share agreement, net of transaction costs (note 9)	1,818,182	4,080,017	-	-	-	4,080,017
Issuances pursuant to the exercise of warrants (note 10)	4,042,000	492,000	-	-	-	492,000
Issuances pursuant to the exercise of stock options (note 11)	40,000	113,359	-	(53,359)	-	60,000
Share-based compensation costs	-	-	-	2,664,853	-	2,664,853
Net loss	-	-	-	-	(11,715,786)	(11,715,786)
Balance – December 31, 2010	**81,589,189**	**142,973,784**	**-**	**2,867,971**	**(32,347,749)**	**113,494,006**
Issuance pursuant to flow-through share agreement, net of transaction costs (note 9)	2,000,000	4,344,910	-	-	-	4,344,910
Issuances pursuant to the exercise of warrants (note 10)	854,625	1,512,915	-	-	-	1,512,915
Issuances pursuant to the exercise of stock options (note 11)	273,700	741,838	-	(345,918)	-	395,920
Share-based compensation costs	-	-	-	10,574,640	-	10,574,640
Net loss	-	-	-	-	(36,443,078)	(36,443,078)
Balance – December 31, 2011	**84,717,514**	**149,573,447**	**-**	**13,096,693**	**(68,790,827)**	**93,879,313**

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

Alderon Iron Ore Corp. (formerly Alderon Resource Corp.)

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2011 and 2010

(in Canadian dollars, except share data)

	Years ended December 31, 2011	2010
	$	$
Operating expenses		
Exploration and evaluation expenses	**21,201,210**	7,419,390
General and administrative expenses	**15,182,005**	4,921,135
Environmental, aboriginal, government and community expenses	**1,356,780**	73,954
	37,739,995	12,414,479
Loss from operations	**(37,739,995)**	(12,414,479)
Finance income	**233,377**	62,329
Loss before income taxes	**(37,506,618)**	(12,352,150)
Income tax recovery (note 13)	**1,063,540**	636,364
Net loss and comprehensive loss	**(36,443,078)**	(11,715,786)
Net loss per share (note 14)		
Basic and diluted	**(0.44)**	(0.32)
Weighted average number of shares outstanding (note 14)		
Basic and diluted	**82,615,947**	36,624,142

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

Alderon Iron Ore Corp. (formerly Alderon Resource Corp.)
Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010
(in Canadian dollars)

	Years ended December 31, 2011	2010
	$	$
Cash flows from operating activities		
Net loss	**(36,443,078)**	(11,715,786)
Adjustments for:		
Share-based compensation costs	**10,574,640**	2,664,853
Depreciation	**40,853**	39,935
Finance income	**(233,377)**	(62,329)
Gain on disposal of property, plant and equipment	**(1,009)**	-
Income tax recovery (note 13)	**(1,063,540)**	(636,364)
Amortization of prepaid expenses and other non-cash items	**759,441**	476,810
Changes in operating assets and liabilities (note 15)	**2,131,585**	(978,384)
Interest income received	**193,576**	62,329
Net cash used in operating activities	**(24,040,909)**	(10,148,936)
Cash flows from investing activities		
Purchases of property, plant and equipment, net of disposals	**(108,963)**	(344,225)
Acquisition costs for 0860132 BC Ltd. (note 4)	**-**	(106,480)
Net cash used in investing activities	**(108,963)**	(450,705)
Cash flows from financing activities		
Proceeds from private placement issuances of common shares, net of cash transaction costs of $1,872,017 (note 9)	**-**	28,202,400
Proceeds from the issuance of flow-through shares, net of cash transaction costs of $375,090 in 2011 and $283,619 in 2010 (note 9)	**5,624,910**	4,716,381
Proceeds from the exercise of warrants (note 10)	**1,512,915**	492,000
Proceeds from the exercise of stock options (note 11)	**395,920**	60,000
Net cash provided by financing activities	**7,533,745**	33,470,781
Net change in cash and cash equivalents	**(16,616,127)**	22,871,140
Cash and cash equivalents at the beginning of the year	**24,376,060**	1,504,920
Cash and cash equivalents at the end of the year	**7,759,933**	24,376,060
Cash and cash equivalents components:		
Cash	**3,363,933**	641,395
Cash equivalents	**4,396,000**	23,734,665
	7,759,933	24,376,060

Supplemental disclosure of cash flow information (note 15)

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

1 Summary of business, reporting entity, basis of preparation and nature of operations and significant accounting policies

Summary of business

Alderon Iron Ore Corp. (formerly Alderon Resource Corp.) ("Alderon" or the "Company") is an exploration-stage company engaged in the exploration and evaluation of mineral resource properties. Currently, the Company is conducting iron ore exploration and evaluation activities related entirely to its properties located predominantly in Western Labrador. Those properties are collectively referred to as the Kamistiatusset, or "Kami", Property. All exploration, evaluation and other activities associated with the Kami Property are referred to as the Kami Project.

Reporting entity

The accompanying consolidated financial statements include the accounts of Alderon Iron Ore Corp., an entity incorporated under the laws of British Columbia, and its wholly-owned subsidiary, 0860132 BC Ltd. ("Privco").

On October 4, 2011, the Company changed its name from Alderon Resource Corp. to Alderon Iron Ore Corp.

The Company's common shares are listed on the Toronto Stock Exchange, under the symbol "ADV" and on the NYSE Amex, under the symbol "AXX" (see note 22).

Basis of preparation and nature of operations

Basis of preparation

The accompanying consolidated financial statements represent the first annual financial statements of the Company and its subsidiary prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The accompanying consolidated financial statements were also prepared in accordance with IFRS 1, *First-time Adoption of International Financial Accounting Standards* ("IFRS 1"). The first date at which IFRS was applied was January 1, 2010.

Prior to January 1, 2011, the Company's consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP as applicable prior to the adoption of IFRS.

As discussed in note 20, the Company has consistently applied the same accounting policies in its IFRS consolidated statement of financial position as of January 1, 2010 and for the year ended December 31, 2010, as if these policies had always been in effect. Note 20 discusses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's Canadian GAAP consolidated financial statements as of and for the years ended December 31, 2010 and 2009. Comparative figures for 2010 in these consolidated financial statements have been adjusted to give effect to those changes.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 27, 2012, which is the date at which these consolidated financial statements were approved by the Company's Board of Directors.

Nature of operations

The accompanying consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due (see also note 17).

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements (see note 22). There can be no assurance that management's plan will be successful.

If the going concern assumption were not appropriate for these financial statements, adjustments to the carrying value of assets and liabilities, reported expenses and consolidated statement of financial position classifications would be necessary. Such adjustments could be material.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and the exercise of management's judgment in applying the Company's accounting policies. Areas involving a high degree of judgment or complexity and areas where assumptions and estimates are significant to the Company's consolidated financial statements are discussed in note 2.

Principles of consolidation

These consolidated financial statements include any entity in which the Company, directly or indirectly, holds more than 50% of the voting rights or over which it exercises control. An entity is included in the consolidation from the date that control is transferred to the Company, while any entities that are sold are excluded from the consolidation from the date that control ceases. All intercompany balances and transactions are eliminated on consolidation.

Foreign currency

The accompanying consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Items included in the accompanying consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"), which is the Canadian dollar. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statement of comprehensive loss.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented within finance income or finance costs in the consolidated statement of comprehensive loss. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive loss within operating expenses.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash on hand and balances with banks, as well as short-term, interest-bearing deposits, such as guaranteed investment certificates, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Mineral properties

Mineral properties, consisting of assets that are being explored and evaluated and representing titles associated with the Kami Property, are recorded at cost. Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The carrying value of mineral properties is presented net of impairment charges and depreciation, which in turn is recognized over the estimated useful life of the properties following the commencement of production. Mineral properties are derecognized in the event that mineral properties are sold or projects are abandoned.

Management has taken actions to verify the ownership rights for mineral properties in which the Company owns an interest in accordance with industry standards for the current exploration phase of these properties. However, these procedures do not guarantee that one or more titles to the Kami Property will not be challenged. Title to the Kami Property may be subject to prior unregistered agreements, transfers or claims or may be affected by, among other factors, undetected defects.

Property, plant and equipment and depreciation

Items of property, plant and equipment are recorded at cost, net of impairment charges and accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the assets and that have been incurred up until the time that the assets are in the condition necessary to be used or operated in the manner intended by management. Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Residual values, the method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Depreciation is calculated using the straight-line method, over the estimated useful life of each component, as follows:

Category	Useful life (years)
Building	25
Furniture and fixtures	5
Exploration equipment	5
Computer and office equipment	3
Computer software	3
Leasehold improvements	Over the lease term

Depreciation expense is allocated to the appropriate functional expense categories to which the underlying items of property, plant and equipment relate.

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the related asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Impairment of assets

Mineral properties and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication

exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash-generating units ("CGU"). In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In the event that mineral properties or property, plant and equipment suffer impairment losses, those losses are reviewed for possible reversal if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation, had the original impairment not occurred.

Employee benefits

Salaries and other short-term benefit obligations are measured on an undiscounted basis and are recognized in the consolidated statement of comprehensive loss over the related service period or when the Company has a present legal or constructive obligation to make payments as a result of past events and when the amount payable can be estimated reliably.

Financial instruments

The Company classifies its financial instruments in the following categories: "Loans and receivables" and "Other financial liabilities".

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

(a) Classification

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for instruments with maturities greater than 12 months after the end of a given reporting period or where restrictions apply that limit the Company from using the instrument for current purposes, which are classified as non-current assets.

The Company's loans and receivables are comprised of cash and cash equivalents and receivables.

Other financial liabilities

Other financial liabilities include payables, amounts due to related parties and accrued liabilities.

(b) Recognition and measurement

Loans and receivables

Loans and receivables are recognized on the settlement date at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities

Financial instruments classified as "Other financial liabilities" are recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method.

(c) Impairment

Financial assets measured at amortized cost are reviewed for impairment at each reporting date. Where there is objective evidence that impairment exists for a financial asset measured at amortized cost, an impairment charge equivalent to the difference between the asset's carrying amount and the present value of estimated future cash flows is recorded in the consolidated statement of comprehensive loss. The expected cash flows exclude future credit losses that have not been incurred and are discounted at the financial asset's original effective interest rate.

Impairment charges, where applicable, are reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. However, the reversal cannot result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions may represent obligations associated with the retirement of reclamation of mineral property or other assets. Provisions are not recognized for future operating losses.

Provisions are made for any contracts which are deemed onerous. A contract is onerous if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Present value is determined based on expected future cash flows that are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized in finance costs.

Share capital and warrants

Common shares are classified as equity. Share purchase warrants are also classified as equity when the warrants are derivative instruments that will be settled only by the Company's exchanging a fixed number of its own shares for a fixed amount of cash; otherwise, warrants would be classified as liabilities. Incremental costs that are directly attributable to the issuance of common shares and warrants are recognized as a deduction from equity, net of any tax effects.

The Company has issued share purchase warrants to investors who have participated in certain private placements as well as to placement agents, underwriters, finders or brokers who have facilitated certain financing transactions with investors. Where private placements result in the issuance to purchasers of units (where each unit is comprised of a common share of the Company and a share purchase warrant, exercisable in order to purchase a common share or fraction thereof), proceeds received in connection with those private placements are allocated between share capital and warrants based on the residual method. Proceeds are allocated to share capital based on the fair value of the common shares, and any residual value, if any, is allocated to the share purchase warrants.

Share purchase warrants issued to placement agents, underwriters, finders or brokers are measured at their fair value on the date of grant and are accounted for as additional transaction costs, since the issuance of the underlying warrants is directly attributable to the financing transaction to which the warrants relate. Fair value is attributed to these warrants by applying the Black-Scholes pricing model.

Flow-through shares

The Company finances certain exploration expenditures through the issuance of flow-through shares, per a program that is available under Canadian income tax legislation. Under a flow-through arrangement, any qualifying resource expenditure deductions for income tax purposes are renounced by the Company to investors, who in turn can claim the tax deductions that otherwise would be available to the Company.

Flow-through proceeds are allocated between the offering of the common shares and the premium associated with the effective sale of tax benefits when the common shares are offered. The allocation is performed based on the difference between the market price of the common shares at the date of issuance and the amount the investor pays for the flow-through shares. A liability (or flow-through share premium obligation) is recorded on the date of share issuance for the premium paid by the investors and recognized through profit and loss in the consolidated statement of comprehensive loss as the Company expends the flow-through proceeds.

Exploration and evaluation expenditures

Pre-exploration costs, which include costs incurred prior to the Company's obtaining rights to explore and evaluate a defined area, are expensed as incurred. As noted above, costs to acquire mineral properties are capitalized and include costs that are directly related to the acquisition of the underlying mineral rights.

Exploration and evaluation expenditures include engineering, metallurgical and other studies and activities that are necessary in order to delineate an ore body, as well as employee costs (including share-based compensation) related to the Company's exploration and evaluation personnel. Specifically, exploration and evaluation expenditures include costs associated with the following activities: surveying; geological, geochemical and geophysical studies; exploratory drilling; land maintenance; sampling and analyses; and efforts associated with the assessment of technical feasibility and commercial viability.

Expenditures related to the exploration and evaluation of mineral properties are expensed as incurred, until the technical feasibility and commercial viability of the extraction of a project's mineral reserves are demonstrated, at which time any further directly attributable pre-production expenditures that give rise to future economic benefits are capitalized. As of the most recent date of the accompanying consolidated financial statements, none of the Company's mineral properties have demonstrated technical feasibility and commercial viability.

Environmental, aboriginal, government and community expenses

Environmental, aboriginal, government and community expenses represent any non-general or administrative (i.e. corporate) activities that, despite the relatively early stage of exploration and evaluation efforts associated with the Kami Project, have been deemed necessary by management in connection with engaging with relevant aboriginal, governmental and community groups as the Kami Project advances, as well as other costs related to planning and similar initiatives that are required in order to allow the Kami Project to proceed through the environmental assessment process. Typical expenditures reflected in this category include, but are not limited to, employee salaries and benefits (including share-based compensation) of the Company's environmental and aboriginal affairs and government and community affairs staff, as well as consulting and professional service fees that are directly attributable to underlying functional areas.

Share-based payments

The Company accounts for all forms of employee share-based compensation using the fair value-based method. Fair value of stock options is determined at the date of grant using the Black-Scholes option pricing model, which includes estimates of the number of awards that are expected to vest over the vesting period. Where granted share options vest in installments over the vesting period (defined as graded vesting), the Company treats each installment as a separate share option grant. Share-based compensation expense is recognized over the vesting period, or as specified vesting conditions are satisfied, and credited to Other Capital.

Any consideration received by the Company in connection with the exercise of stock options is credited to Share Capital. Any Other Capital component of the share-based compensation is transferred to Share Capital upon the issuance of shares.

Related party transactions

A related party is defined as any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of the Company's key management personnel—namely, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Finance income

Finance income comprises interest income on cash and cash equivalents.

Income taxes

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss or differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Net loss per share

Basic net loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net loss per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents, such as stock options and warrants.

2 Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

Carrying value and recoverability of mineral properties

The carrying amount of Company's mineral properties (see note 4) does not necessarily represent present or future values, and, as noted above, the Company's mineral properties have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of the Kami Project or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

Fair value of stock options and warrants

Determining the fair value of warrants (see note 10) and stock options (see note 11) requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or other components of shareholders' equity.

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected. Refer to note 13 for further information.

3 Recent accounting pronouncements

In November 2009 and October 2010, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"), which represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, with a new standard. Per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the derecognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company's consolidated financial statements.

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), which builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. IFRS 10 also provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company's consolidated financial statements.

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* ("IFRS 11"), which enhances accounting for joint arrangements, particularly by focusing on the rights and obligations of the arrangement, rather than the arrangement's legal form. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and prohibits proportionate consolidation. IFRS 11 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company's consolidated financial statements.

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), which is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 applies to financial statements for annual periods

beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company's consolidated financial statements.

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement* ("IFRS 13"), which defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). IFRS 13 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company's consolidated financial statements.

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements* ("IAS 1"), to change the disclosure of items presented in other comprehensive income into two groups, based on whether those items may be recycled to profit or loss in the future. The amendments to IAS 1 apply to financial statements for annual periods beginning after July 1, 2012, with early adoption permitted. The Company currently is evaluating any impact that this new guidance may have on the Company's consolidated financial statements.

4 Acquisition of Privco and Kami Property assets

In December 2009, the Company entered into an agreement with, and, effective March 3, 2010, acquired all of the outstanding common shares of Privco, an entity that, pursuant to Privco's earlier agreement with Altius Resources Inc. ("Altius"), had the exclusive right and option to acquire a 100% title and interest in the Kami Property (the "Altius Option"), including certain claims located in Western Labrador and Quebec (the "Altius Option Agreement"). In order to exercise the Altius Option, Privco had been required: to assign its interest in the Altius Option Agreement to a publicly traded company acceptable to Altius ("Pubco"); to fund a defined level of exploration expenditures on the property over a period of two years; to issue to Altius shares of Pubco such that upon issuance Altius would own 50% of Pubco's issued capital, on a fully diluted basis; and to raise not less than $5,000,000 in capital. Altius retained a 100% interest in the Kami Property until such time as Privco satisfied all of the conditions to exercise the Altius Option.

As consideration for the acquisition of Privco, the Company issued 5,000,000 post-consolidated (see note 9) common shares of the Company to Privco's shareholders.

The transaction was accounted for as an asset purchase, since the acquired assets and assumed liabilities did not constitute a business as defined in IFRS 3, *Business Combinations*. The cost of the asset acquisition was determined based on the fair value of the consideration given, which was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values as of the date of acquisition, as shown below.

	$
Total purchase price	
Common shares issued	9,000,000
Acquisition costs	106,480
	9,106,480
Allocation of purchase price	
Mineral properties	9,247,596
Accounts receivable	5,820
Accounts payable	(146,936)
	9,106,480

The accompanying consolidated financial statements include the results of operations of Privco from the effective acquisition date of March 3, 2010.

Following the acquisition of Privco and pursuant to an assignment agreement between Privco and the Company, the Company agreed to assume all of Privco's rights and obligations under the Altius Option Agreement. In addition to the terms referred to above, the Company also was required to spend a minimum of $5,000,000 on exploration expenditures related to the Kami Project.

On December 6, 2010, the Company exercised the Altius Option and acquired a 100% interest in the Kami Property. As consideration, the Company issued and transferred an aggregate of 32,285,006 common shares, valued at $79,421,114, to Altius. As part of the underlying agreement, Altius retains the right to a 3% gross sales royalty on iron ore concentrate that is generated from the Kami Project.

Pursuant to the aforementioned transactions, the total carrying value of the Kami Property as of January 1, 2010, December 31, 2010 and December 31, 2011 can be summarized as follows:

	$
Common shares issued to Altius	79,421,114
Mineral properties capitalized pursuant to the acquisition of Privco	9,247,596
	88,668,710

5 Receivables

	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
	$	$	$
Sales tax credits	**2,477,485**	509,015	11,173
Deposits due from suppliers	**240,367**	-	-
Interest receivable	**39,801**	-	-
Other	**19,181**	6,390	-
	2,776,834	515,405	11,173

6 Property, plant and equipment

Components of the Company's property, plant and equipment, as well as annual activity associated therewith, are summarized below.

	Land and buildings	Exploration equipment	Computer and office equipment	Computer software	Furniture and fixtures	Total
	$	$	$	$	$	$
Historical cost – January 1, 2010	-	-	-	-	-	-
Additions	180,000	118,396	10,058	32,781	2,990	344,225
Historical cost – December 31, 2010	180,000	118,396	10,058	32,781	2,990	344,225
Accumulated depreciation – January 1, 2010	-	-	-	-	-	-
Depreciation expense	5,400	20,709	2,429	10,880	517	39,935
Accumulated depreciation – December 31, 2010	5,400	20,709	2,429	10,880	517	39,935
Carrying value – December 31, 2010	174,600	97,687	7,629	21,901	2,473	304,290

	Land and buildings	Exploration equipment	Computer and office equipment	Computer software	Furniture and fixtures	Leasehold Improvements	Total
	$	$	$	$	$	$	$
Historical cost – January 1, 2011	180,000	118,396	10,058	32,781	2,990	-	344,225
Additions	-	27,999	-	-	32,571	57,792	118,362
Disposals	-	(9,699)	-	-	-	-	(9,699)
Historical cost – December 31, 2011	180,000	136,696	10,058	32,781	35,561	57,792	452,888
Accumulated depreciation – January 1, 2011	5,400	20,709	2,429	10,880	517	-	39,935
Depreciation expense	5,800	20,050	1,845	7,194	5,964	-	40,853
Disposals	-	(1,309)	-	-	-	-	(1,309)
Accumulated depreciation – December 31, 2011	11,200	39,450	4,274	18,074	6,481	-	79,479
Carrying value – December 31, 2011	168,800	97,246	5,784	14,707	29,080	57,792	373,409

7 Payables and accrued liabilities

	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
	$	$	$
Trade accounts payable	**5,356,802**	729,093	64,293
Accrued salaries and benefits	**852,500**	-	-
Accrued drilling expenses	**565,431**	-	-
Other accrued evaluation and exploration costs	**477,055**	61,668	61,668
Accrued audit fees	**65,000**	63,910	10,000
Other accrued liabilities	**59,943**	41,417	45,900
	7,376,731	896,088	181,861

8 Related party disclosures

Related parties and related party transactions impacting the accompanying consolidated financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer, as well as any Vice Presidents reporting directly to a Corporate Executive Board member or officer, acting in that capacity.

Remuneration attributed to key management personnel can be summarized as follows:

	Years ended December 31,	
	2011	**2010**
	$	$
Share-based compensation	**8,232,689**	1,929,261
Short-term benefits*	**1,280,698**	494,572
Incentive compensation other than share-based compensation	**1,171,075**	505,000
Termination benefits	**200,000**	-
Other	**30,000**	-
	10,914,462	2,928,833

* include base salaries, pursuant to contractual employment or consultancy arrangements, Directors' fees, applicable payroll taxes and other non-post-retirement benefits.

Other related parties

Forbes West Management Corp. ("Forbes West"): Forbes West, formerly named EGM Exploration Group Management Corp., is an entity that, for the whole of 2011, was owned by the Executive Chairman of the Company's Board of Directors. Forbes West provided administrative, management, geological, regulatory, tax, corporate development and investor relations services to the Company. Forbes West will continue to provide certain services to the Company in the future.

Forbes & Manhattan, Inc. ("F&M"): F&M is an entity that is wholly owned by the spouse of the Vice Chairman of the Company's Board of Directors. The Vice Chairman is the Executive Chairman of F&M, which in turn provides certain financial management and business consulting services to the Company.

Emprise Capital Corp. ("Emprise"): The Company had entered into a management services agreement with Emprise that was effective on December 8, 2009, the date at which one of Emprise's Directors was appointed President, Chief Executive Officer and a Director of the Company. Pursuant to the underlying agreement, the Company paid a fixed, monthly management fee; however, this agreement was terminated at the closing date of the Company's acquisition of Privco (see note 4), at which time the Company's Board of Directors and management team were replaced.

Transactions entered into with related parties other than key management personnel include the following:

	Years ended December 31, 2011	2010
	$	$
Forbes West	**1,625,232**	1,107,027
F&M	**236,750**	90,000
Emprise	**-**	15,000
	1,861,982	1,212,027

Amounts owed to related parties, excluding key management personnel, are summarized below.

	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
	$	$	$
Forbes West	**156,863**	131,097	5,250
Emprise Capital	**-**	-	15,702
Other	**-**	-	23,872
	156,863	131,097	44,824

9 Share capital

The Company has authorized for issue an unlimited number of common shares (being voting and participating shares) without par value, and all shares issued and outstanding as of December 31, 2011 and December 31, 2010 are fully paid. Pursuant to the Company's articles of incorporation (the "Articles"), the Company may by following the procedures set out in the Articles and the *Business Corporations Act* (British Columbia) (the "Act"): create one or more classes or series of shares, with rights and restrictions specific to each class; subdivide or consolidate all or any of its unissued or fully paid issued shares; alter the identifying name of any of its shares; or otherwise alter its shares or authorized share structure when required or permitted to do so by the Act.

On March 3, 2010, the Company consolidated its common shares on the basis of one post-consolidation common share for every two pre-consolidation common shares. The 18,558,162 pre-consolidation common shares were reduced to 9,279,001 post-consolidation common shares. Stock options and share purchase warrants were similarly adjusted.

All share and per share data appearing in the accompanying consolidated financial statements and in the notes thereto are presented on a post-consolidated basis.

Common shares issued in pursuant to private placements

On February 16, 2010, the Company completed a non-brokered private placement, which resulted in the issuance of 10,000,000 subscription receipts at a price of $1.00 per subscription receipt, for total gross proceeds of $10,000,000 (the "February 2010 Private Placement"). The proceeds were held in escrow pending both completion of the two-for-one share consolidation, discussed above, and the acquisition of Privco, upon completion of which each subscription receipt was converted into one post-consolidated common share of Alderon for no additional consideration.

In connection with the February 2010 Private Placement, the Company paid cash transaction costs of $445,500 and issued 445,500 warrants (the "February 2010 Finder's Warrants") to the sole placement agent that had been engaged to facilitate the transaction with institutional investors. Each February 2010 Finder's Warrant entitled the holder to purchase one post-consolidated common share of Alderon for $1.00 on or before February 16, 2011.The fair value of the February 2010 Finder's Warrants (see note 10) was accounted for as additional transaction costs, since the instruments were granted to the sole placement agent as part of the terms of the underlying engagement and in recognition of the efforts made in connection with the February 2010 Private Placement.

On March 3, 2010, pursuant to the acquisition of Privco (see note 4), 10,000,000 subscription receipts that had been issued in December 2009 at $0.15 per subscription receipt and resulting in total gross proceeds of $1,500,000 (the "December 2009 Private Placement") automatically converted into 10,000,000 common shares of the Company for no additional consideration, and the related proceeds were released from escrow. Also on March 3, 2010, the Company issued 1,000,000 warrants to the placement agents who had been engaged in connection with the December 2009 Private Placement (the "March 2010 Finder's Warrants"). Each March 2010 Finder's Warrant entitled the holder to acquire one common share of the Company at a price of $0.15 per share, on or before December 22, 2010. See also note 10.

On December 6, 2010, 32,285,006 common shares of the Company with a fair value of $79,421,114 were issued pursuant to the acquisition of 100% interest in Kami Project, as discussed in note 4.

On December 16, 2010, the Company completed a private placement of 9,125,000 units of the Company, at a price of $2.20 per unit, for aggregate gross proceeds of $20,075,000, on a bought deal basis (the "December 2010 Private Placement"). Each unit consists of one common share and one-half of one common share purchase warrant (the "December 2010 Investor Warrants"). Each whole December 2010 Investor Warrant entitles the holder to acquire one common share of the Company at a price of $2.80 for a period of 24 months from the closing date. All of the proceeds received were allocated exclusively to share capital, given that the aggregate proceeds did not exceed the fair value of the shares issued.

In connection with the December 2010 Private Placement, the Company paid the underwriters a cash commission equal to 6% of the gross proceeds and issued 547,500 warrants (the "December 2010 Broker's Warrants"), at an exercise price of $2.20 per share for a period of 24 months from the closing date. The December Broker's warrants included one half of a share purchase warrant exercisable at $2.80 per warrant for a period of 24 months from the December 2010 Private Placement's closing date. The fair value of the December 2010 Broker's Warrants (see note 10) was accounted for as additional transaction costs, since the instruments were granted to the underwriters engaged in connection with the December 2010 Private Placement.

Common shares issued pursuant to flow-through share agreements

2011

On November 30, 2011, the Company closed a non-brokered private placement, which resulted in the issuance of 2,000,000 flow-through shares at a price of $3.00 per share, for total gross proceeds of $6,000,000 (the "November 2011 Flow-Through Private Placement"). Each flow-through share qualifies as such pursuant to the relevant provisions of the *Income Tax Act* (Canada). In connection with the November 2011 Flow-Through Private Placement, the Company paid a cash finder's fee equal to 6% of the gross proceeds received.

Of the gross proceeds received, $1,280,000 was recorded as a flow-through share premium obligation, reflecting the Company's obligations to conduct qualifying activities in the future.

2010

On March 23, 2010, the Company closed a non-brokered private placement, which resulted in the issuance of 1,818,182 flow-through shares at a price of $2.75 per share, for total gross proceeds of $5,000,000 (the "March 2010 Flow-Through Private Placement"). Each flow-through share qualifies as such pursuant to the relevant provisions of the *Income Tax Act* (Canada). In connection with the March 2010 Flow-Through Private Placement, the Company paid a cash finder's fee equal to 5% of the gross proceeds received and issued 90,910 warrants (the "Flow-Through Finder's Warrants") to the sole placement agent that had been engaged to facilitate the transaction with institutional investors. Each Flow-Through Finder's Warrant may be exercised for one common share of the Company at an exercise price of $2.75 per Flow-Through Finder's Warrant for a period of two years. The fair value of the Flow-Through Finder's Warrants (see note 10) was accounted for as additional transaction costs, since the instruments were granted to the placement agent engaged in connection with the March 2010 Flow-Through Private Placement.

Of the gross proceeds received, $636,364 was recorded as a flow-through share premium obligation.

10 Warrants

A summary of the activity related to the Company's warrants is provided below.

	Years ended December 31, 2011		2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance, beginning of year	5,604,410	2.61	3,000,000	0.10
Granted	128,112	2.80	6,646,410	2.23
Exercised	(854,625)	1.77	(4,042,000)	0.12
Balance, end of year	4,877,897	2.76	5,604,410	2.61

The following table summarizes the warrants outstanding and exercisable as of December 31, 2011:

	Warrants outstanding and currently exercisable		
Exercise price	Number	Weighted average remaining contractual life (years)	Global intrinsic value $
2.20	291,275	0.96	139,812
2.75	90,910	0.23	-
2.80	4,495,712	0.96	-
	4,877,897	0.95	139,812

The table presented below shows the inputs and assumptions applied to the Black-Scholes pricing model in order to determine the fair value of finder's warrants granted during the year ended December 31, 2010.

	February 2010 Finder's Warrants	March 2010 Finder's Warrants	December 2010 Broker's Warrants	Flow-through Finder's Warrants
Number of equivalent shares	445,500	1,000,000	547,500	90,910
Market-value per share price	$0.88	$1.80	$2.90	$2.39
Exercise price	$1.00	$0.15	$2.80	$2.75
Risk-free annual interest rate	1.20%	1.20%	1.70%	1.20%
Expected volatility	94.3%	94.3%	94.3%	94.3%
Expected life (years)	1.0	0.8	2.0	2.0
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Fair value of warrants	$127,466	$1,651,610	$814,084	$100,866

The Black-Scholes valuation methodology uses "Level 2" inputs in calculating fair value, as defined in IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"), and as discussed in note 17.

11 Stock options

The Company operates an equity-settled share-based compensation plan under which the Company receives services from employees as consideration for equity instruments of the Company. The related stock option plan (the "Plan") follows applicable stock exchange policies regarding stock option awards granted to employees, directors and consultants.

Previously, the Plan allowed a maximum of 10% of the issued shares to be reserved for issuance under the Plan; however, on September 30, 2011, at the Company's Annual General and Special Meeting of Shareholders, the Company amended the Plan to reserve for issuance a fixed maximum number of shares equal to 12,392,290. Options granted under the Plan previously had a maximum term of five years; however, at the Annual General and Special Meeting of Shareholders, shareholders approved a new maximum term of ten years. The vesting terms are at the discretion of the Company's Board of Directors.

The following table summarizes the activity under the Company's stock option plan.

	Years ended December 31, 2011		2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance, beginning of year	5,085,000	1.88	17,500	3.40
Granted	6,825,000	3.04	5,125,000	1.88
Exercised	(273,700)	1.45	(40,000)	1.50
Forfeited	-	-	(17,500)	3.40
Balance, end of year	11,636,300	2.57	5,085,000	1.88

Exercise price	Options outstanding as of December 31, 2011 Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Global intrinsic value $
1.20 - 2.00	3,636,300	3.58	1.55	4,098,704
2.21 - 2.62	2,675,000	4.68	2.47	567,250
2.78 - 3.27	2,825,000	4.36	3.04	-
3.30 - 3.80	2,500,000	4.16	3.64	-
	11,636,300	4.15	2.57	4,665,954

Exercise price	Options exercisable as of December 31, 2011 Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Global intrinsic value $
1.20 - 2.00	2,480,050	3.47	1.55	2,792,454
2.21 - 2.62	200,000	4.45	2.62	12,000
2.78 - 3.27	587,500	3.99	3.00	-
3.30 - 3.80	575,000	4.13	3.67	-
	3,842,550	3.70	2.15	2,804,454

As of December 31, 2011, the total compensation cost related to unvested stock options not yet recognized amounted to $7,569,075 ($4,240,731 in 2010). This amount is expected to be recognized over a weighted average period of 0.99 years (1.12 years in 2010).

The Company settles stock options exercised through the issuance of common shares from treasury.

Fair value input assumptions

The table below shows the assumptions, or weighted average parameters, applied to the Black-Scholes option pricing model in order to determine share-based compensation costs over the life of the awards for options granted during each of the years ended December 31, 2011.

	Years ended December 31,	
	2011	**2010**
Expected dividend yield (a)	**0.0%**	0.0%
Estimated volatility (b)	**94.3%**	94.3%
Weighted average risk-free annual interest rate (c)	**1.64%**	1.40%
Weighted average expected life (years) (d)	**4.0**	5.0
Estimated forfeiture rate (e)	**5.42%**	3.51%
Grant date fair value	**$2.09**	$1.40

(a) The Company has not paid dividends nor does it intend to pay dividends in the foreseeable future.
(b) Based on the volatility of comparable company stock prices over the most recent period consistent with the expected life of the stock options, as well as on management's future expectations.
(c) Based on the yield on a zero-coupon Canadian Treasury Bill with a term that is consistent with the expected life of the stock options.
(d) Based on historical data related to the exercise of stock options, on post-vesting employment terminations and on future expectations related to exercise behaviour.
(e) Based on historical data related to the forfeiture of stock options.

The Black-Scholes pricing model referred above uses "Level 2" inputs in calculating fair value, as defined by IFRS 7, and as discussed in note 17.

12 Operating expenses

Components of the Company's operating expenses include the following:

	Years ended December 31,	
	2011	**2010**
	$	$
Share-based compensation costs	**10,574,640**	2,664,853
Salaries, employment taxes and short-term benefits	**3,567,604**	1,072,837
Total employee benefits expenses	**14,142,244**	3,737,690
Goods and services*	**20,474,997**	6,975,421
Consulting, professional and legal fees	**2,926,232**	1,535,448
Building rental, services and maintenance	**151,001**	98,485
Depreciation	**40,853**	39,935
Other	**4,668**	27,500
Total operating expenses, by nature	**37,739,995**	12,414,479

* including, but not limited to, drilling costs, technical consulting expenses, engineering costs, helicopter support, travel and other costs.

13 Income taxes

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying consolidated statements of comprehensive loss is provided below.

	Years ended December 31, 2011	2010
Combined federal and provincial statutory income tax rate	**26.9%**	28.5%

	Years ended December 31, 2011	2010
	$	$
Income tax recovery based on statutory income tax rate	**10,089,280**	3,520,363
Change in valuation allowance	**(8,015,000)**	(1,598,000)
Share-based compensation costs	**(2,844,578)**	(759,483)
Investment tax credits	**982,775**	156,866
Change in renounced expenditures pursuant to flow-through share agreements	**(182,796)**	(613,636)
Impact of future income tax rates applied versus current statutory rate	**925,037**	(524,324)
Share issue expenses not affecting earnings	**108,822**	454,578
	1,063,540	636,364

Income tax recovery for the years ended December 31, 2011 and 2010 is entirely domestic in nature and represents deferred taxation arising subsequent to the renunciation of expenditures pursuant to the issuances of flow-through shares (see note 9).

Significant components of the Company's unrecognized deferred income tax assets are summarized below.

	Years ended December 31, 2011	2010
	$	$
Temporary differences attributable to:		
Mineral properties	**7,784,000**	2,225,000
Non-capital losses	**3,424,000**	1,038,000
Share-issue expenses	**405,000**	369,000
Allowable capital losses	**136,000**	118,000
Property, plant and equipment	**22,000**	10,000
	11,775,000	3,760,000

As discussed in note 9, during the year ended December 31, 2011, the Company issued 2,000,000 common shares on a flow-through basis for gross proceeds of $6,000,000, and during the year ended December 31, 2010, the Company issued 1,818,182 common shares on a flow-through basis for gross proceeds of $5,000,000. The underlying flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's mineral properties.

As of December 31, 2011, the Company had non-capital losses of approximately $11,808,000 ($4,152,000 as of December 31, 2010). These losses, if not utilized, will expire through to 2031. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these noncapital losses have been recognized in these financial statements and have been offset by valuation allowances due to the uncertainty of their realization.

Operating loss carryforwards are subject to review, and potential adjustment, by tax authorities.

The Company currently has investment tax credits related to qualifying expenditures incurred during the years ended December 31, 2011 and 2010. These investment tax credits, which as of December 31, 2011 and December 31, 2010 totaled $1,605,129 and $209,155, respectively, are not refundable, but instead can be carried forward up to 20 years (or back three years) to offset any taxes payable by the Company.

14 Net loss per share

The following table sets forth pertinent data relating to the calculation of basic and diluted net loss per share attributable to common shareholders.

	Years ended December 31,	
	2011	**2010**
Basic weighted average number of shares outstanding	**82,615,947**	36,624,142
Potentially dilutive effect of warrants	**4,369,290**	7,554
Potentially dilutive effect of stock options	**1,391,182**	912
Potentially diluted weighted average number of shares outstanding	**88,376,419**	36,632,608

In addition to the dilutive equivalents of warrants and stock options noted above, the following items have been excluded from the calculation of diluted net loss per share because the underlying exercise price was greater than the average market price of the common shares or due to the items' otherwise anti-dilutive effect.

	Years ended December 31,	
	2011	**2010**
Stock options	**5,489,251**	2,952,783

For the years ended December 31, 2011 and 2010, diluted net loss per share was calculated using the basic weighted average number of shares outstanding, since the calculation was anti-dilutive. Accordingly, diluted net loss per share for each year was the same as the basic net loss per share.

The weighted average number of shares has been influenced most notably by share issuances made in connection with financing activities, such as private placements, which in turn resulted in the issuance of an aggregate of 2,000,000 common shares and 30,943,182 common shares (see note 9), during the years ended December 31, 2011 and 2010, respectively. See also note 22.

15 Supplemental disclosure of cash flow information

	Years ended December 31,	
	2011	**2010**
	$	$
Changes in operating assets and liabilities		
Receivables	**(2,221,628)**	(498,412)
Prepaid expenses and other current assets	**(2,170,473)**	(1,133,536)
Payables and accrued liabilities	**6,497,920**	630,719
Due to related parties	**25,766**	22,845
	2,131,585	(978,384)

During the year ended December 31, 2010, the Company issued an aggregate of 37,285,006 common shares as consideration in exchange for Privco and the Kami Property, as discussed in note 9.

16 Capital disclosures

The Company's objective in managing capital, consisting of shareholders' equity, with cash and cash equivalents being its primary component, is to ensure sufficient liquidity to fund: exploration and evaluation activities; general and administrative expenses; environmental, aboriginal, government and community expenses; working capital; and capital expenditures.

Management regularly monitors the Company's capital structure and makes adjustments thereto based on funds available to the Company for the acquisition, exploration and development of mineral properties. The Board of Directors has not established quantitative return on capital criteria for capital management, but rather relies upon the expertise of the management team to sustain the future development of the business.

The properties in which the Company currently has an interest are in the exploration stage, and the Company does not generate any revenue. Accordingly, the Company is dependent upon sources of external financing to fund both its exploration programs and its other costs. While the Company endeavours to minimize dilution to its shareholders, management has in the past engaged in dilutive financial transactions, such as private placements, and may engage in dilutive arrangements in the future.

The Company's policy on dividends is to retain cash to keep funds available to finance the activities required to advance the Company's Kami Project. The Company is not subject to any capital requirements imposed by any regulators or by any other external source.

17 Financial instruments, financial risk management and fair value

Financial assets (liabilities) as of December 31, 2011, December 31, 2010 and January 1, 2010 are presented below.

December 31, 2011	Loans and receivables	Other financial liabilities	Total
	$	$	$
Cash and cash equivalents	7,759,933	-	7,759,933
Receivables (note 5)	299,349	-	299,349
Payables and accrued liabilities (note 7)	-	(7,376,291)	(7,376,291)
Due to related parties (note 8)	-	(156,863)	(156,863)
	8,059,282	(7,533,154)	526,128

December 31, 2010	Loans and receivables	Other financial liabilities	Total
	$	$	$
Cash and cash equivalents	24,376,060	-	24,376,060
Receivables (note 5)	6,390	-	6,390
Payables and accrued liabilities (note 7)	-	(895,648)	(895,648)
Due to related parties (note 8)	-	(131,097)	(131,097)
	24,382,450	(1,026,745)	23,355,705

January 1, 2010	Loans and receivables	Other financial liabilities	Total
	$	$	$
Cash and cash equivalents	1,504,920	-	1,504,920
Payables and accrued liabilities (note 7)	-	(146,861)	(146,861)
Due to related parties (note 8)	-	(44,824)	(44,824)
	1,504,920	(191,685)	(1,313,235)

In the preceding tables, receivables exclude sales tax credits, and payables and accrued liabilities exclude taxes payable.

Financial risk management

The Company is exposed in varying degrees to certain risks arising from financial instruments, as discussed below.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As discussed in note 16, the Company's capital management objectives include working to ensure that the Company has sufficient liquidity to fund Company activities that are directly and indirectly related to the advancement of the Kami Project.

The Company endeavours to ensure that it will have sufficient liquidity in order to meet short- to medium-term business requirements and all financial obligations as those obligations become due. Historically, sufficient liquidity has been provided predominantly through external financing initiatives, including traditional and flow-through private placements to investors and institutions. The Company will continue to rely upon sources of external financing in future periods until such time as commercial production commences. Given the uncertainty as to the Company's access to financing, and notwithstanding the Company's successful capital-raising activities both prior to December 31, 2011 (see note 9) and subsequent thereto (see note 22), there can be no assurance that the Company will continue to maintain a level of cash and cash equivalents such that available balances will be sufficient to fund planned expenditures and other working capital needs for at least, but not limited to, the 12-month period following the date of any future consolidated statement of financial position.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's receivables consist primarily of sales tax credits, which are due from Canadian federal and provincial tax agencies. Additionally, the Company's cash and cash equivalents are held in deposit at high-credit quality Canadian financial institutions. As a result, management considers the risk of non-performance related to receivables and cash and cash equivalents to be minimal.

Fair value

The Black-Scholes valuation methodology uses "Level 2" inputs in calculating fair value, as defined in IFRS 7, which establishes a hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The input levels discussed in IFRS 7 are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for an asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of the Company's cash and cash equivalents, receivables, payables and accrued liabilities and amounts due to related parties approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market.

18 Commitments and contingencies

The Company expects to pay $176,060 in 2012 and $71,102 in 2013 with regards to various operating leases for its premises.

In the normal course of operations, the Company may become involved in various claims and legal proceedings. No contingent liabilities have been accrued as of December 31, 2011 or 2010, nor are there any known disputes pending against the Company that could significantly impact the Company's consolidated financial statements.

19 Segment information

The Company operates in a single operating segment, being the acquisition, exploration and evaluation of mineral resources. All of the Company's resource properties and items of property, plant and equipment are located in Canada.

20 Transition to IFRS

The accompanying consolidated financial statements were prepared as described in note 1 and reflect the relevant provisions of IFRS 1. IFRS 1 is based on the principle that the adoption of IFRS should be applied retrospectively. Retrospective application necessitates that comparative financial information be provided, and, as a result, the first date at which the Company has applied IFRS was January 1, 2010. However, IFRS 1 offers certain optional exemptions and mandatory exceptions to the retrospective application of IFRS to first-time preparers of IFRS financial statements. None of those exemptions or exceptions are relevant to the Company, and, other than conforming textual changes to certain line item descriptions, there were no IFRS adjustments that were required to be made in the Company's consolidated statement of financial position as of January 1, 2010.

Reconciliation of Canadian GAAP to IFRS

IFRS 1 requires a first-time adopter of IFRS to reconcile shareholders' equity, comprehensive income (loss) and cash flows for prior periods beginning on the date of transition to IFRS. Reconciliations of shareholders' equity as of December 31, 2010 and comprehensive loss and cash flows for the year December 31, 2010 are provided below.

Reconciliation of shareholders' equity		**As of December 31, 2010**
		$
Shareholders' equity under Canadian GAAP		122,349,092
IFRS adjustments attributable to:		
Exploration and evaluation expenditures	(a)	(7,091,549)
Deferred taxation related to the acquisition of Privco	(b)	(1,763,537)
Shareholders' equity under IFRS		113,494,006

Reconciliation of comprehensive loss		**Year ended December 31, 2010**
		$
Comprehensive loss under Canadian GAAP		(1,560,410)
IFRS adjustments attributable to:		
Exploration and evaluation expenditures	(a)	(7,091,549)
Deferred taxation related to the acquisition of Privco	(b)	(1,763,537)
Deferred taxation related to the March 2010 Flow-Through Private Placement	(c)	(613,636)
Share-based compensation costs	(d)	(686,654)
Comprehensive loss under IFRS		(11,715,786)

Presentation changes

Under Canadian GAAP, the Company presented components of its consolidated statement of comprehensive loss largely by nature of expense, whereas under IFRS, the Company has chosen to present expenses in this statement by function, as prescribed by IAS 1. Management has concluded that the functional presentation is more relevant, particularly in light of the change in accounting policy for exploration and evaluation expenditures, as discussed below. As a result, comparative expense items appearing in the Company's consolidated statement of comprehensive loss for the year ended December 31, 2010 have been reclassified.

Additionally, the Company has chosen to present elements of share capital and warrants under a single equity caption.

Explanatory notes

The following section discusses the changes in accounting policies that resulted in the adjustments shown in the preceding reconciliations.

(a) Exploration and evaluation expenditures

Under Canadian GAAP, the Company capitalized all mineral property expenditures directly attributable to the exploration or evaluation of the Kami Property, including an appropriate allocation of overheads related to each relevant activity.

Under IFRS, and more specifically, pursuant to the provisions outlined in IFRS 6, *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"), the Company has decided not to capitalize any exploration and evaluation expenditures, which IFRS 6 defines as any expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Instead, the Company has decided to recognize immediately in the consolidated statement of comprehensive loss all exploration and evaluation expenditures.

The change in accounting policy was made largely given the ongoing nature of the Company's exploration and evaluation activities for which an outcome has not yet been determined; however, the change also streamlines the financial reporting process and simplifies the presentation of financial information for investors.

The retroactive change in policy resulted in a decrease in the carrying value of mineral properties of $7,091,549 as of December 31, 2010 and in a corresponding increase of exploration and evaluation expenses for the year then ended.

Additionally, the change in policy resulted in a reclassification of $547,648 between net loss and accounts payable and accrued liabilities in the Company's consolidated statement of cash flows for the year ended December 31, 2010. This amount represents the capitalized exploration and evaluation assets that had been included in accounts payable under Canadian GAAP.

(b) Deferred income taxes related to the acquisition of Privco

In connection with the Company's acquisition of Privco, the Company recognized a future income tax liability of $3,037,716 in accordance with a specific Canadian GAAP provision that requires that a deferred tax liability be recorded where the tax basis of an acquired asset, other than an asset acquired in a business combination, is less than the asset's cost. The taxable temporary difference was recorded as deferred tax liability, with a corresponding increase in the cost of the acquired asset.

Under IFRS, the acquisition of Privco, which was accounted for as an asset purchase, does not trigger the recognition criteria of IAS 12, *Income Taxes*, for deferred taxation. As such, the recognition of the deferred tax liability would not have been recognized under IFRS, either on acquisition or subsequently. As a result, the future income tax liability and a corresponding increase in the carrying value of resource properties were reversed in the Company's consolidated statement of financial position as of December 31, 2010. Similarly, the corresponding future income tax recovery of $1,763,537 that had been recorded under Canadian GAAP was also reversed for IFRS purposes.

(c) Deferred income taxes related to flow-through share arrangements

Under Canadian GAAP, for future tax liabilities created by the renunciation of resource expenditure deductions for income tax purposes, the Company recorded a reduction in capital stock for the estimated tax benefits transferred to shareholders. As the Company renounced flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous periods, due to the recording of a valuation allowance, was recognized as a future income tax recovery in the consolidated statement of comprehensive loss.

Under IFRS, in absence of any specific guidance related to income tax accounting for flow-through arrangements, the increase to share capital upon the issuance of flow-through shares is measured based on the current market price of common shares. Any incremental proceeds, or premium, are recorded as a liability, reflecting the Company's obligations to conduct qualifying activities in the future. As expenditures are renounced, a deferred tax liability is recognized and the flow-through share premium obligation is reversed, with any excess amount being recognized as a deferred income tax recovery in the consolidated statement of comprehensive loss.

(d) Share-based payments

Under Canadian GAAP, for share-based awards with graded vesting, the Company recognized the fair value of the award (all tranches) on a straight-line basis over the underlying vesting period. Additionally, forfeitures of awards are not estimated at the date of grant and therefore are not included in the calculation of the grant-date fair value. Instead, all forfeitures of awards are recognized as they occur.

Under IFRS, each tranche of a share-based award with graded vesting is treated as a separate award, and the resulting compensation expense is recognized for each tranche over its distinct vesting period. Furthermore, expected forfeitures of awards are required to be estimated at the date of grant and therefore are factored into the determination of fair value.

The Company has adjusted its periodic share-based compensation expense for underlying awards in order to reflect the change in policy related to graded vesting and estimated expected forfeitures.

(e) Warrants

Under Canadian GAAP, the Company applied the relative fair value method to allocate proceeds received in connection with financing transactions to any share purchase warrants granted to investors.

Under IFRS, the Company has changed its accounting policy for the treatment of unit offerings to the residual value method, whereby any proceeds exceeding the fair value of the common shares at the time of issuance are allocated to the share purchase warrants.

This change in accounting policy resulted in re-allocation of $5,070,527 to share capital, representing the fair value of the warrants granted to the investors who participated in the December 2010 Private Placement. However, given that the adjustment was applied to two components within equity, there was no impact to total shareholders' equity.

Reconciliations of consolidated financial statements

Presented below are reconciliations of the Company's consolidated financial statements previously prepared under Canadian GAAP to the consolidated financial statements prepared in accordance with IFRS.

Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010

Canadian GAAP accounts	Canadian GAAP balances	IFRS adjustments	IFRS reclassifications	IFRS balances	IFRS accounts
	$	$	$	$	
ASSETS					ASSETS
Current					Current assets
Cash and cash equivalents	24,376,060	-	-	24,376,060	Cash and cash equivalents
Receivables	515,405	-	-	515,405	Receivables
Prepaids	656,726	-	-	656,726	Prepaid expenses and other current assets
	25,548,191	-	-	25,548,191	
Resource properties	98,797,975	(10,129,265)	-	88,668,710	Mineral properties
Equipment	304,290	-	-	304,290	Property, plant and equipment
	124,650,456	(10,129,265)	-	114,521,191	
LIABILITIES					LIABILITIES
Current					Current liabilities
Accounts payable and accrued liabilities	896,088	-	-	896,088	Payables and accrued liabilities
Due to related parties	131,097	-	-	131,097	Due to related parties
	1,027,185	-	-	1,027,185	
Future income tax liability	1,274,179	(1,274,179)	-	-	
	2,301,364	(1,274,179)	-	1,027,185	
SHAREHOLDERS' EQUITY					SHAREHOLDERS' EQUITY
Share capital	136,596,977	5,684,163	692,644	142,973,784	Share capital and warrants
Contributed surplus	7,944,488	(4,383,873)	(692,644)	2,867,971	Other capital
Deficit	(22,192,373)	(10,155,376)	-	(32,347,749)	Deficit
	122,349,092	(8,855,086)	-	113,494,006	
	124,650,456	(10,129,265)	-	114,521,191	

Reconciliation of Consolidated Statement of Comprehensive Loss for the year ended December 31, 2010

Canadian GAAP accounts	Canadian GAAP balances	IFRS adjustments	IFRS reclassifications	IFRS balances	IFRS accounts
	$	$	$	$	
Administrative expenses					**Operating expenses**
Accounting and audit fees	143,298	-	(143,298)	-	
Amortization	39,935	-	(39,935)	-	
Bank charges and interest	11,479	-	(11,479)	-	
Consulting fees	525,007	-	(525,007)	-	
Insurance	12,865	-	(12,865)	-	
Investor relations	300,996	-	(300,996)	-	
Legal fees	143,626	-	(143,626)	-	
Management fees	152,706	-	(152,706)	-	
Office and administration	591,670	-	(591,670)	-	
Rent	96,971	-	(96,971)	-	
Share-based compensation	1,978,198	686,654	(2,664,852)	-	
Transfer agent and filing fees	72,902	-	(72,902)	-	
Travel	217,309	-	(217,309)	-	
Wages	349,314	-	(349,314)	-	
	-	-	4,921,135	4,921,135	General and administrative expenses
	-	7,091,549	327,841	7,419,390	Exploration and evaluation expenses
	-	-	73,954	73,954	Environmental, aboriginal, government and community expenses
	4,636,276	7,778,203	-	12,414,479	
Loss before other items	(4,636,276)	(7,778,203)	-	(12,414,479)	**Loss from operations**
Other items					
Interest	62,329	-	-	62,329	Finance income
Loss before income taxes	(4,573,947)	(7,778,203)	-	(12,352,150)	Loss before income taxes
Future income tax recovery	3,013,537	(2,377,173)	-	636,364	Income tax recovery
Net loss and comprehensive loss for the year	(1,560,410)	(10,155,376)	-	(11,715,786)	**Net loss and comprehensive loss**
Net loss per share					**Net loss per share**
Basic and diluted	(0.04)	(0.28)	-	(0.32)	Basic and diluted
Weighted average number of shares outstanding					**Weighted average number of shares outstanding**
Basic and diluted	36,624,142	-	-	36,624,142	Basic and diluted

Reconciliation of Consolidated Statement of Cash Flows for the year ended December 31, 2010

Canadian GAAP accounts	Canadian GAAP balances	IFRS adjustments	IFRS adjustments	IFRS balances	IFRS accounts
	$	$	$	$	
Cash flows used in operating activities					**Cash flows from operating activities**
Net loss for the year	(1,560,410)	(10,155,376)	-	(11,715,786)	Net loss
Items not affecting cash					Adjustments for:
Share-based compensation	1,978,199	686,654	-	2,664,853	Share-based compensation costs
Amortization	39,935	-	-	39,935	Depreciation
	-	-	(62,329)	(62,329)	Finance income
Income tax recovery	(3,013,537)	2,377,173	-	(636,364)	Income tax recovery
Amortization of prepaid expenses and other non-cash items	476,810	-	-	476,810	Amortization of prepaid expenses and other non-cash items
	-	-	62,329	62,329	Interest income received
Net change in working capital items:					Changes in operating assets and liabilities:
Receivables	(498,412)	-	-	(498,412)	Receivables
Prepaids	(1,119,805)	-		(1,133,536)	Prepaid expenses and other current assets
Accounts payable and accrued liabilities	69,340	547,648	-	630,719	Payables and accrued liabilities
Due to related parties	22,845	-	-	22,845	Due to related parties
Cash used in operating activities	(3,605,035)	(6,543,901)	-	(10,148,936)	Net cash used in operating activities
Cash flows from investing activities					**Cash flows from investing activities**
Resource property costs	(6,543,901)	6,543,901	-	-	
Acquisition of equipment	(344,225)	-	-	(344,225)	Purchases of property, plant and equipment
Acquisition costs for 0860132 BC Ltd.	(106,480)	-	-	(106,480)	Acquisition costs for 0860132 BC Ltd.
Cash used in investing activities	(6,994,606)	6,543,901	-	(450,705)	Net cash used in investing activities
Cash flows from financing activities					**Cash flows from financing activities**
Proceeds from private placement issuances of common shares, net of cash transaction costs	28,202,400	-	-	28,202,400	Proceeds from private placement issuances of common shares, net of cash transaction costs
Proceeds from the issuance of flow-through shares, net of transaction costs	4,716,381	-	-	4,716,381	Proceeds from the issuance of flow-through shares, net of transaction costs
Proceeds from the exercise of warrants	492,000	-	-	492,000	Proceeds from the exercise of warrants
Proceeds from the exercise of stock options	60,000	-	-	60,000	Proceeds from the exercise of stock options
Cash provided by financing activities	33,470,781	-	-	33,470,781	Net cash provided by financing activities
Increase in cash and cash equivalents	22,871,140	-	-	22,871,140	**Net change in cash and cash equivalents**
Cash and cash equivalents, beginning of the year	1,504,920	-	-	1,504,920	**Cash and cash equivalents at the beginning of the year**
Cash and cash equivalents, end of the year	24,376,060	-	-	24,376,060	**Cash and cash equivalents at the end of the year**

21 Reclassifications of comparative figures

To conform to the presentation adopted in the current year, and independent of any IFRS reclassifications presented in note 20, certain amounts from prior periods have been reclassified.

22 Subsequent events

On January 13, 2012, the Company completed a private placement with Liberty Metals & Mining Holdings, LLC ("Liberty"), a subsidiary of Liberty Mutual Group, pursuant to a subscription agreement that resulted in the issuance of 14,981,273 of the Company's common shares in exchange for aggregate gross proceeds of $39,999,999, less cash transaction costs of approximately $2,626,000. The purchase price of $2.67 per share was based on the volume weighted average price of Alderon's shares on the Toronto Stock Exchange for the twenty trading days ended January 11, 2012. Pursuant to the terms of the related subscription agreement, Liberty has nominated one of its representatives to be appointed to Alderon's Board of Directors. Liberty also has a pre-emptive right to participate in any future equity financings of Alderon, and in the event that Liberty desires to sell any of the aforementioned purchased shares, Alderon will hold the right to identify a purchaser or purchasers to whom those shares shall be sold.

In January 2012, the Company entered into a $600,000 letter of credit agreement in favour of a supplier with respect to the Company's winter drilling program at the Kami Property. The amount of the letter of credit is payable to the supplier in the event that the Company fails to perform any of its obligations under the related contractual arrangement and will expire in May 2012.

On March 9, 2012, the Company's common shares commenced trading on the NYSE Amex under the symbol "AXX".

(Formerly Alderon Resource Corp.)
(An Exploration Stage Company)
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2011

Introduction

This Management's Discussion and Analysis ("MD&A") provides a review of the results of operations, financial condition and cash flows of Alderon Iron Ore Corp. for the year ended December 31, 2011. In this MD&A, "Alderon", the "Company", "we", "us" or "our" mean Alderon Iron Ore Corp. and its subsidiary. This MD&A should be read in conjunction with the Company's consolidated financial statements as of and for the years ended December 31, 2011 and 2010. This MD&A is prepared as of March 27, 2012.

All amounts in this MD&A are presented in Canadian dollars, except for share, option and warrant data and where otherwise indicated.

Adoption of International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises must adopt IFRS in place of Canadian generally accepted accounting principles ("Canadian GAAP") beginning on January 1, 2011 (for entities with a calendar year-end). As such, our consolidated financial statements as of and for the year ended December 31, 2011 have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). Additionally, our consolidated statement of financial position as of January 1, 2010 and our comparative consolidated financial statements for 2010 have been adjusted to reflect our adoption of IFRS on a retrospective basis, effective on January 1, 2010. Consequently, all comparative financial information presented in this MD&A, with the exception of select financial information as of or for the year ended December 31, 2009, reflects the consistent, retrospective application of IFRS.

A complete description of our transition to IFRS, including reconciliations of previously reported Canadian GAAP information, is provided in note 20 to our consolidated financial statements as of and for the years ended December 31, 2011 and 2010, which note is incorporated by reference herein.

Responsibility of financial reports

Management is responsible for the preparation and integrity of financial reports, as well as for the maintenance of appropriate information systems, procedures and internal controls and for ensuring that information used internally or disclosed externally, including our consolidated financial statements and MD&A, is complete and reliable. The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. Our Board of Director's Audit Committee meets with management quarterly to review the consolidated financial statements and the MD&A and to discuss other financial, operating and internal control matters.

Alderon's exploration work on the Kami Project, as defined below, is supervised by Edward Lyons, P.Geo., the Company's Chief Geologist and a Qualified Person, as defined by National Instrument ("NI") 43-101. Mr. Lyons has reviewed and approved the technical information contained in this MD&A. Mr. Lyons is a member in good standing of the Association of Professional Engineers and Geoscientists of British Columbia and the Professional Engineers and Geoscientists Newfoundland and Labrador as a registered Professional Geoscientist.

Forward-looking information

This MD&A contains "forward-looking information" concerning anticipated developments and events that may occur in the future. Forward looking information contained in this MD&A include, but is not limited to, statements with respect to: (i) the estimation of inferred and indicated mineral resources; (ii) success of exploration activities; (iii) permitting time lines; (iv) currency fluctuations; (v) the sufficiency of working capital; (vi) requirements for additional capital; (vii) government regulation of mining operations; (viii) development, construction and production timelines; (ix) the completion of the feasibility study; (x) the completion and timing of the environmental assessment process; (xi) the negotiation and conclusion of infrastructure contracts; (xii) the use of financing proceeds; and (xiii) the results of the preliminary economic assessment ("PEA"), including statements about future production, future operating and capital costs, the projected internal rate of return ("IRR"), net present value ("NPV"), payback period, construction timelines and production timelines for the Kami Property (as defined below).

In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information contained in this MD&A is based on certain factors and assumptions regarding, among other things, the estimation of mineral reserves and resources, the realization of resource estimates, iron ore and other metal prices, the timing and amount of future exploration and development expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing and materials to continue to explore and develop the Kami Property (as defined below) in the short- and long-term, the progress of exploration and development activities, the receipt of necessary regulatory approvals, the completion of the environmental assessment process, the estimation of insurance coverage, and assumptions with respect to currency fluctuations, environmental risks, title disputes or claims, and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, these assumptions may prove to be incorrect.

Forward looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include risks inherent in the exploration and development of mineral deposits, including risks relating to changes in project parameters as plans continue to be redefined including the possibility that mining operations may not commence at the Kami Property (as defined below), risks relating to variations in mineral resources, grade or recovery rates resulting from current exploration and development activities, risks relating to the ability to access rail transportation, sources of power and port facilities, risks relating to changes in iron ore prices and the worldwide demand for and supply of iron ore and related products, risks related to increased competition in the market for iron ore and related products and in the mining industry generally, risks related to current global financial conditions, uncertainties inherent in the estimation of mineral resources, access and supply risks, reliance on key personnel, operational risks inherent in the conduct of mining activities, including the risk of accidents, labour disputes, increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the development process, regulatory risks, including risks relating to the acquisition of the necessary licenses and permits, financing, capitalization and liquidity risks, including the risk that the financing

necessary to fund the exploration and development activities at the Kami Property (as defined below) may not be available on satisfactory terms, or at all, risks related to disputes concerning property titles and interest, and environmental risks. Also, see "Risk Factors" in this MD&A and "Risk Factors" in the Company's Annual Information Form ("AIF") for the year ended December 31, 2011.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information is made as of the date of this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking information, and readers should also carefully consider the matters discussed under the heading "Risk Factors" in this MD&A and "Risk Factors" in the AIF.

Note to investors in the United States regarding resource estimates

This MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States ("US") securities laws. Unless otherwise indicated, all resource and reserve estimates included in this MD&A have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining and Metallurgy Classification System. NI 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and resource information contained herein may not be comparable to similar information disclosed by US companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". Under US standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by US standards in documents filed with the SEC. US investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies. Investors are cautioned not to assume that all or any part of an "inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as

those of the SEC. Accordingly, information concerning mineral deposits set forth herein may not be comparable with information made public by US companies subject to the reporting and disclosure requirements of the SEC.

Description of business and overview

Alderon is an exploration-stage company engaged in the exploration and evaluation of mineral resource properties. Currently, the Company is conducting iron ore exploration and evaluation activities related entirely to its properties located in Western Labrador. Those properties are collectively referred to as the Kamistiatusset, or "Kami", Property. All exploration, evaluation and other activities associated with the Kami Property are referred to as the Kami Project.

The Company's common shares are listed on both the Toronto Stock Exchange, under the symbol "ADV" and on the NYSE Amex, under the symbol "AXX".

On October 4, 2011, the Company changed its name from Alderon Resource Corp. to Alderon Iron Ore Corp.

Kami Property

In March 2010, the Company entered into an agreement with Altius Resources Inc. ("Altius") pursuant to which the Company received the right to acquire a 100% interest in the Kami Property (the "Altius Option"). At the time of the acquisition, the Kami Property consisted of three map-staked licenses (305 claims) in Labrador, covering a total of 7,625 hectares, and five map-staked licenses in Quebec, covering a nominal area of 125 hectares.

In order to acquire this 100% interest, we had been required to fund exploration expenditures on the property of at least $1,000,000 in the first year, and cumulative expenditures in the first two years of at least $5,000,000. Upon incurring such expenditures, we were entitled to exercise the Altius Option, thereby completing the acquisition of 100% of rights to the Kami Property in December 2010.

In 2010, we completed 25,749 metres of drilling and an airborne geophysical survey. The airborne survey covered the original Kami property as well as reconnaissance on the new claims to the east, and metallurgical test work also commenced at the same time. An initial mineral resource estimate, published on April 5, 2011, was carried out by Watts, Griffis and McOuat Limited ("WGM") on two mineralized zones within the Kami property: Rose Central and Mills Lake. The estimate for these two zones includes an indicated mineral resource of 490 million tonnes at 30% iron and an additional inferred mineral resource of 118 million tonnes at 30.3% iron, based on a cut-off grade of 20%. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

In early 2011, we conducted a drill program, totaling 4,496 metres, in the North Rose area, which in turn is interpreted as the northwest limb of the Rose Syncline fold. The initial mineral resource estimate described above was followed, on September 13, 2011, by a mineral resource estimate for North Rose. This mineral resource estimate was completed by Alderon staff and audited by WGM, who reviewed, verified and approved the technical data in this estimate. The inferred mineral resource identified at North Rose totals 480 million tonnes at 30.3% iron, based on a cut-off grade of 20% iron. The mineral resource estimate for all three zones (North Rose, Rose Central and Mills Lake) within the Kami Project is currently:

- 490 million tonnes at 30.0% iron indicated
- 598 million tonnes at 30.3% iron inferred

Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The North Rose zone, located immediately north of Rose Central, has a currently defined strike length of approximately 1,600 metres and a true thickness of up to 325 metres. The Rose Central zone has a currently defined strike length of 1,700 metres and a true thickness of up to 280 metres. Mills Lake is located 3.1 kilometres southeast of Rose Central and has a currently defined strike length of 1,500 metres and a true thickness of up to 142 metres. All three zones are open for expansion, both along strike and at depth.

Also during 2011, working in tandem with the geological investigation of the Kami Property, we also initiated a PEA. The PEA was focused solely on the Rose Central portion of the Kami Property and was completed by BBA Inc. ("BBA") of Montreal, Quebec, Stantec Consulting Ltd. ("Stantec") of St. John's, Newfoundland & Labrador and WGM.

Highlights of the Rose Central PEA include:

- Concentrate production rate of 8 million tonnes per year at a grade of 65.5% iron;
- Commercial production expected to commence in 2015 with a mine life of 15.3 years;
- Capital cost of US$989 million (excluding closure costs, sustaining capital & leased equipment);
- Total operating cost (excluding royalties) of US$44.87/tonne concentrate (averaged over the life of mine).
- Pre-Tax IRR of 40.2%;
- NPV (discounted at 8%) of US$3.07 billion; and
- Payback period of 2.7 years.

The PEA is based only on the development of the Rose Central deposit. The level of accuracy of the PEA is considered to be -20% / +30%.

The PEA is preliminary in nature and includes inferred mineral resources that are considered to be too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the conclusions reached in the PEA will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The Company has not yet completed a pre-feasibility study or feasibility study to demonstrate the economic viability of the Kami Property. Furthermore, no mineral reserves have been established on the Kami Property. Any statements regarding planned production rates, projected cash flows, payback period, IRR, NPV, construction timelines or our expected commencement of commercial production in 2015 assume that Alderon is or will be able to complete all of the required steps to bring the Kami Property into commercial production, including the completion of a feasibility study to demonstrate the economic viability of the Kami Property, the completion of the environmental assessment process, the conclusion of infrastructure agreements for railway transportation, power and access to port facilities and that Alderon obtains the necessary project financing to pay for the capital costs to

develop and construct a mine at the Kami Property. There is no certainty that Alderon will be able to complete any or all of these steps and reference should be made to the "Risk Factors" and "Forward-Looking information" section of this MD&A and the "Risk Factors" section of the AIF.

Focused on moving the project forward, we continued to drill throughout the second half of 2011. In all, 86 holes, totaling 22,250 metres, were completed. In addition to drilling, we also continued borehole geophysical surveys, metallurgical test work and environment studies. Drilling was aimed at upgrading the mineral resource estimate from the indicated and inferred categories to the measured and indicated categories in the Rose Central, North Rose and Mills Lake Zones and targeting new areas outlined by the 2010 exploration program, with the goal of completing a feasibility study for the Kami project during the third quarter of 2012.

The current reporting period ended with the final set of the drill results from the 2011 program having been received, highlights of which are presented as follows:

Drill Hole	From (metres)	To (metres)	Interval (metres)	Total Iron %
K-11-146	128.8	353.5	224.8	31.2
K-11-150	46.6	215.0	168.5	31.0
K-11-156	18.0	135.5	117.7	30.8
K-11-159	328.0	431.0	103.0	29.4
K-11-160	62.0	377.0	315.0	30.5
K-11-168	141.2	244.0	102.8	29.3
K-11-171	103.4	263.0	159.6	30.1
K-11-172	175.5	260.0	84.5	31.8

True widths of the reported intercepts above vary depending on the angle of the individual drill holes and are estimated to be between 41% and 65% of the core interval as reported. All samples were prepared from sawn HQ-sized half-core sections on-site in Labrador. Split drill core samples are then sent to SGS Mineral Services in Lakefield, Ontario, for analysis. Total iron analysis is performed using X-ray fluorescence, and the magnetic component is determined by Satmagan magnetic analysis. FeO titration analysis permits an estimation of hematite. Standards, blanks, and duplicate assays are included at regular intervals in each sample batch submitted from the field as part of an ongoing quality assurance and quality control program.

On January 10, 2012 the Company announced the commencement of its 2012 winter drilling program at Kami. The four-month program is focused predominantly on North Rose and will include up to 18,000 metres of drilling, utilizing six drills. The program, which is the final drill program before the publication of the feasibility study, will concentrate on infill drilling with the goal of upgrading the current mineral resource into the measured and indicated categories in preparation for completion of the feasibility study.

In addition to our drilling initiatives, we initiated, on October 25, 2011, the federal and provincial environmental assessment processes for the Kami Project. We submitted the required documentation (the "Registration Documents") to the Canadian Environmental Assessment Agency and the Department of Environment and Conservation, Government of Newfoundland and Labrador, and each of these agencies has confirmed acceptance of the filing of the Registration Documents. A project notification also was provided to the Quebec provincial *Ministère du Développement Durable, de l'Environnement et des Parcs* ("MDDEP"). Subsequently, a determination was received from the MDDEP that no environmental assessment of the project would be required under Quebec legislation.

The submission of the Registration Documentation and the acceptance by both levels of governments marks the initiation of the environmental assessment process which is required prior to commencing construction of the project and is a significant milestone in the project schedule. The Registration Documents are available for viewing on the Government of Newfoundland and Labrador Department of Environment and Conservation website.

Following receipt of the Registration Documents, the Government of Canada and the Provincial Government of Newfoundland and Labrador have issued draft environmental impact statement guidelines for public review. The issuance of these draft guidelines is another important step in the environmental assessment process, as we continue to advance the Kami Project. In conjunction with the issuance of these draft guidelines, held public information sessions on the Kami Project were held in Labrador City, Wabush and Fermont in March 2012. Information received from participants in these public information sessions will be used by Alderon to complete our Environment Assessment. The Kami Project's Environmental Impact Statement is scheduled for submission during the fourth quarter of 2012.

Further information regarding the Kami Property, including the mineral resource estimates and PEA, can be found in the technical report filed on SEDAR at www.sedar.com, entitled *Technical Report Preliminary Economic Assessment of the Rose Central Deposit and Resource Estimate for the Rose Central, Rose North and Mills Deposits of the Kamistiatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.*, dated effective October 26, 2011.

As of December 31, 2011, the Company had spent a total of approximately $28.6 million on exploration and evaluation expenditures related to the Kami project. Those expenditures have been incurred during the two-year period ended December 31, 2011.

Corporate activities

On November 30, 2011, we closed a non-brokered private placement, which resulted in the issuance of 2,000,000 flow-through shares at a price of $3.00 per share, for total gross proceeds of $6.0 million (the "November 2011 Flow-Through Private Placement"). Each flow-through share qualifies as such pursuant to the relevant provisions of the *Income Tax Act* (Canada). In connection with the November 2011 Flow-Through Private Placement, we paid a cash finder's fee equal to 6% of the gross proceeds received.

Developments subsequent to year-end

Strategic investment from Liberty Metals & Mining Holdings, LLC.

On January 13, 2012, the Company closed a strategic investment from Liberty Metals & Mining Holding, LLC ("LMM"), a subsidiary of Liberty Mutual Group. LMM purchased 14,981,273 common shares (the "Purchased Shares") of the Company on a private placement basis for an aggregate purchase price of approximately $40.0 million, less cash transaction costs of approximately $2.6 million, at a price per Purchased Share of $2.67.

Pursuant to the terms of the subscription agreement between LMM and Alderon, LMM has nominated one of its representatives to be appointed to Alderon's Board of Directors. LMM also has a pre-emptive right to participate in future equity financing of Alderon, and in the event that LMM desires to sell any of its Purchased Shares, Alderon will hold the right to identify a purchaser or purchasers to whom those shares shall be sold.

We intend to use the net proceeds of the placement primarily to fund the drilling program and feasibility study for the Kami Project, to secure long-lead equipment and for general and administrative expenses.

Letter of credit

In January 2012, we entered into a $0.6 million letter of credit agreement in favour of a supplier with respect to our winter drilling program at the Kami Property. The amount of the letter of credit is payable to the supplier in the event that the Company fails to perform any of its obligations under the related contractual arrangement and will expire in May 2012.

US listing

As noted above, on March 9, 2012, the Company's common shares commenced trading on the NYSE Amex under the symbol "AXX".

Results of operations

Consolidated statements of comprehensive loss information

	Years ended December 31, 2011	2010
	$	$
Operating expenses		
Exploration and evaluation expenses	**21,201,210**	7,419,390
General and administrative expenses	**15,182,005**	4,921,135
Environmental, aboriginal, government and community expenses	**1,356,780**	73,954
	37,739,995	12,414,479
Loss from operations	**(37,739,995)**	(12,414,479)
Finance income	**233,377**	62,329
Loss before income taxes	**(37,506,618)**	(12,352,150)
Income tax recovery	**1,063,540**	636,364
Net loss and comprehensive loss	**(36,443,078)**	(11,715,786)
Net loss per share		
Basic and diluted	**(0.44)**	(0.32)
Weighted average number of shares outstanding		
Basic and diluted	**82,615,947**	36,624,142

Exploration and evaluation expenses

Exploration and evaluation expenses include engineering, metallurgical and other studies and activities that are necessary in order to delineate an ore body. Specifically, exploration and evaluation expenditures are comprised of costs associated with the following activities: surveying; geological, geochemical and geophysical studies; exploratory drilling; land maintenance; sampling and analyses; and efforts associated with the assessment of technical feasibility and commercial viability.

Our exploration and evaluation activities increased notably during 2011, as compared to 2010, as we continued the geological investigation of the Kami Property and as we dedicated additional resources and capital to the preparation of our PEA on the Rose Central portion of the Kami Property. Beyond the efforts dedicated to the PEA, we also continued to expand engineering and related initiatives that are necessary to support our feasibility study, which we expect to finalize during the third quarter of 2012.

On a comparative basis, it is important to note that exploration and evaluation activities began in earnest only after our acquisition of the Altius Option in March 2010, as discussed above. As a result, and in addition to the heightened focus on exploratory initiatives, our 2011 results reflect a full year of Kami Property exploration and evaluation activities, while our 2010 results include exploration and evaluation initiatives carried out predominantly during the last three quarters of the fiscal year.

Comparative annual exploration and evaluation expenses, by nature of expenditure, are summarized below:

	Years ended December 31,	
	2011	**2010**
	$	$
Drilling costs	**11,503,084**	5,427,993
Engineering study costs	**3,498,323**	-
Geological costs	**2,809,238**	786,946
Geophysical costs	**1,290,725**	851,156
Share-based compensation	**1,256,888**	234,559
Metallurgy costs	**384,136**	-
Consulting costs	**231,860**	61,966
Other costs	**226,956**	56,770
	21,201,210	7,419,390

Drilling costs are comprised primarily of expenses that are charged by a third-party drilling contractor, which provides the core drilling, including the mobilization and operation of various drill rigs, during our seasonal drilling programs. Additionally, drilling costs include wages and payroll costs related to temporary Alderon employees who perform general labour tasks in support of the drilling activities on the Kami Property and helicopter costs (necessary for moving and supporting certain drill rigs at difficult-to-access places), as well as field supplies and other equipment and ancillary costs directly attributable to our drilling initiatives.

Third-party core drilling services are billed based on the number of drill rigs in operation, the depth of each drilled hole, day work rates and the overall length of time that the contractor's rigs are mobilized at the Kami Property site. Direct contractors costs represented approximately 73% and 71% of total drilling costs during the years ended December 31, 2011 and 2010, respectively. The year-over-year increase in total drilling costs to a large degree is attributable to increased drilling lengths, deeper overburden in the North Rose area, increased environmental operating costs and higher drilling unit costs.

Engineering study costs primarily include consulting fees attributable to the preparation and finalization of the PEA, which was focused on the Rose Central portion of the Kami Property and was completed by BBA, Stantec and WGM.

Share-based compensation costs increased substantially in 2011, as compared to the year ended December 31, 2010, due to the higher degree of vesting associated with stock options granted to new and existing employees who are dedicated to exploration and evaluation initiatives.

We expect exploration and evaluation expenses to increase significantly during the year ended December 31, 2012, as compared to the year ended December 31, 2011, as we complete our winter drilling program at the Kami Property and as we advance engineering and other activities with the aim of finalizing our feasibility study later in 2012.

General and administrative expenses

Throughout the course of 2011, and particularly during the second half of the year, general and administrative expenses increased substantially as compared to the year ended December 31, 2010. In addition to salaries, wages and consultancy expenses, all of which increased in order to support the overall expansion of Company activities more generally, share-based compensation costs, which represented approximately 57% and 48% of total general and administrative costs for the years ended December 31, 2011 and 2010, respectively, increased significantly on a year-over-year basis due to the higher degree of vesting associated with stock options granted to new and existing members of our corporate team.

General and administrative expenses also rose during 2011, as compared to the year ended December 31, 2010, due to an overall increase in investor relations activities, as a result of the Company's heightened participation in trade conferences, promotional activities and general marketing efforts.

It is our expectation that, excluding the impact of share-based compensation costs, which in turn depend on a number of unknown or currently inestimable factors, including the number of options that will be granted in future periods and any changes to parameters or judgments applied to the option pricing model used to calculate the underlying fair value of awards, total general and administrative expenses will remain at similar levels for the year ended December 31, 2012, as compared to 2011.

Environmental, aboriginal, government and community expenses

Environmental, aboriginal, government and community expenses represent any non-general or administrative (i.e. corporate) activities that, despite the relatively early stage of exploration and evaluation efforts associated with the Kami Project, have been deemed necessary by management in connection with engaging with relevant aboriginal, governmental and community groups as the Kami Project advances, as well as other costs related to planning and similar initiatives that are required in order to allow the Kami Project to proceed through the environmental assessment process. Typical expenditures reflected in this category include, but are not limited to, employee salaries and benefits (including share-based compensation) of the Company's environmental and aboriginal affairs and government and community affairs staff, as well as consulting and professional service fees that are directly attributable to underlying functional areas.

As presented above, the environmental, aboriginal, government and community-related initiatives commenced in earnest in 2011, subsequent to the expansion both of our executive management team and of our heightened actual and planned engagement with various stakeholders in the region and province in which the Kami Property is located. The vast majority of environmental, aboriginal, government and community expenses incurred during the year ended December 31, 2011 represent costs, including share-based compensation, associated with those members of our key management team who oversee our environmental, aboriginal, government and community initiatives.

We expect environmental, aboriginal, government and community expenses to increase substantially during the year ended December 31, 2012, as compared to the year ended December 31, 2011, as we continue to engage with various stakeholders, as we consult with First Nations groups and as we establish and execute against guidelines related to the environmental assessment process.

Income tax recovery

As discussed above, we completed the November 2011 Flow-Through Private Placement, which resulted in the receipt of $6.0 million in aggregate gross proceeds, and in 2010, we completed a similar flow-through private placement, which resulted in the receipt of $5.0 million in aggregate gross proceeds. Both flow-through transactions require or required that we renounce certain deductions for Canadian exploration expenditures incurred on the Kami Property, effectively passing those deductions on to the investors who partook in the underlying flow-through arrangements.

In connection with the flow-through transactions completed during the years ended December 31, 2011 and 2010, we recorded a tax recovery of approximately $1.1 million and $0.6 million, respectively, representing the fulfillment, during each of those years, of our obligation to incur qualifying expenditures and to pass the tax deduction on to investors who participated in the underlying flow-through transactions.

It should be noted that we have not recorded our deferred tax assets, since, based on information that is currently available, it is probable that these deferred tax assets will not be realized.

Quarterly consolidated results of operations information

As shown below, our loss from operations for the three-month period ended December 31, 2011 amounted to approximately $15.6 million, as compared to approximately $5.0 million for the three-month period ended December 31, 2010. The quarter-over-quarter increase is largely attributable to a significant increase in exploration and evaluation expenditures incurred during the fourth quarter of 2011, as compared to the fourth quarter of 2010. In particular, the increase in exploration and evaluation expenditures resulted in part from more extensive drilling activities having been undertaken in 2011, as well as an increase in engineering costs incurred following the finalization of our PEA. Total expenses incurred during the fourth quarter of 2011, as compared to the fourth quarter of 2010, also were higher due to a significant increase in share-based compensation, which, as noted above, resulted from the higher degree of vesting associated with stock options granted to new and existing members of our corporate and environmental, aboriginal, government and community teams.

Net loss increased to approximately $14.4 million for the three-month period ended December 31, 2011 from approximately $5.0 million for the three-month period ended December 31, 2010. The higher net loss resulted from the higher loss from operations, discussed above, partially offset by the income tax recovery, recognized in December 2011 in connection with the renunciation of qualifying expenditures incurred pursuant to our entering into the November 2011 Flow-Through Private Placement, discussed above.

Loss from operations for the year ended December 31, 2009, as per our consolidated statement of comprehensive loss for that period, which was prepared in accordance with Canadian GAAP, was approximately

$0.5 million. This operating loss resulted predominantly from the expenditure of administrative costs, given that Alderon had not yet begun exploration and evaluation activities in earnest.

Selected quarterly consolidated results of operations information include the following:

	Quarters ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
	$	$	$	$
Loss from operations	(15,628,202)	(11,061,155)	(5,390,746)	(5,659,892)
Net loss	(14,438,945)	(11,045,509)	(5,305,950)	(5,652,674)
Net loss per share				
Basic and diluted	(0.17)	(0.13)	(0.06)	(0.07)

	Quarters ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	$	$	$	$
Loss from operations	(4,977,410)	(4,725,890)	(2,202,765)	(508,414)
Net loss	(4,956,927)	(4,684,256)	(1,567,088)	(507,515)
Net loss per share				
Basic and diluted	(0.10)	(0.13)	(0.04)	(0.02)

Net loss per share is based on each reporting period's weighted average number of shares outstanding, which may differ on a quarter-to-quarter basis. As such, the sum of the quarterly net loss per share amounts may not equal year-to-date net loss per share.

Historical quarterly results of operations and net loss per share data do not necessarily reflect any recurring expenditure patterns or predictable trends. The variations in reported quarterly information, and particularly the progressive quarter-over-quarter increases in both our loss from operations and net loss are explained predominantly by the overall and progressive ramping up of exploration and evaluation activities subsequent to the acquisition and exercise of the Altius Option, as discussed above, and with the expectation that we will move the Kami Project into the development stage later in 2012, once a feasibility study has been finalized. The quarterly increases in our operating loss and net loss also have been impacted by the progressive increase in general and administrative expenses that have been incurred as we continued to expand our corporate activities and personnel to support both our operations and our public company obligations more generally. As such, quarterly results cannot be interpreted as being indicative of future expectations, results of operations or net loss per share.

Liquidity and capital resources

Consolidated statements of cash flows information

As of December 31, 2011, the Company had cash and cash equivalents of approximately $7.8 million, as compared to approximately $24.4 million as of December 31, 2010, and a working capital surplus of approximately $4.8 million, as compared to approximately $24.5 million as of December 31, 2010.

Changes in cash and cash equivalents during each of the years ended December 31, 2011 and 2010 were most notably impacted by the operational expenditures incurred, as discussed above, and by net cash proceeds received in connection with financing activities, as summarized below.

	Years ended December 31,	
	2011	**2010**
	$	$
Cash and cash equivalents – beginning of the year	**24,376,060**	1,504,920
Cash used in operating activities	**(24,040,909)**	(10,148,936)
	335,151	(8,644,016)
Cash flows from financing activities:		
Net proceeds from private placement issuances of common shares	**-**	28,202,400
Net proceeds from the issuance of flow-through shares	**5,624,910**	4,716,381
Proceeds from the exercise of warrants and stock options	**1,908,835**	552,000
Net cash provided by financing activities	**7,533,745**	33,470,781
Net cash used in investing activities	**(108,963)**	(450,705)
Cash and cash equivalents – end of the year	**7,759,933**	24,376,060

Cash used in operating activities represents our net loss, excluding the impact of any non-cash transactions, such as the recording of share-based compensation costs (which amounted to approximately $10.6 million and approximately $2.7 million during the years ended December 31, 2011 and 2010, respectively) and the income tax recoveries related to our having incurred qualifying exploration and evaluation expenditures referred to above. Additionally, net cash used in operating activities reflects any changes in components of working capital, such as receivables and payables, which fluctuate in a manner that does not necessarily reflect predictable patterns for the overall use of cash, the generation of which depends almost entirely on sources of external financing to fund both our exploration and evaluation initiatives and other expenses.

Cash provided by financing activities during the year ended December 31, 2011, decreased significantly as compared to the year ended December 31, 2010 due to the lower volume of financing transactions entered into during 2011. We entered into various non-flow-through private placements during the year ended December 31, 2010 and no such financing transactions during 2011. This significant year-on-year decrease was partially offset by the increase in net proceeds received in connection with the November 2011 Flow-Through Private Placement, as discussed above.

Total assets reported in our consolidated statements of financial position as of December 31, 2011 and December 31, 2010 were approximately $101.6 million and approximately $114.5 million, respectively, and, in addition to cash and cash equivalents and other components of working capital (year-over-year fluctuations of which are discussed above), were comprised, at each reporting date, of approximately $88.7 million of mineral properties, consisting of assets that are being explored and evaluated and representing titles associated with the Kami Property. Total assets, as presented in our consolidated statement of financial position as of December 31, 2009, which was prepared in accordance with Canadian GAAP, were approximately $1.5 million, comprised almost entirely of cash held in trust.

Outlook for 2012

Over the next 12 months, the Company will work to complete the ongoing drilling program on the Kami Property. The four-month program is focused predominantly on North Rose and will include up to 18,000 metres of drilling with six mobilized drill rigs. The program will concentrate on infill drilling with the aim of upgrading the Kami Property mineral resource into the measured and indicated categories, in preparation for the feasibility study on the Kami Property, expected to be completed in the third quarter of 2012.

We also plan to continue with our baseline flora, fauna and water quality studies, which will provide essential data necessary to successfully complete the federal and provincial environmental assessment processes. In particular, and following the announcement, in February 2012, that the Government of Canada and the Provincial Government of Newfoundland and Labrador have issued draft environmental impact statement guidelines for public review, we plan to complete an Environmental Impact Statement for the Kami Property in the fourth quarter of 2012.

Additionally, we also will focus on negotiating and concluding agreements for the key infrastructure requirements for the Kami Property, including railway transportation, port access and the provision of power to the Kami Project.

The Company has sufficient working capital to complete its 2012 winter drilling program and feasibility study for the Kami Property. As noted above, our total operating expenses are expected to increase significantly during the year ended December 31, 2012, as compared to the year ended December 31, 2011, as we continue to move the Kami Property and related exploration, evaluation, aboriginal, environmental, government and community activities towards the development phase and beyond.

We will continue in 2012 to evaluate strategic partnership and off-take arrangements with potential partners and future customers, as well as to pursue any financing activities that we deem appropriate in order to ensure longer-term funding of the Kami Project and of our operations more generally.

Outstanding share data

As of March 27, 2012, there were 100,066,597 common shares issued and outstanding and 11,675,000 stock options outstanding. Warrants outstanding as of March 27, 2012 represent a total of 4,596,387 equivalent common shares.

Related party transactions

A related party is any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of our key management personnel—namely, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key management personnel

Key management personnel includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as well as any Vice Presidents reporting directly to a Corporate Executive Board member or officer, acting in that capacity.

Remuneration attributed to key management personnel can be summarized as follows:

	Years ended December 31,	
	2011	2010
	$	$
Share-based compensation	**8,232,689**	1,929,261
Short-term benefits*	**1,280,698**	494,572
Incentive compensation other than share-based compensation	**1,171,075**	505,000
Termination benefits	**200,000**	-
Other	**30,000**	-
	10,914,462	2,928,833

* include base salaries, pursuant to contractual employment or consultancy arrangements, Directors' fees, applicable payroll taxes and other non-post-retirement benefits.

Other related parties

Forbes West Management Corp. ("Forbes West"): Forbes West, formerly named EGM Exploration Group Management Corp., is an entity that, for the whole of 2011, was owned by the Executive Chairman of the Company's Board of Directors. Forbes West provided administrative, management, geological, regulatory, tax, corporate development and investor relations services to the Company. Forbes West will continue to provide certain services to the Company in the future.

Forbes & Manhattan, Inc. ("F&M"): F&M is an entity that is wholly owned by the spouse of the Vice Chairman of the Company's Board of Directors. The Vice Chairman is the Executive Chairman of F&M, which in turn provides certain financial management and business consulting services to the Company.

Emprise Capital Corp. ("Emprise"): The Company had entered into a management services agreement with Emprise that was effective on December 8, 2009, the date at which one of Emprise's Directors was appointed President, Chief Executive Officer and a Director of the Company. Pursuant to the underlying agreement, the Company paid a fixed, monthly management fee; however, this agreement was terminated in March 2010, at which time the Company's Board of Directors and management team were replaced.

Transactions entered into with related parties other than key management personnel include the following:

	Years ended December 31, 2011	2010
	$	$
Forbes West	**1,625,232**	1,107,027
F&M	**236,750**	90,000
Emprise	**-**	15,000
	1,861,982	1,212,027

Transactions with related parties were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Commitments and contingencies

The following contractual obligations were outstanding as of December 31, 2011.

		Payments due:			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
	$	$	$	$	$
Operating lease obligations	247,162	176,060	71,102	-	-
Total	247,162	176,060	71,102	-	-

In the normal course of operations, we may become involved in various claims and legal proceedings. No contingent liabilities have been accrued as of December 31, 2011, nor are there any known disputes pending against the Company that could significantly impact our consolidated financial position, results of operations or cash flows.

Off-balance sheet arrangements

As of December 31, 2011, we did not have any interests in variable interest entities or any other off-balance sheet arrangements.

Significant accounting policies and critical estimates and judgments

A complete summary of our critical accounting policies is provided in note 1 to our consolidated financial statements as of and for the years ended December 31, 2011 and 2010.

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which our consolidated financial statements are prepared. We review, on a regular basis, our accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, we caution that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

We consider the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of our consolidated financial statements.

Carrying value and recoverability of mineral properties

The carrying amount of our mineral properties does not necessarily represent present or future values, and our mineral properties have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, our ability to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact our assessment as to the overall viability of the Kami Project or to the ability to generate future cash flows necessary to cover or exceed the carrying value of our mineral properties.

To the extent that any of management's assumptions change, there could be a significant impact on our future operating results and cash flows.

Fair value of stock options and warrants

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on our future operating results or other components of shareholders' equity.

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of our ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. We assess whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that our assessment of the ability to utilize future tax deductions changes, we would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

Accounting standards not yet adopted

In November 2009 and October 2010, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"), which represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, with a new standard. Per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the derecognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. We currently are evaluating any impact that this new guidance may have on our consolidated financial statements.

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), which builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. IFRS 10 also provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. We currently are evaluating any impact that this new guidance may have on our consolidated financial statements.

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* ("IFRS 11"), which enhances accounting for joint arrangements, particularly by focusing on the rights and obligations of the arrangement, rather than the arrangement's legal form. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and prohibits proportionate consolidation. IFRS 11 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. We currently are evaluating any impact that this new guidance may have on our consolidated financial statements.

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), which is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. We currently are evaluating any impact that this new guidance may have on our consolidated financial statements.

In May 2011, the IASB issued IFRS 13, *Fair Value* Measurement ("IFRS 13"), which defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). IFRS 13 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. We currently are evaluating any impact that this new guidance may have on our consolidated financial statements.

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements* ("IAS 1"), to change the disclosure of items presented in other comprehensive income into two groups, based on whether those items may be recycled to profit or loss in the future. The amendments to IAS 1 apply to financial statements for annual periods beginning after July 1, 2012, with early adoption permitted. We currently are evaluating any impact that this new guidance may have on our consolidated financial statements.

Capital disclosures

Our objective in managing capital, consisting of shareholders' equity, with cash and cash equivalents being its primary component, is to ensure sufficient liquidity to fund: exploration and evaluation activities; general and administrative expenses; environmental, aboriginal, government and community expenses; working capital; and capital expenditures.

We regularly monitor our capital structure and make adjustments thereto based on funds available to the Company for the acquisition, exploration and development of mineral properties. Our Board of Directors has not established quantitative return on capital criteria for capital management, but rather relies upon the expertise of the management team to sustain the future development of the business.

The properties in which we currently have an interest are in the exploration stage, and we do not generate any revenue. Accordingly, we are dependent upon sources of external financing to fund both our exploration programs and our administrative costs. While we endeavour to minimize dilution to our shareholders, we have in the past engaged in dilutive financial transactions, such as private placements, and may engage in dilutive arrangements in the future.

Our policy on dividends is to retain cash to keep funds available to finance the activities required to advance the Kami Project. We are not subject to any capital requirements imposed by any regulators or by any other external source.

Financial instruments and risk management

Our financial instruments are comprised of cash and cash equivalents, receivables, payables and accrued liabilities and amounts due to related parties.

The carrying values of our cash and cash equivalents, receivables, payables and accrued liabilities and amounts due to related parties approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market.

We are exposed in varying degrees to certain risks arising from financial instruments, as discussed below.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As discussed above, our capital management objectives include working to ensure that we have sufficient liquidity to fund Company activities that are directly and indirectly related to the advancement of the Kami Project. We currently have limited financial resources and, as noted above, no source of operating cash flow. Further development and exploration of the Kami Property depends upon our ability to obtain financing through strategic partnerships, equity or debt financings, production-sharing arrangements or other dilutive or non-dilutive means. Historically, sufficient liquidity has been provided predominantly through external financing initiatives, including traditional and flow-through private placements to investors and institutions. We will continue to rely upon sources of external financing in future periods until such time as commercial production commences. There is no assurance that we will be successful in obtaining required financing as and when needed. Failure to obtain additional financing could result in an indefinite postponement of further exploration and development of the Kami Property and would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

Given the uncertainty as to our access to financing, and notwithstanding our successful capital-raising activities both prior to December 31, 2011 and subsequent thereto, there can be no assurance that we will continue to maintain a level of cash and cash equivalents such that available balances will be sufficient to fund planned expenditures and other working capital needs for at least, but not limited to, the 12-month period following the date of any future consolidated statement of financial position.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Our receivables consist primarily of sales tax credits, which are due from Canadian federal and provincial tax agencies. Additionally, our cash and cash equivalents are held in deposit at high-credit quality Canadian financial institutions. As a result, we consider the risk of non-performance related to accounts receivable and cash and cash equivalents to be minimal.

Risk factors

The exploration of mineral deposits involves significant risks and uncertainties, which even a combination of careful evaluation, experience and knowledge may not eliminate. A comprehensive list of risk factors relating to our business is provided under the heading, "Risk Factors", in the Company's Annual Information Form for the year ended December 31, 2011, which is available on SEDAR, at www.sedar.com. Certain of the more prominent risk factors that may materially affect the Company's future performance, in addition to those referred to above, are listed hereunder.

Alderon depends on a single mineral project.

The Kami Property accounts for all of Alderon's mineral resources and exclusively represents the current potential for the future generation of revenue. The costs, timing and complexities of upgrading the mineralized material at the Kami Property to proven and probable reserves may be greater than Alderon anticipates. Mineral exploration and development involves a high degree of risk that even a combination of careful evaluation, experience and knowledge cannot eliminate and few properties that are explored are ultimately developed into producing mines. Any adverse development affecting the Kami Property will have a material adverse effect on our business, prospects, financial position, results of operations and cash flows

The successful start of mining operations at, and the development of, the Kami Property into a commercially viable mine cannot be assured.

There are numerous activities that need to be completed in order to successfully commence development and production at the Kami Property, including, without limitation: completing of a formal feasibility study; optimizing the mine plan; recruiting and training personnel; have available funds to finance construction and development activities; avoid potential increases in costs; negotiating contracts for the supply of power, port access, railway transportation and for the sale of iron ore; updating, renewing and obtaining, as required, all necessary permits, including, without limitation, environmental permits; and handling any other infrastructure issues. There is no certainty that we will be able to successfully complete these activities, since most of these activities require significant lead times, and we will be required to manage and advance these activities concurrently in order to begin production. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, at the Kami Property and will have a material adverse effect on our business, prospects, financial position, results of operations and cash flows

As such, there can be no assurance that Alderon will be able to complete development of the Kami Property at all, on time or in accordance with any budgets due to, among other things, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support operations. Failure to successfully complete these events as expected would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

There is no assurance that Alderon will ever achieve production or that the Company will ever be profitable if production is achieved.

Alderon may experience difficulty attracting and retaining qualified management and technical personnel to meet the needs of its anticipated growth.

We are dependent on the services of key executives, including our Executive Chairman, Chief Executive Officer, Chief Financial Officer and other highly skilled and experienced executives and personnel focused on managing Alderon's interests and the advancement of the Kami Property and on identifying new opportunities for growth and funding. Due to our relatively small size, the loss of these persons or our inability to attract and retain additional highly skilled employees required for the development of our activities may have a material adverse effect on our business or future operations.

We also anticipate that, as we bring the Kami Property into production and, where appropriate, acquire additional mineral rights, we will experience significant growth in our operations. We expect this growth to create new positions and responsibilities for management and technical personnel and to increase demands on our operating and financial systems. There can be no assurance that we will successfully meet these demands and effectively attract and retain additional qualified personnel to manage our anticipated growth. The failure to attract such qualified personnel to manage growth would have a material adverse effect on our business, financial position, results of operations and cash flows.

Titles and other rights to the Kami Property cannot be guaranteed and may be subject to prior unregistered agreements, transfers or claims and other defects.

Alderon cannot guarantee that title to the Kami Property will not be challenged. Alderon may not have, or may not be able to obtain, all necessary surface rights to develop the Kami Property. Title insurance generally is not available for mineral properties, and our ability to ensure that we have obtained secure claim to individual mineral properties or mining concessions comprising the Kami Property may be severely constrained. The Kami Property may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. We have not conducted surveys of all of the claims in which we hold direct or indirect interests. A successful challenge to the precise area and location of these claims could result in our being unable to operate on all or part of the Kami Property as permitted or being unable to enforce our rights with respect to all or part of the Kami Property.

Alderon needs to enter into contracts with external service and utility providers.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. In order to develop a mine at the Kami Property, we will need to negotiate and conclude various agreements with external service and utility providers for rail transportation, power and port access, and these are important determinants that affect capital and operating costs. The inability to conclude any such agreements could have a material adverse effect on the Company's financial position, results of operations and cash flows and render the development of a mine on the Kami Property unviable.

Alderon's activities are subject to environmental laws and regulations that may increase Alderon's costs of doing business and restrict the Company's operations.

All of our exploration, potential development and production activities in Canada are subject to regulation by governmental agencies under various environmental laws, including with respect to air emissions, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Compliance with environmental laws and regulations may require significant capital outlays on behalf of Alderon and may cause material changes or delays in our intended activities. There can be no assurance that future changes in environmental regulations will not adversely affect our business, and it is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of our business, causing us to re-evaluate those activities at that time. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulator or judicial authorities, causing operations to cease or to be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Alderon has a history of losses and expects to incur losses for the foreseeable future.

Alderon has incurred losses since its inception and expects to incur losses for the foreseeable future. We expect to continue to incur losses unless and until such time as the Kami Property enters into commercial production and generates sufficient revenues to fund continuing operations. The development of the Kami Property will require the commitment of substantial financial resources. The amount and timing of expenditures will depend on a number of factors, including the progress of ongoing exploration, evaluation and development, the results of consultant analysis and recommendations, the rate at which operating losses are incurred, the execution of any agreements with strategic partners and our acquisition of additional properties. Some of these factors are beyond our control. There can be no assurance that Alderon will ever achieve profitability.

Our securities are subject to price volatility.

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations that have not been necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in our share price will not occur. It may be anticipated that any quoted market for our common shares will be subject to market trends generally, notwithstanding any potential success in creating revenues, cash flows or earnings. The value of our common shares will be affected by such volatility.

Disclosure controls and procedures

Disclosure controls and procedures are defined in Rules 13a-15(e) and 15d-15(e) under the US Securities Exchange Act of 1934, as amended (the "Exchange Act"), as those controls and other procedures that are designed to ensure that information required to be disclosed by the Company in reports filed or submitted by it under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

At the end of the period covered by this annual report for the fiscal year ended December 31, 2011, an evaluation was carried out under the supervision of, and the with the participation of, the Company's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Company's CEO and CFO have concluded that the disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Notwithstanding the foregoing, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company to disclose material information otherwise required to be set forth in its periodic reports. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objective of ensuring that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is communicated to management to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

Due to a transition period established by rules of the SEC for newly public companies, the Company's CEO and CFO are not required to certify (i) that they are responsible for establishing and maintaining internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) or (ii) that they have designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. During the transition period, the Company is also not required to include an attestation report of the Company's independent registered public accounting firm.

During the fiscal year ended December 31, 2011, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional information

Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2011 is available on SEDAR at www.sedar.com.

Approval

The Board of Directors of Alderon Iron Ore Corp. has approved the information and disclosures contained in this MD&A.