

MANICOUAGAN MINERALS INC.
(An exploration company)
Financial Statements
December 31, 2010 and 2009

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, 2010 and 2009 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 independent external auditors to review the financial statements before they are presented to the Board for approval.

The financial statements for the years ended December 31, 2010 and 2009 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

Joseph J. Baylis, President and CEO

(signed) Erik H. Martin

Erik H. Martin, Chief Financial Officer

Toronto, Canada
April 6, 2011

April 6, 2011

Independent Auditor's Report

To the Shareholders of Manicouagan Minerals Inc.

We have audited the accompanying financial statements of Manicouagan Minerals Inc., which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manicouagan Minerals Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

Pricewaterhouse Coopers LLP¹

¹ Chartered accountant auditor permit No. 11070

MANICOUAGAN MINERALS INC.

(An exploration company)

Balance Sheets

(expressed in Canadian dollars)

	As at December 31,	
	2010	2009
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	1,249,325	963,453
Amounts receivable (note 6)	385,105	607,435
Prepaid expenses	157,978	17,782
	<u>1,792,408</u>	<u>1,588,670</u>
Property, plant and equipment (note 9)	20,786	30,791
Mineral properties (note 7)	588,587	651,947
	<u>2,401,781</u>	<u>2,271,408</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	97,646	223,171
Taxes payable (note 16)	3,098	11,709
	<u>100,744</u>	<u>234,880</u>
Long-term liabilities		
Taxes payable (note 16)	37,450	46,836
	<u>138,194</u>	<u>281,716</u>
SHAREHOLDERS' EQUITY		
Share capital (note 10)	22,460,068	21,294,144
Stock options (note 11)	525,809	716,326
Warrants and broker units (notes 12 & 13)	487,547	6,998
Contributed surplus	2,962,096	2,606,102
Deficit	(24,171,933)	(22,633,878)
	<u>2,263,587</u>	<u>1,989,692</u>
	<u>2,401,781</u>	<u>2,271,408</u>

Going concern (note 1)

Commitments (note 18)

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.

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Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

	Years ended December 31,	
	2010	2009
	\$	\$
Interest income	11,709	27,353
Expenses		
Management fees	348,846	325,643
Professional fees	90,955	88,003
Salaries and employee benefits	68,751	68,143
Stock-based compensation costs	158,479	93,624
Rent, insurance and office expenses	99,464	122,104
Investor relations and promotion	81,094	56,691
Regulatory and transfer agent fees	24,677	22,382
Shareholders' information	28,878	18,431
Amortization of property, plant and equipment	10,005	13,818
Tax on flow-through shares	-	(26,818)
Exploration costs (note 8)	505,783	1,248,556
Write off of mineral property (note 7)	128,144	54,527
	<u>1,545,076</u>	<u>2,085,104</u>
Loss and comprehensive loss before income taxes	(1,533,367)	(2,057,751)
Taxes (note 16)	4,688	-
	<u>(1,538,055)</u>	<u>(2,057,751)</u>
Net loss and comprehensive loss for the year	(1,538,055)	(2,057,751)
Basic and diluted net loss per share (note 17)	(0.01)	(0.01)
Basic and diluted weighted average number of shares outstanding (note 17)	<u>160,551,165</u>	<u>141,861,723</u>

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

MANICOUAGAN MINERALS INC.

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Statements of Changes in Shareholders' Equity

(expressed in Canadian dollars)

	Years ended December 31,	
	2010	2009
	\$	\$
Share capital (note 10)		
Balance – Beginning of year	21,294,144	21,294,144
Issuance of flow-through shares	1,362,435	-
	22,656,579	21,294,144
Issue costs	(196,511)	-
Balance - End of year	<u>22,460,068</u>	<u>21,294,144</u>
Stock options (note 11)		
Balance - Beginning of year	716,326	859,770
Expired	(269,383)	(180,771)
Forfeited	(79,613)	(56,297)
Stock-based compensation costs	158,479	93,624
Balance - End of year	<u>525,809</u>	<u>716,326</u>
Warrants (note 12)		
Balance - Beginning of year	6,998	478,703
Expired	(6,998)	(478,703)
Issued	482,783	6,998
	482,783	6,998
Issue costs	(67,629)	-
Balance - End of year	<u>415,154</u>	<u>6,998</u>
Broker units (note 13)		
Balance - Beginning of year	-	-
Issued	84,558	-
	84,558	-
Issue costs	(12,165)	-
Balance - End of year	<u>72,393</u>	<u>-</u>
Contributed Surplus		
Balance – Beginning of year	2,606,102	1,897,329
Stock options expired (note 11)	269,383	180,771
Stock options forfeited (note 11)	79,613	56,297
Warrants expired (note 12)	6,998	478,703
Extension of the expiry dates of warrants (note 12)	-	(6,998)
Balance - End of year	<u>2,962,096</u>	<u>2,606,102</u>
Deficit		
Balance – Beginning of year	(22,633,878)	(20,576,127)
Net loss for the year	(1,538,055)	(2,057,751)
Balance - End of year	<u>(24,171,933)</u>	<u>(22,633,878)</u>
Total shareholders' equity	<u>2,263,587</u>	<u>1,989,692</u>

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

MANICOUAGAN MINERALS INC.

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Statements of Cash Flows

(expressed in Canadian dollars)

	Years ended December 31,	
	2010	2009
	\$	\$
Cash flows from operating activities		
Net loss for the year	(1,538,055)	(2,057,751)
Items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	10,005	13,818
Stock-based compensation costs	158,479	93,624
Loss on sale of assets	-	3,415
Exploration costs paid through issuance of warrants	6,400	-
Write off of mineral property	128,144	54,527
Taxes	-	(11,709)
	<u>(1,235,027)</u>	<u>(1,904,076)</u>
Net change in non-cash working capital items (note 14)	(81,126)	1,461,636
	<u>(1,316,153)</u>	<u>(442,440)</u>
Cash flows from financing activities		
Issuance of common shares and warrants	1,832,318	-
Share and warrant issue costs	(167,730)	-
	<u>1,664,588</u>	<u>-</u>
Cash flows from investing activities		
Acquisition of mineral properties	(62,563)	(143,269)
Disposal of property, plant and equipment	-	1,000
	<u>(62,563)</u>	<u>(142,269)</u>
Net change in cash and cash equivalents	285,872	(584,709)
Cash and cash equivalents – Beginning of period	963,453	1,548,162
Cash and cash equivalents – End of period	<u>1,249,325</u>	<u>963,453</u>
Additional information		
Acquisition of a mineral property included in accounts payable and accrued liabilities	-	4,279
Fair value of broker units accounted for as share issue costs	84,558	-
Acquisition of mineral properties paid through issuance of warrants	6,500	-
Issue costs included in accounts payable and accrued liabilities	24,017	-

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

MANICOUAGAN MINERALS INC.

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Notes to Financial Statements

December 31, 2010 and 2009

(expressed in Canadian dollars)

1 INCORPORATION, NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

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 administrative costs. As at December 31, 2010, the Company’s cash and cash equivalents amount to \$1,249,325 and is committed to incur an amount of \$1,236,360 in qualifying flow-through exploration expenditures by December 31, 2011.

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

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

2 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.

Financial instruments

Accounting standards require that financial assets and financial liabilities, including derivative financial instruments, be initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held-for-trading, available-for-sale, loans and receivables or other financial liabilities.

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- *Held-for-trading*
Financial assets and financial liabilities required to be classified or designated as held-for-trading are measured at fair value, with gains, losses and transaction costs recorded in net loss for the period in which they arise. Section 3855 allows an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the accounting standard if reliable fair values are available, even if that instrument would not otherwise satisfy the definition of a security held-for-trading.
- *Available-for-sale*
Financial assets classified as available-for-sale are measured at fair value. Unrealized gains and losses are recognized directly in other comprehensive loss, except for impairment losses, which are recognized in net earnings. Upon derecognition of the financial asset, the accumulated gains or losses previously recognized in accumulated other comprehensive loss are reclassified to net loss. Transaction costs are added to the carrying amount of the financial instrument.
- *Loans and receivables*
Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method, which corresponds to cost due to their short-term maturity.
- *Other financial liabilities*
Financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method, which corresponds to cost due to their short-term maturity for accounts payable and accrued liabilities.

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.

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.

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Property, plant and equipment amortization

Furniture and fixtures are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over 5 years.

Computer equipment is recorded at cost less accumulated amortization. Amortization is recorded on a 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 11. 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.

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 year. Actual results could differ from those estimates.

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Future accounting standards

International Financial Reporting Standards (“IFRS”)

The Company will cease to prepare its financial statements in accordance with Canadian generally accepted accounting principles as set out in Part V of the CICA Handbook - Accounting (“Canadian GAAP”) for the periods beginning on January 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board as set out in Part I of the CICA Handbook – Accounting as its primary basis of accounting. Consequently, future accounting changes to Canadian GAAP are not discussed in these financial statements as they will never be applied by the Company.

The Company has reviewed the impact of these new accounting standards on its financial statements and, at this time, has concluded that there is no material impact other than the anticipated financial reporting disclosure and any other future changes in IFRS.

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.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

4 RISK FACTORS – FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of loss associated with counterparties' inability to fulfill their 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 resulting from the 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, 2010, the Company has a cash and cash equivalents balance of \$1,249,325 (December 31, 2009 - \$963,453) to settle current liabilities of \$100,744 (December 31, 2009 - \$234,880). 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.

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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, 2010, the Company has interest-bearing accounts with Canadian chartered banks.

As at December 31, 2010 and 2009, the Company's exposure to interest rate risk is summarized as follows:

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) During the year ended December 31, 2010, cash was subject to floating interest rates at the Canadian prime rate minus 1.90% 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, 2010 and 2009, the Company only has financial instruments in Level 1. These financial instruments are the cash and cash equivalents for an amount of \$1,249,325 (December 31, 2009 - \$963,453).

Definition of 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.

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Notes to Financial Statements**December 31, 2010 and 2009**

(expressed in Canadian dollars)

5 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2010	2009
	\$	\$
Cash	1,249,325	63,453
Short-term investments	-	900,000
Cash and cash equivalents	<u>1,249,325</u>	<u>963,453</u>
Flow-through exploration costs to incur (note 18)	1,236,360	-
Flow-through exploration costs incurred included in accounts payable and accrued liabilities	400	141,341
	<u>1,236,760</u>	<u>141,341</u>

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

6 AMOUNTS RECEIVABLE

	As at December 31,	
	2010	2009
	\$	\$
Interest receivable	-	2,996
Sales tax receivable	34,973	41,461
Refundable tax credit for resources (note 8)	-	38,315
Credit on duties refundable for losses (note 8)	350,132	524,663
	<u>385,105</u>	<u>607,435</u>

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(expressed in Canadian dollars)

7 MINERAL PROPERTIES

December 31, 2010	Undivided	Balance as at	Additions	Write-offs	Balance as at
	interest	December 31,	2010	2010	December 31,
	%	\$	\$	\$	\$
Pickle Lake (39 claims)	51	45,000	51,500	-	96,500
Pickle Lake (25 claims)	100	59,730	1,425	-	61,155
		104,730	52,925	-	157,655
Brabant Lake (25 claims)	100	300,000	8,859	-	308,859
HPM/Forgues (39 claims)	50	96,100	-	-	96,100
HPM/Forgues (84 claims)	100	25,973	-	-	25,973
		122,073	-	-	122,073
Mouchalagane (160 claims)	100	125,144	3,000	(128,144)	-
		651,947	64,784	(128,144)	588,587

(See note 8 for exploration costs)

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

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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 could earn up to a 70% interest in three gold exploration properties in the Pickle Lake Area, Ontario. On April 15, 2010, the Company earned an initial 51% interest in the Pickle Lake Properties by spending \$1,000,000 on the properties and, at the same time, advised Trillium North that it has elected to incur the next \$1,500,000 in exploration expenditures on the properties to increase its interest to 70%. Once the Company has completed earning its 70% 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. The Kasagiminnis and portions of the Dorothy-Dobie Lake properties were subject to underlying option agreements with a single vendor. To maintain both the underlying option agreements and the agreement with Trillium North, the Company paid \$90,000 to the vendor (\$45,000 on April 15, 2009 and \$45,000 on April 9, 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 Pickle Lake Properties consist of three non-contiguous claim groups known as the Pickle Lake East Property (21 claims), the Kasagiminnis Property (3 claims) and the Dorothy-Dobie Lake Property (15 claims). Collectively, the properties cover an area of approximately 78 km². The properties are located in the Pickle Lake Greenstone Belt.

During 2009, the Company staked 4 additional claims at the Dorothy-Dobie Lake Property at a cost of \$8,535 covering an area of 8 km² within the area of interest pursuant to the agreement with Trillium North. Also during 2009, the Company staked 20 claims at a cost of \$51,195 covering an area of 47 km². These claims are known as the “Powerline claims” and the “Pickle Lake Gold General claims” and are fully owned by the Company.

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 were valued at \$6,500 and included in the cost of mineral properties.

Brabant Lake Property - Saskatchewan

On June 28, 2006, the Company acquired a 100% interest in the property (one mining lease of 21 claims) in return for a one-time payment of \$300,000 to Longyear Canada, ULC. The property is not subject to any royalties.

In January 2010, the Company acquired by staking 4 additional mining claims at a cost of \$8,859 to the north and south of the Mining Lease that hosts the Brabant Lake Zinc deposit. The land position now covers approximately 15 km of the favourable horizon which hosts the Brabant Lake Deposit. Approximately 24 km² were staked bringing the total land package now held by the Company in the Brabant Lake Area to one mining lease and 4 claims covering 28 km². The Company holds a 100% interest in the Brabant Lake mining lease (21 claims) and the newly acquired claims. The 25 claims are located immediately east of Highway 102, some 175 km from the all-services community of La Ronge, Saskatchewan.

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HPM and Forgues Property - Quebec

On November 6, 2007, the Company entered into an option agreement with Pure Nickel Inc. ("Pure Nickel") to earn up to a 70% interest in 39 mining claims located some 250 km northeast of Baie-Comeau, Quebec.

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 unexercised warrants expired on November 6, 2009.

To maintain the option in good standing and earn an initial 50% interest in the property, the Company made further cash payments to Pure Nickel of \$25,000 on November 6, 2008 and \$25,000 on November 5, 2009 and met the minimum first year work commitment of \$750,000 during 2008. The Company did not elect to increase its interest to 70% as it was required to incur an additional \$1,500,000 on the property by November 2010.

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 (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.

In 2007 and 2008, the Company acquired a 100% interest in 250 claims (114 included in the area of interest) and in 2010, 166 claims (57 included in the area of interest) were allowed to lapse. As at December 31, 2010, the property consisted of 123 claims covering an area of 53 km².

Mouchalagane Property – Quebec

On April 18, 2006, the Company acquired a 100% interest (58 claims) 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.

Between 2006 and 2008, the Company acquired a 100% interest in 435 additional claims and in 2009 and 2010, 333 claims were allowed to lapse. As at December 31, 2010, the property consisted of 160 claims covering an area of 85 km². The 2% NSR is applicable on 121 claims as at December 31, 2010. However, the Company wrote-off the \$128,144 carrying value of the property in September 2010 as no further work was planned on the property.

Others properties - Quebec

As at December 31, 2010, the Company held a 100% interest in the claims forming the Manicouagan (1,004) and Winter House (18) properties.

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8 EXPLORATION COSTS

	Years ended December 31,				2010	2009
	Pickle Lake	Brabant Lake	HPM/ Forgues	Mouchalagane	Total	Total
	\$	\$	\$	\$	\$	\$
Camp costs	13,844	-	5,538	7,259	26,641	119,443
Transportation	36,544	-	-	47,370	83,914	199,755
Drilling	177,179	-	-	-	177,179	281,285
Geophysics	3,000	-	-	-	3,000	187,636
Analysis	7,084	-	-	-	7,084	25,883
Consultants	86,638	2,375	393	15,113	104,519	409,782
Fuel	4,014	-	-	13,872	17,886	54,127
Line cutting	14,465	-	-	-	14,465	15,000
Tax credits ¹	-	-	-	-	-	(63,408)
General exploration costs	-	-	-	-	71,095	19,053
Total					505,783	1,248,556
by project	342,768	2,375	5,931	83,614		

Active Projects – Cumulative Table of Exploration Costs

	Pickle Lake	Brabant Lake	HPM/ Forgues
	\$	\$	\$
Balance as at December 31, 2009	1,041,608	3,075,358	1,082,233
Incurred during the year	342,768	2,375	5,931
Cumulative Exploration Costs as at December 31, 2010	1,384,376	3,077,733	1,088,164

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. Following the 2010 Quebec budget, the rate became 14% after March 30, 2010, 15% in 2011 and 16% in 2012 but will apply only on 50% of mineral exploration expenses.

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% (south of 52nd parallel) or 38.75% (north of 52nd parallel) of qualified expenditures incurred. This tax credit has been applied against the costs incurred.

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9 PROPERTY, PLANT AND EQUIPMENT**As at December 31, 2010**

	Cost	Accumulated Amortization	Net Carrying Amount
	\$	\$	\$
Furniture and fixtures	47,139	26,642	20,497
Computer equipment	5,414	5,125	289
	<u>52,553</u>	<u>31,767</u>	<u>20,786</u>

As at December 31, 2009

	Cost	Accumulated Amortization	Net Carrying Amount
	\$	\$	\$
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>

10 SHARE CAPITAL**Authorized**

Unlimited number of common shares without par value

Variation of issued and fully paid share capital

	Years ended December 31,			
	2010		2009	
	Number	Amount \$	Number	Amount \$
Balance – Beginning of year	141,861,723	21,294,144	141,861,723	21,294,144
Issuance of flow-through shares*	36,646,350	1,362,435	-	-
	<u>178,508,073</u>	<u>22,656,579</u>	<u>141,861,723</u>	<u>21,294,144</u>
Issue costs	-	(196,511)	-	-
Balance - End of year	<u>178,508,073</u>	<u>22,460,068</u>	<u>141,861,723</u>	<u>21,294,144</u>

*Issuance of common shares is presented net of the fair value of the related warrants totalling \$469,883 in 2010, which has been determined using the Black-Scholes model (note 12).

Issuance of shares and warrants - private placements 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 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.

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In connection with the March 2010 private placement, the Company paid a cash finder's fee equal to 3% of the gross proceeds and issued a finder's fee option of 1,600,000 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 common share and one 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.

On April 7, 2010, the Company completed 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.

In connection with the April 2010 private placement, the Company paid a cash commission to a broker equal to 3% of the gross proceeds and issued 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.

In December 2010, the Company completed two private placements for gross proceeds of \$632,318 through the sale of 12,646,350 flow-through units (each the "FT Unit") at \$0.05 each. Each FT Unit consists of one flow-through common share and one 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 December 2010 private placements, the Company paid a cash finder's fee equal to 3% of the gross proceeds and issued a finder's fee option of 931,708 units (each the "Option Unit") equal to 8% of the 11,646,350 FT Units subscribed for, at a price of \$0.05 per Option Unit. Each Option Unit consists of one common share and one 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.

11 STOCK OPTIONS

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.

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The following table summarizes information about stock options outstanding and exercisable recorded under Shareholders' Equity during the years ended December 31, 2010 and 2009:

	2010			2009		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of year	9,190,000	716,326	0.18	9,775,000	859,770	0.23
Granted	3,740,000	-	0.10	2,090,000	-	0.10
Expired	(1,960,000)	(269,383)	0.29	(1,990,000)	(180,771)	0.30
Forfeited	(1,235,000)	(79,613)	0.15	(685,000)	(56,297)	0.24
Stock-based compensation	-	158,479	-	-	93,624	-
Outstanding - End of year	9,735,000	525,809	0.13	9,190,000	716,326	0.18
Exercisable - End of year	7,545,000	-	0.14	7,748,334	-	0.19

On April 13, 2010, directors, officers, employees and consultants of the Company were granted 3,450,000 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: 1,910,000 vest immediately, 250,000 vest over a one-year period and 1,290,000 vest equally over a three-year period from the date of grant. These options were valued at \$151,962 and will be amortized using the accelerated method over their vesting period.

On May 27, 2010, a director of the Company was granted 290,000 stock options at an exercise price of \$0.10 per share for a period of five years, vesting immediately. These options were valued at \$13,201 and included in the expenses for the year ended December 31, 2010.

The following tables summarize information about stock options outstanding and exercisable as at December 31, 2010:

Options outstanding			Options exercisable		
Exercise price \$	Number	Weighted average remaining contractual life (years)	Exercise price \$	Number	Weighted average remaining contractual life (years)
0.10	6,035,000	3.53	0.10	4,061,667	3.25
0.145	100,000	2.04	0.145	100,000	2.04
0.15	445,000	0.84	0.15	445,000	0.84
0.18	1,345,000	1.28	0.18	1,345,000	1.28
0.20	1,810,000	2.48	0.20	1,593,333	2.45
	9,735,000	2.89		7,545,000	2.57

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The fair value of options granted during the years ended December 31, 2010 and 2009 was estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	2010	2009
Risk-free interest rate	3.07%	2.65%
Expected volatility	109%	110%
Dividend yield	Nil	Nil
Weighted average expected life	5 years	5 years
Weighted average fair value on the date of grant	\$0.04	\$0.03

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.

12 WARRANTS

The following table summarizes the variation of warrants recorded under Shareholders' Equity during the years ended December 31, 2010 and 2009:

	2010			2009		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable -						
Beginning of year	6,361,334	6,998	0.23	8,725,092	478,703	0.22
Expired	(6,361,334)	(6,998)	0.23	(8,725,092)	(478,703)	0.22
Issued	37,146,350	482,783	0.10	6,361,334	6,998	0.23
	37,146,350	482,783	0.10	6,361,334	6,998	0.23
Issue costs	-	(67,629)	-	-	-	-
Outstanding - End of year	37,146,350	415,154	0.10	6,361,334	6,998	0.23
Exercisable - End of year	24,250,000	-	0.10	6,361,334	-	0.23

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The following tables summarize information about warrants outstanding and exercisable as at December 31, 2010:

Expiry date	Exercise price	Number	Weighted average remaining contractual life (years)
	\$		
March 24, 2012	0.10	11,000,000	1.23
March 31, 2012	0.10	9,000,000	1.25
April 7, 2012	0.10	4,250,000	1.27
December 14, 2012	0.10	10,000,000	1.96
December 30, 2012	0.10	2,646,350	2.00
December 16, 2015	0.15	250,000	4.96
Warrants outstanding		37,146,350	1.52

Expiry date	Exercise price	Number	Weighted average remaining contractual life (years)
	\$		
March 24, 2012	0.10	11,000,000	1.23
March 31, 2012	0.10	9,000,000	1.25
April 7, 2012	0.10	4,250,000	1.27
Warrants exercisable		24,250,000	1.24

The fair value of warrants issued during the years ended December 31, 2010 and 2009 was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	2010	2009
Risk-free interest rate	1.66%	1.06%
Expected volatility	116%	90%
Dividend yield	Nil	Nil
Weighted average expected life	24 months	18 months
Weighted average fair value on the date of grant	\$0.0130	\$0.0011

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13 BROKER UNITS

The following table summarizes the variation of broker units recorded under Shareholders' Equity during the years ended December 31, 2010 and 2009:

	2010			2009		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable - Beginning of year	-	-	-	-	-	-
Issued	2,851,708	84,558	0.05	-	-	-
Issue costs	-	(12,165)	-	-	-	-
Outstanding - End of year	2,851,708	72,393	0.05	-	-	-
Exercisable - End of year	1,920,000	-	0.05	-	-	-

The following tables summarize information about broker units outstanding and exercisable as at December 31, 2010:

Expiry date	Exercise price	Number	Weighted average remaining contractual life (years)
	\$		
March 24, 2012	0.05	880,000	1.23
March 31, 2012	0.05	720,000	1.25
April 7, 2012	0.05	320,000	1.27
December 14, 2012	0.05	720,000	1.96
December 30, 2012	0.05	211,708	2.00
Broker units outstanding		2,851,708	1.48

Expiry date	Exercise price	Number	Weighted average remaining contractual life (years)
	\$		
March 24, 2012	0.05	880,000	1.23
March 31, 2012	0.05	720,000	1.25
April 7, 2012	0.05	320,000	1.27
Broker units exercisable		1,920,000	1.24

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The fair value of broker units issued during the year ended December 31, 2010 was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	2010
Risk-free interest rate	1.65%
Expected volatility	116%
Dividend yield	Nil
Weighted average expected life	24 months
Weighted average fair value on the date of issue	\$0.0297

14 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Years ended December 31,	
	2010	2009
	\$	\$
Amounts receivable	222,330	1,381,485
Prepaid expenses	(140,196)	8,718
Accounts payable and accrued liabilities	(145,263)	59,724
Taxes payable	(17,997)	11,709
	<u>(81,126)</u>	<u>1,461,636</u>

15 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,	
	2010	2009
	\$	\$
Management fees	288,550	271,600
Professional fees	7,000	-
Exploration costs	6,240	-
	<u>301,790</u>	<u>271,600</u>
Amounts due to related parties at the end of the year	<u>7,901</u>	<u>6,300</u>

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.

On April 7, 2010, the Company completed 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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16 INCOME TAXES

Ontario tax harmonization

As a result of the Ontario tax harmonization, the Company recorded a tax liability of \$63,233 (\$4,688 in 2010, \$21,257 in 2008 and \$37,288 in 2007) in order to bring the non capital losses in Ontario at the same level as the Federal. The amount is payable over the next five years. As at December 31, 2010, \$40,548 is estimated to be payable over the next 3 years.

Reconciliation of the income tax recovery

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

	Years ended December 31,	
	2010	2009
	\$	\$
Loss before income taxes	(1,533,367)	(2,057,751)
Income taxes at the combined statutory tax rate of the Canadian federal government and the provinces concerned (30.81% in 2010 and 32.15% in 2009)	(472,430)	(661,536)
Expiry of loss carry-forward	-	32,083
Change in proportion of activities allocated to tax jurisdictions	405,253	159,692
Change in valuation allowance	(102,914)	46,544
Non-taxable tax credits	-	(8,067)
Non-deductible expenses	170,025	373,228
Change in tax rates	65,066	49,257
Share issue costs not affecting earnings	(59,076)	-
Other	(1,236)	8,799
Income taxes	4,688	-

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

	2010	2009
	\$	\$
Mineral properties	594,865	903,223
Non-capital losses	2,047,680	1,827,108
Share issue costs	94,048	111,532
Other items	16,359	14,001
Valuation allowance	(2,752,952)	(2,855,864)
Future income tax assets	-	-

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As at December 31, 2010, the Company's non-capital losses amount to \$8,101,498. Full valuation allowance has been recorded as regards to these non-capital losses.

Non-capital losses from	Amount	Expiry date
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
2010	972,592	2030

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.

17 LOSS PER SHARE

For the years ended December 31, 2010 and 2009, the diluted net loss per share was the same as the basic net loss per share since the dilutive effect of stock options, warrants and broker units was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted net loss per share for those years was calculated using the basic weighted average number of shares outstanding.

	Years ended December 31,	
	2010	2009
Basic and diluted weighted average number of shares outstanding	160,551,165	141,861,723

Stock options, warrants and broker units are excluded from the calculation of the diluted weighted average number of shares outstanding when their exercise price is greater than the average market price of common shares. The number of excluded stock options, warrants and broker units is presented below:

	Years ended December 31,	
	2010	2009
Stock options	9,735,000	9,190,000
Warrants	37,146,350	6,361,334
Broker units	2,851,708	-

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18 COMMITMENTS**Lease**

The Company has one office lease expiring on January 31, 2011. This lease has been renegotiated and the Company's commitment will be \$1,320 per month beginning on February 1, 2011 for one year.

The minimum combined annual payments under this lease are as follows:

Year	\$	
2011	17,048	(12 months)
2012	1,320	(1 month)

Lease is renewable with a six-month notice prior to its expiry date.

Flow-through exploration

At as December 31, 2010, the Company had an obligation to incur \$1,236,360 in qualifying flow-through exploration expenditures by December 31, 2011.