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FINANCIAL STATEMENTS
As at December 31, 2010 and 2009

Strateco Resources Inc.
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Toronto Stock Exchange: RSC Frankfurt Stock Exchange "FSE": RF9

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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 generally accepted accounting principles in Canada 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, and reviews and approves the financial statements.

The Audit Committee is appointed by the Board of Directors. All its members are independent directors. All three members are external directors. The 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, Chartered Accountants, an independent chartered accounting firm, 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, 2010 and 2009.

(Signed) Guy Hébert

Guy Hébert
President and Chief Executive Officer

(Signed) Paul Einarson

Paul Einarson
Chief Financial Officer

Boucherville, Canada
March 21, 2011

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March 21, 2011

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 balance sheet as at December 31, 2010 and the statements of operations, comprehensive loss and deficit and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audit 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers" 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.

PRICEWATERHOUSECOOPERS

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.

Other matter

The financial statements of Strateco Resources Inc. as at December 31, 2009 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those statements on March 11, 2010.

PricewaterhouseCoopers LLP[1]

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[1]Chartered Accountant auditor permit no 20910

STRATECO RESOURCES INC.
Balance Sheets
December 31, 2010 and 2009

	2010	2009
	$	$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	10,057,889	321,065
Current portion of tax credits receivable (Note 5)	8,149,396	9,306,880
Sales tax receivable	791,607	334,951
Investment	135,000	45,000
Prepaid expenses and other	370,761	287,348
	19,504,653	10,295,244
NON-CURRENT PORTION OF TAX CREDITS RECEIVABLE (Note 5)	1,935,799	-
FUNDS RESERVED FOR EXPLORATION (Note 4)	5,000,040	2,473,260
MINING PROPERTIES (Note 7)	6,542,234	10,827,687
DEFERRED EXPLORATION EXPENDITURES (Note 7)	46,251,004	36,304,887
PROPERTY AND EQUIPMENT (Note 8)	9,604,358	1,754,666
	88,838,088	61,655,744
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued charges	2,907,777	1,697,302
Loans payable (Note 9)	3,775,843	-
Current portion of obligations under capital leases (Note 10)	275,244	156,814
	6,958,864	1,854,116
OBLIGATIONS UNDER CAPITAL LEASES (Note 10)	45,003	171,522
CONVERTIBLE NOTES (Note 11)	5,588,713	-
FUTURE INCOME TAX LIABILITY (Note 16)	-	1,293,000
ASSET RETIREMENT OBLIGATIONS (Note 12)	1,316,413	160,000
	13,908,993	3,478,638
SHAREHOLDERS' EQUITY		
Capital stock (Note 13)	71,698,381	58,766,177
Equity component of convertible notes (Note 11)	7,683,910	-
Warrants (Note 13)	3,383,533	-
Contributed surplus (Note 15)	9,419,946	8,814,337
Deficit	(17,256,675)	(9,403,408)
	74,929,095	58,177,106
	88,838,088	61,655,744

Going concern (Note 1)
Contingencies (Note 5)
Commitments (Note 21)
See notes to financial statements.

ON BEHALF OF THE BOARD

(Signed) Guy Hebert — (Signed) Robert Desjardins

Guy Hebert, Director — Robert Desjardins, Director

STRATECO RESOURCES INC.

Statements of Operations, Comprehensive Loss and Deficit

Years ended December 31, 2010 and 2009

	2010	2009
	$	$
INCOME		
Interest income	43,203	54,046
EXPENSES		
General and administrative	1,400,281	943,750
Investor relations and shareholders communications	585,500	560,109
Interest on loans payable and bank charges	50,597	2,216
Interest on obligations under capital leases	26,852	-
Financing fees	136,263	3,901
Loss before the following items	(2,156,290)	(1,509,976)
Stock-based compensation (Note 14)	405,423	543,199
Accretion expense on convertible notes (Note 11)	1,097,099	-
Accretion expense on asset retirement obligation (Note 12)	76,257	-
Accretion expense on loans payable (Note 9)	7,049	-
Amortization of property and equipment	38,702	19,145
Unrealized gain on changes in fair value of investment	(90,000)	(10,000)
Write-down of mineral properties, deferred exploration expenditures and property and equipment (Notes 7 and 8)	5,400,000	-
Loss before income tax	(9,090,820)	(2,008,274)
Future income tax recovery (Note 16)	(1,237,553)	(525,000)
NET LOSS AND COMPREHENSIVE LOSS	(7,853,267)	(1,483,274)
Deficit, beginning of year	(9,403,408)	(7,920,134)
Net loss	(7,853,267)	(1,483,274)
Deficit, end of year	(17,256,675)	(9,403,408)
NET LOSS PER SHARE, BASIC AND DILUTED	(0.063)	(0.012)
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)	123,019	119,432

See notes to financial statements.

STRATECO RESOURCES INC.
Statements of Cash Flows
Year ended December 31, 2010 and 2009

	2010	2009
	$	$
OPERATING ACTIVITIES		
Net loss	(7,853,267)	(1,483,274)
Non-cash items:		
Stock-based compensation	405,423	543,199
Unrealized gain on changes in fair value of investment	(90,000)	(10,000)
Accretion expense on convertible notes	1,097,099	-
Accretion expense on asset retirement obligation	76,257	-
Accretion expense on loans payable	7,049	-
Write-off of deferred expenditures and mining properties	5,400,000	-
Amortization of property and equipment	38,702	19,146
Future income tax recovery	(1,237,553)	(525,000)
Warrants included in financing fees	13,864	-
	(2,142,426)	(1,455,929)
Changes in non-cash working capital items		
Sales tax recoverable	(456,656)	180,435
Prepaid expenses	(83,413)	(4,672)
Accounts payable and accrued charges	(452,112)	192,373
	(992,181)	368,136
Cash flow from operating activities	(3,134,606)	(1,087,793)
INVESTING ACTIVITIES		
Acquisition of mining properties	(184,447)	(222,133)
Increase in deferred exploration expenditures	(13,513,745)	(16,866,957)
Tax credits received	6,904,001	8,310,361
Additions to property and equipment	(7,712,480)	(404,714)
Cash flow from investing activities	(14,506,671)	(9,183,443)
FINANCING ACTIVITIES		
Common share, warrants and convertible notes issuance (Notes 11 and 13)	29,494,493	2,500,000
Issue costs	(833,665)	(133,815)
Exercise of stock options	80,000	-
Payments on obligations under capital leases	(278,687)	-
Loans payable, net of cash issue costs (Note 9)	6,416,000	-
Repayment of a loan payable (Note 9)	(2,500,000)	-
Cash flow from financing activities	32,378,141	2,366,185
NET VARIATION IN CASH AND CASH EQUIVALENTS	14,736,864	(7,905,051)
Cash and cash equivalents, beginning of year	321,065	10,699,376
Cash and cash equivalents, end of year	15,057,929	2,794,325
Less: Funds reserved for exploration	(5,000,040)	(2,473,260)
CASH AND CASH EQUIVALENTS, PRESENTED ON THE BALANCE SHEET	10,057,889	321,065

Supplemental cash flow information (Note 20)

See notes to financial statements.

1. INCORPORATION, NATURE OF OPERATIONS AND GOING CONCERN

The Company is incorporated under the *Canada Business Corporations Act* and is engaged in the acquisition, the exploration and the development of mining properties. It has not yet determined whether the mining properties and the deferred exploration expenditures have economically recoverable ore reserves. Recovery of amounts indicated under mining properties, the deferred exploration 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, development and profitable future production or the proceeds from the sale of such assets.

The accompanying audited financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") 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 substantial doubt upon the Company's ability to continue as a going concern as described in the following paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These audited financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and balance sheet classifications that would be necessary were the going concern assumption would not be appropriate. These adjustments could be material.

For the year ended December 31, 2010, the Company reported a loss of $7,853,267 (a loss of $1,483,274 in 2009) and has an accumulated deficit of $17,256,675. In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its existing commitments for exploration and development programs and pay general and administration costs. As at December 31, 2010, the Company had working capital and funds reserved for exploration of $17,545,829 including cash and cash equivalents of $10,057,889. Management estimates that these funds will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2011. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company's financial statements have been prepared in accordance with Canadian GAAP. All figures are in Canadian dollars unless otherwise noted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the assets and liabilities reported. These same estimates and assumptions also have an impact on the contingencies as at the date of the financial statements, as well as amounts related to revenue and expenses for the periods. Critical estimates include estimates of the tax credit receivable, valuation of future income tax assets and liabilities, the useful life of property and equipment, impairment charge of mining properties, deferred exploration expenditures and property and equipment, assumptions used in determining asset retirement obligations including the expected timing of payment of the total undiscounted amount of the estimated cash flows required to settle the obligations, the evaluation of the carrying value of the components of the convertible notes and the fair value of stock options and warrants. Actual results could therefore differ from these estimates.

CASH AND CASH EQUIVALENTS

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

EXPLORATION FUNDS

These funds are restricted in use for exploration expenses pursuant to flow-through financing agreements.

INVESTMENT

The fair value of investment in shares corresponds to the last bid price at the end of the period.

MINING PROPERTIES AND DEFERRED EXPENDITURES

Exploration properties include rights in mining properties and deferred exploration expenditures. Expenditures incurred on non-producing properties identified as having development potential are deferred until the economic viability of the project has been established, at which time these costs are added to mining properties.

Proceeds on the sale of exploration properties are applied by property in reduction of the mining properties, then in reduction of the deferred exploration expenditures and any residual is recorded in the statement of operations, comprehensive loss and deficit unless there is contractual work required in which case the residual gain is deferred and will be reduced the contractual disbursements when done. Government assistance, mining duties credits and other credits related to exploration work are applied against the deferred exploration expenditures. Expenditures not related to specific properties are accounted for in the statements of operations, comprehensive loss and deficit.

EXPLORATION SUPPLIES

The exploration supplies inventories will be used for exploration and are valued at the lower of FIFO and net recoverable value. Costs include acquisition, freight and other directly attributable costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as identified by comparing their net book value to the estimated undiscounted future cash flows generated by their use and eventual disposal. Impairment is measured as the excess of the carrying value over the fair value, determined principally by discounting the estimated net future cash flows expected to be generated from the use and eventual disposal of the related asset. In the event that the Company has insufficient information about its long-lived assets to estimate future cash flows to test the recoverability of the capitalized costs, the Company will test for impairment by comparing the fair value to the carrying amount, without first performing a test for recoverability.

PROPERTY AND EQUIPMENT AND AMORTIZATION

Property and equipment are recorded at cost. Amortization is calculated to amortize the cost of property and equipment less their residual values over their estimated useful lives. Amortization of property and equipment, if related to exploration, is capitalized in deferred exploration expenditures. For those assets which are not related to exploration, amortization expense is recognized in the statement of operations, comprehensive loss and deficit.

Property and equipment including assets recorded under capital lease are amortized using the straight line method until 2014, which is the anticipated timing of the final production decision with the exception of certain machinery, rolling stock and computer equipment which are amortized over a three to five year period.

LEASES

Leases have been classified as either capital or operating. A lease which transfers substantially all of the benefits and risks incidental to the ownership of property is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to operations or deferred exploration expenditures as incurred.

CONVERTIBLE NOTES

The liability, equity components and others (when applicable) of convertible notes are presented separately on the balance sheet 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 that do not have an associated conversion option. 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 operations, comprehensive loss and deficit.

The carrying amount of the other components (when applicable), for example warrants, are determined with the Black-Scholes 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 Shareholders' Equity as an equity component of convertible notes.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ASSET RETIREMENT OBLIGATIONS

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset amount which is amortized over the remaining service life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying the obligation (asset retirement cost).

CAPITAL STOCK

Share capital issued for non-monetary consideration is recorded at the fair market value at the date the shares were issued or the date the agreement to issue the shares was entered into.

STOCK-BASED COMPENSATION AND OTHER SHARE-BASED PAYMENTS

The Company uses the fair value method with Black-Scholes pricing model to record the compensation cost related to the issue of stock options to its employees, directors, officers and consultants. When the options are granted, the compensation charge is recorded in the statement of operations or in deferred expenditures and the counterpart is credited to contributed surplus. The expense is recorded over the vesting period for employees and over the period of services rendered for consultants. The Company uses the fair-value method with Black-Scholes pricing model to evaluate warrants granted to brokers or agents during capital raising. The expense is recorded in the share issue costs or as a reduction of debt if they qualify as debt issue costs and the counterpart is recorded against the warrants.

DEBT ISSUE COST

Debt issue costs are presented as a reduction of convertible notes and loans payable and are amortized according to the effective interest method of amortization.

INTEREST EXPENSE

The Company does not capitalize the interest expense in the cost of property and equipment for which the acquisition, construction, development or enhancement of are spread over time.

FAIR VALUE OF WARRANTS

Proceeds from unit placements are allocated between shares and warrants issued using the Black-Scholes pricing model to determine the fair value of warrants issued.

SHARE ISSUE COSTS

Expenses relating to the issue of shares are accounted for as a reduction of the share capital during the year they are incurred. The resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Future income taxes related to the temporary differences are recorded on the date that the Company renounces the deductions to investors together with a corresponding charge to share issue costs in the capital stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

INCOME TAXES

The Company records its income taxes using the liability method. Under this method, future income tax assets and liabilities are recognized taking into account temporary deductible or taxable differences between the carrying value and the fiscal value of assets and liabilities, using the enacted or substantively enacted income tax rate applicable for the year in which the differences should be reversed. The Company establishes a valuation allowance for future income tax assets if, based on available information, it is more likely than not that part or all of future income tax assets will not be realized.

NET LOSS PER SHARE

The basic and diluted net loss per share is calculated based on the weighted-average number of common shares outstanding during the year. The current effect of potential issuances of shares under stock options, warrants and convertible notes would be anti-dilutive, and accordingly basic and diluted loss per share are the same.

FINANCIAL INSTRUMENTS

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net earnings.
- Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in other comprehensive income (loss). Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Company has adopted the following classification:

- Cash and cash equivalents, investment and exploration funds are classified as held-for-trading.
- Prepaid expenses and other are classified as loans and receivables.
- Accounts payable and accrued charges, loans payable, obligations under capital lease and convertibles notes are classified as other liabilities.

3. FUTURE ACCOUNTING CHANGES

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

4. CASH AND CASH EQUIVALENTS

	2010	2009
	$	$
Cash	5,057,929	1,794,325
Term deposits rate of 1.05% (rate of 0.40% in 2009) maturing on January 23, 2011	10,000,000	1,000,000
Less: Funds reserved for exploration	(5,000,040)	(2,473,260)
	10,057,889	321,065

On December 31, 2010, of the $5,000,040 ($2,500,000 in 2009) exploration work that had to be undertaken following the December 23, 2010 flow-through private placement, $50,121 ($643,327 in 2009) exploration expenses were incurred of which none were paid ($26,740 in 2009) during the year.

5. TAX CREDITS RECEIVABLE

	2010	2009
	$	$
Quebec refundable credit on mining duties at the rate of 12%		
2007	100,248	1,275,258
2008	1,501,503	1,501,503
2009 (i)	1,079,132	1,061,665
2010 (i) (ii)	856,667	-
Refundable credit for resource-related for exploration expenses at rates varying from 35% to 38.75%		
2009	-	5,468,454
2010	6,547,645	-
	10,085,195	9,306,880
Less: Non-current portion of tax credits receivable	1,935,799	-
Current portion of tax credits receivable	8,149,396	9,306,880

(i) Due to delays in the processing of claims for mining duty refunds, the Company does not expect to receive the 2009 or 2010 refunds within the next twelve months.

(ii) The credit on mining duty receivable reflects not yet enacted nor substantively enacted changes in the mining duties regime that were announced in the 2010 Quebec government budget. From April 1, 2010, if enacted or substantively enacted, the amendments increase the mining duty rate to 14% on 50% of eligible expenditures. In addition, eligible expenditures exclude those funded with flow-through funds.

The Company received communications from tax authorities in March 2011 proposing to disallow certain exploration expenditures in the calculation of tax credits receivable. Management vigorously objects these exclusions and estimates the maximum exposure to be a reduction of the tax credits receivable of approximately $1.3 million as at December 31, 2010, if all exploration expenditures referred to in the communications are disallowed. Management did not reduce the carrying amount of tax credits receivable as at December 31, 2010 as the discussions are preliminary, the outcome of this contingent loss is not determinable and no formal notice of assessment was received, and therefore the Company has insufficient evidence on which to base a decision as to the outcome of the contingent loss.

6. INVESTMENT

The Company owns 1,000,000 shares of Pacific Bay Minerals Ltd. ("Pacific Bay") shares which were trading at $0.135 as at December 31, 2010 ($0.045 at December 31, 2009). Consequently, the Company recorded an unrealized gain of $90,000 on change in the fair value of the investment since January 1, 2010.

7. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

Mining properties	Interest	December 31, 2009	Additions	Write-down	December 31, 2010
		$	$	$	$
Matoush project					
Matoush	100%	338,306	351	-	338,657
Matoush Extension	100%	1,236	19,606	-	20,842
Eclat	100%	1,280,807	5,094	-	1,285,901
Pacific Bay-Matoush	Option of 60%	261,277	177,436	-	438,713
Other projects					
Mistassini	Option of 60%	9,041	786	-	9,827
Apple	100%	8,937,020	11,274	(4,500,000)	4,448,294
		10,827,687	214,547	(4,500,000)	6,542,234

Mining properties	Interest	December 31, 2008	Additions	Write-down	December 31, 2009
		$	$	$	$
Matoush project					
Matoush	100%	337,000	1,306	-	338,306
Matoush Extension	100%	-	1,236	-	1,236
Eclat	100%	1,184,600	96,207	-	1,280,807
Pacific Bay-Matoush	Option of 60%	126,240	135,037	-	261,277
Other projects					
Mistassini	Option of 60%	-	9,041	-	9,041
Apple	100%	8,923,314	13,706	-	8,937,020
		10,571,154	536,840	-	10,827,687

Deferred exploration expenditures	2010	2009
	$	$
Deferred exploration expenditures	45,374,247	36,092,123
Exploration supplies	876,757	212,764
	46,251,004	36,304,887

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

Deferred exploration expenditures	December 31, 2009	Additions	Tax credits	Write-down	December 31, 2010
	$	$	$	$	$
Matoush project					
Matoush	31,935,634	11,752,087	(5,085,551)	-	38,602,170
Matoush Extension	453,340	38,290	(16,700)	-	474,930
Eclat	997,781	5,302,480	(2,325,098)	-	3,975,163
Pacific Bay-Matoush	812,577	527,330	(228,951)	-	1,110,956
Other projects					
Mistassini	490,719	21,878	(16,958)	-	495,639
Apple	1,402,072	72,375	(9,058)	(750,000)	715,389
	36,092,123	17,714,440	(7,682,316)	(750,000)	45,374,247

Deferred exploration expenditures	December 31, 2008	Additions	Tax credits	Write-down	December 31, 2009
	$	$	$	$	$
Matoush project					
Matoush	22,864,066	15,143,490	(6,071,922)	-	31,935,634
Matoush Extension	456,320	24,661	(27,641)	-	453,340
Eclat	669,376	609,287	(280,882)	-	997,781
Pacific Bay-Matoush	422,741	722,678	(332,842)	-	812,577
Other projects					
Mistassini	293,215	373,233	(175,729)	-	490,719
Apple	1,252,357	160,568	(10,853)	-	1,402,072
	25,958,075	17,033,917	(6,899,869)	-	36,092,123

MATOUSH
The Company owns 100% of the Matoush property, located about 260 km north of Chibougamau. The property is subject to a 2% Net Smelter Return ("NSR") royalty.

MATOUSH EXTENSION
The Company owns 100% of the Matoush Extension property.

ECLAT
In June 2009, the Company made the last payment of $96,000 pursuant to the letter of intent signed on July 6, 2005 with Vija Ventures Corporation ("Vija"). Having met all its obligations, 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.

PACIFIC BAY-MATOUSH
On January 14, 2008, the Company signed the final agreement to earn a 60% interest in the Pacific Bay-Matoush property owned by Pacific Bay Minerals Ltd ("Pacific Bay") located in the Matoush District of Quebec's Otish Mountains. The agreement calls for the Company to pay Pacific Bay a total of $500,000, issue 200,000 common shares and incur $3 million in exploration expenditures over four years, including a minimum of 10,000 metres of drilling at a rate of 2,500 metres per year. In addition, the Company acquired on the signature date of the final agreement 1,000,000 units of Pacific Bay at a price of $0.30 per unit whereby each unit consists of one common share and one warrant to purchase a common share at $0.60 per share for a period of 24 months. The warrants expired without being exercised.

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

In October 2009, the Company met its annual commitments for the year by completing the issuance of 40,000 common shares (valued at $34,400), paying $100,000 and completing $750,000 in exploration work including the minimum of 2,500 metres of drilling.

In October 2010, the Company met its annual commitments for the year through the issuance of 50,000 common shares (valued at $30,100 based on the share price on the date of the issuance of the shares) and by paying $125,000. The annual commitments for 2010 regarding exploration work were not met as only $298,224 was spent. The Company negotiated an amendment whereby the remaining exploration expenditures of 2010 will be added to the 2011 exploration work commitment. In addition to the exploration work of approximately $1.0 million planned for 2011, (which will also meet the minimum metres drilled requirements) the Company must make a $175,000 payment and issue 70,000 shares on or before October 29, 2011, to earn its 60% interest in the Pacific Bay-Matoush property.

MISTASSINI
Pursuant to a letter of intent dated November 20, 2007 and the exercise of its right of first refusal on February 14, 2008, the Company could earn a 60% interest in Majescor Resources Inc ("Majescor") uranium rights on the Mistassini property located in the Otish Mountains, Quebec by incurring an aggregate of $1.3 million in exploration expenditures over three years. On November 24, 2008, the Company and Majescor signed a formal agreement retroactive to February 14, 2008. The Company had to reimburse Majescor the cost of the drilling program done in December 2007 (approximately $250,000) and incur an additional $250,000 in exploration expenses on the property in Year 1, for a total firm commitment of $500,000. As at December 31, 2009, the Company has met its $500,000 and $400,000 commitments for Year 1 and Year 2, respectively. The Mistassini property is subject to a royalty of 2% of the proceeds from the all sales of uranium oxide. The Company met its final commitments in February 2011 thus successfully earning its 60% interest in the property.
APPLE
The Apple property is located 80 km southeast of Radisson, in the James Bay area, Quebec. The property is subject to a 2% NSR royalty of which 1% can by repurchased by the Company for $1 million.

In accordance with its accounting policies, the Company reviewed the factors and conditions that may indicate the need for an assessment for impairment of of its mining properties as at December 31, 2010.

The Company is currently concentrating its efforts towards the development of the Matoush property and therefore has limited resources available for the exploration and evaluation of the Apple property for 2011 and beyond which led the Company to determine whether a write-down of capitalized costs related to the Apple property was required as at December 31, 2010. The Company does not currently have sufficient information regarding the Apple property to estimate the future cash flows needed to test the recoverability of the capitalized costs for that property. Therefore, the Company tested the Apple property for impairment by comparing the fair value to the carrying amount, without first performing a test for recoverability.

Based on the assessment for impairment performed, the Apple property, the related deferred exploration expenses and the related property and equipment ("Apple assets") were written down by $4.5 million, $750,000 and $150,000, respectively, on a pro-rata basis of their carrying value as at December 31, 2010, representing an impairment loss of $5.4 million.

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

The Company estimated the fair value of the Apple assets, representing 50% of the carrying amount of the Apple assets, through application of the market approach utilizing the average variation of the share price calculated from guideline public companies between December 31, 2010 and September 6, 2007, which was the acquisition date of the Apple property by the Company through the issuance of common shares. Guideline public companies are uranium exploration-stage public companies located in Canada that are considered to provide a reasonable basis for comparison to the relative investment characteristics of the property being valued.

8. PROPERTY AND EQUIPMENT

As at December 31, 2010	Cost	Accumulated amortization	Write-down	Net carrying value
	$	$	$	$
Entrance and access ramp	544,859	-	-	544,859
Fuel tanks	631,596	512,014	-	119,582
Camp and infrastructure	8,615,132	740,541	150,000	7,724,591
Road	203,527	152,645	-	50,882
Rolling stock	276,900	223,241	-	53,659
Machinery	158,790	123,933	-	34,857
Equipment	1,003,285	493,331	-	509,954
Computer equipment	368,819	239,637	-	129,182
Leasehold improvements	8,335	6,010	-	2,325
Camp and infrastructure under capital lease	397,828	131,334	-	266,494
Equipment under capital lease	201,106	33,133	-	167,973
	12,410,177	2,655,819	150,000	9,604,358

The amounts of property and equipment that were purchased and delivered or are under construction on the Matoush project site and which were not amortized as of December 31, 2010 amounted to $544,859 and are presented in entrance and access ramp (nil in 2009). There was no amortization expense relating to capital leases expensed in the statement of operations.

Amortization expense relating to property and equipment under capital lease of $164,467 was capitalized in deferred exploration expenditures for the year ended December 31, 2010 (nil in 2009). There was no amortization expense relating to capital leases expensed in the statement of operations (nil in 2009).

As at December 31, 2009	Cost	Accumulated amortization	Net carrying value
	$	$	$
Fuel tanks	665,670	398,852	266,818
Camp	408,100	74,818	333,282
Road	203,526	111,940	91,586
Rolling stock	223,781	179,688	44,093
Machinery	120,764	117,406	3,358
Equipment	849,429	329,646	519,783
Computer equipment	301,480	139,173	162,307
Leasehold improvements	8,335	3,232	5,103
Camp under capital lease	328,336	-	328,336
	3,109,421	1,354,755	1,754,666

9. LOANS PAYABLE

(a) The Company received a $4,000,000 loan from SIDEX, Limited Partnership, ("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 exploration expenses (Note 5) or by December 31, 2011. 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 $84,000 in cash to SIDEX. Each warrant entitles the holder to acquire one common share of the Company for 24 months at a price of $1.05 per share.

The estimated fair value of $0.32 per warrant for an aggregate of $161,073 was determined using the Black-Scholes pricing model using the following assumptions: risk-free interest rate of 1.6%, expected volatility of 72%, no expected dividend yield and an expected life of the warrants of two years.

(b) The Company received a $2,500,000 loan from SIDEX on September 15, 2010. The loan was secured by the 2009 refundable credit for resources-related exploration expenses and had to be repaid within 30 days from the receipt of the 2009 refundable credit for resources-related exploration expenses or by March 15, 2011. The loan bore interest at the annual rate of 9%.

In connection with the loan, the Company issued 300,000 common share purchase warrants to SIDEX. Each warrant entitles the holder to acquire one common share of the Company for 18 months at a price of $1.00 per share.

The estimated fair value of $0.046 per warrant for an aggregate of $13,864 was determined using the Black-Scholes pricing model using the following assumptions: risk-free interest rate of 1.53%, expected volatility of 58%, no expected dividend yield and an expected life of the warrants of 1.5 years.

On October 8, 2010, the Company repaid in full the $2,500,000 loan from SIDEX, plus accrued interest of $14,178.

10. OBLIGATIONS UNDER CAPITAL LEASES

	2010	2009
	$	$
Obligations under capital leases	320,247	328,336
Current portion of the obligations under capital leases	(275,244)	(156,814)
	45,003	171,522

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

	$
2011	290,504
2012	17,592
2013	17,592
2014	16,126
	341,814
Less: imputed interest calculated at 9%	(21,567)
	320,247

11. CONVERTIBLE NOTES

On January 27, 2010, the Company closed a private placement with Sentient Executive GP III, Limited ("Sentient") of 100,000 units for an amount of $95,000 and $14,905,000 of convertible notes accompanied by common share purchase warrants. Each unit consists of one common share and one-half of one warrant. 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 has the option of converting the notes in increments 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%.

From the total amount received from the units, $13,117 has been allocated to warrants and $81,883 to common shares, according to a pro rata allocation of the estimated fair value of each of the two components. The estimated fair value of the warrants was determined using the Black-Scholes pricing model based on two sets of assumptions to which probabilities were assigned: risk-free interest rate of 1.66%, expected volatility of 92%, no expected dividend yield and an expected life of the warrants of 2.75 years.

When initially recorded, the proceeds received amounted to $14,905,000 for the convertible notes. Of this amount, the debt, warrants and equity components represents respectively $4,794,089, $2,055,475 and $8,055,436. 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. For the year ended December 31, 2010, an increase due to the accretion of $1,097,099 was recorded in the statement of operations, comprehensive loss and deficit. This entry does not have an impact on the Company's cash position. The notes do not bear interest and therefore there are no cash interest payments. Subsequently, the Company evaluated the fair value of the warrants with the same methodology and assumption as the warrants issued with the units. The residual was attributed to the equity component and is presented in the shareholder's equity.

11. CONVERTIBLE NOTES (CONT'D)

The Company has agreed to pay Sentient transaction fees equal to 5% of the gross proceeds of the private placement. Transaction fees of $750,000 were paid in the corresponding number of units representing 789,474 common shares issued and 394,737 warrants issued under the same conditions as the warrants included in the units. The expense of these $750,000 fees was split between the debt, warrants and equity components for $241,232, $103,429 and $405,339, respectively. To record the common share and warrants issued, the Company first evaluated the fair value of $103,558 for the warrants with the same methodology and assumptions as the warrants issued with the units and then attributed the residual value of $646,441 to the common shares issued. Transaction costs of $190,406 were also allocated between the debt, warrants and capital component of the convertible notes for $61,243, $26,258 and $102,905, respectively. The tax impact on the warrants and capital components of the convertible notes is $34,886 and $136,718, respectively.

12. ASSET RETIREMENT OBLIGATIONS

	2010	2009
	$	$
Balance, beginning of year	160,000	-
Accretion of asset retirement obligations	76,257	-
New obligations	1,080,156	160,000
Balance, end of year	1,316,413	160,000

The estimated undiscounted cash flows required to settle the asset retirement obligations is $1,893,000. A discount rate of 15% was used to estimate the new obligations in 2010 and the calculation uses the assumption that the disbursements necessary to settle the obligations would be made in 2014, 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 obligation will be settled in 2014. Should the Company decide to proceed with a production decision on the Matoush property, the obligation will be settled further into the future. The Company is reviewing, at each period, the expected timing of payment of the cash flows required to settle the obligations and adjusts the asset retirement obligations accordingly.

The Company added new obligations in 2010 to dismantle the Matoush camp and infrastructure and restore the site to its original state for $1,693,000. The discounted present value of these obligations was recorded in camp and infrastructure for $1,080,156.

13. CAPITAL STOCK

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.

ISSUED AND FULLY PAID

	2010		2009	
	Common shares	**Amount**	**Common shares**	**Amount**
		$		$
Balance, beginning of year	121,806,432	58,766,177	119,266,432	55,579,592
In consideration of mining properties (Note 7)	50,000	30,100	40,000	34,400
In cash				
Private placements (Note 11) (a) (b)	12,328,574	10,339,453	-	-
Warrants granted as part of private placements (Note 11) (a) (b)	-	(1,324,096)	-	-
Flow-through private placements (a)	5,263,200	5,000,040	2,500,000	2,500,000
Exercise of stock options (Notes 14 and 15)	400,000	96,000	-	-
Issue costs				
Flow-through shares renunciation (Note 16)	-	(415,000)	-	786,000
Professional and underwriting fees net of income taxes (Note 11) (a)	-	(794,293)	-	(133,815)
Balance, end of year	139,848,206	71,698,381	121,806,432	58,766,177

(a) On December 23, 2010, the Company completed a brokered private placement of 9,639,000 units at a price of $0.83 per unit for gross proceeds of $8,000,453.

Each unit is comprised of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $1.05 for a period of 24 months from closing. The estimated fair value of the warrants of $0.21 per warrant was determined using the Black-Scholes model with no expected dividend yield, an expected volatility of 70%, a risk-free interest rate of 1.6% and an expected life of warrants of two years. An amount of $1,017,427 was thus recognized as warrants and has reduced the share capital.

As part of this brokered private placement, the Company also issued 5,263,200 flow-through shares for gross proceeds of $5,000,040. Under the flow-through share agreements, the Company agreed to renounce, in 2011, $5,000,040 of qualifying expenditures to the investors effective December 31, 2010.

The Company incurred professional underwriting fees in connection with this offering which totaled $914,441 and were allocated between share capital and warrants for $838,266 and $76,175, respectively.

13. CAPITAL STOCK (CONT'D)

(b) On December 23, 2010, Sentient exercised its full right of participation of 11.98% granted on January 27, 2010 (Note 11) and purchased 1,800,000 units for total proceeds of $1,494,000 in a non-brokered private placement under the same terms as the brokered private placement closed on December 23, 2010. The 900,000 warrants issued were also valued at $0.21 per warrant. An amount of $189,994 was thus recognized as warrants and has reduced share capital.

WARRANTS

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

	2010			2009		
	Number	Weighted-average exercise price	Total	Number	Weighted-average exercise price	Total
		$	$		$	$
Balance, beginning of year	-	-	-	5,387,200	3.40	5,415,675
Private placement (Note 11) (a) (b)	5,769,550	1.05	1,220,538	-	-	-
Convertible debt (Note 11)	7,844,737	1.00	2,055,475	-	-	
In consideration of issue costs (Note 11)	394,737	1.00	103,558	-	-	-
Issue costs net of tax impact of $34,886	-	-	(170,976)	-	-	-
Loan financing (Note 9)	800,000	1.03	174,938	-	-	-
Expired		-	-	(5,387,200)	3.40	(5,415,675)
Balance, end of year	14,809,024	1.02	3,383,533	-	-	-

Outstanding warrants as at December 31, 2010, are shown in the following table

Number of warrants	Exercise price	Expiry date
300,000	$1.00	March 15, 2012
500,000	$1.05	November 26, 2012
5,769,550	$1.05	December 23, 2012
8,239,474	$1.00 till January 27, 2012 and $1.05 till January 27, 2013	January 27, 2013
14,809,024		

14. 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 capital stock. The cost of the options is recorded over the vesting period.

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

		2009		
	Number	**Weighted-average exercise price**	**Number**	**Weighted-average exercise price**
		$		**$**
Balance, beginning of year	4,310,500	1.89	3,314,500	2.20
Granted	1,302,000	1.00	1,077,500	1.00
Exercised	(400,000)	0.20	-	-
Cancelled	(182,000)	1.76	(81,500)	2.89
Balance, end of year	5,030,500	1.75	4,310,500	1.89

14. STOCK OPTION PLAN (CONT'D)

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

Number of outstanding options	Number of exercisable options	Exercise price	Expiry date
		$	
175,000	175,000	0.40	January 24, 2011
100,000	100,000	2.60	February 4, 2012
30,000	30,000	2.80	February 7, 2012
150,000	150,000	2.86	March 20, 2012
700,000	700,000	3.37	April 11, 2012
75,000	75,000	3.20	May 6, 2012
60,000	60,000	3.20	June 11, 2012
30,000	30,000	3.20	June 27, 2012
120,000	120,000	2.72	July 14, 2012
30,000	30,000	3.20	July 29, 2012
300,000	300,000	2.10	March 18, 2013
718,000	718,000	2.04	April 13, 2013
145,000	145,000	2.04	August 14, 2013
15,000	15,000	2.04	September 25, 2013
67,500	67,500	2.04	October 29, 2013
7,500	7,500	2.04	November 24, 2013
1,005,500	1,005,500	1.00	June 8, 2014
7,000	4,666	1.00	September 14, 2014
7,000	4,666	1.00	November 9, 2014
44,000	19,332	1.00	January 4, 2015
300,000	100,000	1.00	May 4, 2015
500,000	500,000	1.00	May 26, 2015
444,000	413,665	1.00	June 6, 2015
5,030,500	4,770,829		

During the year ended December 31, 2010, stock-based compensation expense of $405,423 ($543,199 in 2009) was recorded in the statement of operations, comprehensive loss and deficit and $216,186 ($169,945 in 2009) was capitalized to deferred exploration expenditures.

During the year ended December 31, 2010, the Company granted 1,302,000 stock options (1,077,500 in 2009) at a exercise price of $1.00 per share and with an expected life of five years to officers, directors and consultants of which 909,000 (963,500 in 2009) vested immediately and 393,000 (107,000 in 2009) will 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 $0.46 ($0.41 in 2009) per option. The market price of the Company' share was lower than the exercise price at the grant dates.

14. STOCK OPTION PLAN (CONT'D)

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

	2010	2009
Risk-free interest rate	2.44%	1.88%
Expected life	5 years	2 years
Expected volatility	102%	97%
Expected dividend yield	0%	0%

15. CONTRIBUTED SURPLUS

	2010	2009
	$	$
Balance, beginning of year	8,814,337	3,413,518
Stock based compensation expense	621,609	713,144
Exercise of stock options	(16,000)	-
Expiration of warrants, net of income taxes	-	4,687,675
Balance, end of year	9,419,946	8,814,337

16. INCOME TAXES

On December 23, 2010, the Company issued 5,263,200 flow-through shares for gross proceeds of $5,000,040. Under the flow-through share agreements, the Company agreed to renounce, in 2011, $5,000,040 of qualifying expenditures to the investors effective December 31, 2010.

On December 8, 2009, the Company issued 2,500,000 flow-through shares for gross proceeds of $2,500,000. Under the flow-through share agreements, the Company agreed to renounce, in 2010, $2,500,000 of qualifying expenditures to the investors effective December 31, 2009.

Under CICA EIC-146, *Flow-through shares*, the Company is required to record a provision at the time the actual renunciation forms are filed with the tax authorities, by an increase in the share issue expenses relating to the flow-through shares. The Company has estimated that the future income taxes recorded at the time of renunciation in 2010 are $415,000. Consequently, the Company has recognized share issue expenses and an increase in future income tax liability of $415,000 at the time of renunciation in the three-month period ended March 31, 2010 which arose through the issuance of the flow-through shares in December 2009 and renounced in 2010.

16. INCOME TAXES (CONT'D)

The income tax allowance differs from the amount resulting from the application of the combined Canadian statutory income tax rate as follows:

	2010	2009
	$	$
Loss before income taxes	(9,090,820)	(2,008,274)
Combined Canadian statutory income tax rate	29.9%	30.9%
Income tax benefit at the combined statutory income tax rate	(2,718,155)	(620,600)
Share issue costs	-	(210,000)
Stock-based compensation	121,221	167,800
Accretion expense on convertible debt	311,588	-
Change in fair value of the investment	(13,455)	(3,100)
Change in income tax rate	217,966	420,562
Non-capital losses expired	142,071	157,000
Capital gain on warrants expired	-	836,722
Non-deductible and other expenses	(486,928)	(413,384)
Mining duty not taxable	-	(860,000)
Valuation allowance	1,188,139	-
	(1,237,553)	(525,000)

The tax effects of temporary differences giving rise to material future income tax assets and liabilities as at December 31, 2010 and 2009 are as follows:

	2010	2009
	$	$
Future income tax asset:		
Net operating losses	2,785,000	2,002,000
Financial expenses	492,000	324,000
Property and equipment	218,000	217,000
Asset retirement obligations	355,000	-
Leases	86,000	-
Investments	22,000	-
	3,958,000	2,543,000
Future income tax liability:		
Mining properties and deferred expenditures	(2,568,000)	(3,836,000)
Future income tax asset (liability) before valuation allowance	1,390,000	(1,293,000)
Valuation allowance	(1,390,000)	-
Future income tax asset (liability)	-	(1,293,000)

At December 31, 2010, the Company had non-capital losses and unused share issue costs that could be deferred to later periods and used to reduce future taxable income.

16. INCOME TAXES (CONT'D)

During 2010, the Company has not recognized a future income tax liability on the $5,000,040 private placement as the renunciations of the flow-through financing were made subsequent to the year end. If the Company has sufficient unused tax loss carry forward to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carry forwards, a portion of such unrecognized losses is recorded as share issue costs up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

These non-capital losses expire as follows:

	Federal	Provincial
	$	$
Non-capital losses:		
2011	643,000	643,000
2015	710,000	654,000
2026	1,547,000	1,547,000
2027	1,568,000	1,568,000
2028	1,593,000	1,593,000
2029	785,000	785,000
2030	3,531,000	3,531,000
	10,377,000	10,321,000

17. CAPITAL DISCLOSURES

In terms of capital management, the objectives of the Company are to preserve its ability to continue as a going concern its mining exploration. The Company includes shareholders' equity, convertible notes and obligations under capital leases reduced by cash and cash equivalents in the definition of capital for a total amount of $70,504,922 ($58,177,106 in 2009). Management reviews its capital management approach on an ongoing basis 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 exercise ended December 31, 2010. 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 exploration expenses. (Note 4)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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:

MARKET RISK

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and fair value. The Company is exposed to market risk in trading its investment in Pacific Bay, a TSX Venture issuer whose activities are in the exploration field. As of December 31, 2010, a 10% decrease (increase) in the price on the stock market would result in an estimated increase (decrease) in net after-tax loss of approximately $13,500.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

(a) Interest risk
Part of the cash and cash equivalents bear interest at a fixed rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. 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, 2010, the Company had $10,000,000 (December 31, 2009 - $1,000,000) invested in term deposits bearing interest at a rate of 1.05% (0.40% as at December 31, 2009). Sensitivity to a plus or minus 1% change in the rates would not affect the reported net income and reported shareholder equity significantly.

The obligation under capital leases and the loans payable bear interest at a fixed rate while the convertible debenture does not bear interest. A fluctuation of plus or minus 1% of the interest rate would have a non-significant impact on the financial statements. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

(b) Fair value
The fair value of financial instruments is summarized as follows:

	2010		2009	
	Carrying amount	Fair Value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	10,057,889	10,057,889	321,065	321,065
Investment	135,000	135,000	45,000	45,000
Exploration funds	5,000,040	5,000,040	2,473,260	2,473,260
Prepaid expenses and other	370,761	370,761	287,348	287,348
Financial liabilities				
Accounts payable and accrued liabilities	2,907,777	2,907,777	1,697,302	1,697,302
Obligations under capital leases	320,247	320,247	328,336	328,336
Loans payable	3,775,843	4,000,000	-	-
Convertible notes	5,588,713	5,903,000	-	-

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

The Company's financial instruments as at December 31, 2010 consist of cash and cash equivalents, investments, exploration funds, prepaid expenses and other accounts payable and accrue liabilities and loan payable, obligations under capital 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.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

(c) 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 – cash and cash equivalents and investments
- 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.

CREDIT RISK
The financial instruments which expose the Company to market risk and concentrations of credit risk include cash and cash equivalents, exploration funds and prepaid expenses and other. The Company invests part of its cash and cash equivalents and funds reserved for exploration in investment certificates guaranteed by and held with a Canadian chartered bank. Other accounts receivable consists of sales tax receivable from the Federal and Quebec Governments and the tax credits receivable are from the Quebec Government.

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

As at December 31, 2010, the Company has a cash and equivalents balance of $10,057,889 ($321,065 as at December 31, 2009) and funds reserved for exploration of $5,000,040 ($2,473,260 as at December 31, 2009) to settle current liabilities of $6,958,864 ($1,854,116 as at December 31, 2009).

As at December 31, 2010, management estimates that funds available will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2011.

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.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

The following are the contractual maturities of financial liabilities, including interest where applicable as at December 31, 2010 and 2009:

	2010				
	Carrying amount	**Contractual cash flows**	**0 to 12 months**	**12 to 24 months**	**More than 24 months**
	$	**$**	**$**	**$**	**$**
Accounts payables and accrued charges	2,907,777	2,907,777	2,907,777	-	-
Loans payable	3,775,843	4,350,685	4,350,685	-	-
Obligations under capital leases	320,247	341,814	290,504	17,592	33,718
Convertible notes (Note 11)	5,588,713	14,905,000	-	-	14,905,000

	2009				
	Carrying amount	**Contractual cash flows**	**0 to 12 months**	**12 to 24 months**	**More than 24 months**
	$	**$**	**$**	**$**	**$**
Accounts payables and accrued charges	1,697,302	1,697,302	-	-	-
Obligations under capital leases	328,336	360,000	180,000	180,000	-

19. RELATED-PARTY TRANSACTION

During the year ended December 31, 2010:

a) BBH Geo-Management inc. ("BBH") charged:
   i) consultant and subcontractor fees for $3,695,000 ($2,937,000 in 2009) included in the deferred exploration expenditures;
   ii) management fees:
      1) for $848,378 ($632,000 in 2009) included in deferred exploration expenditures;
      2) for $328,841 ($12,000 in 2009) included in property and equipment;
   iii) professional fees for a total amount of $917,000 ($741,000 in 2009);
   iv) legal fees of $38,000 ($2,000 in 2009) included in share issue cost;
   v) rent of $62,000 ($62,000 in 2009).

b) An officer, in function up until June 9, 2009, charged accounting fees of $7,000 included in professional fees;

c) In addition, a company controlled by the former chief financial officer and treasurer in function from June 9, 2009 to May 12, 2010, charged accounting fees of $81,204 for the year ended December 31, 2010;

BBH is a related party to the Company since:
   i) the president of BBH is also the president of the Company;
   ii) an officer of BBH is also an officer and director of the Company.

19. RELATED-PARTY TRANSACTIONS (CONT'D)

The Company renewed its service agreement with BBH Géo-Management Inc. on August 1, 2008, for a three-year period ending on July 31, 2011. The agreement provides for a fixed monthly charge of $5,200 for office rent, office equipment and computers to be reviewed each year on July 31, management fees of 5% on all costs related to exploration and development programs and purchases related to the Matoush property, management fees of 10% on all costs related to exploration and development programs on the other properties: Eclat, Pacific Bay-Matoush, Mistassini, Apple and other future properties, and management fees of 5% on all purchases related to exploration projects or option agreements on the Eclat, Pacific Bay-Matoush, Mistassini, Apple and other future properties.

At December 31, 2010, accounts payable and accrued liabilities include an amount of $540,000 ($397,000 in 2009) owed to related-parties. These transactions occurred in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The payment conditions are the same as for the other suppliers of the Company except for BBH for which the invoices are payable upon receipt.

20. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	2010	2009
	$	$
Non-cash transactions:		
Deferred exploration expenditures included in accounts payable and accrued liabilities	1,989,471	828,820
Additions to property and equipment included in accounts payable and accrued liabilities	237,522	-
Share issue costs included in accounts payable and accrued liabilities	264,414	-
Tax credits receivable presented as a reduction of deferred expenditures	7,682,316	6,899,869
Property and equipment recorded pursuant to capital leases obligations	270,598	328,336
Property and equipment recorded pursuant to an asset retirement obligations	1,080,156	160,000
Amortization of property and equipment included in deferred exploration expenditures	1,262,363	69,145
Future income tax included in common share issue costs	415,000	-
Units issued for share issue costs net of the tax impact of $171,604	578,396	-
Stock-based compensation capitalized in deferred exploration expenses	216,186	169,945
Cash transactions:		
Interest received	41,441	69,145
Interest paid	19,906	-

21. COMMITMENTS

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

	2011	2012 and thereafeter
	$	$
Operating leases	91,467	-

22. COMPARATIVE FIGURES

Certain comparative figures in the statements of operations, comprehensive loss and deficit have been restated to conform to the financial statements' presentation adopted in the current year.