
MANICOUAGAN MINERALS INC.

Financial Statements

For the years ending December 31, 2007 and 2006

(expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Manicouagan Minerals Inc.

The financial statements and the notes thereto for the years ended December 31, 2007 and 2006 are the responsibility of the management of Manicouagan Minerals Inc. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgements based on currently available information.

Management has developed and maintains 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.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the financial statements before they are presented to the Board of Directors for approval.

The financial statements for the years ended December 31, 2007 and 2006 were audited by PricewaterhouseCoopers LLP Chartered Accountants. Their report outlines the scope of their examination and opinion on the financial statements.

(signed) Joseph J. Baylis
Joseph J. Baylis, President and CEO

(signed) Erik H. Martin
Erik H. Martin, Chief Financial Officer

Toronto, Canada
April 2, 2008

AUDITORS' REPORT

To the Shareholders of Manicouagan Minerals Inc.

We have audited the balance sheets of **Manicouagan Minerals Inc.** (an exploration company) as at December 31, 2007 and 2006 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Quebec, Quebec, Canada
April 2, 2008

MANICOUAGAN MINERALS INC.

(an exploration company)

Balance Sheets	As at December 31,	
	2007	2006
(expressed in Canadian dollars)	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	2,851,400	1,832,734
Accounts receivable (note 4)	1,880,739	1,338,009
Prepaid expenses	185,913	141,461
	4,918,052	3,312,204
Mineral properties and deferred exploration costs (note 5)	5,463,988	7,651,005
Property, plant and equipment (note 6)	8,680	8,922
	10,390,720	10,972,131
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	488,880	137,804
Long-term liabilities		
Future income taxes (note 13)	434,406	1,818,048
	923,286	1,955,852
SHAREHOLDERS' EQUITY		
Share capital (note 7)	16,235,703	10,978,717
Stock options (note 8)	771,567	566,966
Warrants and broker warrants (notes 9 and 10)	496,413	178,404
Contributed surplus	1,786,018	1,707,119
Deficit	(9,822,267)	(4,414,927)
	9,467,434	9,016,279
	10,390,720	10,972,131
Continuance of operations (note 1)		
Commitments (note 15)		
Subsequent events (note 18)		
<i>The accompanying notes are an integral part of these financial statements.</i>		
Approved by the Board of Directors,		
(signed) Joseph J. Baylis	(signed) Douglas A.C. Davis	
Joseph J. Baylis, Director	Douglas A.C. Davis, Director	

MANICOUAGAN MINERALS INC.

(an exploration company)

Statements of Cash Flows		Years ended December 31,	
<i>(expressed in Canadian dollars)</i>		2007	2006
		\$	\$
Cash flows from operating activities			
Net loss for the year		(5,407,340)	(1,063,553)
Items not affecting cash and cash equivalents			
Amortization of property, plant and equipment		2,132	1,992
Stock-based compensation costs		204,459	109,985
Future income taxes		(1,815,942)	(6,960)
Write off of mineral properties and deferred exploration costs		5,870,914	94,507
		(1,145,777)	(864,029)
Net change in non-cash working capital items (note 11)		(204,314)	110,746
		(1,350,091)	(753,283)
Cash flows from financing activities			
Issuance of shares and warrants		6,522,960	1,532,792
Exercise of stocks options		11,250	-
Exercise of broker warrants		187,440	-
Share and warrant issue costs		(662,233)	(207,493)
		6,059,417	1,325,299
Cash flows from investing activities			
Acquisition of mineral properties and exploration costs		(4,743,825)	(4,367,017)
Tax credits received relating to exploration costs applied against mineral properties		1,055,055	968,480
Additions to property, plant and equipment		(1,890)	(8,544)
		(3,690,660)	(3,407,081)
Net change in cash and cash equivalents		1,018,666	(2,835,065)
Cash and cash equivalents - Beginning of year		1,832,734	4,667,799
Cash and cash equivalents - End of year		2,851,400	1,832,734
Additional information			
Acquisition of mineral properties and exploration costs included in accounts payable and accrued liabilities		204,424	29,471
Acquisition of mineral properties paid through issuance of shares or warrants		16,100	100,000
Tax credits related to exploration costs applied against mineral properties		1,261,800	1,032,175
Future income taxes accounted for as share, warrant and broker warrant issue costs		432,300	257,294
Fair value of broker warrants accounted for as share issue costs		204,823	70,400
Stock-based compensation costs capitalized in the deferred exploration costs		10,819	-
<i>The accompanying notes are an integral part of these financial statements.</i>			

MANICOUAGAN MINERALS INC.

(an exploration company)

Notes to Financial Statements

December 31, 2007 and 2006

(expressed in Canadian dollars)

1 Nature and continuance of operations

Manicouagan Minerals Inc. ("the Company") was incorporated under the Canada Business Corporations Act on July 25, 2001 and amalgamated with its wholly-owned subsidiary, Manicouagan Resources Inc., on December 31, 2006. 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 periodically seeks 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 noncompliant with regulatory requirements.

These 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 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 if the going concern assumption was 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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks as well as all highly liquid short-term investments which are convertible to known amounts of cash at any time by the Company without penalties.

Impairment of long-lived assets

The Company reviews and evaluates its long-lived assets, including its mineral property interests and property, plant and equipment, for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. Measurement of an impairment loss is based on the excess of the carrying value of the asset over its estimated fair value.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost less option payments received and other recoveries. Exploration costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mineral properties to which they relate are placed into production, sold or abandoned. Management reviews for impairment the carrying values of mineral properties on a regular basis to determine whether any writedowns are necessary. These costs will be amortized over the estimated useful life of mineral properties following commencement of production or written off if the mineral properties or projects are abandoned. General exploration costs not related to specific mineral properties are expensed as incurred.

Property, plant and equipment amortization

Furniture and fixtures are recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at an annual rate of 20%.

Computer equipment is recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at an annual rate of 30%.

Shareholders' equity

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares at the agreement's date to issue the shares was signed.

The shares issued pursuant to flow-through share financing agreements are recorded at their fair value. Upon the acquisition of mineral properties, the carrying value may exceed the tax base since the Company renounces the deductions in favour of the investors concerned. Future income taxes relating to the difference between the carrying value and the tax value are accounted for as share issue costs.

Share issue costs and future income taxes arising from the difference between the carrying amount and tax base amount of exploration costs have been applied against share capital.

Warrant issue costs have been applied against warrants.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Stock-based compensation plan

The Company maintains a stock option plan, which is described in note 8. The Company records all stock-based compensation and other stock-based payments using the fair value method. The stock-based compensation costs are charged to operations or capitalized to mineral properties over the vesting period with a corresponding credit to stock options. Consideration received on the exercise of stock options is recorded as share capital and the related stock options are transferred to share capital.

Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Actual results could differ from those estimates.

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. Furthermore, this section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this section had no further effect on the financial statements of the Company for the year ended December 31, 2007.

Section 1530, "Comprehensive Income". This section establishes standards for reporting and presentation 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;

The Company has classified its cash and cash equivalent as held for trading. The accounts receivable were classified as loans and receivables and the accounts payable and accrued liabilities were classified as other financial liabilities.

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".

Section 1400 "General Standards of Financial Statement Presentation". This section includes requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption). This new standard will not have any significant impact on the financial statements of the Company.

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

Impact of accounting policies not yet adopted

The Canadian Institute of Chartered Accountants published the following new sections that will apply to interim and annual financial statements relating to 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".

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.

These future accounting standards are not expected to have a significant effect on the Company's financial statements when the Company applies these accounting standards in the fiscal year beginning on January 1, 2008.

Section 3064, "Goodwill and Intangible Assets". This section replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other section of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009.

The Company is currently assessing the impact that the adoption of this standard will have on its financial statements.

3 Cash and cash equivalents						As at December 31,	
						2007	2006
						\$	\$
Cash						15,634	82,734
Short-term investments						2,835,766	1,750,000
Cash and cash equivalents						2,851,400	1,832,734
Flow-through exploration funds included in cash and equivalents						1,725,180	1,009,501
<p>On December 31, 2007, the short-term investments consisted of guaranteed investment certificates refundable before maturity, which bear interest at 4.00% and mature on March 27, 2008 and May 23, 2008.</p> <p>On December 31, 2006, the short-term investments consisted of guaranteed investment certificates refundable before maturity, which bear interest at 4.10% and 3.85% respectively and mature on September 12, 2007 and October 24, 2007, respectively.</p>							
4 Accounts receivable						As at December 31,	
						2007	2006
						\$	\$
Interest receivable						84,831	15,403
Sales tax receivable						318,957	74,826
Refundable tax credit for resources						1,039,480	714,001
Credit on duties refundable for losses						437,471	533,779
						1,880,739	1,338,009

5 Mineral properties and deferred exploration costs

December 31, 2007						
	Undivided interest %	Balance as at January 1, 2007 \$	Costs incurred \$	Write off \$	Tax credits¹ \$	Balance as at December 31, 2007 \$
<i><u>Manicouagan (1,014 claims)</u></i>						
Mineral property	100	109,445	22,458	(131,903)	-	-
Exploration costs		5,697,002	72,517	(5,739,011)	(30,508)	-
		5,806,447	94,975	(5,870,914)	(30,508)	-
<i><u>Mouchalagane (468 claims)</u></i>						
Mineral property	100	54,774	46,225	-	-	100,999
Exploration costs		281,943	2,259,648	-	(1,052,751)	1,488,840
		336,717	2,305,873	-	(1,052,751)	1,589,839
<i><u>Lac Mauge (802 claims)</u></i>						
Mineral property	100	153,529	47,540	-	-	201,069
Exploration costs		536,146	312,509	-	(144,066)	704,589
		689,675	360,049	-	(144,066)	905,658
<i><u>Seignelay (239 claims)</u></i>						
Mineral property	100	-	27,485	-	-	27,485
Exploration costs		-	-	-	-	-
		-	27,485	-	-	27,485
<i><u>Forgues (25 claims)</u></i>						
Mineral property	on option	-	29,550	-	-	29,550
Exploration costs		-	-	-	-	-
		-	29,550	-	-	29,550
<i><u>HPM (44 claims)</u></i>						
Mineral property (14 claims)	on option	-	16,550	-	-	16,550
Mineral property (30 claims)	100	-	1,500	-	-	1,500
Exploration costs		-	805	-	(345)	460
		-	18,855	-	(345)	18,510
<i><u>Brabant Lake (21 claims)</u></i>						
Mineral property	100	300,000	-	-	-	300,000
Exploration costs		518,166	2,108,910	-	(34,130)	2,592,946
		818,166	2,108,910	-	(34,130)	2,892,946
		7,651,005	4,945,697	(5,870,914)	(1,261,800)	5,463,988

December 31, 2006						
	Undivided interest %	Balance as at January 1, 2006 \$	Costs incurred \$	Write off \$	Tax credits¹ \$	Balance as at December 31, 2006 \$
<i><u>Manicouagan (1,421 claims)</u></i>						
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
<i><u>Mouchalagane (88 claims)</u></i>						
Mineral property	100	-	54,774	-	-	54,774
Exploration costs		-	449,951	-	(168,008)	281,943
		-	504,725	-	(168,008)	336,717
<i><u>Lac Mauge (572 claims)</u></i>						
Mineral property	100	-	153,529	-	-	153,529
Exploration costs		-	912,674	-	(376,528)	536,146
		-	1,066,203	-	(376,528)	689,675
<i><u>Brabant Lake (21 claims)</u></i>						
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
¹Credit on duties refundable for loss and refundable tax credit for resources						
The Company is entitled to a credit on duties refundable for loss under the Quebec Mining Duties Act. This credit on duties refundable for loss on mineral exploration expenses incurred in the Province of Quebec at the rate of 12% has been applied against the costs incurred.						
Also, the Company is entitled to the refundable tax credit for resources for mineral companies on qualified expenditures incurred in the Province of Quebec. The refundable tax credit for resources may reach 35% or 38.75% of qualified expenditures incurred. This tax credit has been applied against the costs incurred.						
<i><u>Manicouagan Property</u></i>						
In December 2007, the Company wrote off the carrying value of the property. The Company continues to seek a joint venture partner for the property.						

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 originally consisted of 58 map designated claims covering an area of 30 km² approximately 350 km north of Baie-Comeau, Quebec.

After the acquisition of the 58 claims by agreement, the Company map designated 30 additional claims covering approximately 16 km² to secure selected areas of geological interest. The registration of these claims was completed on December 5, 2006.

During 2007, the Company map designated 380 additional claims and as at December 31, 2007, the property consisted of 468 claims.

On August 19, 2007, the Company entered into an agreement with the vendor of the 58 claims that originally formed the Mouchalagane property to extend the 2% Net Smelter Return Royalty (NSR) to 235 additional claims. Three quarters of the 2% NSR can be purchased from the vendor for \$1,000,000 within six months from the date that a production decision is announced.

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 consisted of 88 map designated claims (“the original claims”) covering an area of approximately 42.25 km² situated near Lac Mague approximately 160 km northwest of the all-services town of Schefferville, Quebec.

The agreement provided 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 may be bought out for \$2,000,000. The NSR applies to the Lac Mague 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 provided 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 map designated 566 additional claims covering approximately 271.25 km² (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 Mague. The majority of these claims lie within the 10 km area of interest created by the Lac Mague 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.

On July 31, 2007, the Company renegotiated the terms of its agreement with the Labrador Silver Syndicate (“LSS”) regarding the final payment to keep a 100% interest in the property. The LSS agreed to revise the timing of the final payment by accepting a payment of \$25,000 (paid), 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 (note 18) payment is not made or the shares not issued, then the Company will return the 88 claims to the LSS.

During 2007, the Company map designated 148 additional claims and as at December 31, 2007, the property consisted of 802 claims.

Seignelay Property

In September 2007, the Company map-staked 239 claims over an area of 40 km to the northeast of the Mouchalagane property, which is believed to have similar geological characteristics as Mouchalagane.

HPM and Forgues Properties

On November 6, 2007, the Company announced that it had entered into an option agreement with Pure Nickel Inc. ("Pure Nickel") to earn up to a 70% interest in 39 mining claims located some 100 kilometres southeast of the Company's Mouchalagane property.

To acquire its interest in the properties, the Company made an initial payment of \$30,000 to Pure Nickel and during the first year of the agreement, will compile all reasonably available data for the claims and will complete an airborne electromagnetic survey over the claims. The Company also issued 250,000 non-transferable warrants to purchase common shares of the Company at a price of \$0.40 per share for a period of two years. The warrants were subject to a four-month hold period.

To maintain the option in good standing and earn an initial fifty percent interest in the claims, the Company must make further cash payments to Pure Nickel of \$25,000 on the first and second anniversary of the agreement and incur expenditures on the property totaling \$750,000 before the second anniversary of the agreement. The Company can earn an additional twenty percent interest by electing within 60 days of the second anniversary of the agreement to carry Pure Nickel during the next 12 months by incurring an additional \$1,500,000 on the property.

Once the Company has earned an interest in the claims, a joint venture will be formed. Dilution is provided for if, after a joint venture is formed, a party fails to fund its pro-rata share of expenditures. The parties have also agreed to an area of interest within a 5 kilometres radius of the outside boundaries of the 39 claims. Xstrata Nickel ("Xstrata") retains certain rights with respect to the mining claims (the 39 initial claims as well as to claims that could subsequently be acquired by Pure Nickel or Manicouagan within a defined area of interest) including (i) a 2% NSR on each property (Pure Nickel and Manicouagan, if it earns an interest in the claims, having the right to reacquire 1% thereof for \$1,000,000); (ii) off-take and marketing rights for all concentrate or product produced from the properties; and (iii) a one time back-in right to 50% for any mining project with an economic threshold of 15,000,000 tonnes of resources unless such right has been previously exercised in respect of another property that was part of the Xstrata - Pure Nickel transaction.

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. The property is not subject to any royalties.

The property consists of 21 contiguous claims registered as ML5054 and covering an area of 4.11 km². 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 and deferred exploration costs

	Years ended December 31,	
	2007	2006
	\$	\$
Balance - Beginning of year	7,651,005	4,432,659
Cost of claims	191,308	547,279
Camp (construction and maintenance)	697,711	629,219
Transportation	623,984	721,858
Drilling	2,085,132	958,717
Geophysics	314,038	504,767
Analysis	59,609	55,385
Consultants	619,481	595,602
Fuel	199,609	237,232
Line cutting	154,825	94,969
Tax credits	(1,261,800)	(1,032,175)
Write off of mineral properties and deferred exploration costs	(5,870,914)	(94,507)
Balance - End of year	<u>5,463,988</u>	<u>7,651,005</u>
6 Property, plant and equipment		
December 31, 2007		
	Cost	Accumulated Net Carrying
	\$	Amortization Amount
		\$
Furniture and fixtures	10,434	2,915 7,519
Computer equipment	3,681	2,520 1,161
	<u>14,115</u>	<u>5,435 8,680</u>
December 31, 2006		
	Cost	Accumulated Net Carrying
	\$	Amortization Amount
		\$
Furniture and fixtures	8,544	1,281 7,263
Computer equipment	3,681	2,022 1,659
	<u>12,225</u>	<u>3,303 8,922</u>

7 Share capital

Authorized
Unlimited number of common shares without par value

Variation of issued and fully paid share capital

	2007		2006	
	Number	Amount \$	Number	Amount \$
Balance - Beginning of year	95,715,960	10,978,717	84,752,000	9,878,696
Issuance of flow-through shares*	17,637,000	4,232,880	9,999,998	1,397,693
Issuance of common shares**	12,722,667	1,964,751	-	-
Exercise of broker warrants	1,249,600	225,613	163,962	45,842
Exercise of stock options	75,000	18,007	-	-
Acquisition of mineral properties (note 5)	-	-	800,000	100,000
	127,400,227	17,419,968	95,715,960	11,422,231
Issue costs		(1,184,265)		(443,514)
Balance - End of year	127,400,227	16,235,703	95,715,960	10,978,717

*Issuance of flow-through shares 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).

**Issuance of common shares 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).

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 were subject to a four-month hold period which expired 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. 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 were subject to a four-month hold period which expired on September 18, 2007.

Exercise of warrants

During 2007, 449,600 common shares were issued upon the exercise of 449,600 broker warrants at a price of \$0.15 per share for proceeds totalling \$67,440. The balance of 550,400 broker warrants expired unexercised on December 23, 2007.

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, expiring on October 20, 2008.

The 4,999,999 warrants issued in conjunction with the October 2006 financing expired unexercised on October 20, 2007.

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 consisted of one flow-through common share and one-half of one common share purchase warrant. Each warrant entitling 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 expires 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 the 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. Vesting provisions are determined at the time of each grant.

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

	2007			2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of year	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	(225,000)	(3,920)	0.20	(800,000)	(93,637)	0.30
Exercised	(75,000)	(6,757)	0.15	-	-	-
Stock-based compensation		215,278			109,985	
Outstanding - End of year	8,780,000	771,567	0.23	6,415,000	566,966	0.24
Exercisable - End of year	6,570,000	-	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 provisions 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 and will be amortized on straight-line basis over their vesting period.

On June 18, 2007, an officer, an employee and some 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 provisions 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 and will be amortized on straight-line basis over their vesting period.

The following tables summarize information about stock options outstanding and exercisable as at December 31, 2007:

Options outstanding			Options exercisable		
Exercise price \$	Number	Weighted average remaining contractual life (years)	Exercise price \$	Number	Weighted average remaining contractual life (years)
0.10	750,000	3.18	0.10	250,000	3.18
0.15	1,065,000	3.84	0.15	765,000	3.84
0.18	2,055,000	4.28	0.18	1,170,000	4.28
0.20	810,000	4.08	0.20	285,000	3.36
0.30	4,100,000	1.98	0.30	4,100,000	1.98
	8,780,000	3.04		6,570,000	2.71

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

	2007	2006
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.

9 Warrants

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

	2007			2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable -						
Beginning of year	4,999,999	69,843	0.30	13,049,500	1,127,968	0.25
Issued - Private placements	6,361,334	325,329	0.23	4,999,999	102,307	0.30
Issued - Acquisition of mineral properties (note 5)	250,000	16,100	0.40	-	-	-
Expired	(4,999,999)	(41,680)	0.30	(13,049,500)	(1,127,968)	0.25
	6,611,334	369,592	0.24	4,999,999	102,307	0.30
Issue costs		(69,035)			(32,464)	
Outstanding and exercisable -						
End of year	6,611,334	300,557	0.24	4,999,999	69,843	0.30

The following table summarizes information about warrants outstanding and exercisable as at December 31, 2007:

Exercise price \$	Number	Weighted average remaining contractual life (years)
0.23	6,361,334	1.26
0.40	250,000	1.85
	6,611,334	1.28

The fair value of warrants granted during the years ended December 31, 2007 and 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	\$0.0516	\$0.0205

10 Broker warrants

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

	2007			2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable - Beginning of year	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	(1,249,600)	(38,173)	0.15	(163,962)	(13,050)	0.20
Expired	(550,400)	(33,299)	0.15	(3,657,198)	(422,508)	0.22
	2,513,758	241,912	0.20	1,800,000	130,900	0.15
Issue costs		(46,056)			(22,339)	
Outstanding and exercisable - End of year	2,513,758	195,856	0.20	1,800,000	108,561	0.15

The following table summarizes information about broker warrants outstanding and exercisable as at December 31, 2007:

	Exercise price \$	Number	Weighted average remaining contractual life (years)
	0.18	2,113,758	1.24
	0.30	400,000	0.81
		2,513,758	1.17

The fair value of broker warrants granted during the years ended December 31, 2007 and 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

11 Net change in non-cash working capital items

	Years ended December 31,	
	2007	2006
	\$	\$
Accounts receivable	(335,985)	104,474
Prepaid expenses	(44,452)	(29,612)
Accounts payable and accrued liabilities	176,123	35,884
	(204,314)	110,746

12 Related party transactions

The Company entered into the following transactions with an officer and businesses controlled by directors and/or officers:

	Years ended December 31,	
	2007	2006
	\$	\$
Exploration costs	111,066	77,800
Management fees	332,164	276,531
	443,230	354,331

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 Income taxes

The reconciliation of the income tax recovery, calculated using the statutory income tax rates of the federal government and provinces concerned (Canada), to the income tax recovery per the financial statements is as follows:

	Years Ended December 31,	
	2007	2006
	\$	\$
Loss before income taxes	(7,223,282)	(1,070,513)
Income taxes at the combined statutory tax rate of the Canadian federal government and the provinces concerned (35.03% in 2007 and 36.90% in 2006)	(2,530,316)	(394,974)
Non-deductible resource loss	-	50,070
Change in proportion of activities allocated to tax jurisdictions	19,637	328,177
Change in valuation allowance	469,901	281,853
Non-taxable tax credits	(69,434)	(117,393)
Non-deductible expenses	85,900	43,449
Change in tax rate	433,647	(59,662)
Adjustments from taxation authorities	-	(92,938)
Share issue costs not affecting earnings	(231,953)	(55,236)
Other	6,676	9,694
Income taxes	(1,815,942)	(6,960)

Significant components of the company's future income tax assets and liabilities are as follows:

	2007	2006
	\$	\$
Mineral properties	157,675	-
Non-capital losses	1,206,929	888,075
Share issue costs	444,059	529,623
Other items	83,912	4,976
Valuation allowance	(1,892,575)	(1,422,674)
Future income tax assets	-	-
Mineral properties	(415,834)	(1,818,048)
Other items	(18,572)	-
Long-term future income tax liabilities, net	(434,406)	(1,818,048)

As at December 31, 2007, the Company had \$4,330,987 of non-capital losses carried forward expiring as follows:

	Non-capital losses from (Year)	\$	Expiry date (Year)
	2002	33,466	2008
	2002	5,483	2009
	2003	34,146	2009
	2003	60,168	2010
	2004	102,369	2013
	2004	165,338	2014
	2005	1,073,084	2015
	2006	1,328,423	2026
	2007	1,528,010	2027

The Company considers that it is not more likely than not that the future income tax assets resulting from these tax losses will be realized and has therefore recorded a valuation allowance corresponding to the full amount of these future income tax assets.

14 Earnings per share

	Years ended December 31,	
	2007	2006
Basic and diluted weighted average number of shares outstanding	119,625,165	87,148,865

For the years ended December 31, 2007 and 2006, the diluted net loss per share was the same as the basic net 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 net loss per share for those years was calculated using the basic weighted average number of shares outstanding.

However, should the Company's basic earnings per share have been positive, the stock options exercisable at exercise prices lower than \$0.22 for 2007 and \$0.17 for 2006 would have been dilutive and would have resulted in the addition of 578,054 shares and 259,592 shares for the years ended December 31, 2007 and 2006, respectively. Furthermore, the warrants exercisable at exercise prices lower than \$0.22 for 2007 and \$0.17 for 2006 would have been dilutive and would have resulted in the addition respectively of 311,552 shares and 105,255 shares for the years ended December 31, 2007 and 2006, to the weighted average number of shares outstanding used in the diluted earnings per share calculation.

15 Commitments

The Company has two office leases expiring on September 30, 2009 and on January 31, 2011. The minimum combined annual payments under these leases are as follows :

	Year	\$	
	2008	80,278	
	2009	70,652	
	2010	30,800	
	2011	2,567	(1 month)

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

16 Financial instrumentsFair 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 December 31, 2007 and 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

17 Comparative figures

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

18 Subsequent eventsGranting of stock options

On January 15, 2008, a director of the Company was granted 100,000 stock options at an exercise price of \$0.145 per share for a period of five years. These options vested immediately.

Lac Mague Property

On February 27, 2008, the Company confirmed to Labrador Silver Syndicate ("LSS") that the Company would not be making the payment of \$25,000 due on or before February 28, 2008 and returned the original claims to LSS (88 claims).