

**MANICOUAGAN MINERALS INC.**  
**(An exploration company)**  
**Financial Statements**  
**December 31, 2009 and 2008**

## 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, 2009 and 2008 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, 2009 and 2008 have been audited by PricewaterhouseCoopers LLP Chartered Accountants. Their report outlines the scope of their examination and opinion on the financial statements.

*(signed) Joseph J. Baylis*

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Joseph J. Baylis, President and CEO

*(signed) Erik H. Martin*

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Erik H. Martin, Chief Financial Officer

Toronto, Canada  
April 8, 2010

## **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, 2009 and 2008 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, 2009 and 2008 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<sup>1</sup>*

Quebec, Quebec, Canada  
April 8, 2010

<sup>1</sup> Chartered accountant auditor permit No. 7871

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

**MANICOUAGAN MINERALS INC.**

(An exploration company)

**Balance Sheets**

(expressed in Canadian dollars)

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
		<b>As restated</b>
		<b>(note 2)</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 6)	963,453	1,548,162
Amounts receivable (note 7)	607,435	1,988,920
Prepaid expenses	17,782	26,500
	<u>1,588,670</u>	<u>3,563,582</u>
<b>Property, plant and equipment</b> (note 10)	30,791	49,024
<b>Mineral properties</b> (note 8)	651,947	558,926
	<u>2,271,408</u>	<u>4,171,532</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	223,171	159,168
Taxes payable (note 17b)	11,709	-
	<u>234,880</u>	<u>159,168</u>
<b>Long-term liabilities</b>		
Taxes payable (note 17b)	46,836	58,545
	<u>281,716</u>	<u>217,713</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (note 11)	21,294,144	21,294,144
<b>Stock options</b> (note 12)	716,326	859,770
<b>Warrants and broker warrants</b> (notes 13 & 14)	6,998	478,703
<b>Contributed surplus</b> (note 2)	2,606,102	1,897,329
<b>Deficit</b> (note 2)	(22,633,878)	(20,576,127)
	<u>1,989,692</u>	<u>3,953,819</u>
	<u>2,271,408</u>	<u>4,171,532</u>

Continuance of operations (note 1)

Commitments (note 19)

Subsequent events (note 20)

The accompanying notes are an integral part of these 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)

**Statements of Loss and Comprehensive Loss**

(expressed in Canadian dollars)

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
		<b>As restated</b>
		<b>(note 2)</b>
<b>Interest income</b>	27,353	82,430
<b>Expenses</b>		
Management fees	325,643	354,210
Professional fees	88,003	117,448
Salaries and employee benefits	68,143	76,384
Stock-based compensation costs	93,624	136,879
Rent, insurance and office expenses	122,104	136,349
Investor relations and promotion	56,691	128,470
Regulatory and transfer agent fees	22,382	22,507
Shareholders' information	18,431	40,888
Amortization of property, plant and equipment	13,818	6,637
Tax on flow-through shares	(26,818)	1,135
Exploration costs (notes 2 & 9)	1,248,556	2,746,508
Write off of mineral properties (note 8)	54,527	231,206
	<u>2,085,104</u>	<u>3,998,621</u>
<b>Loss and comprehensive loss before income taxes</b>	(2,057,751)	(3,916,191)
<b>Taxes</b>	-	21,257
<b>Net loss and comprehensive loss for the year</b>	<u>(2,057,751)</u>	<u>(3,937,448)</u>
<b>Basic and diluted net loss per share (note 18)</b>	<u>(0.01)</u>	<u>(0.03)</u>
<b>Basic and diluted weighted average number of shares outstanding (note 18)</b>	<u>141,861,723</u>	<u>134,045,538</u>

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

**MANICOUAGAN MINERALS INC.**

(An exploration company)

**Statements of Changes in Shareholders' Equity**

(expressed in Canadian dollars)

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
		<b>As restated (note 2)</b>
<b>Share capital</b> (note 11)		
Balance - Beginning of year, as previously reported	17,742,618	16,235,703
Adjustment resulting from a change in accounting policy (note 2)	3,551,526	2,381,770
Balance – Beginning of year, restated	21,294,144	18,617,473
Issuance of flow-through shares	-	2,710,000
Issuance of common shares as payment of accounts payable and accrued liabilities	-	142,299
Acquisition of a mineral property (note 8)	-	38,000
	21,294,144	21,507,772
Issue costs (note 11)	-	(213,628)
Balance - End of year	21,294,144	21,294,144
<b>Stock options</b> (note 12)		
Balance - Beginning of year	859,770	771,567
Expired	(180,771)	-
Forfeited	(56,297)	(48,676)
Stock-based compensation costs	93,624	136,879
Balance - End of year	716,326	859,770
<b>Warrants</b> (note 13)		
Balance - Beginning of year	300,557	300,557
Expired	(300,557)	-
Issued	6,998	-
Balance - End of year	6,998	300,557
<b>Broker warrants</b> (note 14)		
Balance - Beginning of year	178,146	195,856
Expired	(178,146)	(17,710)
Balance - End of year	-	178,146
<b>Contributed Surplus</b>		
Balance - Beginning of year, as previously reported	1,852,404	1,786,018
Adjustment resulting from a change in accounting policy (note 2)	44,925	44,925
Balance – Beginning of year, restated	1,897,329	1,830,943
Stock options expired (note 12)	180,771	-
Stock options forfeited (note 12)	56,297	48,676
Warrants and broker warrants expired (notes 13 & 14)	478,703	17,710
Extension of the expiry dates of warrants (note 13)	(6,998)	-
Balance - End of year	2,606,102	1,897,329

**MANICOUAGAN MINERALS INC.**

(An exploration company)

**Statements of Changes in Shareholders' Equity**

(expressed in Canadian dollars)

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
		<b>As restated</b>
		<b>(note 2)</b>
<b>Deficit</b>		
Balance - Beginning of year, as previously reported	(11,425,293)	(9,822,267)
Adjustment resulting from a change in accounting policy (note 2)	(9,150,834)	(6,816,412)
Balance – Beginning of year, restated	(20,576,127)	(16,638,679)
Net loss for the year	(2,057,751)	(3,937,448)
Balance - End of year	(22,633,878)	(20,576,127)
<b>Total shareholders' equity</b>	<b>1,989,692</b>	<b>3,953,819</b>

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

**MANICOUAGAN MINERALS INC.**

(An exploration company)

**Statements of Cash Flows**

(expressed in Canadian dollars)

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
		<b>As restated</b>
		<b>(note 2)</b>
<b>Cash flows from operating activities</b>		
Net loss for the year	(2,057,751)	(3,937,448)
Items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	13,818	6,637
Stock-based compensation costs	93,624	136,879
Loss on sale of assets	3,415	-
Write off of mineral properties	54,527	231,206
Taxes	(11,709)	21,257
	<u>(1,904,076)</u>	<u>(3,541,469)</u>
Net change in non-cash working capital items (note 15)	1,461,636	(136,181)
	<u>(442,440)</u>	<u>(3,677,650)</u>
<b>Cash flows from financing activities</b>		
Issuance of common shares and warrants	-	2,710,000
Share and warrant issue costs	-	(213,628)
	<u>-</u>	<u>2,496,372</u>
<b>Cash flows from investing activities</b>		
Acquisition of mineral properties	(143,269)	(74,979)
Acquisition of property, plant and equipment	-	(46,981)
Disposal of property, plant and equipment	1,000	-
	<u>(142,269)</u>	<u>(121,960)</u>
<b>Net change in cash and cash equivalents</b>	<u>(584,709)</u>	<u>(1,303,238)</u>
<b>Cash and cash equivalents – Beginning of year</b>	<u>1,548,162</u>	<u>2,851,400</u>
<b>Cash and cash equivalents – End of year</b>	<u>963,453</u>	<u>1,548,162</u>
<b>Additional information</b>		
Acquisition of mineral property included in accounts payable and accrued liabilities	4,279	-
Acquisition of a mineral property paid through issuance of common shares	-	38,000
Accounts payable and accrued liabilities paid through issuance of common shares	-	142,299

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

# **MANICOUAGAN MINERALS INC.**

(An exploration company)

## **Notes to Financial Statements**

**December 31, 2009 and 2008**

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(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 and exploration costs 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 significant 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. CHANGE IN ACCOUNTING POLICIES**

#### **Exploration costs**

During the fourth quarter of 2009, the Company retrospectively changed its accounting policy for exploration costs by expensing the costs as incurred as it more accurately reflects the exploration industry. The change was effective on January 1, 2009 and applied retroactively. In the prior years, the Company capitalized all exploration costs relating to these interests and projects 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.

Exploration costs are now charged to earnings as they are incurred until the mineral property reaches the development stage. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to start of mining operations are capitalized.

## MANICOUAGAN MINERALS INC.

(An exploration company)

### Notes to Financial Statements

December 31, 2009 and 2008

(expressed in Canadian dollars)

The impact of this change on the previously reported December 31, 2008 financial statements is as follows:

	As previously reported	Restatement	As restated
	\$	\$	\$
Mineral properties as at December 31, 2008	7,221,544	(6,662,618)	558,926
Future income taxes as at December 31, 2008	(1,166,780)	1,108,235	(58,545)
Share capital as at December 31, 2008	(17,742,618)	(3,551,526)	(21,294,144)
Contributed surplus as at December 31, 2008	(1,852,404)	(44,925)	(1,897,329)
Exploration costs for the year ended December 31, 2008	58,199	2,688,309	2,746,508
Stock-based compensation costs for the year ended December 31, 2008	121,999	14,880	136,879
Write off of mineral properties for the year ended December 31, 2008	1,058,612	(827,406)	231,206
Future income taxes for the year ended December 31, 2008	(437,382)	458,639	21,257
Net loss and comprehensive loss for the year ended December 31, 2008	(1,603,026)	(2,334,422)	(3,937,448)
Basic and diluted net loss par share for the year ended December 31, 2008	(0.01)	(0.02)	(0.03)
Deficit as at December 31, 2008	(11,425,293)	(9,150,834)	(20,576,127)
Deficit as at December 31, 2007	(9,822,267)	(6,816,412)	(16,638,679)

#### Property, plant and equipment amortization

The method of amortization for property, plant and equipment has been changed from declining balance to straight-line basis at the end of 2009. The impact of this change on the current and prior years' results are immaterial.

### 3 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. Significant non-exploration costs related to mineral properties are capitalized until the viability of the mineral properties is determined. Management reviews for impairment the carrying values of mineral properties on a regular basis to determine whether any write downs 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.

## **MANICOUAGAN MINERALS INC.**

(An exploration company)

### **Notes to Financial Statements**

**December 31, 2009 and 2008**

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(expressed in Canadian dollars)

#### **Exploration costs**

Exploration costs are expensed as incurred on the basis of specific claim blocks or areas of geological interest. 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 straight-line basis over 5 years.

Computer equipment is recorded at cost less accumulated amortization. Amortization is recorded on the straight-line basis over 3 years.

#### **Shareholders' equity**

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares on the date, such agreement is signed.

Share issue 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**

The Company maintains a stock option plan, which is described in note 12. The Company records all stock-based compensation using the fair value method. The stock-based compensation costs are charged to operations 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 loss per share**

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted 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 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.

## **MANICOUAGAN MINERALS INC.**

(An exploration company)

### **Notes to Financial Statements**

**December 31, 2009 and 2008**

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(expressed in Canadian dollars)

#### **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**

##### *Credit Risk and Fair Value of Financial Assets and Liabilities*

The Canadian Institute of Chartered Accountants ("CICA") has issued 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.

##### *Financial Instruments - Disclosures*

In June 2009, the CICA issued amendments to CICA Handbook Section 3862 "Financial instruments - Disclosures", which requires enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments.

The Company has included disclosures recommended by the new Handbook section in the note 5 to these financial statements.

##### *Financial Instruments*

In June 2009, the CICA issued amendments to CICA Handbook Section 3855 "Financial instruments" to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category and to clarify the application of the effective interest method after a debt instrument has been impaired. These amendments apply to reclassifications made on/after July 1, 2009.

This new standard has no significant 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.

## **MANICOUAGAN MINERALS INC.**

(An exploration company)

### **Notes to Financial Statements**

**December 31, 2009 and 2008**

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(expressed in Canadian dollars)

The Company has begun assessing the impact of these new accounting standards on its financial statements. The final financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### *Financial Instruments – Recognition and Measurement*

In June 2009, the CICA issued amendments to CICA Handbook Section 3855 “Financial instruments – recognition and measurement” to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. Amendments apply to interim and annual financial statements relating to years beginning on/after January 1, 2011.

## **4 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 year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

## **5 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 December 31, 2009, the Company has a cash and cash equivalents balance of \$963,453 (December 31, 2008 - \$1,548,162) to settle current liabilities of \$234,880 (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.

# MANICOUAGAN MINERALS INC.

(An exploration company)

## Notes to Financial Statements

December 31, 2009 and 2008

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(expressed in Canadian dollars)

### *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 Canadian chartered banks. The Company periodically monitors its investments and is satisfied with the creditworthiness of its financial institutions. As at December 31, 2009, the Company has an interest-bearing account with a Canadian chartered bank.

As at December 31, 2009 and 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 transacted in 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 December 31, 2009, short-term investments consisted of flexible guaranteed investment certificates redeemable before maturity, which bear interest at an annual rate of 0.75% and mature prior to July 22, 2010. During the year 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.

### **Fair value hierarchy**

The Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observability of the inputs used in the measurement. For the years ended December 31, 2009 and 2008, the Company has only the financial instruments in the Level 1. Its financial instrument is the cash and cash equivalents for an amount of \$963,453 (2008 - \$1,548,162).

The definition of the Level 1:

This level includes assets and liabilities measured at the fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

**MANICOUAGAN MINERALS INC.**

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**Notes to Financial Statements****December 31, 2009 and 2008**

(expressed in Canadian dollars)

**6 CASH AND CASH EQUIVALENTS**

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Cash	63,453	38,162
Short-term investments	900,000	1,510,000
Cash and cash equivalents	963,453	1,548,162
Flow-through exploration costs to incur	-	1,243,523
Flow-through exploration costs incurred included in accounts payable and accrued liabilities	141,341	14,270
	141,341	1,257,793

On December 31, 2009, short-term investments consisted of flexible guaranteed investment certificates redeemable before maturity, which bear interest at an annual rate of 0.75% and mature prior to July 22, 2010.

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

**7 AMOUNTS RECEIVABLE**

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Interest receivable	2,996	23,578
Sales tax receivable	41,461	37,038
Refundable tax credit for resources (note 9)	38,315	1,428,734
Credit on duties refundable for losses (note 9)	524,663	499,570
	607,435	1,988,920

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**8 MINERAL PROPERTIES****December 31, 2009**

	<b>Undivided interest</b>	<b>Balance as at December 31, 2008</b>	<b>Additions 2009</b>	<b>Write off 2009</b>	<b>Balance as at December 31, 2009</b>
	<b>%</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
		<b>As restated (note 2)</b>			
<b>Pickle Lake (39 claims)</b>	on option	-	45,000	-	45,000
<b>Pickle Lake (24 claims)</b>	100	-	59,730	-	59,730
		-	104,730	-	104,730
<b>Brabant Lake (21 claims)</b>	100	300,000	-	-	300,000
<b>HPM/Forgues (39 claims)</b>	50	71,100	25,000	-	96,100
<b>HPM/Forgues (250 claims)</b>	100	22,125	3,848	-	25,973
		93,225	28,848	-	122,073
<b>Mouchalagane (208 claims)</b>	100	113,304	11,840	-	125,144
<b>Winter House (141 claims)</b>	100	52,397	2,130	(54,527)	-
		558,926	147,548	(54,527)	651,947

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**December 31, 2008**

	<b>Undivided interest</b>	<b>Balance as at December 31, 2007</b>	<b>Additions 2008</b>	<b>Write off 2008</b>	<b>Balance as at December 31, 2008</b>
	<b>%</b>	<b>\$ As restated (note 2)</b>	<b>\$ As restated (note 2)</b>	<b>\$ As restated (note 2)</b>	<b>\$ As restated (note 2)</b>
<b>Brabant Lake</b> (21 claims)	100	300,000	-	-	300,000
<b>HPM/Forgues</b> (39 claims)	on option	46,100	25,000	-	71,100
<b>HPM/Forgues</b> (250 claims)	100	1,500	20,625	-	22,125
		47,600	45,625	-	93,225
<b>Mouchalagane</b> (493 claims)	100	100,999	12,305	-	113,304
<b>Winter House</b> (141 claims)	100	-	52,397	-	52,397
<b>Seignelay</b> (239 claims)	100	27,485	-	(27,485)	-
<b>Lac Maugue</b> (256 claims)	100	201,069	2,652	(203,721)	-
		677,153	112,979	(231,206)	558,926

**Pickle Lake Properties - Ontario**

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 78 km<sup>2</sup>. 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% Net Smelter Royalty (“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 kilometre 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 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. See note 20 (b).

During 2009, the Company staked 4 additional claims at the Dorothy-Dobie Lake Property at a cost of \$8,535. These claims cover an area of 8 km<sup>2</sup> and are fully owned by the Company.

During 2009, the Company staked 20 claims at a cost of \$51,195 covering an area of 47 km<sup>2</sup>. These claims are known as the "Powerline claims" and the "Pickle Lake Gold General claims" and are fully owned by the Company.

#### **Brabant Lake Property - Saskatchewan**

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 km<sup>2</sup>. The claims are located immediately east of Highway 102, some 175 km from the all-services community of La Ronge, Saskatchewan.

#### **HPM and Forgues Property - Quebec**

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. The warrants expired unexercised on November 6, 2009.

To maintain the option in good standing and earn an initial 50% interest in the property, 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 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.

On November 6, 2008, the Company made the option payment of \$25,000 due on the first anniversary of the option agreement and met the minimum first year work commitment of \$750,000 during 2008.

On November 5, 2009, the Company made the option payment of \$25,000 due on the second anniversary of the option agreement. Upon this payment, the Company earned a 50% interest in the optioned claims.

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### **Notes to Financial Statements**

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The Company now owns the property in a joint venture with Pure Nickel. According to the Letter of Intent dated November 6, 2007, dilution is provided for if 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 km<sup>2</sup> as at December 31, 2009.

#### **Mouchalagane Property – Quebec**

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% 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 km<sup>2</sup> 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 km<sup>2</sup> 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 as at December 31, 2008, the property consisted of 493 claims covering an area of 260 km<sup>2</sup>.

During 2009, 285 claims were allowed to lapse and as at December 31, 2009, the property consisted of 208 claims covering an area of 100 km<sup>2</sup>. The 2% NSR in accordance with the agreement signed on August 19, 2007 is applicable on 86 claims as at December 31, 2009.

#### **Winter House Property – Quebec**

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).

As at December 31, 2009, the Company held 141 claims covering 74 km<sup>2</sup> at Winter House, however the carrying value of the property (\$54,527) was written-off in the third quarter of 2009 as no further work was planned on the property.

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**9 EXPLORATION COSTS**

	Years ended December 31,					2008	
	Pickle Lake	Brabant Lake	HPM/ Forgues	Mouchalagane	Winter House	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Camp costs	99,081	-	14,596	2,161	3,605	119,443	646,249
Transportation	173,769	-	10,081	3,750	12,155	199,755	961,394
Drilling	246,392	-	34,893	-	-	281,285	1,030,879
Geophysics	181,661	-	5,300	675	-	187,636	703,498
Analysis	19,374	827	2,055	1,595	2,032	25,883	96,481
Consultants	257,000	3,050	74,414	62,831	12,487	409,782	592,225
Fuel	49,331	-	1,858	-	2,938	54,127	312,475
Line cutting	15,000	-	-	-	-	15,000	75,175
Tax credits <sup>1</sup>	-	-	(39,574)	(8,521)	(15,313)	(63,408)	(1,730,067)
General exploration costs						19,053	58,199
Exploration costs in 2009						1,248,556	2,746,508
Costs incurred in 2009	1,041,608	3,877	103,623	62,491	17,904		
Costs incurred prior 2009	-	3,071,481	978,610	2,547,951	49,696		
Project costs cumulative	1,041,608	3,075,358	1,082,233	2,610,442	67,600		

**<sup>1</sup>Credit 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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(expressed in Canadian dollars)

**10 PROPERTY, PLANT AND EQUIPMENT**

	<b>As at December 31, 2009</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
	\$	\$	\$
Furniture and fixtures	47,139	17,214	29,925
Computer equipment	5,414	4,548	866
	<u>52,553</u>	<u>21,762</u>	<u>30,791</u>

	<b>As at December 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
	\$	\$	\$
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>

**11 SHARE CAPITAL****Authorized**

Unlimited number of common shares without par value

**Variation of issued and fully paid share capital**

	<b>Years ended December 31,</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Number</b>	<b>Amount \$</b>	<b>Number</b>	<b>Amount \$ As restated (note 2)</b>
Balance - Beginning of year, as previously reported	141,861,723	17,742,618	127,400,227	16,235,703
Adjustment resulting from a change in accounting policy (note 2)	-	3,551,526	-	2,381,770
Balance – Beginning of year, restated	141,861,723	21,294,144	127,400,227	18,617,473
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 a mineral property (note 7)	-	-	200,000	38,000
	<u>141,861,723</u>	<u>21,294,144</u>	<u>141,861,723</u>	<u>21,507,772</u>
Issue costs	-	-	-	(213,628)
Balance - End of year	<u>141,861,723</u>	<u>21,294,144</u>	<u>141,861,723</u>	<u>21,294,144</u>

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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 had 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.

## 12 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, 2009 and 2008:

	2009			2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of year	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	(1,990,000)	(180,771)	0.30	-	-	-
Forfeited	(685,000)	(56,297)	0.24	(820,000)	(48,676)	0.16
Stock-based compensation	-	93,624	-	-	136,879	-
Outstanding - End of year	9,190,000	716,326	0.18	9,775,000	859,770	0.23
Exercisable - End of year	7,748,334	-	0.19	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 December 31, 2009:

<b>Options outstanding</b>			<b>Options exercisable</b>		
<b>Exercise price</b>	<b>Number</b>	<b>Weighted average remaining contractual life</b>	<b>Exercise price</b>	<b>Number</b>	<b>Weighted average remaining contractual life</b>
<b>\$</b>		<b>(years)</b>	<b>\$</b>		<b>(years)</b>
0.100	2,840,000	3.60	0.100	2,190,000	3.34
0.145	100,000	3.04	0.145	100,000	3.04
0.150	530,000	1.84	0.150	530,000	1.84
0.180	1,545,000	2.28	0.180	1,361,667	2.28
0.200	2,415,000	3.22	0.200	1,806,667	3.16
0.300	1,760,000	0.09	0.300	1,760,000	0.09
	<b>9,190,000</b>	<b>2.50</b>		<b>7,748,334</b>	<b>2.27</b>

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

	<b>2009</b>	<b>2008</b>
Risk-free interest rate	2.65%	3.16%
Expected volatility	110%	95%
Dividend yield	Nil	Nil
Weighted average expected life	5 years	5 years
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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**13 WARRANTS**

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

	2009			2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable -						
Beginning of year	6,611,334	300,557	0.24	6,611,334	300,557	0.24
Expired	(6,611,334)	(300,557)	0.24	-	-	-
Issued	6,361,334	6,998	0.23	-	-	-
	6,361,334	6,998	0.23	6,611,334	300,557	0.24
Issue costs	-	-	-	-	-	-
Outstanding and exercisable -						
End of year	6,361,334	6,998	0.23	6,611,334	300,557	0.24

The following table summarizes information about warrants outstanding and exercisable as at December 31, 2009:

Expiry date	Exercise price \$	Number	Weighted average remaining contractual life (years)
September 27, 2010*	0.23	5,528,000	0.74
November 18, 2010*	0.23	833,334	0.88
		6,361,334	0.76

\*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 year ended December 31, 2009 was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	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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**14 BROKER WARRANTS**

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

	2009			2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable -						
Beginning of year	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 year	-	-	-	2,113,758	178,146	0.18

**15 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS**

	Years ended December 31,	
	2009	2008
	\$	\$
		As restated (note 2)
Amounts receivable	1,381,485	(108,181)
Prepaid expenses	8,718	159,413
Accounts payable and accrued liabilities	59,724	(187,413)
Taxes payable	11,709	-
	1,461,636	(136,181)

**16 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,	
	2009	2008
	\$	\$
Exploration costs	-	73,500
Management fees	271,600	297,188
	271,600	370,688
Amounts due to related parties at the end of year	6,300	-

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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**17 INCOME TAXES**

a) 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:

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
		<b>As restated</b>
		<b>(note 2)</b>
Loss before income taxes	(2,057,751)	(3,916,191)
Income taxes at the combined statutory tax rate of the Canadian federal government and the provinces concerned (32.15% in 2009 and 32.51% in 2008)	(661,536)	(1,273,058)
Expiry of loss carry-forward	32,083	10,879
Change in proportion of activities allocated to tax jurisdictions	159,692	(70,990)
Change in valuation allowance	46,544	562,830
Non-taxable tax credits	(8,067)	(97,956)
Non-deductible expenses	373,228	888,586
Change in tax rates	49,257	44,902
Share issue costs not affecting earnings	-	(69,445)
Other	8,799	25,509
Income taxes	-	21,257

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

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
		<b>As restated</b>
		<b>(note 2)</b>
Mineral properties	903,223	824,360
Non-capital losses	1,827,108	1,606,779
Share issue costs	111,532	294,372
Other items	14,001	83,810
Valuation allowance	(2,855,864)	(2,809,321)
Future income tax assets	-	-

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As at December 31, 2009, the Company's non-capital losses amount to \$7,128,906. Full valuation has been recorded as regards to these non-capital losses.

<b>Non-capital losses from</b>	<b>Amount</b>	<b>Expiry date</b>
Year	\$	Year
2004	102,369	2013
2004	165,838	2014
2005	1,073,084	2015
2006	1,328,423	2026
2007	1,527,771	2027
2008	1,641,363	2028
2009	1,290,058	2029

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.

b) As a result of the Ontario tax harmonisation, the Company recorded a tax liability of \$58,545 (\$21,257 in 2008 and \$37,288 in 2007) in order to bring the non capital losses in Ontario at the same level of the Federal. The amount is payable over the next five years. As at December 31, 2009, \$11,709 was payable and \$46,836 will be payable over the following next four years.

## 18 LOSS PER SHARE

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Basic and diluted weighted average number of shares outstanding	141,861,723	134,045,538

For the years ended December 31, 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 \$0.05 and \$0.08 for the years ended December 31, 2009 and 2008 would have been dilutive and would have resulted in the addition of nil shares for the years ended December 31, 2009 and 2008, respectively. Furthermore, warrants exercisable at exercise prices lower than \$0.05 and \$0.08 for the years ended December 31, 2009 and 2008 would have been dilutive and would have resulted in the addition of nil shares for the years ended December 31, 2009 and 2008, to the weighted average number of shares outstanding used in the diluted earnings per share calculation.

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(expressed in Canadian dollars)

## 19 COMMITMENTS

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

<u>Year</u>	<u>\$</u>	
2010	31,274	(12 months)
2011	2,610	(1 month)

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

The Company subleases an office space at \$1,100 / month. This sublease can be cancelled upon issuing a 30 days written notice.

## 20 SUBSEQUENT EVENTS

### a) Private Placement March 2010

In March 2010, the Company completed a private placement (in two tranches) for gross proceeds of \$1,000,000 through the sale of 20,000,000 flow-through units (each the "FT Unit") at \$0.05 each. Each FT Unit consists of one flow-through common share and one non flow-through common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for a period of 24 months at a price of \$0.10 per share for the first 12 months and 0.12\$ per share for the second 12 months. If the common shares of the Company trade at or above \$0.18 per common share for 21 consecutive trading days, then the Company may accelerate the expiration of the warrants upon not less than 30 days written request.

In connection with the private placement, the Company paid a cash finders' fee equal to 3% of the gross proceeds and issued a finder's fee option for units (each the "Option Unit") equal to 8% of the number of FT Units subscribed for, at a price of \$0.05 per Option Unit. Each Option Unit consists of one non flow-through common share and one non flow-through common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for a period of 24 months at a price of \$0.10 per share for the first 12 months and \$0.12 per share for the second 12 months. The finder's fee options have a term of 24 months. All securities issued in the private placement are subject to a four-month hold period from their distribution date.

### b) Issuance of Trillium North warrants

On April 7, 2010, in conjunction with the March 2010 private placement and in accordance with the agreement of April 15, 2009 between the Company and Trillium North, the Company issued 250,000 common share purchase warrants to Trillium North for a period of 24 months at an exercise price of \$0.10 per share for the first 12 months and \$0.12 per share for the second 12 months. The warrants are subject to a four-month hold period.

### c) Private Placement April 2010

On April 7, 2010, the Company announced the closing of a private placement for gross proceeds of \$200,000 through the sale of 4,000,000 units at \$0.05 per unit to a director of the Company. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share of the Company for a period of 24 months from the date of closing of the private placement at a price of \$0.10 per share for the first 12 months and \$0.12 per share for the second 12 months. If the common shares of the Company trade at or above \$0.18 per common share for 21 consecutive trading days, then the Company may accelerate the expiration of the warrants upon not less than 30 days written request.

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In connection with the private placement, the Company agreed to pay a cash commission equal to 3% of the gross proceeds and to issue finder's fee options of 320,000 units equal to 8% of the number of units subscribed for, at the price of \$0.05 per option unit, with each option unit consisting of one common share and one common share purchase warrant. Each such common share purchase warrant will entitle the holder to acquire one common share of the Company for a period of 24 months from the date of closing of the private placement at a price of \$0.10 per share for the first 12 months and \$0.12 per share for the second 12 months. The option units will have a term of 24 months. All securities issued in the private placement are subject to a four-month hold period from their distribution date.