

MANICOUAGAN MINERALS INC.
(An exploration company)
Interim Financial Statements (unaudited)
June 30, 2009

Management's Responsibility for Interim Financial Statements

To the Shareholders of Manicouagan Minerals Inc.

The unaudited interim financial statements and the notes thereto for the three and six months ended June 30, 2009 are the responsibility of the management of Manicouagan Minerals Inc. These unaudited interim 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.

(signed) Joseph J. Baylis

Joseph J. Baylis, President and CEO

(signed) Erik H. Martin

Erik H. Martin, Chief Financial Officer

Toronto, Canada
August 19, 2009

MANICOUAGAN MINERALS INC.

(An exploration company)

Interim Balance Sheets (unaudited)

(expressed in Canadian dollars)

	June 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	899,288	1,548,162
Amounts receivable (note 6)	2,074,361	1,988,920
Prepaid expenses	32,846	26,500
	<u>3,006,495</u>	<u>3,563,582</u>
Property, plant and equipment (note 8)	39,824	49,024
Mineral properties and deferred exploration costs (note 7)	7,506,077	7,221,544
	<u>10,552,396</u>	<u>10,834,150</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	273,903	159,168
Long-term liabilities		
Future income taxes	1,865,689	1,166,780
	<u>2,139,592</u>	<u>1,325,948</u>
SHAREHOLDERS' EQUITY		
Share capital (note 9)	17,036,711	17,742,618
Stock options (note 10)	866,635	859,770
Warrants and broker warrants (notes 11 and 12)	23,098	478,703
Contributed surplus	2,387,203	1,852,404
Deficit	(11,900,843)	(11,425,293)
	<u>8,412,804</u>	<u>9,508,202</u>
	<u>10,552,396</u>	<u>10,834,150</u>

Continuance of operations (note 1)

Commitments (note 16)

Subsequent event (note 17)

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

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 Statements of Loss and Comprehensive Loss (unaudited)

(expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Interest income	8,825	11,093	20,654	36,529
Expenses				
Management fees	80,968	98,413	156,931	195,192
Professional fees	41,607	44,911	62,517	75,795
Salaries and employee benefits	18,952	17,928	36,970	37,584
Stock-based compensation costs	56,376	19,770	72,459	50,872
General administration	38,728	37,203	72,169	69,671
Investor relations and promotion	13,554	49,465	23,898	86,634
Regulatory and transfer agent fees	2,869	8,658	16,376	17,145
Shareholders' information	11,138	18,952	12,992	25,877
General exploration costs	7,798	5,427	14,948	32,925
Amortization of property, plant and equipment	2,276	1,254	4,784	2,330
Tax on flow-through shares	12,712	-	22,160	1,931
	286,978	301,981	496,204	595,956
Loss and comprehensive loss before income taxes	(278,153)	(290,888)	(475,550)	(559,427)
Future income taxes	-	7,067	-	38,682
Net loss and comprehensive loss for the period	(278,153)	(297,955)	(475,550)	(598,109)
Basic and diluted net loss per share (note 15)	(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted weighted average number of shares outstanding (note 15)	141,861,723	127,803,177	141,861,723	127,601,702

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

MANICOUAGAN MINERALS INC.

(An exploration company)

Interim Statements of Changes in Shareholders' Equity (unaudited)

(expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Share capital (note 9)				
Balance - Beginning of period	17,037,628	15,065,947	17,742,618	16,235,703
Issuance of flow-through shares	-	930,000	-	930,000
Issuance of common shares as payment of accounts payable and accrued liabilities	-	142,299	-	142,299
Acquisition of mineral property (note 7)	-	38,000	-	38,000
	17,037,628	16,176,246	17,742,618	17,346,002
Issue costs (note 9)	(917)	(79,547)	(705,907)	(1,249,303)
Balance - End of period	17,036,711	16,096,699	17,036,711	16,096,699
Stock options (note 10)				
Balance - Beginning of period	877,578	800,997	859,770	771,567
Expired	(72,196)	(4,757)	(72,196)	(8,154)
Stock-based compensation costs	61,253	21,495	79,061	54,322
Balance - End of period	866,635	817,735	866,635	817,735
Warrants (note 11)				
Balance - Beginning of period	66,236	300,557	300,557	300,557
Expired	(44,055)	-	(284,457)	-
Issued	917	-	6,998	-
Balance - End of period	23,098	300,557	23,098	300,557
Broker warrants (note 12)				
Balance - Beginning of period	-	195,856	178,146	195,856
Expired	-	-	(178,146)	-
Balance - End of period	-	195,856	-	195,856
Contributed Surplus				
Balance - Beginning of period	2,270,952	1,789,415	1,852,404	1,786,018
Stock options expired (note 10)	72,196	4,757	72,196	8,154
Warrants and broker warrants expired (notes 11 and 12)	44,055	-	462,603	-
Balance - End of period	2,387,203	1,794,172	2,387,203	1,794,172
Deficit				
Balance - Beginning of period	(11,622,690)	(10,122,421)	(11,425,293)	(9,822,267)
Net loss for the period	(278,153)	(297,955)	(475,550)	(598,109)
Balance - End of period	(11,900,843)	(10,420,376)	(11,900,843)	(10,420,376)
Total shareholders' equity	8,412,804	8,784,643	8,412,804	8,784,643

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

MANICOUAGAN MINERALS INC.

(An exploration company)

Interim Statements of Cash Flows (unaudited)

(expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(278,153)	(297,955)	(475,550)	(598,109)
Items not affecting cash and cash equivalents				
Amortization of property, plant and equipment	2,276	1,254	4,784	2,330
Stock-based compensation costs	56,376	19,770	72,459	50,872
Loss on sale of assets	3,416	-	3,416	-
Future income taxes	-	7,067	-	38,682
	(216,085)	(269,864)	(394,891)	(506,225)
Net change in non-cash working capital items (note 13)	7,469	6,057	54,603	394,778
	(208,616)	(263,807)	(340,288)	(111,447)
Cash flows from financing activities				
Issuance of shares and warrants	-	930,000	-	930,000
Share and warrant issue costs	-	-	-	-
	-	930,000	-	930,000
Cash flows from investing activities				
Acquisition of mineral properties and deferred exploration costs	(173,560)	(1,128,590)	(309,586)	(1,972,993)
Tax credits received relating to exploration costs				
Applied against mineral properties	-	1,278,713	-	1,278,713
Acquisition of property, plant and equipment	-	(1,733)	-	(31,592)
Disposal of property, plant and equipment	1,000	-	1,000	-
	(172,560)	148,390	(308,586)	(725,872)
Net change in cash and cash equivalents	(381,176)	814,583	(648,874)	92,681
Cash and cash equivalents – Beginning of period	1,280,464	2,129,498	1,548,162	2,851,400
Cash and cash equivalents – End of period	899,288	2,944,081	899,288	2,944,081
Additional information				
Acquisition of mineral properties and deferred exploration costs included in accounts payable and accrued liabilities	80,489	398,109	80,489	398,109
Acquisition of mineral property paid through issuance of shares	-	38,000	-	38,000
Tax credits receivable related to exploration costs applied against mineral properties and deferred exploration costs	40,170	227,185	97,874	640,151
Future income taxes accounted for as share, warrant and broker warrant issue costs	-	-	698,909	1,169,756
Fair value of warrants accounted for as share issue costs	917	-	6,998	-
Stock-based compensation costs capitalized in deferred exploration costs	4,877	1,725	6,602	3,450
Share issue costs included in accounts payable and accrued liabilities	-	79,547	-	79,547
Payment of accounts payable and accrued liabilities through issuance of common shares	-	142,299	-	142,299

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MANICOUAGAN MINERALS INC.

(An exploration company)

Notes to Interim Financial Statements (unaudited)

June 30, 2009

(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. 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 unaudited interim 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 significant doubt as to the validity of the going concern assumption.

These unaudited interim 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 ACCOUNTING POLICIES

Interim financial information

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) and use the same accounting policies and methods used in the preparation of the Company's most recent annual 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 financial statements should therefore be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2008 and the accompanying notes.

The financial information as at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 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.

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Notes to Interim Financial Statements (unaudited)

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(expressed in Canadian dollars)

New accounting standards

Credit risk and fair value of Financial Assets and Liabilities

The CICA has issued an Abstract EIC-173, which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. EIC-173 is effective for interim and annual periods beginning on or after January 1, 2009.

Mining Exploration Costs

On March 27, 2009, the EIC issued Abstract EIC-174, "Mining Exploration Costs", to provide additional guidance for mining exploration enterprises on when an impairment test is required. This Abstract has been applied to financial statements issued after March 27, 2009.

The adoption of these Abstracts had no impact on the financial statements of the Company.

Future accounting standards

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. A calendar year-end public company will be required to have prepared, in time for its first 2011 quarter filing, comparative financial statements in accordance with IFRS for the three months ended March 31, 2010.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

3 CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure, based on funds available to the Company, in order to support the acquisition and exploration of mineral properties. Given that the Company is in the mineral exploration business, the Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers the items included in shareholders' equity as capital component.

There were no changes in the Company's approach to capital management during the period ended June 30, 2009. The Company is not subject to externally imposed capital requirements.

MANICOUAGAN MINERALS INC.

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Notes to Interim Financial Statements (unaudited)

June 30, 2009

(expressed in Canadian dollars)

4 RISK FACTORS – FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Financial instruments included in amounts receivable consist of interest receivable. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is remote. The credit risk on cash and cash equivalents is limited because the counterparties are Canadian banks with high credit-ratings.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2009, the Company has a cash and cash equivalents balance of \$899,288 (December 31, 2008 - \$1,548,162) to settle current liabilities of \$273,903 (December 31, 2008 - \$159,168). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

Interest rate risk

The Company has cash and cash equivalents. The Company's current policy is to invest excess cash in guaranteed investment certificates redeemable before maturity and/or in interest-bearing accounts of a Canadian chartered bank. The Company periodically monitors its investments and is satisfied with the creditworthiness of its financial institutions. As of June 30, 2009, the Company has an interest-bearing account with a Canadian chartered bank.

As at June 30, 2009 and December 31, 2008, the Company's exposure to interest rate risk is summarized as follows:

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

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are made using Canadian dollars. As a result, the Company's exposure to foreign currency risk is remote.

Sensitivity analysis

The Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Interest receivable is classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. The amortized cost of interest receivable and accounts payable and accrued liabilities is equal to their carrying value due to their short-term maturity.

(i) On June 30, 2009, short-term investments consisted of flexible guaranteed investment certificates redeemable before maturity, which bear interest at an annual rate of 3.30% and mature prior to July 20, 2009. During the three months ended June 30, 2009, cash was subject to floating interest rates at the Canadian prime rate minus 1.9% on bank balances. Sensitivity to a plus or minus 1% change in rates is not material to the statement of loss and comprehensive loss.

(ii) The Company does not hold balances in foreign currencies which would give rise to exposure to foreign exchange risk.

MANICOUAGAN MINERALS INC.

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Notes to Interim Financial Statements (unaudited)**June 30, 2009**

(expressed in Canadian dollars)

5 CASH AND CASH EQUIVALENTS

	June 30, 2009	December 31, 2008
	\$	\$
Cash	44,288	38,162
Short-term investments	855,000	1,510,000
Cash and cash equivalents	899,288	1,548,162
Flow-through exploration costs to incur (note 16)	992,340	1,243,523
Flow-through exploration costs incurred included in accounts payable and accrued liabilities	80,489	14,270
	1,072,829	1,257,793

On June 30, 2009 and on December 31, 2008, short-term investments consisted of flexible guaranteed investment certificates redeemable before maturity, which bear interest at an annual rate of 3.30% and mature prior to July 20, 2009.

6 AMOUNTS RECEIVABLE

	June 30, 2009	December 31, 2008
	\$	\$
Amounts receivable	1,223	-
Interest receivable	27,434	23,578
Sales tax receivable	19,526	37,038
Refundable tax credit for resources (note 17)	1,509,736	1,428,734
Credit on duties refundable for losses	516,442	499,570
	2,074,361	1,988,920

MANICOUAGAN MINERALS INC.

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Notes to Interim Financial Statements (unaudited)**June 30, 2009**

(expressed in Canadian dollars)

7 MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**June 30, 2009**

	Undivided interest	Balance as at December 31, 2008	Costs incurred	Tax credits ¹	Balance as at June 30, 2009
	%	\$	\$	\$	\$
Brabant Lake (21 claims)					
Mineral property	100	300,000	-	-	300,000
Exploration costs		3,071,481	2,427	-	3,073,908
		3,371,481	2,427	-	3,373,908
Mouchalagane (344 claims)					
Mineral property	100	113,304	6,440	-	119,744
Exploration costs		2,554,969	68,659	(31,122)	2,592,506
		2,668,273	75,099	(31,122)	2,712,250
HPM/Forgues (289 claims)					
Mineral property (39 claims)	on option	71,100	-	-	71,100
Mineral property (250 claims)	100	22,125	-	-	22,125
Exploration costs		986,472	134,034	(55,552)	1,064,954
		1,079,697	134,034	(55,552)	1,158,179
Winter House (141 claims)					
Mineral property	100	52,397	690	-	53,087
Exploration costs		49,696	25,508	(11,200)	64,004
		102,093	26,198	(11,200)	117,091
Pickle Lake East (21 claims)					
Mineral property	on option	-	-	-	-
Exploration costs		-	63,061	-	63,061
		-	63,061	-	63,061
Kasagiminnis (3 claims)					
Mineral property	on option	-	-	-	-
Exploration costs		-	27,985	-	27,985
		-	27,985	-	27,985
Dorothy-Dobie Lake (15 claims)					
Mineral property	on option	-	45,000	-	45,000
Exploration costs		-	8,603	-	8,603
		-	53,603	-	53,603
		7,221,544	382,407	(97,874)	7,506,077

MANICOUAGAN MINERALS INC.

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Notes to Interim Financial Statements (unaudited)**June 30, 2009**

(expressed in Canadian dollars)

December 31, 2008

	Undivided interest	Balance as at December 31, 2007	Costs incurred	Write off	Tax credits ¹	Balance as at December 31, 2008
	%	\$	\$	\$	\$	\$
Brabant Lake (21 claims)						
Mineral property	100	300,000	-	-	-	300,000
Exploration costs		2,592,946	478,535	-	-	3,071,481
		2,892,946	478,535	-	-	3,371,481
Mouchalagane (493 claims)						
Mineral property	100	100,999	12,305	-	-	113,304
Exploration costs		1,488,840	1,971,973	-	(905,844)	2,554,969
		1,589,839	1,984,278	-	(905,844)	2,668,273
HPM/Forgues (289 claims)						
Mineral property (39 claims)	on option	46,100	25,000	-	-	71,100
Mineral property (250 claims)	100	1,500	20,625	-	-	22,125
Exploration costs		460	1,662,740	-	(676,728)	986,472
		48,060	1,708,365	-	(676,728)	1,079,697
Winter House (141 claims)						
Mineral property	100	-	52,397	-	-	52,397
Exploration costs		-	92,200	-	(42,504)	49,696
		-	144,597	-	(42,504)	102,093
Seignelay (239 claims)						
Mineral property	100	27,485	-	(27,485)	-	-
Exploration costs		-	214,855	(115,826)	(99,029)	-
		27,485	214,855	(143,311)	(99,029)	-
Lac Mague (802 claims)						
Mineral property	100	201,069	2,652	(203,721)	-	-
Exploration costs		704,589	12,953	(711,580)	(5,962)	-
		905,658	15,605	(915,301)	(5,962)	-
		5,463,988	4,546,235	(1,058,612)	(1,730,067)	7,221,544

¹Credit on duties refundable for losses and refundable tax credit for resources

The Company is entitled to a credit on duties refundable for losses under the Quebec Mining Duties Act. This credit on duties refundable for losses 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.

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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 km². The claims are located immediately east of Highway 102, some 175 km from the all-services community of La Ronge, Saskatchewan.

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.

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% 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.

During 2007 and 2008, the Company map designated 405 additional claims and at December 31, 2008, the property consisted of 493 claims covering an area of 260 km².

During March 2009, 149 claims were allowed to lapse and at June 30, 2009, the property consisted of 344 claims covering an area of 182 km². The 2% NSR in accordance with the agreement signed on August 19, 2007 is applicable on 144 of the claims at June 30, 2009.

HPM and Forgues Property

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 property, the Company made an initial payment of \$30,000 to Pure Nickel and during the first year of the agreement, compiled all reasonably available data for the claims and completed 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.

To maintain the option in good standing and earn an initial fifty percent interest in the property, the Company must make 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 20% 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. The Company made the payment of \$25,000 due on the first anniversary of the option agreement and has met the minimum first year work commitment of \$750,000.

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(expressed in Canadian dollars)

Once the Company has earned an interest in the property, 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-kilometre 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 the Company within a defined area of interest) including (i) a 2% NSR on property (Pure Nickel and the Company, 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 property; 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.

During 2008, the Company map designated 71 additional claims. The property consisted of 289 claims covering an area of 141 km² on June 30, 2009.

Winter House Property

On May 15, 2008, the Company acquired a 100% interest in 18 claims by issuing 200,000 common shares. As part of the transaction, 110 claims acquired by the Company in January 2008 were included in the agreement. In the event of production from the property (all claims), the vendor will receive a 2% 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.

During 2008, the Company map designated 13 additional claims (not subject to NSR). The property consisted of 141 claims covering an area of 74 km² on June 30, 2009.

Pickle Lake Properties

On April 15, 2009, the Company entered into an agreement with Trillium North Minerals Ltd. ("Trillium North") pursuant to which it can earn up to a 70% interest in three gold exploration properties in the Pickle Lake Area, Ontario.

The Pickle Lake Properties consist of three non contiguous claim groups known as the Pickle Lake East Property, the Kasagiminnis Property and the Dorothy-Dobie Lake Property. Collectively the properties cover an area of approximately 77 km². The properties are located in the Pickle Lake Greenstone Belt.

The Company can earn a 51% interest in the Pickle Lake Properties by spending \$1,000,000 on the properties over the next three years of which a minimum of \$250,000 must be spent in the first year of the agreement.

After earning its 51% interest in the properties, the Company can increase its interest from 51% to 70% by funding the next \$1,500,000 on the properties.

Once the Company has completed earning its interest in the properties a joint venture will be formed. Dilution is provided for if a party fails to fund its pro-rata share of joint venture expenditures. If either party is diluted to a 10% interest or less, its interest in the properties and the joint venture will be converted to a 2% NSR. The remaining party will have the option of acquiring one half of the NSR by paying the sum of \$1,000,000.

The Company and Trillium North have also agreed to a one kilometre area of interest from the outer boundaries of the current Pickle Lake East and Dorothy-Dobie Lake properties and 1.6 kilometres from the current outer boundary of the Kasagiminnis property.

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The Kasagiminnis and portions of the Dorothy-Dobie Lake properties are subject to underlying option agreements with a single vendor. To maintain the underlying option agreements in good standing, the Company has paid \$45,000 to the vendor. To maintain both the underlying agreements and the agreement with Trillium North in good standing, the Company will have to make an additional payment of \$45,000 to the vendor on or before April 15, 2010.

The underlying option agreements also provide to the vendor on each property a 2% NSR of which one half can be acquired by payment of the sum of \$1,000,000 payable to the vendor. The Dorothy-Dobie Lake properties are each the subject of advance royalty payments of \$50,000 per year for the three years commencing on April 30, 2012.

The Company has also agreed, subject to regulatory approval, to issue 250,000 common share purchase warrants to Trillium North concurrent with its next equity financing. When issued the warrants will have an exercise price equivalent to those warrants issued in connection with the next equity financing completed by the Company and will have a term of two years.

Detailed analysis of mineral properties and deferred exploration costs

	Six months ended June 30, 2009	Year ended December 31, 2008
	\$	\$
Balance - Beginning of period	7,221,544	5,463,988
Cost of claims	52,130	112,979
Camp costs	14,767	646,249
Transportation	22,236	961,394
Drilling	34,893	1,030,879
Geophysics	76,792	703,498
Analysis	2,805	96,481
Consultants	175,188	607,106
Fuel	3,596	312,474
Line cutting	-	75,175
Tax credits	(97,874)	(1,730,067)
Write off of mineral properties and deferred exploration costs	-	(1,058,612)
Balance - End of period	<u>7,506,077</u>	<u>7,221,544</u>

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8 PROPERTY, PLANT AND EQUIPMENT

	June 30, 2009		
	Cost	Accumulated Amortization	Net Carrying Amount
	\$	\$	\$
Furniture and fixtures	47,138	9,257	37,881
Computer equipment	5,414	3,471	1,943
	<u>52,552</u>	<u>12,728</u>	<u>39,824</u>

	December 31, 2008		
	Cost	Accumulated Amortization	Net Carrying Amount
	\$	\$	\$
Furniture and fixtures	55,682	8,944	46,738
Computer equipment	5,414	3,128	2,286
	<u>61,096</u>	<u>12,072</u>	<u>49,024</u>

9 SHARE CAPITAL**Authorized**

Unlimited number of common shares without par value

Variation of issued and fully paid share capital

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number	Amount \$	Number	Amount \$
Balance - Beginning of period	141,861,723	17,742,618	127,400,227	16,235,703
Issuance of flow-through shares	-	-	13,550,000	2,710,000
Issuance of common shares as payment of accounts payable and accrued liabilities	-	-	711,496	142,299
Acquisition of mineral property (note 7)	-	-	200,000	38,000
	<u>141,861,723</u>	<u>17,742,618</u>	<u>141,861,723</u>	<u>19,126,002</u>
Issue costs **	-	(705,907)	-	(1,383,384)
Balance - End of period	<u>141,861,723</u>	<u>17,036,711</u>	<u>141,861,723</u>	<u>17,742,618</u>

** Issue costs include \$698,909 (\$1,169,756 in 2008) in relation to renunciation of flow-through expenses. According to CICA EIC-146, the Company must record the tax expense of such renunciation at the time of filing the tax forms which normally takes place in the first quarter of the year following the issuance of flow-through shares.

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Issuance of shares - payment of accounts payable and accrued liabilities in 2008

In the third quarter of 2007, the Company recorded a liability of \$191,633. This amount related to claims made by certain flow-through investors following a 2006 audit by the Canada Revenue Agency ("CRA") which identified that the Company's qualifying flow-through exploration expenses that has been renounced in 2002 to these investors were overstated.

On June 11, 2008, the Company issued 711,496 common shares pursuant to agreements with certain of these investors to settle \$142,299 of the liabilities based on a price of \$0.20 per share.

Issuance of shares - private placements 2008

On June 27, 2008, the Company completed the first tranche of a non-brokered private placement for gross proceeds of \$930,000. Pursuant to this private placement, the Company issued 4,650,000 flow-through common shares at a price of \$0.20 per share. In connection with the first tranche of this non-brokered private placement, the Company paid a cash commission/finders' fee of \$52,500.

On July 16, 2008, the Company completed the second tranche of a non-brokered private placement for gross proceeds of \$1,180,000. Pursuant to this private placement, the Company issued 5,900,000 flow-through common shares at a price of \$0.20 per share. In connection with the second tranche of this non-brokered private placement, the Company paid a cash commission/finders' fee of \$70,800.

On August 26, 2008, the Company completed a non-brokered private placement for gross proceeds of \$600,000. Pursuant to this private placement, the Company issued 3,000,000 flow-through common shares at a price of \$0.20 per share. In connection with this non-brokered private placement, the Company paid a cash commission/finders' fee of \$36,000.

10 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 periods ended June 30, 2009 and December 31, 2008:

	Six months ended June 30, 2009			Year ended December 31, 2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of period	9,775,000	859,770	0.23	8,780,000	771,567	0.23
Granted	2,090,000	-	0.10	1,815,000	-	0.20
Expired	(685,000)	(72,196)	0.24	(820,000)	(48,676)	0.17
Stock-based compensation	-	79,061	-	-	136,879	-
Outstanding - End of period	11,180,000	866,635	0.20	9,775,000	859,770	0.23
Exercisable - End of period	9,521,667	-	0.21	8,158,333	-	0.24

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On June 18, 2009, directors, officers, employees and consultants of the Company were granted 2,090,000 stock options at an exercise price of \$0.10 per share for a period of five years. Vesting provisions for these options are as follows: 1,440,000 vest immediately and 650,000 vest equally over a three-year period from the date of grant. These options were valued at \$65,868 and will be amortized on accelerated method over their vesting period.

The following tables summarize information about stock options outstanding and exercisable as at June 30, 2009:

Options outstanding			Options exercisable		
Exercise price	Number	Weighted average remaining contractual life	Exercise price	Number	Weighted average remaining contractual life
\$		(years)	\$		(years)
0.100	2,840,000	4.10	0.100	2,190,000	3.84
0.145	100,000	3.55	0.145	100,000	3.55
0.150	530,000	2.35	0.150	530,000	2.35
0.180	1,545,000	2.79	0.180	1,361,667	2.79
0.200	2,415,000	3.72	0.200	1,590,000	3.59
0.300	3,750,000	0.49	0.300	3,750,000	0.49
	11,180,000	2.54		9,521,667	2.24

The fair value of options granted during the periods ended June 30, 2009 and December 31, 2008 was estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	2009	2008
Risk-free interest rate	2.65%	3.16%
Expected volatility	110%	95%
Dividend yield	Nil	Nil
Weighted average expected life	60 months	60 months
Weighted average fair value on the date of grant	\$0.03	\$0.04

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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11 WARRANTS

The following table summarizes the variation of warrants recorded under Shareholders' Equity during the periods ended June 30, 2009 and December 31, 2008:

	Six months ended June 30, 2009			Year ended December 31, 2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable - Beginning of period	6,611,334	300,557	0.24	6,611,334	300,557	0.24
Expiry	(6,361,334)	(284,457)	0.23	-	-	-
Issued	6,361,334	6,998	0.23	-	-	-
	6,611,334	23,098	0.24	6,611,334	300,557	0.24
Issue costs	-	-	-	-	-	-
Outstanding and exercisable - End of period	6,611,334	23,098	0.24	6,611,334	300,557	0.24

The following table summarizes information about warrants outstanding and exercisable as at June 30, 2009:

Expiry date	Exercise price \$	Number	Weighted average remaining contractual life (years)
November 6, 2009	0.40	250,000	0.35
September 27, 2010*	0.23	5,528,000	1.24
November 18, 2010*	0.23	833,334	1.39
		6,611,334	1.23

*On March 23, 2009, the Company extended the expiry dates of these warrants by 18 months. The original expiry dates were March 27, 2009 and May 18, 2009, respectively.

The fair value of warrants issued during the period ended June 30, 2009 was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	June 30, 2009
Risk-free interest rate	1.06%
Expected volatility	90%
Dividend yield	Nil
Weighted average expected life	18 months
Weighted average fair value on the date of issue	\$0.0011

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12 BROKER WARRANTS

The following table summarizes the variation of broker warrants recorded under Shareholders' Equity during the periods ended June 30, 2009 and December 31, 2008:

	Six months ended June 30, 2009			Year ended December 31, 2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable - Beginning of period	2,113,758	178,146	0.18	2,513,758	195,856	0.20
Expired	(2,113,758)	(178,146)	0.18	(400,000)	(17,710)	0.30
	-	-	-	2,113,758	178,146	0.18
Issue costs	-	-	-	-	-	-
Outstanding and exercisable - End of period	-	-	-	2,113,758	178,146	0.18

13 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Amounts receivable	(84)	19,223	12,433	299,680
Prepaid expenses	(13,946)	2,260	(6,346)	49,876
Accounts payable and accrued liabilities	21,499	(15,426)	48,516	45,222
	7,469	6,057	54,603	394,778

14 RELATED PARTY TRANSACTIONS

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Exploration costs	-	32,375	-	54,250
Management fees	70,450	84,625	134,950	163,313
	70,450	117,000	134,950	217,563
Amounts due to related parties at the end of the period	4,226	23,048	4,226	23,048

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.

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15 LOSS PER SHARE

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Basic and diluted weighted average number of shares outstanding	141,861,723	127,803,177	141,861,723	127,601,702

For the three and six months ended June 30, 2009 and 2008, 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 periods 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 \$0.04 and \$0.05 for the three and six months ended June 30, 2009 (June 30, 2008: \$0.19 and \$0.18) would have been dilutive and would have resulted in the addition of nil shares for the three and six months ended June 30, 2009 (June 30, 2008: 413,823 and 336,001), respectively. Furthermore, warrants exercisable at exercise prices lower than \$0.04 and \$0.05 for the three and six months ended June 30, 2009 (June 30, 2008: \$0.19 and \$0.18) would have been dilutive and would have resulted in the addition of nil shares for the three and six months ended June 30, 2009 (June 30, 2008: 68,186 and nil), to the weighted average number of shares outstanding used in the diluted earnings per share calculation.

16 COMMITMENTS

Leases

The Company has one office lease expiring on January 31, 2011. The minimum combined annual payments under this lease are as follows:

Year	\$	
2009	15,351	(6 months)
2010	31,254	(12 months)
2011	2,609	(1 month)

Lease is renewable following a three-month notice prior to its expiry date.

In March 2009, the Company assigned its lease expiring on September 30, 2009 at a cost of \$10,000 with an effective date of April 1st, 2009. Notwithstanding this assignment, the Company shall continue to be liable for its covenants (among other things - the payment of rent for an amount of \$4,428/ month during a maximum of 6 months) during the remaining term of the lease until September 30, 2009 should the assignee default on the terms of the original lease.

The Company has since subleased office space at \$1,100 / month. This lease can be cancelled on 30 days written notice.

Flow-through exploration funds

As at June 30, 2009, the Company had an obligation to incur approximately \$992,340 in qualifying exploration expenditures by December 31, 2009.

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17 SUBSEQUENT EVENT

On July 22, 2009, the Company received an amount of \$1,428,734 from the Quebec Government in relation to its 2008 refundable tax credit for resources.