

**MANICOUAGAN MINERALS INC.**  
**(an exploration company)**  
**Interim Consolidated Financial Statements (unaudited)**  
**June 30, 2007**

## **Management's Responsibility for Interim Consolidated Financial Statements**

To the Shareholders of Manicouagan Minerals Inc.

The interim consolidated financial statements and the notes thereto for the three-month and six-month periods ended June 30, 2007 are the responsibility of the management of Manicouagan Minerals Inc. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate.

Management has developed and maintained a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

*(signed) Joseph J. Baylis*

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Joseph J. Baylis, CEO

*(signed) Erik H. Martin*

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Erik H. Martin, CFO

**MANICOUAGAN MINERALS INC.**

(an exploration company)

**Interim Consolidated Balance Sheets (unaudited)**

(expressed in Canadian dollars)

	<b>As at June 30,</b>	<b>As at December 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	5 942 492	1 832 734
Accounts receivable (note 4)	1 515 915	1 338 009
Prepaid expenses	185 792	141 461
	<hr/>	<hr/>
	7 644 199	3 312 204
<b>Mineral properties (note 5)</b>	9 271 325	7 651 005
<b>Property, plant and equipment</b> (net of accumulated depreciation of \$4,313 ; \$3,303 in 2006)	7 912	8 922
	<hr/>	<hr/>
	16 923 436	10 972 131
	<hr/>	<hr/>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	610 754	137 804
<b>Long-term liabilities</b>		
Future income taxes	2 103 048	1 818 048
	<hr/>	<hr/>
	2 713 802	1 955 852
	<hr/>	<hr/>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (note 7)</b>	16 325 644	10 978 717
<b>Stock options (note 8)</b>	734 907	566 966
<b>Warrants and broker warrants (notes 9 and 10)</b>	544 726	178 404
<b>Contributed surplus</b>	1 707 119	1 707 119
<b>Deficit</b>	(5 102 762)	(4 414 927)
	<hr/>	<hr/>
	14 209 634	9 016 279
	<hr/>	<hr/>
	16 923 436	10 972 131
	<hr/>	<hr/>
<b>Going concern (note 1)</b>		
<b>Commitment (note 14)</b>		
<b>Subsequent events (note 17)</b>		

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

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**Approved by the Board of Directors,***(signed) Joseph J. Baylis*

Joseph J. Baylis, Director

*(signed) Douglas A.C. Davis*

Douglas A.C. Davis, Director

**MANICOUAGAN MINERALS INC.**

(an exploration company)

**Interim Consolidated Statements of Deficit** (unaudited)

(expressed in Canadian dollars)

	<b>Three-month periods ended June 30,</b>		<b>Six-month periods ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance - Beginning of period</b>	4 693 781	3 559 113	4 414 927	3 351 374
Loss for the period	408 981	321 175	687 835	528 914
<b>Balance - End of period</b>	<b>5 102 762</b>	<b>3 880 288</b>	<b>5 102 762</b>	<b>3 880 288</b>

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

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**MANICOUAGAN MINERALS INC.**

(an exploration company)

**Interim Consolidated Statements of Earnings and Comprehensive Income (unaudited)**

(expressed in Canadian dollars)

	<b>Three-month periods ended June 30,</b>		<b>Six-month periods ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Interest income</b>	61 403	26 736	78 396	61 289
<b>Expenses</b>				
Management fees	85 041	95 350	175 741	146 581
Professional fees	73 790	88 614	137 095	135 173
Salaries and employee benefits	16 472	14 539	36 351	32 627
Stock-based compensation costs	157 828	3 060	167 941	38 294
Travel and promotion	50 937	19 187	100 974	45 680
Tax on flow-through shares	-	69 216	2 703	88 172
Regulatory and transfer agent fees	12 564	10 166	21 182	25 068
Shareholders' information	21 383	13 857	32 502	19 523
General administration	27 562	16 954	56 369	31 405
Depreciation of property, plant and equipment	470	178	1 010	356
General exploration costs	8 274	-	18 300	-
Cost of mineral properties abandoned	16 063	16 790	16 063	27 324
	470 384	347 911	766 231	590 203
<b>Loss and comprehensive loss for the period</b>	(408 981)	(321 175)	(687 835)	(528 914)
<b>Basic and diluted loss per share</b>	(0,00)	(0,00)	(0,01)	(0,01)
<b>Basic and diluted weighted average number of shares outstanding (note 13)</b>	126 164 440	84 982 769	111 815 657	84 868 022
<b>Going concern (note 1)</b>				

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

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**MANICOUAGAN MINERALS INC.**

(an exploration company)

**Interim Consolidated Statements of Cash Flows (unaudited)**

(expressed in Canadian dollars)

	<b>Three-month periods ended June 30,</b>		<b>Six-month periods ended June 30,</b>	
	<b>2007 \$</b>	<b>2006 \$</b>	<b>2007 \$</b>	<b>2006 \$</b>
<b>Cash flows from operating activities</b>				
Loss and comprehensive loss for the period	(408 981)	(321 175)	(687 835)	(528 914)
Items not affecting cash and cash equivalents				
Depreciation of property, plant and equipment	470	178	1 010	356
Stock-based compensation costs	157 828	3 060	167 941	38 294
Cost of mineral properties abandoned	16 063	16 790	16 063	27 324
	(234 620)	(301 147)	(502 821)	(462 940)
Net change in non-cash working capital items (note 11)	(50 204)	74 036	(150 248)	176 655
	(284 824)	(227 111)	(653 069)	(286 285)
<b>Cash flows from financing activities</b>				
Issuance of shares and warrants	300 000	-	6 522 960	-
Exercise of broker warrants	15 975	-	148 350	-
Share and warrant issue expenses	(21 162)	(36 870)	(568 295)	(36 870)
	294 813	(36 870)	6 103 015	(36 870)
<b>Cash flows from investing activities</b>				
Acquisition of mineral properties and exploration costs	(1 078 005)	(1 317 058)	(1 636 261)	(1 999 069)
Tax credits received relating to exploration costs applied against mineral properties	296 073	1 024	296 073	1 024
	(781 932)	(1 316 034)	(1 340 188)	(1 998 045)
<b>Net change in cash and cash equivalents</b>	(771 943)	(1 580 015)	4 109 758	(2 321 200)
<b>Cash and cash equivalents - Beginning of period</b>	6 714 435	3 926 614	1 832 734	4 667 799
<b>Cash and cash equivalents - End of period</b>	5 942 492	2 346 599	5 942 492	2 346 599
<b>Additional information</b>				
Acquisition of mineral properties and exploration costs included in accounts payable and accrued liabilities	383 737	210 130	383 737	210 130
Acquisition of a mineral property paid in shares	-	45 000	-	45 000
Tax credits related to exploration costs applied against mineral properties	314 639	75 673	354 144	300 304
Future income taxes accounted for as share, warrant and broker warrant issue expenses	-	-	285 000	-
Fair value of broker warrants accounted for as share issue expenses	-	-	204 823	-
Share, warrant and broker warrant issue expenses included in accounts payable and accrued liabilities	104 766	-	104 766	-

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

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# **MANICOUAGAN MINERALS INC.**

(an exploration company)

**Notes to Interim Consolidated Financial Statements (unaudited)**

**June 30, 2007**

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(expressed in Canadian dollars)

## **1 Incorporation, nature of operations and going concern**

Manicouagan Minerals Inc. ("The Company") was incorporated under the Canada Business Corporations Act on July 25, 2001. The principal activities of the Company comprise the acquisition and exploration of mineral properties. The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposal of properties.

The Company must secure sufficient funding for meeting its existing commitments for exploration and development programs and general and administration costs.

Management is periodically seeking additional forms of financing through the issuance of new equity instruments, the exercise of outstanding common share warrants and stock options to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without such funding being available, the Company may be unable to continue its operations, and the amounts realizable for the assets could be less than the amounts reflected in these financial statements.

Although management has taken steps to verify title to mineral properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliant with regulatory requirements.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. The application of generally accepted accounting principles on a going concern basis may be inappropriate, since there is a doubt as to the validity of the going concern assumption.

These unaudited interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the classification of balance sheet items were the going concern assumption inappropriate, and these adjustments could be material. Management did not take these adjustments into account as it believes in the validity of the going concern assumption.

## **2 Summary of significant accounting policies**

### **Interim financial information**

These unaudited interim consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary, Manicouagan Resources Inc. until December 31, 2006. At this date, Manicouagan Resources Inc. and Manicouagan Minerals Inc. amalgamated under the corporate name of Manicouagan Minerals Inc.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company's most recent annual consolidated financial statements, except for the new accounting standards as disclosed further. All disclosures required for annual financial statements have not been included in these interim financial statements. These unaudited interim consolidated financial statements should therefore be read in conjunction with the Company's most recent audited annual consolidated financial statements and the accompanying notes.

The financial information as at June 30, 2007 and for the three-month and the six-month periods ended June 30, 2007 and 2006 is unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

## **MANICOUAGAN MINERALS INC.**

(an exploration company)

**Notes to Interim Consolidated Financial Statements** (unaudited)

**June 30, 2007**

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(expressed in Canadian dollars)

### **New Accounting Standards**

On January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

Section 1506, "Accounting Changes". This section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Section 1530 "Comprehensive Income". This section establishes standards for reporting and display of certain gains and losses recognized in comprehensive income, but excluded from net income.

Section 3251, "Equity". This section establishes standards for the presentation of equity and changes in equity. The requirements of this section are in addition to those in "Comprehensive Income", Section 1530, "Share capital", Section 3240, and "Reserves", Section 3260.

Section 3855, "Financial Instruments – Recognition and Measurement". This section describes the standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives.

This section requires that:

- All financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity;
- All financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value;
- All derivative financial instruments be measured at fair value, even when they are part of a hedging relationship;

Section 3865 "Hedges". This section provides an alternative treatments to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation".

The implementation of these new accounting standards had no significant effect on the Company's consolidated financial statements.

### **Future Accounting Standards**

The Canadian Institute of Chartered Accountants published the following new sections that will apply to interim and annual financial statements relating the fiscal years beginning on or after October 1, 2007.

Section 3862 "Financial Instruments - Disclosures", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, "Financial Instruments - Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments - Disclosure and Presentation".

# MANICOUAGAN MINERALS INC.

(an exploration company)

Notes to Interim Consolidated Financial Statements (unaudited)

June 30, 2007

(expressed in Canadian dollars)

Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.

The Company has not yet assessed the effect of these new standards on its consolidated financial statements, which will apply in the fiscal year beginning on January 1, 2008.

### 3 Cash and cash equivalents

	<u>As at June 30,</u>	<u>As at December 31,</u>
	<b>2007</b>	<b>2006</b>
	\$	\$
Cash and cash equivalents	1 942 367	823 233
Exploration funds	4 000 125	1 009 501
	<u>5 942 492</u>	<u>1 832 734</u>

### 4 Accounts receivable

	<u>As at June 30,</u>	<u>As at December 31,</u>
	<b>2007</b>	<b>2006</b>
	\$	\$
Interest receivable	69 572	15 403
Commodity taxes receivable	140 492	74 826
Refundable tax credit for resources	1 011 544	714 001
Credit on duties refundable for losses	294 307	533 779
	<u>1 515 915</u>	<u>1 338 009</u>

**MANICOUAGAN MINERALS INC.**

(an exploration company)

Notes to Interim Consolidated Financial Statements (unaudited)

June 30, 2007

(expressed in Canadian dollars)

**5 Mineral properties**

June 30, 2007

	Undivided interest %	Balance as at January 1, 2007 \$	Costs incurred \$	Mineral properties abandoned \$	Tax credits \$	Balance as at June 30, 2007 \$
<b>Manicouagan (1,104 claims)</b>						
Mineral property	100	109 445	16 056	(16 063)	-	109 438
Exploration costs		5 697 002	59 727	-	(25 034)	5 731 695
		<u>5 806 447</u>	<u>75 783</u>	<u>(16 063)</u>	<u>(25 034)</u>	<u>5 841 133</u>
<b>Mouchalagane (293 claims)</b>						
Mineral property	100	54 774	25 410	-	-	80 184
Exploration costs		281 943	605 700	-	(292 136)	595 507
		<u>336 717</u>	<u>631 110</u>	<u>-</u>	<u>(292 136)</u>	<u>675 691</u>
<b>Lac Mague (802 claims)</b>						
Mineral property	100	153 529	22 540	-	-	176 069
Exploration costs		536 146	80 206	-	(36 974)	579 378
		<u>689 675</u>	<u>102 746</u>	<u>-</u>	<u>(36 974)</u>	<u>755 447</u>
<b>Brabant Lake (21 claims)</b>						
Mineral property	100	300 000	-	-	-	300 000
Exploration costs		518 166	1 137 582	-	-	1 655 748
		<u>818 166</u>	<u>1 137 582</u>	<u>-</u>	<u>-</u>	<u>1 955 748</u>
<b>Generative - Saskatchewan (6 claims)</b>						
Mineral property	100	-	43 306	-	-	43 306
Exploration costs		-	-	-	-	-
		<u>-</u>	<u>43 306</u>	<u>-</u>	<u>-</u>	<u>43 306</u>
		<u>7 651 005</u>	<u>1 990 527</u>	<u>(16 063)</u>	<u>(354 144)</u>	<u>9 271 325</u>

**Lac Mague Property**

On July 31, 2007, the Company has renegotiated the terms of its agreement with the Labrador Silver Syndicate regarding the final payment to keep a 100% interest in the property. (See note 17 Subsequent events)

**Generative - Saskatchewan (6 claims)**

During the second quarter, six new properties in Saskatchewan have been acquired by staking.

**MANICOUAGAN MINERALS INC.**

(an exploration company)

Notes to Interim Consolidated Financial Statements (unaudited)

June 30, 2007

(expressed in Canadian dollars)

**December 31, 2006**

	Undivided interest %	Balance as at January 1, 2006 \$	Costs incurred \$	Mineral properties abandoned \$	Tax credits \$	Balance as at December 31, 2006 \$
<b>Manicouagan (1,421 claims)</b>						
Mineral property	100	164 976	38 976	(94 507)	-	109 445
Exploration costs		4 267 683	1 916 958	-	(487 639)	5 697 002
		4 432 659	1 955 934	(94 507)	(487 639)	5 806 447
<b>Mouchalagane (88 claims)</b>						
Mineral property	100	-	54 774	-	-	54 774
Exploration costs		-	449 951	-	(168 008)	281 943
		-	504 725	-	(168 008)	336 717
<b>Lac Mague (572 claims)</b>						
Mineral property	100	-	153 529	-	-	153 529
Exploration costs		-	912 674	-	(376 528)	536 146
		-	1 066 203	-	(376 528)	689 675
<b>Brabant Lake (21 claims)</b>						
Mineral property	100	-	300 000	-	-	300 000
Exploration costs		-	518 166	-	-	518 166
		-	818 166	-	-	818 166
		4 432 659	4 345 028	(94 507)	(1 032 175)	7 651 005

**Mouchalagane Property**

On April 18, 2006, the Company acquired a 100% interest in the property by issuing 300,000 of its common shares at a price of \$0.15 per share to the vendor. In the event of production from the property, the vendor will receive a 2% Net Smelter Return Royalty (NSR), of which three quarters of the 2% can be purchased from the vendor for \$1,000,000 within six months from the date that a production decision is announced.

The property consists of 58 map designated claims covering an area of 30 km<sup>2</sup> approximately 350 km north of Baie Comeau, Quebec.

The Company has map designated 30 additional claims covering approximately 16 km<sup>2</sup> to secure selected areas of geological interest. The registration of these claims was completed on December 5, 2006.

**Lac Mague Property**

On July 28, 2006, the Company entered into an agreement to acquire a 100% interest in the Lac Mague property in the Dunphy-Romanet Lake area of the central Labrador Trough region of Quebec.

The property acquired consists of 88 map designated claims (“the original claims”) covering an area of approximately 42.25 km<sup>2</sup> situated near Lac Mague approximately 160 km northwest of the all-services town of Schefferville, Quebec.

# MANICOUAGAN MINERALS INC.

(an exploration company)

Notes to Interim Consolidated Financial Statements (unaudited)

June 30, 2007

(expressed in Canadian dollars)

The agreement provides for a cash payment of \$50,000 and the issuance of 500,000 shares at a price of \$0.11 per share on closing and a further cash payment of \$50,000 and the issuance of 500,000 additional shares on July 28, 2007 to keep a 100% interest in the property subject to a 3% NSR of which 2/3 of the 3% NSR may be bought out for \$2,000,000. The NSR applies to the Lac Mauge property as well as to any other claims acquired by the Company or the Labrador Silver Syndicate ("LSS") within 10 km of the outer boundary of the original claims acquired from the LSS. The agreement also provides for the granting of a 1% NSR to the LSS in respect of any portion of 470 additional map designated claims ("the additional claims") falling outside of the 10 km area of interest.

The Company has map designated 566 additional claims covering approximately 271.25 km<sup>2</sup> (82 claims were pending on December 31, 2006) to secure selected areas of geological interest which are considered to have potential to host sedimentary hosted copper-silver deposits similar to the occurrences at Lac Mauge. The majority of these claims lie within the 10 km area of interest created by the Lac Mauge agreement with the LSS. Following closing of the agreement and the registration and acceptance of these claims by the Province of Quebec, the Company granted the LSS a 1% NSR in the portion of the 470 additional claims falling outside of the 10 km area of interest.

## Brabant Lake Property

On June 28, 2006, the Company acquired a 100% interest in the property in return for a one-time payment of \$300,000 to Longyear Canada, ULC. No other consideration was payable to the vendor and the property is not subject to any third party royalties.

The property consists of 21 contiguous claims registered as ML5054 and covering an area of approximately 4.11 km<sup>2</sup>. The claims are located immediately east of Highway 102 some 175 km from the all-services community of La Ronge, Saskatchewan.

## Detailed analysis of mineral properties

	<b>Six-month period ended</b>	<b>Year ended</b>
	<b>June 30,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Balance - Beginning of period	7 651 005	4 432 659
Cost of claims	107 312	547 279
Camp (construction and maintenance)	148 126	493 231
Mobilization / demobilization of personnel and equipment	174 189	721 858
Drilling	832 470	958 717
Geophysics	102 405	504 767
Analyses	21 034	55 385
Consultants	271 962	595 602
Fuel	151 678	237 232
Line cutting	58 980	94 969
Various materials	109 952	104 485
Communications	12 419	31 503
Tax credits	(354 144)	(1 032 175)
Mineral properties abandoned	(16 063)	(94 507)
Balance - End of period	9 271 325	7 651 005

**MANICOUAGAN MINERALS INC.**

(an exploration company)

**Notes to Interim Consolidated Financial Statements (unaudited)****June 30, 2007**

(expressed in Canadian dollars)

**6 Accounts payable and accrued liabilities**

	<b>As at June 30,</b>	<b>As at December 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Tax payable on flow-through shares	2 703	51 946
Accounts payable	607 521	85 858
Related parties (note 12)	530	-
	<b>610 754</b>	<b>137 804</b>

**7 Share capital**

Authorized

Unlimited number of common shares without par value

Variation of issued and fully paid share capital

	<b>Six-month period ended June 30, 2007</b>		<b>Year ended December 31, 2006</b>	
	<b>Number</b>	<b>Stated value \$</b>	<b>Number</b>	<b>Stated value \$</b>
Balance - Beginning of period	95 715 960	10 978 717	84 752 000	9 878 696
Flow-through financing*	17 637 000	4 232 880	9 999 998	1 397 693
Non flow-through financing**	12 722 667	1 964 751	-	-
Exercise of broker warrants	989 000	212 477	163 962	45 842
Acquisition of mineral properties (note 5)	-	-	800 000	100 000
	<b>127 064 627</b>	<b>17 388 825</b>	<b>95 715 960</b>	<b>11 422 231</b>
Share issue expenses	-	(1 063 181)	-	(443 514)
Balance - End of period	<b>127 064 627</b>	<b>16 325 644</b>	<b>95 715 960</b>	<b>10 978 717</b>

\*Flow-through financing is presented net of the fair value of the related warrants totalling nil in 2007 and \$102,307 in 2006, which has been determined using the Black-Scholes model (note 9).

\*\*Non flow-through financing is presented net of the fair value of the related warrants totalling \$325,329 in 2007, which has been determined using the Black-Scholes model (note 9).

## **MANICOUAGAN MINERALS INC.**

(an exploration company)

**Notes to Interim Consolidated Financial Statements** (unaudited)

**June 30, 2007**

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(expressed in Canadian dollars)

### **Issuance of shares and warrants - private placement 2007**

On March 27, 2007, the Company completed a brokered private placement for gross proceeds of \$6,222,960. Pursuant to this private placement, the Company issued 17,637,000 flow-through common shares at a price of \$0.24 per share, and 11,056,000 units at a price of \$0.18 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.23 at any time up to March 27, 2009, provided that if the common share price closes at or above \$0.60 for twenty consecutive trading days, the warrants may be callable for exercise by the Company on a twenty-day notice.

In connection with this brokered private placement, the Company paid a cash commission of \$457,434 and issued broker warrants entitling the holder to purchase up to 2,113,758 common shares. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$0.18 any time up to March 27, 2009.

All securities issued in the private placement are subject to a four-month hold period expiring on July 27, 2007.

On May 18, 2007, the Company completed a non-brokered private placement with SIDEX s.e.c. for gross proceeds of \$300,000. Pursuant to this private placement, the Company issued 1,666,667 units of securities of the Company at a price of \$0.18 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.23 at any time up to May 18, 2009, provided that if the common share price closes at or above \$0.60 for twenty consecutive trading days, the warrants may be callable for exercise by the Company on a twenty-day notice.

In connection with this non-brokered private placement, the Company paid a cash commission of \$9,000 to SIDEX s.e.c.. Also, the Company paid a cash commission of \$6,000 to a third party as a result of an agreement entered into in connection with the brokered private placement closed on March 27, 2007.

All securities issued in the private placement are subject to a four-month hold period expiring on September 18, 2007.

### **Exercise of warrants**

During the first quarter of 2007, 82,500 common shares were issued upon the exercise of 82,500 broker warrants at a price of \$0.15 per share for proceeds totalling \$12,375.

In addition, the finder's fee option granted in conjunction with the October 2006 financing was exercised, whereupon the Company received proceeds totalling \$120,000 upon issuance of 800,000 common shares and 400,000 common share purchase warrants, each whole warrant entitling the holder to acquire one common share of the Company at a price of \$0.30 per share, exercisable up to October 20, 2008.

During the second quarter of 2007, 106,500 common shares were issued upon the exercise of 106,500 broker warrants at a price of \$0.15 per share for proceeds totalling \$15,975.

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June 30, 2007

(expressed in Canadian dollars)

## Issuance of shares and warrants - private placement 2006

On October 20, 2006, the Company completed a private placement for aggregate gross proceeds of \$1,500,000. Pursuant to this private placement, the Company issued 9,999,998 units at a unit price of \$0.15. Each unit consists of one flow-through common share and one-half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.30 at any time up to October 20, 2007.

In connection with the private placement, the Company paid a \$75,000 finder's fee and issued non-transferable finder's fee options equal to 8% of the units subscribed for at the unit price of \$0.15. The finder's fee options have a term of 24 months and will expire on October 20, 2008. Each finder's fee option entitles the holder, upon exercise thereof, to one common share and a one-half of one common share purchase warrant, each whole warrant entitling its holder to acquire one common share at a price of \$0.30 per share until October 20, 2008.

## 8 Stock option plan

The Company maintains a stock option plan whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The maximum number of common shares that is issuable under the plan was fixed at 10% of the number of common shares issued and outstanding (a maximum of 5% of the number of common shares issued and outstanding may be held by any one person). Options expire after a maximum period of five years following the date of grant.

The following table summarizes information about stock options outstanding and exercisable recorded under Shareholders' Equity during the periods ended June 30, 2007 and December 31, 2006:

	Six-month period ended June 30, 2007			Year ended December 31, 2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of period	6 415 000	566 966	0,24	5 225 000	550 618	0,29
Granted	2 665 000	-	0,18	1 990 000	-	0,13
Expired or cancelled	(125 000)	-	0,20	(800 000)	(93 637)	0,30
Stock-based compensation	-	167 941	-	-	109 985	-
Outstanding - End of period	8 955 000	734 907	0,23	6 415 000	566 966	0,24
Exercisable - End of period	6 495 000	-	0,25	5 115 000	-	0,27

On April 12, 2007, directors, officers and an employee of the Company were granted 2,055,000 stock options at an exercise price of \$0.18 per share, having a term of five years. Vesting periods for these options are as follows: 1,170,000 vest immediately, 25,000 vest one year from the date of grant, and 860,000 vest equally over a three-year period from the date of grant. These options were valued at \$220,913. An amount of \$134,186 was included in stock-based compensation costs in the second quarter and the balance of \$86,727 will be amortized on straight-line basis over their vesting period.

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On June 18, 2007, an officer, an employee and consultants of the Company were granted 610,000 stock options at an exercise price of \$0.20 per share, having a term of five years. Vesting periods for these options are as follows: 85,000 vest immediately and 525,000 vest equally over a three-year period from the date of grant. These options were valued at \$82,899. An amount of \$13,529 was included in the stock-based compensation costs in the second quarter and the balance of \$69,370 will be amortized on straight-line basis over their vesting period.

The following tables summarize information about stock options outstanding and exercisable as at June 30, 2007:

<b>Options outstanding</b>			<b>Options exercisable</b>		
<b>Exercise price</b>	<b>Number</b>	<b>Weighted average remaining contractual life</b>	<b>Exercise price</b>	<b>Number</b>	<b>Weighted average remaining contractual life</b>
<b>\$</b>		<b>(years)</b>	<b>\$</b>		<b>(years)</b>
0,10	750 000	3,68	0,10	250 000	3,68
0,15	1 140 000	4,35	0,15	590 000	4,35
0,18	2 055 000	4,79	0,18	1 170 000	4,79
0,20	910 000	4,10	0,20	385 000	2,90
0,30	4 100 000	2,49	0,30	4 100 000	2,49
	<b>8 955 000</b>	<b>3,52</b>		<b>6 495 000</b>	<b>3,14</b>

The fair value of options granted during the periods ended June 30, 2007 and December 31, 2006 was estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	<b>2007</b>	<b>2006</b>
Risk-free interest rate	4,24%	3,99%
Expected volatility	90%	90%
Dividend yield	Nil	Nil
Weighted average expected life	60 months	58 months
Weighted average fair value on the date of grant	\$0,1140	\$0,0806

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions, and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to key employees, officers, directors and consultants have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimated fair value, management believes that the existing models do not necessarily provide an accurate measure of the fair value of stock options granted to key employees, officers, directors and consultants.

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**9 Warrants**

The following table summarizes the variation of warrants recorded under Shareholders' Equity during the periods ended June 30, 2007 and December 31, 2006:

	Six-month period ended June 30, 2007			Year ended December 31, 2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable - Beginning of period	4 999 999	69 843	0,30	13 049 500	1 127 968	0,25
Issued - Privates placements	6 361 334	325 329	0,23	4 999 999	102 307	0,30
Expired or cancelled	-	-	-	(13 049 500)	(1 127 968)	0,25
	11 361 333	395 172	0,26	4 999 999	102 307	0,30
Issue expenses	-	(59 905)	-	-	(32 464)	-
Outstanding and exercisable - End of period	11 361 333	335 267	0,26	4 999 999	69 843	0,30

The following table summarizes information about warrants outstanding and exercisable as at June 30, 2007:

Exercise price \$	Number	Weighted average remaining contractual life (years)
0,23	6 361 334	1,76
0,30	4 999 999	0,31
	<u>11 361 333</u>	<u>1,12</u>

The fair value of warrants granted during the periods ended June 30, 2007 and December 31, 2006 was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4,07%	4,23%
Expected volatility	90%	90%
Dividend yield	Nil	Nil
Weighted average expected life	24 months	12 months
Weighted average fair value on the date of grant	\$0,0511	\$0,0205

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**10 Broker warrants**

The following table summarizes the variation of broker warrants recorded under Shareholders' Equity during the periods ended June 30, 2007 and December 31, 2006:

	Six-month period ended June 30, 2007			Year ended December 31, 2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable -						
Beginning of period	1 800 000	108 561	0,15	4 821 160	496 058	0,21
Issued as compensation	2 113 758	204 823	0,18	800 000	70 400	0,15
Issued - Exercise of broker units	400 000	-	0,30	-	-	-
Exercised	(989 000)	(64 127)	0,15	(163 962)	(13 050)	0,20
Expired or cancelled	-	-		(3 657 198)	(422 508)	0,22
	3 324 758	249 257	0,19	1 800 000	130 900	0,15
Issue expenses	-	(39 798)	-	-	(22 339)	-
Outstanding and exercisable -						
End of period	3 324 758	209 459	0,19	1 800 000	108 561	0,15

The following table summarizes information about broker warrants outstanding and exercisable as at June 30, 2007:

Exercise price \$	Number	Weighted average remaining contractual life (years)
0,15	811 000	0,48
0,18	2 113 758	1,74
0,30	400 000	1,31
	<u>3 324 758</u>	<u>1,38</u>

The fair value of broker warrants granted during the periods ended June 30, 2007 and December 31, 2006 was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4,02%	4,13%
Expected volatility	90%	90%
Dividend yield	Nil	Nil
Weighted average expected life	24 months	24 months
Weighted average fair value on the date of grant	\$0,0969	\$0,0880

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**11 Net change in non-cash working capital items**

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Accounts receivable	(115 547)	949	(119 835)	40 305
Prepaid expenses	26 900	(66 571)	(44 331)	(65 054)
Accounts payable and accrued liabilities	38 443	139 658	13 918	201 404
	(50 204)	74 036	(150 248)	176 655

**12 Related party transactions**

The Company entered into the following transactions with a director, an officer and companies controlled by directors and/or officers:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Exploration costs	27 279	9 000	52 879	20 800
Management fees	85 041	82 850	175 741	116 081
	112 320	91 850	228 620	136 881

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and the Company.

**13 Earnings per share**

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2007	2006	2007	2006
Basic and diluted weighted average number of shares outstanding	126 164 440	84 982 769	111 815 657	84 868 022

For the three-month and six-month periods ended June 30, 2007 and 2006, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those periods was calculated using the basic weighted average number of shares outstanding.

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However, should the Company's basic earnings per share have been positive, the stock options exercisable at exercise prices lower than \$0.18 for 2007 and \$0.13 for 2006 would have been dilutive and would have resulted in the addition respectively of 238,872 shares and 306,265 shares for the three-month and six-month periods ended June 30, 2007 (190,299 and 137,332 in 2006). Furthermore, the warrants exercisable at exercise prices lower than \$0.18 for 2007 and \$0.13 for 2006 would have been dilutive and would have resulted in the addition respectively of 253,873 shares and 280,903 shares for the three-month and six-month periods ended June 30, 2007 (nil and nil in 2006), to the weighted average number of shares outstanding used in the diluted earnings per share calculation.

### 14 Commitment

The Company has two office leases, expiring on February 28, 2008 and on September 30, 2009, respectively. The minimum annual instalments under these leases are as follows as at June 30, 2007:

Year	\$	
2007	31 218	(6 months)
2008	54 686	
2009	39 852	(9 months)

Leases are renewable following a three-month notice prior to their expiry date.

### 15 Income taxes

The Company had the following non-capital losses on December 31, 2006:

Non- capital losses from (Year)	\$	Expiry date (Year)
2002	38 949	2009
2003	94 314	2010
2004	268 207	2014
2005	1 073 084	2015
2006	1 328 423	2026

### 16 Financial instruments

#### Fair value

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their short-term maturity or to current market rates.

#### Interest rate risk

As at June 30, 2007 and December 31, 2006, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing

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### **17 Comparative figures**

Certain comparative figures have been reclassified in order to conform with the current period presentation.

### **18 Subsequent events**

#### **Exercise of warrants**

On July 5, 2007, 253,100 common shares were issued upon the exercise of 253,100 broker warrants at a price of \$0.15 per share for proceeds totalling \$37,965.

#### **Lac Mauge Property**

On July 31, 2007, the Company has renegotiated the terms of its agreement with the Labrador Silver Syncicate ("LSS") regarding the final payment to keep a 100% interest in the property. The LSS has agreed to revise the timing of the final payment by accepting a payment of \$25,000 now, a further payment of \$25,000 on or before February 28, 2008 and the issuance of 500,000 shares in July 2008. In the event that the February 28, 2008 payment is not made or the shares not issued then the Company will return the 88 claims to the LSS.