FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012 AND 2011

(In Canadian Dollars)

Strateco Resources Inc.
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the financial statements of Strateco Resources Inc. and the financial information contained in this report. The financial statements are prepared by Management in accordance with International Financial Reporting Standards and necessarily include amounts based on best estimates and judgments of Management.

Management maintains a system of internal control to provide reasonable assurance that assets are safeguarded from any loss or unauthorized use, and that financial information is reliable and available in a timely manner.

Primarily through its Audit Committee, the Board of Directors oversees management's responsibility with regard to presentation of the information, review and approval of the financial statements.

The Audit Committee is appointed by the Board of Directors. All its members are independent directors. The Audit Committee meets from time to time with Management as well as the external auditors to discuss matters related to internal controls, audit results, accounting principles and related subjects.

PricewaterhouseCoopers, LLP/s.r.l./s.e.n.c.r.l., an independent firm of chartered professional accountants, was appointed to audit the Company's financial statements and issue an opinion on them.

On the recommendation of the Audit Committee, the Board of Directors has approved the Company's financial statements for the years ended December 31, 2012 and 2011.

(Signed) Guy Hébert

Guy Hébert
President and Chief Executive Officer

(Signed) Yvon Robert

Yvon Robert
Vice President Finance

Boucherville, Canada
March 21, 2013

March 21, 2013

Independent Auditor's Report

To the Shareholders of Strateco Resources Inc.

We have audited the accompanying financial statements of Strateco Resources Inc., which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 audits 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 Strateco Resources Inc. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

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 substantial doubt about Strateco Resources Inc's ability to continue as a going concern.

PricewaterhouseCoopers LLP[1]

1 CPA Auditor, CA, public accountancy permit No. A122718

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STRATECO RESOURCES INC.
Statements of Financial Position

(in Canadian dollars)

	As at December 31, 2012	As at December 31, 2011
	$	$
ASSETS		
Current assets		
Cash (Note 1)	429,254	3,858,141
Tax credits receivable (Note 5)	3,606,099	5,000,736
Sales tax receivable	373,461	384,138
Prepaid expenses and other receivables	369,560	414,047
	4,778,374	9,657,062
Non-current assets		
Non-current portion of tax credits receivable (Note 5)	2,961,889	2,784,993
Available-for-sale investment (Note 6)	20,000	40,000
Mining properties (Note 7)	3,351,929	2,307,660
Deferred exploration and evaluation expenditures (Note 7)	75,718,754	63,035,147
Property and equipment (Note 8)	8,637,820	8,672,800
Total assets	95,468,766	86,497,662
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges	2,118,296	1,192,923
Loans payable (Note 9)	268,730	2,880,007
Current portion of obligations under finance leases (Note 10)	15,448	14,129
	2,402,474	4,087,059
Non-current liabilities		
Obligations under finance leases (Note 10)	15,426	30,874
Convertible notes (Note 9)	8,958,647	7,073,607
Deferred income tax liabilities (Note 15)	10,746,310	8,652,187
Asset retirement obligations (Note 11)	2,269,620	1,994,709
Total liabilities	24,392,477	21,838,436
EQUITY		
Share capital (Note 12)	82,551,146	72,285,878
Equity component of convertible notes (Note 9)	4,933,323	4,933,323
Warrants (Note 12)	2,575,671	3,442,107
Contributed surplus	11,229,519	9,766,175
Accumulated other comprehensive loss	(30,000)	(10,000)
Deficit	(30,183,370)	(25,758,257)
Total equity	71,076,289	64,659,226
Total liability and equity	95,468,766	86,497,662

Going concern (Note 1)
Commitments (Note 20)
Subsequent events at the closing date (Note 21)
The accompanying notes are an integral part of these financial statements.

STRATECO RESOURCES INC.

Statements of Income

For the years ended December 31, 2012 and 2011

(in Canadian dollars)

	2012	2011
	$	$
EXPENSES		
Salaries and benefits	194,391	-
Consulting and professional fees	1,136,519	1,634,477
Stock-based compensation	225,273	241,727
Communication and promotion expenses	551,385	711,425
Office expenses	158,636	217,474
Depreciation of property and equipment	31,091	42,921
Impairment of mining properties, deferred exploration and evaluation expenditures and property and equipment	-	3,967,706
Operating loss	(2,297,295)	(6,815,730)
Finance income	(68,339)	(92,799)
Finance costs		
Accretion expense on convertible notes	1,885,040	1,484,894
Accretion expense on asset retirement obligations	91,059	88,602
Accretion expense on loans payable	119,993	226,738
Interest and bank charges	149,996	314,265
Interest on obligations under finance leases	3,463	17,751
Other gains and losses		
Other than temporary impairment on available-for-sale investment	-	250,000
Loss before income tax	(4,478,507)	(9,105,181)
Current income tax expense (recovery)	(176,896)	25,927
Deferred income tax expense	123,502	1,189,505
Income tax expense (recovery)	(53,394)	1,215,432
NET LOSS	(4,425,113)	(10,320,613)
NET LOSS PER SHARE, BASIC AND DILUTED	(0.03)	(0.07)
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)	163,580	142,596

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

STRATECO RESOURCES INC.

Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

(in Canadian dollars)

	2012	2011
	$	$
Net loss	(4,425,113)	(10,320,613)
Other comprehensive income (loss)		
Changes in fair value of available-for-sale investment	(20,000)	(95,000)
Reclassification of other than temporary impairment on available-for-sale investment to statement of income	-	250,000
Other comprehensive income (loss)	(20,000)	155,000
COMPREHENSIVE INCOME (LOSS)	(4,445,113)	(10,165,613)

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

STRATECO RESOURCES INC.
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

(in Canadian dollars)

	2012	2011
	$	$
Cash flow provided by (used in)		
OPERATING ACTIVITIES		
Net loss	(4,425,113)	(10,320,613)
Non-cash items:		
Stock-based compensation	225,273	241,727
Accretion expenses	2,096,092	1,800,234
Depreciation of property and equipment	31,091	42,921
Impairment of mining properties, deferred exploration and evaluation expenditures and property and equipment	-	3,967,706
Other than temporary impairment on available-for-sale investment	-	250,000
Deferred income tax expense	123,502	1,189,505
	(1,949,155)	(2,828,520)
Changes in non-cash working capital items		
Tax credits receivable	(176,896)	752,559
Sales tax receivable	10,677	407,469
Prepaid expenses and other receivables	44,487	(43,286)
Accounts payable and accrued charges	60,484	165,250
	(61,248)	1,281,992
Cash flow from operating activities	(2,010,403)	(1,546,528)
INVESTING ACTIVITIES		
Tax credit received	5,645,263	6,722,670
Acquisition of mining properties	(1,044,269)	(193,080)
Increase in deferred exploration and evaluation expenditures	(13,663,807)	(16,728,362)
Additions to property and equipment	(2,138,545)	(1,175,015)
Cash flow from investing activities	(11,201,358)	(11,373,787)
FINANCING ACTIVITIES		
Share capital and warrants issuance	12,999,988	3,500,100
Issue costs	(702,985)	(510,329)
Exercise of stock options	-	70,000
Loans payable, net of financing costs (Note 9)	500,000	2,936,000
Payments on obligations under finance leases	(14,129)	(275,244)
Repayment of a loan payable (Note 9)	(3,000,000)	(4,000,000)
Cash flow from financing activities	9,782,874	1,720,527
NET CHANGE IN CASH	(3,428,887)	(11,199,788)
Cash, beginning of period	3,858,141	15,057,929
CASH, END OF PERIOD	429,254	3,858,141

Cash transactions		
Interest received	68,339	92,799
Interest paid	148,663	342,977

Supplemental cash flow information (Note 19)
The accompanying notes are an integral part of these financial statements.

STRATECO RESOURCES INC.

Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

(in Canadian dollars)

	Number of common shares outstanding	Share Capital	Equity component of convertible notes	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
		$	$	$	$	$	$	$
Balance at January 1, 2011	**139,848,206**	**69,827,133**	**4,933,323**	**3,383,533**	**9,419,946**	**(165,000)**	**(15,235,644)**	**72,163,291**
Net loss	-	-	-	-	-	-	(10,320,613)	(10,320,613)
Other comprehensive income (loss)	-	-	-	-	-	155,000	-	155,000
Comprehensive income (loss)	-	-	-	-	-	155,000	(10,320,613)	(10,165,613)
In consideration of mining properties (Note 7)	70,000	27,720	-	-	-	-	-	27,720
Private placements (Note 12)	4,904,904	2,354,354	-	-	-	-	-	2,354,354
Issue costs, net of income taxes of $66,151 (Note 12)	-	(179,764)	-	-	-	-	-	(179,764)
Exercise of stock options	175,000	105,000	-	-	(35,000)	-	-	70,000
Deferred income tax	-	151,435	-	-	-	-	(202,000)	(50,565)
In consideration of issue costs of loans payable (Note 9)		-	-	58,574	-	-	-	58,574
Stock-based compensation (Note 13)	-	-	-	-	381,229	-	-	381,229
Balance at December 31, 2011	**144,928,110**	**72,285,878**	**4,933,323**	**3,442,107**	**9,766,175**	**(10,000)**	**(25,758,257)**	**64,659,226**
Balance at January 1, 2012	**144,998,110**	**72,285,878**	**4,933,323**	**3,442,107**	**9,766,175**	**(10,000)**	**(25,758,257)**	**64,659,226**
Net loss	-	-	-	-	-	-	(4,425,113)	(4,425,113)
Other comprehensive income (loss)	-	-	-	-	-	(20,000)	-	(20,000)
Comprehensive income (loss)	-	-	-	-	-	(20,000)	(4,425,113)	(4,445,113)
Private placements (Note 12)	22,025,620	11,012,810	-	-	-	-	-	11,012,810
Warrants issued in connection with private placements (Note 12)	-	(340,322)	-	340,322	-	-	-	-
Issue costs, net of income taxes of $189,103 (Note 12)	-	(510,391)	-	(3,491)	-	-	-	(513,882)
In consideration of issue costs, net of income taxes of $24,210 (Note 12)	180,000	14,000	-	10,210	-	-	-	24,210
Deferred income tax	-	(10,829)	-	-	-	-	-	(10,829)
In consideration of issue costs of loans payable (Note 9)	549,451	100,000	-	92,706	-	-	-	192,706
Stock-based compensation (Note 13)	-	-	-	-	343,088	-	-	343,088
Expiry of warrants, net of income taxes of $185,927 (Note 12)	-	-	-	(1,306,183)	1,120,256	-	-	(185,927)
Balance at December 31, 2012	**167,753,181**	**82,551,146**	**4,933,323**	**2,575,671**	**11,229,519**	**(30,000)**	**(30,183,370)**	**71,076,289**

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

(in Canadian dollars)

1. INCORPORATION, NATURE OF OPERATIONS AND GOING CONCERN

Strateco Resources Inc. ("the Company") is incorporated under the *Canada Business Corporations Act* and is engaged in the acquisition, the exploration and evaluation and the development of mining properties. The address of its registered office and principal place of business is 1225 Gay-Lussac Street, Boucherville, Québec, J4B 7K1, Canada. The Company's shares are listed on the Toronto Stock Exchange TSX.

The Company has not yet determined whether the mining properties and the deferred exploration and evaluation ("E&E") expenditures have economically recoverable ore reserves. Recovery of amounts indicated under mining properties, the deferred E&E expenditures and the property and equipment are subject to the discovery of economically recoverable reserves, the Company's ability to obtain the financing required to complete exploration, evaluation, development, construction and profitable future production on its assets or the proceeds from the sale of such assets.

The accompanying financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, Management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment of material uncertainties related to events and conditions that lend a significant doubt upon the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of IFRS applicable to a going concern, as described in the following paragraph. These financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary were the going concern assumption would not be appropriate. These adjustments could be material.

The Company recorded a net loss of $4,425,113 for the year ended December 31, 2012, and has an accumulated deficit of $30,183,370 as at December 31, 2012. In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and existing commitments for exploration and evaluation programs and pay general and administration costs. As at December 31, 2012, the Company had working capital of $2,375,900 including cash of $429,254, of which $2,055 was restricted pursuant to flow-through financings. Management estimates that these funds will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2013. Any funding shortfall may be met in the future in a number of ways, including but not limited to, the issuance of new debt or equity instruments, expenditures reductions and/or the introduction of joint venture partners and/or business combinations. While Management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. If Management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these financial statements.

The Company's financial year ends on December 31, 2012. These financial statements were approved for issue by the Board of Directors on March 21, 2013.

(in Canadian dollars)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements.

The Company has consistently applied the accounting policies throughout all periods presented in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the Company's financial statements are described below.

BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank balances and highly-liquid short-term investments maturing within three months of their acquisition date.

EXPLORATION AND EVALUATION

E&E assets are comprised at deferred E&E expenditures and mining properties. Expenditures incurred on activities that precede E&E of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

E&E assets includes rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits.

Mining rights are recorded at acquisition cost less accumulated impairment losses. Mining rights and options to acquire undivided interests in mining rights are depreciated only as these properties are put into commercial production.

From time to time, the Company may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the option holder, the amounts payable or receivable are not recorded. Option payments are recorded as property costs when the payments are made or received.

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E&E expenditures for each separate area of interest are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore like topographical, geological, geochemical and geophysical studies. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. E&E expenditures include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

When a mine project moves into the development phase, E&E expenditures are capitalized to mine development costs in property and equipment.

E&E expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized E&E costs are classified as investing activities in the statement of cash flows under the heading Acquisition of mining properties and Increase in deferred exploration and evaluation expenditures.

GOVERNMENT ASSISTANCE

Québec refundable credits on mining duties are recorded in the statement of income as current income tax recovery. The Company is entitled to a refundable tax credits on qualified mining E&E expenses incurred in the province of Québec which are recorded against the deferred E&E expenditures reported at statement of financial position.

EXPLORATION SUPPLIES

Materials and consumables used in the E&E are valued at the lower of purchase price determined using the "first in first out" FIFO method and net realizable value. Costs include acquisition, freight and other directly attributable costs.

PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price which may include construction or development of an item of property and equipment, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling the item and restoring the site on which it is located.

Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

Depreciation of property and equipment, if related to E&E activities, is capitalized in deferred E&E expenditures. For those assets which are not related to E&E activities, depreciation expense is recognized in the statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property and equipment, including assets recorded under capital leases, are depreciated based on the cost of an item of property and equipment less its estimated residual value, using the straight line method until 2017, which is the anticipated timing of the final production decision, with the exception of certain vehicules, certain portion of the camp and some infrastructures, rolling stock and equipments which are amortized over a three to ten year period based on their estimated useful lives.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each significant part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains or losses in the statement of income.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets and E&E capitalized expenses and assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income or as deferred E&E expenditures over the period of the lease.

The Company leases certain equipment. Leases of equipment for which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance cost. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the statement of income as finance cost over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

CONVERTIBLE NOTES

The liability, equity components and others (when applicable) of convertible notes are presented separately on the statement of financial position starting from initial recognition. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. The liability component is then increased by accretion of the discounted amounts to reach the nominal value of the convertible notes at maturity which is recorded in the statement of income as finance cost.

The carrying amount of other components (when applicable), for example warrants, are determined with the Black-Scholes option pricing model.

The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible notes and it is presented in Equity as an equity component of convertible notes. The equity component is not re-measured subsequent to initial recognition except on conversion or expiry.

The transaction costs are distributed between liability, equity and others components (when applicable), on a pro-rata basis of their carrying amounts.

PROVISIONS AND RESTORATION, REHABILITATION AND ENVIRONNEMENTAL OBLIGATIONS

Provisions for environmental restoration costs and legal claims, where applicable, are recognized when: (i) the Company has a present legal or constructive obligation as a result of previous events; (ii) it is likely that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

Provisions are measured at Management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The increase in the provision due to passage of time is recognized as finance cost. Changes in assumptions or estimates are reflected in the period in which they occur.

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration and evaluation, development or ongoing production of a mineral property. Such costs arising from the decommissioning of property and equipment and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted. The related liability is adjusted for each period for changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The Company also records a corresponding asset amount which is amortized in a logical and systematic manner.

SHARE-BASED PAYMENT TRANSACTIONS

The fair value of share options granted to employees are recognized in the statement of income, or capitalized to deferred E&E expenditures over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted.

SHARE CAPITAL AND WARRANTS

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes pricing model to determine the fair value of warrants issued.

FLOW-THROUGH SHARES

The Company finances some E&E expenditures through the issuance of flow-through shares. The Company renounced the resource expenditure deductions for income tax purposes to investors in accordance with the appropriate income tax legislation. The Company recognizes a deferred tax liability for flow-through shares and a deferred tax expense, at the moment the eligible expenditures are incurred. The difference between the quoted price of the common shares and the amount the investors pay for the shares (the "premium") calculated using the residual value is recognized as other liability which is reversed in the results as recovery of deferred income taxes when eligible expenditures have been made.

INCOME TAXES

Income tax expense (recovery) on the profit for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive loss or in equity, in which case it is recognized in other comprehensive loss or in equity, respectively.

Mining taxes represent Canadian provincial taxes levied on mining activities and are classified as income taxes since such taxes are based on a percentage of mining profits.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not provided for if they arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date and whose implementation is expected over the period during which the deferred tax is realized or recovered.

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as noncurrent and are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

INCOME (LOSS) PER SHARE

The calculation of earnings (loss) per share ("EPS") is based on the weighted-average number of shares outstanding for each period. The basic EPS is calculated by dividing the profit or loss attributable to the equity owners of the Company by the weighted-average number of common shares outstanding at the end of the period.

The computation of diluted EPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the EPS. The treasury stock method is used to determine the dilutive effect of the warrants, share options and the if-converted method is used for convertible debentures. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants, share options and convertible notes.

BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets when it is probable that they will result in future economic benefits to the Company, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as finance cost in the statements of income in the period in which they are incurred.

SEGMENT DISCLOSURE

The Company currently operates in a single segment – the acquisition, exploration, evaluation and development of mineral properties. All of the Company's activities are conducted in Québec, Canada.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized in the statement of financial position when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss
A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains or losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of finance income. When an available-for-sale asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains or losses.

Available-for-sale financial assets are classified as non-current, unless the investment matures within twelve months, or Management expects to sell them within twelve months.

(iv) Financial liabilities at amortized cost
Financial liabilities at amortized cost include accounts payable and accrued liabilities, loans payable, and convertible notes. Accounts payable and liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Loans payable, obligations under capital leases and convertible notes are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Company has classified its financial instruments as follows:

Category	**Financial instrument**
Loans and receivables	Cash
Available-for-sale financial assets	Available-for-sale financial assets
Financial liabilities at amortized cost	Accounts payable and accrued charges
	Obligations under finance leases
	Loans payable
	Convertible notes

IMPAIRMENT OF FINANCIAL ASSETS

At each reporting date of the statement of financial position, the Company assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (a "loss event") and that loss event has an impact on the estimated cash flows of the financial assets that can be reliably estimated. If such evidence exists, the Company recognizes an impairment loss, as follows:

Financial assets carried at amortized cost

The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment losses as well as reversals are recognized in the statement of income.

Available-for-sale financial assets

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to the statement of income.

Impairment losses on available-for-sale equity financial assets are not reversed.

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The functional currency of the Company is the Canadian dollar.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

Unless otherwise noted, the following revised standards and amendments that have relevance to the Company are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 1, Presentation of Financial Statements, ("IAS 1")

IAS 1 was amended to change the disclosure of items presented in Other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be reclassified to profit or loss in the future. This amendment is required to be applied for years beginning on or after July 1, 2012. The Company does not expect any impact from this amendment.

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. When such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment. However, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010, and they mainly carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for years beginning on or after January 1, 2015. The Company has not yet assessed the impact of this standard or determined whether it will early adopt it.

IFRS 10, Consolidated Financial Statements, ("IFRS 10")

IFRS 10 replaces parts of IAS 27, *Consolidated and Separate Financial Statements* and all of SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company. The remainder of IAS 27, *Separate Financial Statements*, now contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates only when an entity prepares separate financial statements and is therefore not currently applicable in the Company's financial statements.

IFRS 11, Joint Arrangements, ("IFRS 11")

IFRS 11 replaces IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers.* IFRS 11 requires a single method, known as the equity method, to account for interests in jointly controlled entities which is consistent with the accounting treatment currently applied to investments in associates. IAS 28, *Investments in Associates and Joint Ventures*, was amended as a consequence of the issuance of IFRS 11. In addition to prescribing the accounting for investment in associates, it now sets out the requirements for the application of the equity method when accounting for joint ventures. The Company does not currently have any joint ventures as at December 31, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IFRS 12, Disclosure of Interest in Other Entities, ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11. The Company has not yet assessed the impact of this standard.

IFRS 13, Fair Value Measurement, ("IFRS 13")

IFRS 13 provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The Company has not yet assessed the impact of this standard.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, ("IFRIC 20")

On October 19, 2011, the IFRS Interpretation Committee published IFRIC 20 that applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 clarifies the requirements for accounting for stripping costs in the production phase of a surface mine. It provides guidance on when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Company has not incurred stripping costs as at December 31, 2012.

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Many of the amounts included in the financial statements require Management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the financial statements.

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

Areas of significant judgment and estimates affecting the amounts recognized in the financial statements include:

1. Impairment of non-financial assets
   - The Company's evaluation of the recoverable amount with respect to the non-financial assets is based on numerous assumptions and may differ significantly from actual values. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The Company's fair value estimates are based on numerous assumptions. The recoverable amount estimates may differ from actual values and these differences may be significant and could have a material impact on the Company's financial position and result of operations. Assets are reviewed for an indication of impairment at each statement of financial position date and when there are indicators of impairment. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, an expiry of the right to explore in the specific area during the period or will expire in the near future, and is not expected to be renewed; substantive E&E expenditures in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale, significant negative industry or economic trends, significant drop in uranium prices or the incapacity of the Company to obtain necessary permits to carry out the program of underground exploration on the Matoush project.

   - For the year ended December 31, 2012, Management did not test its non-financial assets for impairment as the Company believes that their value are not affected by, among other things, the current price of uranium and the negative impact of events in Japan in March 2011 which is still being felt. According to forecasts, a decision regarding the start of production of the Company's projects will not be completed before 2017 and the Company believes that the price of uranium at current levels is not indicative of future prices, which are higher, according to Management, and does not constitute a material adverse change in the economic environment of the Company that would lead to an impairment test.

     On October 16, 2012, the Canadian Nuclear Safety Commission ("CNSC") has granted to the Company the license for the underground exploration program at the Matoush project. On January 17, 2013, the Company has filed a motion for *mandamus* and declaratory judgment with the Québec Superior Court. Among other things, the motion is intended to ensure that the Québec ministry of sustainable development, environment, wildlife and parks (*Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs*, or "MDDEFP") comes to a decision on the authorization required for the execution of the Matoush underground exploration program. At the initial case management session held in Québec City on March 20, 2013, on its motion for *mandamus* and declaratory judgment, the Company informed the Superior Court of Québec that it had decided to amend its petition to limit it to the motion for *mandamus,* in the interest of accelerating the judicial process. The outcome of the Superior Court decision could affect the recoverability of the Matoush project assets in the event that the authorization is not obtained, which would constitute a material adverse change for the Company that would trigger an impairment test. As at December 31, 2012, the assets of Matoush, including mining properties, deferred E&E expenditures and property and equipment totaling $86,728,624.

2. Recognition of deferred income tax assets and the measurement of income tax expense
   - Periodically, the Company evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Company believes that it is probable that some portion of the deferred tax assets will fail to be realized, the Company records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires Management to make significant judgment. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the statement of financial position date could be impacted. Significant judgment is required in determining the income tax recovery as there are transactions and calculations for which the ultimate tax determination is uncertain.

3. The estimated useful lives and residual values of property and equipment and the measurement of depreciation expense
   - Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. For the nine-month period ended September 30, 2012, a large portion of the property and equipment were depreciated using the straight line method until 2015, which, at September 30, 2012, was the anticipated timing of the final production decision and which represents a significant accounting estimate by the Company. In October 2012, the anticipated timing of the final production decision was reviewed by the Management and is now estimated to be 2017 and represents a material change in the estimate. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future, such as the anticipated timing of the final production decision by the Company and such a change could still impact future depreciation expense.

4. Asset retirement obligations
   - Asset retirement obligations arise from the development, construction and normal operation of mining property and equipment as mining activities are subject to laws and regulations governing the protection of the environment. The Company intends to make in the future, expenditures to comply with such laws and regulations. The estimated present value of reclamation liabilities is recorded in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The liability will be increased each period to reflect the interest element and will also be adjusted for changes in the discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

- Future remediation costs are accrued based on Management's best estimate at the end of each period of the undiscounted cash costs expected to be incurred at each site. Changes in estimates are reflected in the period during which an estimate is revised. Accounting for reclamation and remediation obligations requires Management to make estimates of the future costs that the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. For the nine-month period ended September 30, 2012, the Company had estimated the timing of the outlays to be 2015, which, at September 30, 2012, was the anticipated timing of the final production decision. In October 2012, the anticipated timing of the final production decision was reviewed by the Management and is now estimated to be 2017 and represents a material change in the estimate. Actual costs incurred may differ from those estimated amounts. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to activities for reclamation and remediation.

5. Uncertain tax positions
   - The Company received notices of assessments from a taxation authority in July 2011 for years ending December 31, 2006, 2007 and 2008 disallowing certain expenditures in the calculation of credits for mining duties refundable for losses, amounting to approximately $800,000 for these three years. The Company is in disagreement with the notices of assessments and undertook an opposition process to justify its claims. Without prejudice of all of the legal and objection proceedings, the Company estimates the maximum exposure to be a reduction of the credits for mining duties refundable for losses of an aggregate and approximate amount of $1,500,000 as at December 31, 2012, if all expenditures referred to in the notices of assessments are finally disallowed and in taking also into account the eventual impact of assessments on the same basis by taxation authorities on credits for mining duties recorded in the subsequent years ended December 31, 2009, 2010, 2011 and 2012.

     Credits for mining duties refundable for losses for the current and prior periods are measured at the amount expected to be recovered from the taxation authorities using the tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Uncertainties exist with respect to the interpretation of tax regulations, including mining duties for losses, and the amount and timing of their collection. The calculation of the Company's credits for mining duties refundable for losses necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution of an opposition process has been reached with the relevant taxation authority or, as appropriate, through a formal legal process. Difference arising between the actual results following final resolution of some of these items and the assumptions made, or future changes to such assumptions, could necessitate adjustments to credits for mining duties refundable for losses and income tax expense in future periods. The resolution of issues can, and often does, take many years to resolve. As a result there can be substantial differences between credits for mining duties refundable for losses and the amount finally recovered.

     Those credits for mining duties refundable for losses are classified as non-current assets.

     The amounts recognized in the financial statements are derived from the Company's best estimation and judgment as described above. However, the inherent uncertainty regarding the outcome of these items means that eventual resolution could differ from the accounting estimates and therefore impact the Company's earnings and cash flow.

(in Canadian dollars)

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

6. Going concern
   - The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5. TAX CREDITS RECEIVABLE

	December 31, 2012	December 31, 2011
	$	$
Credits on mining duties refundable for losses	2,961,889	2,784,993
Refundable credit for resources related for exploration expenses	3,606,099	5,000,736
	6,567,988	7,785,729
Less: Non-current portion of tax credits receivable *(i)*	2,961,889	2,784,993
Current portion of tax credits receivable	3,606,099	5,000,736

(i) Due to delays in the processing of claims for refundable of credits on mining duties refundable for losses and the objection process (see Note 4 "Uncertain Tax Positions"), the Company has classified all of its credits on mining duties refundable for losses as non-current assets.

6. FINANCIAL ASSETS AVAILABLE FOR SALE

As at December 31, 2012, the Company owned 1,000,000 shares of Pacific Bay Minerals Ltd. ("Pacific Bay") (1,000,000 at December 31, 2011) which were trading at $0.02 as at December 31, 2012 ($0.04 at December 31, 2011).

7. MINING PROPERTIES AND DEFERRED E&E EXPENDITURES

Mining properties	Interest	December 31, 2011	Additions	December 31, 2012
		$	$	$
Matoush project				
Matoush	100%	339,929	1,000,053	1,339,982
Matoush Extension	100%	21,626	19,149	40,775
Eclat	100%	1,285,901	4,770	1,290,671
Pacific Bay-Matoush	60%	641,485	20,297	661,782
Other project				
Mistassini	60%	18,719	-	18,719
		2,307,660	1,044,269	3,351,929

(in Canadian dollars)

7. MINING PROPERTIES AND DEFERRED E&E EXPENDITURES (CONT'D)

Mining properties	Interest	December 31, 2010	Additions	Impairment	December 31, 2011
		$	$	$	$
Matoush project					
Matoush	100%	338,657	1,272	-	339,929
Matoush Extension	100%	20,842	784	-	21,626
Eclat	100%	1,285,901	-	-	1,285,901
Pacific Bay-Matoush	60%	438,713	202,772	-	641,485
Other projects					
Mistassini	60%	9,827	8,892	-	18,719
Apple	100%	3,038,973	7,080	(3,046,053)	-
		5,132,913	220,800	(3,046,053)	2,307,660

Property and deferred E&E costs related to Apple have a cumulative impairment loss of $6,146,053 and $1,673,844, respectively as at December 31, 2012 and 2011.

Deferred E&E expenditures	December 30, 2012	December 31, 2011
	$	$
Deferred E&E expenditures	75,212,699	62,373,425
Exploration supplies	506,055	661,722
	75,718,754	63,035,147

Deferred E&E expenditures	December 31, 2011	Additions	Tax Credits	December 31, 2012
	$	$	$	$
Matoush project				
Matoush	54,650,711	16,793,808	(4,135,889)	67,308,630
Matoush Extension	519,013	236,536	(91,658)	663,891
Eclat	4,387,900	15,274	(5,919)	4,397,255
Pacific Bay-Matoush	1,865,637	26,329	(10,203)	1,881,763
Other project				
Mistassini	950,164	17,953	(6,957)	961,160
	62,373,425	17,089,900	(4,250,626)	75,212,699

Deferred E&E expenditures	December 31, 2010	Additions	Tax Credits	Impairment	December 31, 2011
	$	$	$	$	$
Matoush project					
Matoush	42,926,625	16,229,945	(4,505,859)	-	54,650,711
Matoush Extension	494,879	39,402	(15,268)	-	519,013
Eclat	4,361,338	43,366	(16,804)	-	4,387,900
Pacific Bay-Matoush	1,237,034	1,026,291	(397,688)	-	1,865,637
Other projects					
Mistassini	572,272	616,966	(239,074)	-	950,164
Apple	794,240	51,823	(1,070)	(844,993)	-
	50,386,388	18,007,793	(5,175,763)	(844,993)	62,373,425

(in Canadian dollars)

7. MINING PROPERTIES AND DEFERRED E&E EXPENDITURES (CONT'D)

MATOUSH

The Company owns 100% of the Matoush property, located about 270 km north of Chibougamau. The property is no longer subject to a 2% Net Smelter Return ("NSR") royalty as the Company completed the repurchase of the NSR on December 20, 2012 for an amount of $1,000,000 to Ditem Explorations Inc., the NSR holder.

MATOUSH EXTENSION

The Company owns 100% of the Matoush Extension property.

ECLAT

The Company owns a 100% interest on all minerals, except diamonds, on all the claims in Eclat property, subject to a 2% NSR royalty and a 2% of gross proceeds of carbon emission rights in favor of Vija Ventures Corporation.

PACIFIC BAY-MATOUSH

On January 14, 2008, the Company signed the final agreement that it could acquire a 60% interest in the Pacific Bay-Matoush property owned by Pacific Bay Minerals Ltd ("Pacific Bay") located in the Matoush District of Québec's Otish Mountains. The agreement calls for the Company would pay Pacific Bay a total of $500,000, issue 200,000 common shares and would incur $3 million in E&E expenditures over four years, including a minimum of 10,000 metres of drilling at a rate of 2,500 metres per year.

In October 2011, having met his obligations, the Company exercised its option and it holds with effect from October 29, 2011, a 60% undivided interest in the property.

MISTASSINI

On May 16, 2011, the Company and Majescor Resources Inc. signed a definitive joint venture agreement with the entry into force has been set for February 14, 2011, the date on which the Company has fulfilled its obligations under the agreement of option. The Company now holds a 60% stake in the uranium rights of the Mistassini property which is the main asset of the joint venture.

The Mistassini property is subject to a royalty of 2% of the proceeds from the all sales of uranium oxide.

APPLE

The Apple property is located 80 km southeast of Radisson, in the James Bay area, Québec. The property is subject to a 2% NSR royalty of which 1% can by repurchased by the Company for $1 million from Virginia Mines Inc.

In the fourth quarter of 2011, based on an impairment test, the Apple property, the related deferred E&E expenditures and the related property and equipment ("Apple assets") were impaired by $3,046,053, $844,993 and $76,660, respectively, representing an impairment loss of $3,967,706 given that no E&E expenses are budgeted, the Company has currently concentrating its efforts towards the development of the Matoush property and therefore had limited resources available for the Apple property for 2012 and in the future, and that some claims were abandoned thus bringing the Apple assets to a book value of $0 at December 31, 2011. The estimation of the impairment charge requires judgment from the Management.

8. PROPERTY AND EQUIPMENT

	Buildings and infrastructure *(i)*	Vehicles and rolling stock *(ii)*	Equipment	Total *(iii)*
	$	$	$	$
Year ended December 31, 2011				
Net book value, beginning of year	9,566,849	147,719	462,673	10,177,241
Additions	1,112,154	990	132,615	1,245,759
Depreciation	(2,375,782)	(56,178)	(241,580)	(2,673,540)
Impairment charges	(76,660)	-	-	(76,660)
Net book value, end of year	8,226,561	92,531	353,708	8,672,800
As at December 31, 2011				
Cost	12,728,875	499,366	1,079,252	14,307,493
Accumulated depreciation	(4,275,654)	(406,835)	(725,544)	(5,408,033)
Accumulated impairment charges	(226,660)	-	-	(226,660)
Net book value	8,226,561	92,531	353,708	8,672,800
Year ended December 31, 2012				
Net book value, beginning of year	8,226,561	92,531	353,708	8,672,800
Additions	2,074,165	27,120	9,056	2,110,341
Depreciation	(1,914,711)	(58,355)	(172,255)	(2,145,321)
Net book value, end of year	8,386,015	61,296	190,509	8,637,820
As at December 31, 2012				
Cost	14,803,040	526,486	1,088,308	16,417,834
Accumulated depreciation	(6,190,365)	(465,190)	(897,799)	(7,553,354)
Accumulated impairment charges	(226,660)	-	-	(226,660)
Net book value	8,386,015	61,296	190,509	8,637,820

(i) The amount of property and equipment, that were purchased and delivered or are under construction on the Matoush project site and not depreciated as of December 31, 2012, amounted to $1,786,357 ($907,517 as at December 31, 2011) and is presented in Buildings and infrastructure.

(ii) There was no depreciation expense relating to finance leases in the statement of income. The depreciation expense relating to property and equipment under finance lease of $15,792 was capitalized in deferred E&E expenditures for the year ended December 31, 2012 ($16,146 as at December 31, 2011).

Included in Vehicles and rolling stock, there are vehicles and rolling stock under a finance lease with net book values of $29,567 as at December 31, 2012 ($44,626 as at December 31, 2011).

(iii) All property and equipment are located in Canada.

(in Canadian dollars)

9. LOANS PAYABLES AND CONVERTIBLE NOTES

	Convertible notes (a)	Loans payable (b, c and d)
	$	$
As at December 31, 2010	5,588,713	3,775,843
Additions	-	2,877,426
Accretion expense	1,484,894	226,738
Reimbursement	-	(4,000,000)
As at December 31, 2011	7,073,607	2,880,007
Additions	-	268,730
Accretion expense	1,885,040	119,993
Reimbursement	-	(3,000,000)
As at December 31, 2012	8,958,647	268,730

(a) On January 27, 2010, the Company closed a private placement with Sentient Executive GP III, Limited, part of The Sentient Group, including $14,905,000 of convertible notes accompanied by common share purchase warrants. Each tranche of $1,000 in notes is accompanied by approximately 527 warrants. Each warrant entitles its holder to purchase one share for $1.00 during a 24-month period following the closing and for $1.05 during the subsequent period of 24 to 36 months after the closing.

The notes do not bear interest and are unsecured. They mature on February 27, 2015. They are convertible into shares by the holder during that period at a price of $0.95 per share. Until the notes mature, Sentient Executive GP III, Limited has the option of converting the notes in tranches of $1,000 into 1,053 shares on the basis of a conversion price of $0.95 per share, for a total of 15,689,474 shares.

At the maturity date, the Company may at its sole discretion elect to repay the principal amount of the notes, in whole or in part, in common shares. The number of common shares to be issued will be calculated by dividing the elected portion of the principal amount by 95% of the weighted-average price of five trading days on the TSX. According to the subscription agreement, the Company will not issue more than 30,451,608 common shares following the conversion of the notes and will not issue the common share at a price lower than $0.7018 without the prior consent of the shareholders. If the consent of the shareholders is not granted, the Company will have to settle the difference between the weighted-average price of the share on the TSX for five trading days and the floor price of $0.7018 in cash.

If there is a change in control, the holder may elect to receive the reimbursement of the outstanding principal amount multiplied by 101%.

When initially recorded, the debt component was evaluated first using an effective rate of 25% corresponding to a rate that the Company would have obtained for a similar financing without the conversion option. Subsequently, the Company evaluated the fair value of the warrants with the same methodology and same assumptions as the warrants issued with the units. The residual was attributed to the equity component and is presented in the shareholder’s equity.

(b) On December 20, 2012, Sentient Executive GP IV, Limited, part of The Sentient Group, has granted a loan of $3,000,000 to the Company. The funds were disbursed in two installments, the first, on December 20, 2012, for $500,000 and the second, on January 14, 2013 for $2,500,000. The loan is secured and must be repaid within 10 business days from the receipt by the Company of the 2012 tax credits for resources-related E&E expenses, or at the latest, by December 10, 2013. The loan bears interest at an annual rate of 10%.

(in Canadian dollars)

9. LOANS PAYABLE AND CONVERTIBLE NOTES (CONT'D)

In connection with the loan, the Company issued 1,500,000 common share purchase warrants. Each warrant entitles the holder to acquire one common share of the Company for 30 months at a price of $0.24 per share. The Company also issued 549,451 common shares at the price of $0.182 per share representing $100,000 as transaction fees recorded as reduction of the loan.

The estimated fair value of $0.062 per warrant for an aggregate of $92,706 was determined using the Black-Scholes pricing model using the following assumptions: risk-free interest rate of 1.14%, expected volatility of 70%, no expected dividend yield and an expected life of the warrants of 30 months. This amount and the amount of issuance costs of $38,564 in connection with this financing were recorded as reduction of the loan.

(c) The Company received a $3,000,000 loan from SIDEX, Limited Partnership, ("SIDEX") on December 29, 2011. The loan is secured by the 2011 refundable credit for resources-related exploration expenses and must be repaid within 30 days from the receipt of the 2011 refundable credit for resources-related E&E expenses or by December 31, 2012. The loan bears interest at the annual rate of 8%.

In connection with the loan, the Company issued 500,000 common share purchase warrants and paid $64,000 in cash to SIDEX. Each warrant entitles the holder to acquire one common share of the Company for 24 months at a price of $0.75 per share.

The estimated fair value of $0.12 per warrant for an aggregate of $58,574 was determined using the Black-Scholes pricing model using the following assumptions: risk-free interest rate of 0.95%, expected volatility of 74%, no expected dividend yield and an expected life of the warrants of 24 months. This amount was recorded as reduction of the loan.

On August 7, 2012, the Company repaid the entire $3,000,000 loan borrowed from SIDEX.

(d) The Company received a $4,000,000 loan from SIDEX, on November 26, 2010. The loan is secured by the 2010 refundable credit for resources-related exploration expenses and must be repaid within 30 days from the receipt of the 2010 refundable credit for resources-related E&E expenses or by December 31, 2011. The loan bears interest at the annual rate of 8%. On December 19, 2011, the Company repaid in full the $4,000,000 loan from SIDEX.

10. OBLIGATIONS UNDER FINANCE LEASES

	December 31, 2012	December 31, 2011
	$	$
Obligations under finance leases	30,874	45,003
Current portion of the obligations under finance leases	(15,448)	(14,129)
	15,426	30,874

The aggregate capital amount of the obligations under finance leases is as follows:

	$
2013	17,592
2014	16,126
	33,718
Less: imputed interest calculated at 9%	(2,844)
	30,874

(in Canadian dollars)

11. ASSET RETIREMENT OBLIGATIONS

	December 31, 2012	December 31, 2011
	$	$
Balance, beginning of year	1,994,709	1,925,397
Accretion expense on asset retirement obligations	91,059	88,602
New obligations and changes in estimates with respect to obligations previously ascertained	183,852	(19,290)
Balance, end of year	2,269,620	1,994,709

The estimated undiscounted cash flows required to settle the asset retirement obligations are $2,197,100. The Company is reviewing, at each period, the amount and the expected timing of payment of the cash flows required to settle the obligations and adjusts the asset retirement obligations accordingly. A discount rate of 3.12% was used to evaluate the obligations at December 31, 2012 and the calculation uses the assumption that the disbursements necessary to settle the obligations would be made in 2017, which is the anticipated timing of the final production decision. If the Company decides not to go into production on the Matoush property, it is assumed that the asset retirement obligations will be settled in 2017. Should the Company decide to proceed with a production decision on the Matoush property, the obligation will be settled further into the future.

12. EQUITY

SHARE CAPITAL

AUTHORIZED
An unlimited number of common shares without par value.

An unlimited number of preferred shares without par value issuable in series with rights, privileges, restrictions and conditions to be determined by the Board of Directors.

(a) On February 29, 2012, the Company closed a private placement of 16,025,620 flow-through shares priced at $0.60 and $0.65 per share with a syndicate of agents for gross proceeds of $9,999,988. In accordance with the terms of the flow-through share subscription agreements, the Company has undertaken to renounce $9,999,988 in eligible expenditures to eligible investors effective December 31, 2012.

    The Company paid $549,999 in cash an agents' commission representing 5.5% of the gross proceeds of this flow-through private placement and issuance costs of $122,214 in connection with this financing, for a total of $672,213.

(b) On February 29, 2012, the Company closed a second non-brokered private placement with Sentient Executive GP IV, Limited, part of The Sentient Group, of 6,000,000 units priced at $0.50 each for gross proceeds of $3,000,000.

    Each unit consisted of one common share and one half of one warrant. Each warrant entitles its holder to purchase one common share at $0.65 per share up until March 1, 2014. The estimated fair value of the warrants of $0.11 per warrant was determined using the Black-Scholes model with no expected dividend yield, an expected volatility of 67.1%, a risk-free interest rate of 1.12% and an expected life of warrants of 24 months. An amount of $340,322 was thus recognized as warrants and has reduced the share capital.

12. EQUITY (CONT'D)

Sentient Executive GP IV, Limited, received 180,000 additional units evaluated at $90,000, representing 3% of the gross proceeds of the placement, as a transaction fee. An amount of $10,210 was allocated to warrants and deducted from share capital. In connection with this financing, the Company incurred fees and issue costs totaling $30,772, which were accounted in reduction of the share capital and warrants, for the respective amounts of $27,281 and $3,491.

(c) On June 23, 2011 the Company closed an unbrokered private placement for a total of 4,904,904 flow-through shares for gross proceeds of $3,500,100. Under the flow-through share subscription agreements, the Company agreed to renounce $3,500,100 in qualifying expenditures to qualified investors effective December 31, 2011.

The Company incurred finders' fees of $210,000 and issue costs of $35,915 in connection with this financing for a total of $245,915.

SHARE PURCHASE WARRANTS

Each warrant entitles its holder to purchase one share of the Company. Changes to the outstanding warrants are shown in the following table:

	2012			2011		
	Number	**Weighted-average exercise price**	**Total**	**Number**	**Weighted-average exercise price**	**Total**
		$	**$**		**$**	**$**
Balance, beginning of year	15,309,024	1.01	3,442,107	14,809,024	1.02	3,383,533
Private placements (Note 13)	3,000,000	0.65	340,322	-	-	-
In consideration of issue costs (Note 13)	90,000	0.65	10,210	-	-	-
Issue costs (Note 13)	-	-	(3,491)	-	-	-
In consideration of issuance costs of loans to pay (Note 10)	1,500,000	0.24	92,706	500,000	0.75	58,574
Warrants expiration	(6,519,550)	1.05	(1,306,183)	-	-	-
Balance, end of year	13,379,474	0.86	2,575,671	15,309,024	1.01	3,442,107

Outstanding warrants as at December 31, 2012, are shown in the following table:

Number of warrants	Exercise price	Expiry date
8,289,474	$1.05	January 27, 2013
500,000	$0.75	December 23, 2013
3,090,000	$0.65	March 1, 2014
1,500,000	$0.24	June 19, 2015
13,379,474		

(in Canadian dollars)

13. STOCK OPTION PLAN

The Company has a stock option plan for its officers, directors and consultants. The Board of Directors sets the conditions for acquiring the common stock options according to quantity and exercise price. The strike price of the options granted may not be less than the market price, which corresponds to the weighted-average price based on the volume and price of the shares traded on the Toronto Stock Exchange for the five days preceding the option grant. The options granted are valid for a period established by the Board of Directors, not to exceed five years from the date the options are granted. The maximum number of common shares issuable under the plan is 10,654,586. The maximum number of options that can be granted to any participant may not exceed 5% of the issued and outstanding shares of the share capital.

Changes to the stock options under the plan are shown in the following table:

	2012		2011	
	Number	**Weighted-average exercise price**	**Number**	**Weighted-average exercise price**
		$		$
Balance, beginning of year	5,437,500	1.62	5,030,500	1.75
Granted	1,360,000	0.40	1,129,500	0.50
Exercised	-	-	(175,000)	0.40
Forfeited	(4,000)	0.50	(104,668)	1.00
Expired	(1,367,500)	2.93	(442,832)	1.37
Balance, end of year	5,426,000	0.99	5,437,500	1.62

The weighted-average share price at the exercise date was $0.93 per share in 2011.

As at December 31, 2012, the Company had the the following outstanding options:

Number of outstanding options	Number of exercisable options	Exercise price	Expiry date
		$	
300,000	300,000	2.10	March 18, 2013
699,000	699,000	2.04	April 13, 2013
130,000	130,000	2.04	August 14, 2013
67,500	67,500	2.04	October 29, 2013
950,500	950,500	1.00	June 8, 2014
7,000	7,000	1.00	September 14, 2014
14,000	14,000	1.00	January 4, 2015
500,000	500,000	1.00	May 26, 2015
352,000	352,000	1.00	June 6, 2015
1,046,000	1,046,000	0.50	June 27, 2016
1,360,000	1,360,000	0.40	May 29, 2017
5,426,000	5,426,000		

During the year ended December 31, 2012, stock-based compensation expenses of $225,273 ($241,727 in 2011) were recorded in the statements of income and an amount of $117,815 ($139,502 in 2011) was capitalized to deferred E&E expenditures.

(in Canadian dollars)

13. STOCK OPTION PLAN (CONT'D)

During the year ended December 31, 2012, the Company granted 1,360,000 stock options (1,129,500 in 2011) at a exercise price of $0.40 per share and with an expected life of five years to officers, directors and consultants of which 1,360,000 (1,006,500 in 2011) vested immediately (2011 - 123,000 stock options plan were vest in three tranches over 18 months). The fair value of each option granted was determined using the Black-Scholes option-pricing model. The weighted-average fair value of the stock options granted was $0.245 ($0.31 in 2011) per option. The market price of the Company' share was lower than the exercise price at the grant dates.

The following weighted-average assumptions were used in the calculations:

	2012	2011
Risk-free interest rate	1.31%	2.40%
Expected life	5 years	5 years
Expected volatility	81%	88%
Expected dividend yield	0%	0%
Expected forfeiture rate for the options not vesting immediately	1%	1%

14. COMPENSATION OF KEY MANAGEMENT

The Company has, in 2011, a service agreement with a related party to provide management services to the Company, including senior executives (Note 18).

Key Management includes directors and senior executives. Employment contracts in force for senior executives include a variable pay mechanism for up to 50% of their annual base salary.

The compensation paid or payable for key Management services is presented below:

	2012	2011
	$	$
Salaries and benefits	260,000	-
Senior executives services and directors fees	1,324,000	1,421,000
Share-based compensation	232,000	250,000
	1,816,000	1,671,000

Termination and Change of Control Benefits

Certain employment agreements between the executive team and the Company contain termination and change of control provisions. If a termination or change of control involving material changes in the duties assigned to senior executives had occurred as at December 31, 2012, the amounts payable for the executive team would have totalled $1,635,000 and $2,595,000, respectively.

(in Canadian dollars)

15. INCOME TAXES

	2012	2011
	$	$
Taxes payable		
Taxes payable on net income for the year	-	-
Credits on mining duties refundable for losses	(176,896)	25,927
Total income taxes expense (recovery)	(176,896)	25,927
Deferred taxes		
Rise and reversal of temporary differences relating to:		
Income taxes	557,413	(14,619)
Mining taxes	1,553,267	2,770,927
Premium on flow-through share issuance	(1,987,178)	(1,566,803)
Total deferred taxes	123,502	1,189,505
Income tax expenses (recovery)	(53,394)	1,215,432

The income tax provision differs from the amount resulting from the application of the combined Canadian statutory income tax rate. The combined statutory tax rate is the sum of the rate of federal income taxes of 15% (16.5% in 2011), Provincial of 11.9% (11.9% in 2011) and the Québec mining tax rate of 16% (15% in 2011). The mining tax rate is considered net of income tax on income related thereto of 4.304% (4.26% in 2011).

	2012	2011
	$	$
Loss before income tax	(4 478 507)	(9,105,181)
Combined Canadian statutory income tax rate	38.596%	39.14%
Income tax recovery at the combined statutory income tax rate	(1 728 525)	(3,563,768)
Stock-based compensation	60 598	68,650
Changes in fair value of the available-for-sale investment	2 690	57,510
Change in income tax rate	-	1,358,693
Non-capital losses expired	-	80,557
Non-deductible and other expenses	(124 695)	921,920
Expenses non-taxable for mining tax	481 073	675,726
Unrecognized temporary differences	154 941	725,830
Renounced E&E expenses	3 264 598	2,431,190
Premium on flow-through shares	(1 987 178)	(1,566,803)
Credits on mining duties refundable for losses	(176 896)	25,927
	(53 394)	1,215,432

The lower tax rate was primarily due to reduced federal tax rate of the income tax, which rose from 16.5% to 15% in 2012 and increased the tax rate mining which increased from 15% to 16% in 2012.

(in Canadian dollars)

15. INCOME TAXES (CONT'D)

The following table presents an analysis of assets and deferred tax liabilities.

	2012	2011
	$	$
Deferred tax assets		
Deferred tax assets to be recovered in more than 12 months	(5,380,698)	(4,447,268)
Deferred tax assets to be recovered in less than 12 months	(2,317)	(2,119)
Deferred tax liabilities		
Deferred tax liabilities to be settled in more than 12 months	15,737,595	12,800,819
Deferred tax liabilities to be settled in less than 12 months	391,730	300,755
Deferred tax liabilities, net	10,746,310	8,652,187

The following table presents the evolution of deferred tax account.

	2012	2011
	$	$
As at January 1	8,652,187	5,911,466
Amount recognized as an expense in the statement of income	2,110,680	2,756,307
Tax expense (recovery) related to the share capital	(16,557)	(15,586)
As at December 31	10,746,310	8,652,187

The following table shows the changes in deferred tax assets and liabilities during the year, regardless of compensation balances relating to the same taxation authority.

Deferred tax assets

	Non-capital losses	Property and equipment	Asset retirement obligations	Mining tax	Other	Total
	$	$	$	$	$	$
As at December 2010	(1,556,675)	(35,687)	(288,810)	(818,067)	(453,017)	(3,152,256)
Amount debited (credited) in the statement of income	(586,717)	(352,953)	(10,396)	(415,639)	84,160	(1,281,545)
Amount debited (credited) in the share capital	-	-	-	-	(15,586)	(15,586)
As at December 31, 2011	(2,143,392)	(388,640)	(299,206)	(1,233,706)	(384,443)	(4,449,387)
Amount debited (credited) in the statement of income	(554,588)	(68,002)	(41,237)	(232,990)	(20,254)	(917,071)
Amount debited (credited) in the share capital	-	-	-	-	(16,557)	(16,557)
As at December 31, 2012	(2,697,980)	(456,642)	(340,443)	(1,466,696)	(421,254)	(5,383,015)

(in Canadian dollars)

15. INCOME TAXES (CONT'D)

Deferred tax liabilities

	Deferred E&E expenditures	Convertibles notes	Mining tax	Other	Total
	$	$	$	$	$
As at December 31, 2010	2,203,955	1,397,443	5,453,777	8,547	9,063,722
Amount debited (credited) in the statement of income	1,480,207	(222,734)	2,770,927	9,452	4,037,852
Amount debited (credited) in the share capital	-	-	-	-	-
As at December 31, 2011	3,684,162	1,174,709	8,224,704	17,999	13,101,574
Amount debited (credited) in the statement of income	1,740,549	(282,756)	1,553,267	16,691	3,027,751
Amount debited (credited) in the share capital	-	-	-	-	-
As at December 31, 2012	5,424,711	891,953	9,777,971	34,690	16,129,325

Were not recognized in financial statements, deferred tax assets related to unused tax losses which expire from years 2027 to 2032 following:

	2012	2011
	$	$
Non-capital losses	1,700,000	1,534,000
Deferred tax assets	1,700,000	1,534,000

16. CAPITAL DISCLOSURES

In terms of capital management, the objectives of the Company are to preserve its ability to continue as a going concern and to pursue its mining E&E activity as a going concern. Company's capital includes shareholders' equity, convertible notes and obligations under capital leases reduced by cash for a total amount of $79,636,556 ($67,919,695 in 2011). Management reviews its capital management policies on a going concern approach and believes that this approach, given the relative size of the Company, is reasonable.

There were no significant changes in the Company's approach to capital management during the year ended December 31, 2012. The Company doesn't have any externally imposed capital requirements neither regulatory nor contractual requirements to which it is subject, unless the Company closes a flow-through private placement in which case the funds are restricted in use for E&E expenses. The changes in capital are presented in the statement of changes in equity.

(in Canadian dollars)

17. FINANCIAL INSTRUMENTS

FINANCIAL RISK FACTORS

The Company is exposed to various financial risks resulting from both its operations and its investment activities. The Company's Management manages financial risks. The Company does not enter into financial instruments agreements, including derivative financial instruments for speculative purposes. The Company's main financial risks exposure and its financial policies are as follows:

(a) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and fair value.

(i) Interest risk

The Company has cash balances and the Company's current policy is to invest excess cash in certificates of deposit or interest bearing accounts of major Canadian chartered banks. As of December 31, 2012 and 2011, the Company had invested no amount in term deposits.

The obligation under capital leases and the loans payable bear interest at a fixed rate while the convertible debenture does not bear interest. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

(ii) Price risk

The Company is exposed to market risk in trading its investment in Pacific Bay, a TSX Venture issuer whose activities are in the mining exploration field. As of December 31, 2012, a 10% decrease (increase) in the price on the stock market would result in an estimated increase (decrease) this available-for-sale investment of approximately $2,000.

(b) Fair value

The fair value of financial instruments is summarized as follows:

	December 31, 2012		December 31, 2011	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**
	$	**$**	**$**	**$**
Financial assets				
Cash	429,254	429,254	3,858,141	3,858,141
Financial assets available-for-sale	20,000	20,000	40,000	40,000
Financial liabilities				
Accounts payable and accrued charges	2,118,296	2,118,296	1,192,923	1,192,923
Obligations under finance leases	30,874	30,874	45,003	45,003
Loans payable	268,730	500,000	2,880,007	3,000,000
Convertible notes	8,958,647	9,206,882	7,073,607	7,361,004

Fair value estimates are made at the statement of financial position date, based on relevant market information and other information about financial instruments.

(in Canadian dollars)

17. FINANCIAL INSTRUMENTS (CONT'D)

The Company's financial instruments as at December 31, 2012 consist of cash, financial assets available-for-sale, accounts payable and accrued charges and loans payable, obligations under finance leases and convertible notes. The fair value of these financial instruments is discussed above and approximated their carrying value due to their short maturity and current market rates with the exception of the loans payable and the convertible notes.

Fair value hierarchy
The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

- Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities:
  – financial assets available-for-sale;
- Level two includes inputs that are observable other than quoted prices included in level one: – none;
- Level three includes inputs that are not based on observable market data: – none.

(c) Credit risk

The financial instruments which expose the Company to market risk and concentrations of credit risk include cash. The Company invests cash with a Canadian chartered bank.

(d) Liquidity risk

The Company manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its E&E programs. The Company also ensures that it has sufficient working capital available to meet its day-to-day commitments.

As at December 31, 2012, the Company has a cash of $429,254 ($3,858,141 as at December 31, 2011) to settle current liabilities of $2,402,474 ($4,087,059 as at December 31, 2011).

As at December 31, 2012, Management estimates that funds available will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2013 (Note 1).

Any funding shortfall may be met in the future in a number of ways including but not limited to, the issuance of new debt or equity instruments, further expenditures reductions and/or the introduction of joint venture partners and/or business combinations. While Management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. If Management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these financial statements.

17. FINANCIAL INSTRUMENTS (CONT'D)

The following are the contractual maturities of financial liabilities, including interest where applicable as at December 31, 2012 and 2011:

	2012				
	Carrying amount	**Contractual cash flows**	**From 0 to 12 months**	**From 12 to 24 months**	**More than 24 months**
	$	**$**	**$**	**$**	**$**
Accounts payables and accrued charges	2,118,296	2,118,296	2,118,296	-	-
Loans payable	268,730	548,630	548,630	-	-
Obligations under finance leases	30,874	33,718	17,592	16,126	-
Convertible notes	8,958,647	14,905,000	-	-	14,905,000

	2011				
	Carrying amount	**Contractual cash flows**	**From 0 to 12 months**	**From 12 to 24 months**	**More than 24 months**
	$	**$**	**$**	**$**	**$**
Accounts payables and accrued charges	1,192,923	1,192,923	1,192,923	-	-
Loans payable	2,880,007	3,241,315	3,241,315	-	-
Obligations under finance leases	45,003	51,310	17,592	17,592	16,126
Convertible notes	7,073,607	14,905,000	-	-	14,905,000

18. RELATED-PARTY TRANSACTIONS

On August 10, 2011, the Company renewed a service agreement, on a monthly basis and effective as of August 1, 2011, with BBH Géo-Management Inc. ("BBH"), a related company because:

(a) the president and director of BBH is also the president and director of the Company;
(b) an officer of BBH is also an officer and director of the Company.

Under the terms of the Services Agreement, BBH provides the Company with management services, including E&E work. The Company pays: a fixed monthly fee of $5,500 to be reviewed each year on July 31 for the use of office space, office equipment and computer hardware and software; a 5% management fee on all costs related to E&E program and property and equipment expenditures related to the Matoush property; a 10% management fee on all costs related to E&E programs on the other properties: Matoush Extension, Eclat, Pacific Bay-Matoush, Mistassini, Apple and other future properties; and a 5% fee on any purchases related to E&E projects or option agreement on the Matoush Extension, Eclat, Pacific Bay-Matoush, Mistassini, Apple and other future properties.

While complying with the non-solicitation provision of the Services Agreement, the Company had to take into account the fact that on issuance of the CNSC license for the Matoush underground exploration project or when other events occur, it would have to incur expenses and fees to attract and hire personnel to manage its affairs and carry out its mineral exploration and development programs. Thus, the Company entered into an employee transfer agreement with BBH on November 8, 2011, which is also effective August 1, 2011 (the "Transfer Agreement").

(in Canadian dollars)

18. RELATED-PARTY TRANSACTIONS (CONT'D)

Among other things, the Transfer Agreement grants BBH the right to claim fees for the transfer of senior staff and permanent employees from BBH to the Company. In the Transfer Agreement, the Company undertakes to pay BBH, for the transfer of each senior staff member and any future transfer of permanent employees within 30 days of their commencement of employment with the Company, a fee based on a percentage of their base salary payable by the Company.

Upon receipt of the CNSC license on October 16, 2012, the Company asked BBH to transfer 10 senior staff who were formerly employees of BBH and who became employees of the Company as at that date ("Senior Staff"). An amount of $360,000 is payable to BBH for the transfer of Senior Staff.

Pursuant to the Transfer Agreement, fees for Senior Staff previously billed by BBH to the Company under the Services Agreement ceased to apply as of October 16, 2012, and the same applies to management fees related to the management of work of the E&E programs on the Company's mineral properties listed above and management of administrative work, which are assumed by the Company as of the Senior Staff transfer date.

The Transfer Agreement also provides for the future transfer of other permanent employees of BBH who could eventually become employees of the Company but who were still employees of BBH as at March 21, 2013 (the "Permanent Employees").

All the other provisions of the Services Agreement regarding services still rendered by the Permanent Employees to the Company and the fixed monthly charge of $5,500 for the use of office space, office equipment and computer hardware and software continue to apply.

During the year ended December 31, 2012:

BBH charged:

i) consultant and subcontractor fees for $3,387,000 ($3,318,000 in 2011) included in the deferred E&E expenditures;
ii) management fees:
    1) for $481,000 ($620,000 in 2011) included in deferred E&E expenditures;
    2) for $89,000 ($62,000 in 2011) included in property and equipment;
iii) fees for a total amount of $964,000 ($1,157,000 in 2011);
iv) rental fees of $64,000 ($62,000 in 2011).

At December 31, 2012, accounts payable and accrued liabilities include an amount of $598,000 ($158,000 at December 31, 2011) owed to BBH. The invoices for BBH are payable upon receipt.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	2012	2011
	$	$
Non-cash transactions		
Deferred E&E expenditures included in accounts payable and accrued charges	1,322,128	283,747
Additions to property and equipment included in accounts payable and accrued charges	115,500	327,556
Issue costs of loans payable included in accounts payable and accrued charges	38,564	
Tax credits receivable presented as a reduction in deferred E&E expenditures	4,250,626	5,175,763
Property and equipment recorded pursuant to asset retirement obligations	183,852	(19,290)
Depreciation of property and equipment included in deferred E&E expenditures	2,114,230	2,630,619
Units issued for share issue costs, net of the tax impact of $24,210	65,790	-
Units issued for issue costs of loans payable	100,000	-
Stock-based compensation capitalized in deferred E&E expenditures	117,815	139,502
Shares issuance for acquisition of mining properties	-	27,720

20. COMMITMENTS

The following table lists the Company's contractual obligations over the next years ending December 31.

	2013	2014 and thereafter
	$	$
Operating leases	85,697	-

The CNSC has attached, among others, to the license obtained on October 16, 2012, a condition to be met before the work foreseeing that the Company will have to deposit a financial guarantee of nearly $6,000,000 to fund decommissioning.

21. SUBSEQUENT EVENT AT THE CLOSING DATE

On January 14, 2013, in accordance with the agreement signed on December 20, 2012, with Sentient Executive GP IV, Limited, part of the Sentient Group, the Company received the $2,500,000 representing the second payment of the $3,000,000 loan.