OSISKO MINING CORPORATION

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Consolidated Financial Statements
For the years ended
December 31, 2010 and 2009

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February 25, 2011

Independent Auditor's Report

To the Shareholders
of Osisko Mining Corporation

We have audited the accompanying consolidated financial statements of Osisko Mining Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of operations, comprehensive loss, deficit and accumulated other comprehensive income, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

PRICEWATERHOUSECOOPERS

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 consolidated financial statements present fairly, in all material respects, the financial position of Osisko Mining Corporation as at December 31, 2010 and December 31, 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP [1]

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[1] Chartered accountant auditor permit no. 14707

Osisko Mining Corporation
Consolidated Balance Sheets
As at December 31, 2010 and 2009

(tabular amounts expressed in thousands of dollars)

	2010	2009
	$	$
Assets		
Current assets		
Cash and cash equivalents	358,493	673,777
Short-term investments	17,068	84,064
Restricted cash	11,176	10,760
Cash collateral investments	-	5,452
Accounts receivable (note 5)	32,789	37,759
Other current assets	7,329	790
	426,855	812,602
Restricted cash	11,202	16,134
Investments (note 6)	38,527	5,732
Mining assets (note 7)	1,587,682	504,305
	2,064,266	1,338,773
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	73,311	46,047
Current portion of long-term debt (note 8)	70,405	6,155
	143,716	52,202
Long-term debt (note 8)	217,481	173,914
Future income tax liability (note 16)	111,294	-
Asset retirement obligations (note 9)	3,494	355
	475,985	226,471
Shareholders' Equity		
Share capital (note 10)	1,574,257	1,116,229
Warrants (note 10)	13,166	5,871
Contributed surplus (note 12)	43,390	24,272
Equity component of convertible debenture (note 8(ii))	11,036	11,036
Deficit	(64,587)	(45,106)
Accumulated other comprehensive income	11,019	-
	1,588,281	1,112,302
	2,064,266	1,338,773

APPROVED ON BEHALF OF THE BOARD

(signed) Victor H. Bradley, Director

(signed) Sean Roosen, Director

See accompanying notes to consolidated financial statements.

Osisko Mining Corporation
Consolidated Statements of Operations
For the years ended December 31, 2010 and 2009

(tabular amounts expressed in thousands of dollars, except per share amounts)

	2010	2009
	$	$
Expenses		
Corporate salaries and fringe benefits	9,724	7,762
General and administrative expenses	6,813	6,143
Stock-based compensation (note 12)	13,630	3,958
Investor relations and corporate development	3,788	2,907
Amortization	473	363
Loss before the following items	(34,428)	(21,133)
Interest income	3,363	1,709
Foreign exchange gain (loss)	2,751	(4,578)
Share of equity investee loss (note 6)	(644)	(198)
Gain on investments (note 6)	5,955	1,430
Write-off of mining assets	(240)	-
Others	(524)	-
Loss before income taxes	(23,767)	(22,770)
Future income tax recovery (note 16)	4,286	2,016
Net loss	(19,481)	(20,754)
Net loss per share (note 13)		
Basic and diluted	(0.05)	(0.08)
Weighted average number of common shares outstanding (note 13) (in thousands)		
Basic and diluted	360,413	260,180

See accompanying notes to consolidated financial statements.

Osisko Mining Corporation
Consolidated Statements of Comprehensive Loss, Deficit and Accumulated Other Comprehensive Income
For the years ended December 31, 2010 and 2009

(tabular amounts expressed in thousands of dollars)

	2010	2009
	$	$
Comprehensive loss		
Net loss	(19,481)	(20,754)
Other comprehensive income:		
Net gain on available-for-sale investments, net of future income taxes of $1,700,000	10,349	-
Net realized loss on available-for-sale investments, net of future income taxes recovery of $100,000	670	-
Total comprehensive loss	(8,462)	(20,754)
Deficit		
Balance - beginning of year	(45,106)	(24,352)
Net loss	(19,481)	(20,754)
Balance - end of year	(64,587)	(45,106)
Accumulated other comprehensive income		
Balance - beginning of year	-	-
Other comprehensive income	11,019	-
Balance - end of year	11,019	-

See accompanying notes to consolidated financial statements.

Osisko Mining Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(tabular amounts expressed in thousands of dollars)

	2010	2009
	$	$
Cash flows from		
Operating activities		
Net loss	(19,481)	(20,754)
Adjustments for		
Donation in common shares (note 10 (viii))	-	2,075
Stock-based compensation	13,630	3,958
Amortization	473	363
Unrealized foreign exchange loss (gain)	(2,874)	422
Share of equity investee loss	644	198
Loss on sale of marketable securities	770	-
Unrealized gain on held-for-trading financial assets	(6,725)	(1,430)
Write-off of mining assets	240	-
Future income tax recovery	(4,286)	(2,016)
	(17,609)	(17,184)
Change in non-cash working capital items (note 14)	57	7,630
	(17,552)	(9,554)
Financing activities		
Long-term debt	75,000	150,000
Capital lease payments	(11,098)	(1,208)
Debt issuance costs	(946)	(3,123)
Issuance of common shares, net of issue expenses	41,189	840,990
	104,145	986,659
Investing activities		
Net decrease (increase) in short-term investments	66,996	(84,064)
Net decrease (increase) in restricted cash	4,516	(9,543)
Decrease in cash collateral investments	5,452	13,477
Acquisition of investments	(31,947)	(4,500)
Proceeds on disposal of investments	17,185	-
Acquisition of assets	33,881	-
Assets under construction	(413,290)	(241,756)
Property, plant and equipment	(4,008)	(343)
Mineral properties, net of refundable tax credits	(80,662)	(34,398)
	(401,877)	(361,127)
Increase (decrease) in cash and cash equivalents	(315,284)	615,978
Cash and cash equivalents – beginning of year	673,777	57,799
Cash and cash equivalents – end of year	358,493	673,777
Cash and cash equivalents consists of:		
Cash	37,398	381,971
Cash equivalents	321,095	291,806
	358,493	673,777

See accompanying notes to consolidated financial statements.

1. Nature of activities

Osisko Mining Corporation ("Osisko" or the "Company") is engaged in the business of acquiring, exploring and developing gold properties, with interests substantially in Canada.

The Company's operations, development projects and exploration activities are concentrated mostly in its wholly owned Canadian Malartic property in the Abitibi Gold Belt, immediately south of the Town of Malartic and approximately 25 kilometres west of the City of Val-d'Or, Québec. On August 20, 2009, the Conseil des ministres du Québec approved the order-in-council authorizing the development of the Canadian Malartic project (the "Project"). Since then, the Company has been actively developing the Project with an estimated cost of $981,000,000.

The Company acquired a 77.13% interest in Brett Resources Inc. ("Brett") on May 19, 2010. Brett is the holder of the Hammond Reef gold project located near Atikokan in Western Ontario. The Company increased its participation to 100% through a plan of arrangement which was confirmed at a Special Meeting of Shareholders of Brett held on August 11, 2010.

The recoverability of the amounts shown for mining assets is dependent on future profitable production or proceeds from the disposal of properties.

2. Future accounting changes

The Company will cease to prepare its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles as set out in Part V of the *Canadian Institute of Chartered Accountants* ("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 set out in Part I of the *CICA Handbook – Accounting* as its primary basis of accounting. Consequently, future accounting changes to Canadian Generally Accepted Accounting Principles are not discussed in these consolidated financial statements as they will never be applied to the Company.

3. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Canadian dollar is the functional and reporting currency used to measure the Company's operations.

(a) Basis of consolidation

The Company's consolidated financial statements include the accounts of Osisko Mining Corporation and its wholly owned subsidiaries. The Company's interest in joint ventures is accounted for using the proportionate consolidation method. All intercompany balances and transactions have been eliminated.

(b) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgment is applied are assumptions and estimates relating to determining defined ore bodies, reserve values beyond proven and probable mine life, the useful life of assets for amortization purposes and for evaluation of their net recoverable amount, fair values for the purpose of impairment analysis, initial measurement of the components of the convertible debenture, asset retirement obligations, stock-based compensation and warrants and valuation allowances for future income taxes. Actual results could differ from those estimates.

3. Significant accounting policies *(continued)*

(c) 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 financial liabilities classified as held for trading are required to be measured at fair value, with gains and losses recognized in net income.

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*. Fair value is based on the quoted market price at the reporting date. If there is a permanent decline in the fair value of the investment, the cumulative loss recognized in *Accumulated other comprehensive income* is reclassified to net income. An other than temporary decline in fair value is evidenced by significant and prolonged decline in fair value and adverse indications in the market and economic environment. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market are measured at cost.

The Company has implemented the following classifications:

Category	Financial instrument
Held-for-trading financial assets	Bank balances and cash on hand Investments in warrants
Held-to-maturity financial assets	Treasury bills Bankers' acceptances Commercial paper
Available-for-sale financial assets	Investments in shares without significant influence
Loans and receivables	Guaranteed investment certificates Deposits in escrow Advances to suppliers and other receivables
Other liabilities	Accounts payable and accrued liabilities Long-term debt

(d) Cash and cash equivalents and short-term investments

Cash and cash equivalents include cash on hand, bank balances and all highly liquid short-term investments with original maturities of three months or less.

Short-term investments are highly liquid investments with original maturities greater than three months and less than one year.

(e) Refundable tax credits for mining exploration expenses

The Company is entitled to a refundable tax credit of 35% on qualified mining exploration expenses incurred in the province of Québec. The credit is accounted for against the exploration expenses incurred.

3. Significant accounting policies *(continued)*

(f) Investments with significant influence

The Company accounts for its investments using the equity method whereby it can exercise significant influence over an investee that is not a subsidiary, joint venture or variable interest entity. Once significant influence is determined, the investment is initially recorded at cost, which is determined by the consideration paid at the date of acquisition. The carrying value of the investment is then adjusted to include the Company's pro-rata share of post-acquisition earnings of the investee calculated using the equity method.

Loss in value of investment is recognized by writing down the investment if such loss is not considered temporary, and such write-down is included in the determination of net income.

(g) Joint ventures

The Company's interest in joint ventures is accounted for using the proportionate consolidation method. Under this method, the Company records its proportionate share of the assets, liabilities, revenues and expenses of the joint ventures.

(h) Mining assets

Assets under construction

Project development expenditures are grouped under Assets under construction and include borrowing costs, estimated present value of related asset retirement obligations at recognition and stock-based compensation.

Development expenditures will be amortized when the related property is placed into production and will be written off in case of impairment.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated to amortize the cost of the property, plant and equipment less their residual values over their estimated useful lives using the straight-line method and following periods:

Leasehold improvements	Lease term
Furniture and office equipment	3-5 years
Exploration equipment and facilities	3-15 years
Equipment under capital lease	7-10 years
Buildings	20 years

Amortization of property, plant and equipment, if related to exploration, is capitalized in Mineral properties and, if related to development expenditures, is capitalized in Assets under construction. These amounts will be recognized in the *Consolidated statements of operations* through amortization of mining assets when they are put into production. For those which are not related to exploration and development activities, amortization expense is recognized directly in the *Consolidated statements of operations.*

3. Significant accounting policies *(continued)*

(h) Mining assets (continued)

Mineral properties

Mineral properties include rights in mining properties and deferred exploration expenditures and are recorded at acquisition cost or at their fair value in the case of a devaluation caused by an impairment of value.

Mining rights, options to acquire undivided interests in mining rights and related deferred exploration expenditures are amortized only as these properties are put into production. These costs are written off when properties are abandoned or when cost recovery or access to resources is uncertain.

Proceeds from the sale of exploration properties are applied in reduction of related carrying costs and any excess or shortfall is recorded as a gain or loss in the *Consolidated statements of operations*. In the case of partial sale, if the carrying costs exceed the proceeds, only the losses are recorded.

Impairment of long-lived assets

The carrying value of long-lived assets, which consist primarily of mining assets, is reviewed regularly and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized if the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and disposal. Undiscounted cash flows for mining assets are based on estimates of future metal prices and foreign exchange rates, proven and probable reserves, estimated value beyond proven and probable reserves, and future operating, capital, and reclamation cost assumptions. An impairment loss is recorded on the *Consolidated statements of operations* based on the amount by which the carrying amount of the asset exceeds its fair value, which is equal to the present value of the estimated cash flows.

The amount shown as mining assets represents costs to date and does not necessarily reflect present or future values. Changes in future conditions could require material write-downs of the carrying amounts of the mining assets.

(i) Debentures

The liability and equity components of convertible debentures are presented separately on the *Consolidated balance sheet* starting from initial recognition.

The Company determines the carrying amount of the financial liability by discounting the stream of future payments of interest and principal 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 debentures at maturity.

The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability from the amount of the debentures and is presented in shareholders' equity as equity component of convertible debenture.

The transaction costs are distributed between liability and equity on a pro-rata basis of their carrying amounts.

3. Significant accounting policies *(continued)*

(j) Leases

Leases are classified as capital or operating depending on their terms and conditions. Payments under operating leases are expensed in the period in which they are incurred. The value of assets recorded under capital leases are amortized over their useful lives. A liability is established to reflect the future obligation under capital leases and reduced by principal payments.

(k) Debt issuance costs

Debt issuance costs are presented as a reduction of long-term debt and are amortized according to the effective interest rate method or over the repayment period.

(l) Asset retirement obligations

Asset retirement obligations represent the estimated discounted net present value of statutory or other legal obligations relating to restoration costs of the Canadian Malartic project. Asset retirement obligations are capitalized to the carrying value of mining assets and are adjusted for accumulated accretion in accordance with the expected timing of cash flow payments required to settle these obligations.

(m) Share and warrant issue expenses

Share and warrant issue expenses are recorded as a decrease in share capital and warrants in the year when the transactions occur.

(n) Stock-based compensation

The Company offers a share option plan for its directors, officers, employees and consultants which is described in note 11. Before January 1, 2002, no expense was recorded with respect to this plan when share options were issued.

Effective January 1, 2002, the Company applies the fair value method to account for options granted. Stock-based compensation is calculated as per the option acquisition periods. Any consideration paid on exercise of stock options is credited to share capital. The contributed surplus resulting from stock-based compensation is transferred to share capital when the options are exercised.

(o) Foreign currency transactions and integrated foreign subsidiary

The financial statements of integrated foreign operations and transactions denominated in currencies other than the functional currency are translated into the functional currency using the temporal method. Under this method, monetary assets and liabilities in foreign currencies are translated into the functional currency at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates, unless such assets and liabilities are carried at market, in which case, they are translated at the exchange rate in effect at the date of the balance sheet. Revenues and expenses denominated in foreign currencies are translated at the rate of exchange prevailing on each transaction date. Gains and losses on translation are included in the *Consolidated statements of operations*.

3. Significant accounting policies *(continued)*

(p) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income taxes if, based on available information, it is more likely than not that some or all of the assets or liabilities will not be realized.

(q) Flow-through shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company recognizes a future income tax liability and reduces shareholders' equity when the expenditures are renounced and renunciation forms are filed with tax authorities.

(r) Income (loss) per share

The calculation of income (loss) per share is based on the weighted average number of shares outstanding for each period. The basic income (loss) per share is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. The computation of diluted income per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the income per share. 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 debentures.

(s) Capitalization of interest

Interest for the development and construction of a mineral property is capitalized until it begins commercial operation or the development ceases.

4. Acquisition of Brett Resources Inc.

On May 19, 2010, the Company acquired 88,294,532 common shares of Brett Resources Inc. (the "Brett Shares"), representing approximately 77.13% of Brett's issued and outstanding shares. The principal asset of Brett is a 100% interest in the Hammond Reef gold project located in Ontario. Each Brett shareholder who has accepted the offer received 0.34 common shares of the Company and $0.0001 in cash for each Brett Share held. All of Brett's outstanding share options have been exchanged for fully vested options ("replacement share options") of the Company using the same share exchange ratio as for the common shares.

A total of 30,020,141 Osisko shares and 1,971,118 replacement share options valued at $292,169,000 were issued as a consideration for the acquisition of 77.13% of the outstanding common shares of Brett. The following assumptions were used with the Black-Scholes option pricing model to calculate the fair value of the replacement share options issues: dividend of 0%; volatility of 65%; risk-free interest rate of 0.58% and expected life of 30 to 90 days. The weighted average fair value of the replacement share options is $5.82.

(tabular amounts expressed in thousands of dollars, except per share amounts)

4. Acquisition of Brett Resources Inc. *(continued)*

On August 13, 2010, the Company acquired all the remaining 26,176,023 common shares of Brett under the same terms as the initial investment. A total of 8,899,820 Osisko shares were issued valued at $114,865,000.

The transaction has been accounted for as a purchase of assets.

The total purchase price of $373,558,000 was allocated to the assets acquired and the liabilities assumed based on the fair value of the total consideration at the closing date of the acquisition. All financial assets acquired and financial liabilities assumed were recorded at fair value.

The purchase price was calculated as follows:

Consideration paid	**$**
Issuance of 30,020,141 common shares	280,688
Issuance of 8,899,820 common shares	114,865
Issuance of 1,971,118 replacement share options (at fair value)	11,481
Cash	4
Transaction costs	3,831
Less: Cash and cash equivalents acquired	(37,311)
	373,558

Net assets acquired	**$**
Current assets	3,157
Mineral property	485,085
Property and equipment	1,408
Current liabilities	(4,798)
Future income tax liability	(111,294)
	373,558

5. Accounts receivable

	2010	**2009**
	$	**$**
Refundable tax credits and mining duties	10,612	16,087
Sales and fuel taxes	9,616	12,066
Interest income receivable	366	166
Advances to suppliers and others	12,195	9,440
	32,789	37,759

(tabular amounts expressed in thousands of dollars, except per share amounts)

6. Investments

	2010	2009
	$	$
Investment with significant influence		
Units of Bowmore Exploration Ltd., at cost	3,000	3,000
Share of equity investee loss	(842)	(198)
	2,158	2,802
Marketable securities (available for sale)	28,670	1,955
Warrants (held for trading)	7,699	975
	38,527	5,732

Investment with significant influence

Bowmore Exploration Ltd.

On July 3, 2009, the Company acquired, on a diluted basis, a 49.1% interest (39.1% on a non-diluted basis) in Bowmore Exploration Ltd. ("Bowmore") for $3,000,000. As such, the Company acquired 15,000,000 units representing 15,000,000 common shares and 7,500,000 warrants. Each warrant entitles the Company to acquire one common share of Bowmore at a price of $0.35 for a period of 48 months, provided that after two years have elapsed from the closing date, and upon the closing trading price of Bowmore's common shares being at or above the price of $0.75 for 10 consecutive trading days, the warrants shall expire on the earlier of (i) the expiry date of such warrants, or (ii) such date which is 30 days after the first business day following the date Bowmore provides written notice to the warrants holders that the warrants will expire at the end of such 30-day period.

At the date of the transaction, the variance between the cost and the underlying net book value of Bowmore's assets has been allocated to mineral properties. As the Company exercises significant influence over Bowmore, it has accounted for the investment using the equity method.

Based on the quoted market price of the common shares, the investment in Bowmore is valued at $13,050,000 as at December 31, 2010.

Available-for-sale and held-for-trading investments

The investments are held in common shares and warrants of Canadian publicly traded companies.

The fair values of the investments in common shares are based on the quoted market prices of those shares on a recognized stock exchange at the end of each reporting period.

The fair values of the warrants are based on the quoted market prices of the warrants on a recognized stock exchange when they are traded. Otherwise, the fair values of the warrants are determined using the Black-Scholes option pricing model.

The unrealized gains and losses on available-for-sale investments are recognized in the *Consolidated statements of comprehensive income* and the gains and losses on held-for-trading investments are recognized in the *Consolidated statements of operations.*

(tabular amounts expressed in thousands of dollars, except per share amounts)

7. Mining assets

	2010	2009
	$	$
Canadian Malartic Project		
Assets under construction	848,673	381,832
Equipment under capital lease[(a)]	78,888	31,377
	927,561	413,209
Property, plant and equipment[(a)]	7,681	3,094
Mineral properties[(b)]	652,440	88,002
	1,587,682	504,305

All mining assets are all located in Canada.

(a) Equipment under capital lease and Property, plant and equipment

			2010
	Cost	Accumulated amortization	Net book value
	$	$	$
Equipment under capital lease	85,083	6,195	78,888
Leasehold improvements	1,195	589	606
Furniture and office equipment	1,762	815	947
Exploration equipment and facilities	6,923	795	6,128
	9,880	2,199	7,681

			2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Equipment under capital lease	32,544	1,167	31,377
Leasehold improvements	1,156	403	753
Furniture and office equipment	1,072	514	558
Exploration equipment and facilities	1,875	92	1,783
	4,103	1,009	3,094

In 2009, the Company has taken a write-off of property, plant and equipment for a net book value of $645,000, resulting in a loss of $99,000.

(tabular amounts expressed in thousands of dollars, except per share amounts)

7. Mining assets *(continued)*

(b) Mineral properties

	2010	2009
	$	$
Hammond Reef; 100%	511,341	-
Canadian Malartic; 100%	111,677	74,869
Malartic CHL; Option 70%	4,303	2,633
East Amphi; 100%	10,603	9,518
Duparquet; Option 50%	10,228	-
Goldboro; Option 50%	2,923	23
Cadillac; 100%	686	686
Dunn; Option 50%	368	273
Mountjoy; Option 50%	311	-
	652,440	88,002

The following table details the investments made on the mineral properties:

	2010	2009
	$	$
Balance – beginning of year	88,002	65,040
Increase in acquisition costs and deferred exploration expenditures		
Hammond Reef – acquisition (note 4)	485,085	-
Hammond Reef – additions, net of write-off of $240,000	26,256	-
Canadian Malartic	37,950	31,769
Malartic CHL	2,568	1,394
Duparquet	15,168	-
Goldboro	2,900	23
East Amphi	1,675	1,320
Mountjoy	311	-
Dunn	265	316
Cadillac	-	293
Refundable tax credits and mining duties	(7,740)	(12,153)
Balance – end of year	652,440	88,002

7. Mining assets *(continued)*

Canadian Malartic

The Canadian Malartic property was acquired in stages between 2004 and 2006. The majority of the mining titles of the Canadian Malartic property were map-staked by the Company or its appointed intermediaries and are not subject to any encumbrances. Others were purchased outright from independent parties, without royalties or other obligations. Of the mining concession and 120 mining titles comprising the Canadian Malartic property, the mining concession and 20 mining titles are subject to agreements and presented as follows:

- The mining concession and six mining titles are subject to a sliding 2% to 3% net smelter return royalty (the “NSR” or the “Royalty”). The royalty rate is tied to the price of gold, with the higher rate taking effect if the gold price is greater than US$350/oz. Half of the Royalty can be purchased back by the Company for $1,492,000 (US$1,500,000).

- Six mining titles are subject to a 2% NSR and the entire Royalty may be purchased back by the Company for $2,000,000.

- One mining title is subject to a 2% NSR.

- Seven mining titles are subject to a 2.5% gross overriding metal royalty.

Malartic CHL

In June 2006, the Company signed an option agreement with Golden Valley Mines Ltd. for the Malartic CHL property, located immediately northeast of the Canadian Malartic property.

Under this agreement, the Company can acquire a non-transferable option on a 70% undivided interest in the Malartic CHL property during a four-year period in consideration of (i) total cash payments of $150,000 and (ii) a total of $2,000,000 in exploration expenditures. As of December 31, 2010, the Company has fulfilled its obligations.

Duparquet

In December 2009, the Company signed a joint venture agreement effective January 1, 2010 with Clifton Star Resources Inc. (“Clifton”) for the Duparquet property, located in Duparquet, Québec.

Under this agreement, the Company can earn a 50% interest in the joint venture by investing $70,000,000 over a four-year period. The Company will act as operator of the joint venture during the earn-in period and thereafter as long as the Company holds a minimum 50% interest in the joint venture. As at December 31, 2010, the Company has invested approximately $15,168,000 in exploration expenditures on the property.

The Company has agreed to advance up to $31,000,000 to Clifton to fund its option payments to the underlying property vendors. These advances are repayable within 24 months after disbursements, bear an interest rate of 5% annually, and are unsecured. As at December 31, 2010, the Company has made no advances for option payments.

7. Mining assets *(continued)*

East Amphi

The East Amphi property was acquired from Richmont Mines Inc. (“Richmont”) in 2007 for a total consideration of $8,549,000. This property is located immediately northwest of the Canadian Malartic property. Richmont will retain a 2% NSR on certain mining titles of the property and on future production of up to 300,000 ounces of gold from other mining titles of the property. Other mining titles of the property are subject to NSR to third parties varying between 2% and 3%.

Goldboro

In November 2009, the Company signed an option agreement with Orex Exploration Inc. for the Goldboro property, located in Guysborough County, Nova Scotia.

Under this agreement, the Company can acquire a 50% interest in the Goldboro property during a four-year period in consideration for a total of $8,000,000 in exploration expenditures. Upon acquiring a 50% interest in the Goldboro property, the Company will have the option to acquire another 10% by delivering a prefeasibility study on or before the sixth anniversary of the agreement.

As at December 31, 2010, the Company has invested approximately $2,848,000 in exploration expenditures on the property.

The Company will act as operator during the option period.

Cadillac

The Cadillac property, acquired through staking, is located west of the Canadian Malartic property.

Dunn

In August 2009, the Company signed an option agreement with Midland Exploration Inc. (“Midland”) for the Dunn property, located near Rouyn-Noranda, Québec.

Under this agreement, the Company can acquire a 50% interest in the Dunn property during a three-year period in consideration of (i) total cash payments of $140,000 and (ii) a total of $1,300,000 in exploration expenditures. Upon acquiring a 50% interest, the Company will have the option to acquire an additional 15% interest by delivering a bankable feasibility study under the following conditions: (i) annual cash payments of $40,000 and (ii) a minimum of $200,000 of exploration work each year until the delivery of a bankable feasibility study within a three-year period. Alternatively, the Company can acquire an additional 15% interest by solely assuming all exploration and development work on the Dunn property, earning an additional 1% interest for every $1,000,000 spent on the property, up to a maximum of $15,000,000.

As at December 31, 2010, the Company has invested approximately $506,000 in exploration expenditures on the property.

Midland will act as operator until completion of a positive pre-feasibility study.

(tabular amounts expressed in thousands of dollars, except per share amounts)

7. Mining assets *(continued)*

Mountjoy

In September 2009, the Company signed an option agreement with Claim Post Resources Inc. for the Mountjoy property, located near Timmins, Ontario.

Under this agreement, the Company can acquire a 50% interest in the Mountjoy property during a four-year period in consideration of (i) total cash payments of $250,000 and (ii) a total of $4,000,000 in exploration expenditures. Upon acquiring a 50% interest in the Mountjoy property, the Company will have the option to acquire another 10% by delivering a bankable feasibility study no later than three months following the sixth anniversary of the option agreement. The Company can earn an additional 10% by securing project financing.

As at December 31, 2010, the Company has invested approximately $111,000 in exploration expenditures on the property.

The Company will act as operator during the option period.

8. Long-term debt

	2010	2009
	$	$
Loans[(i)]	170,000	95,000
Convertible debenture[(ii)]	65,756	63,951
Obligations under capital lease[(iii)] (2010 – US$67,433,000; 2009 – US$29,149,000)	67,069	30,507
Long-term debt	302,825	189,458
Debt issuance costs	(14,939)	(9,389)
Long-term debt, net of debt issuance costs	287,886	180,069
Current portion		
Loans	(63,333)	-
Obligations under capital lease	(7,072)	(6,155)
	(70,405)	(6,155)
Long-term portion	217,481	173,914

8. Long-term debt *(continued)*

(i) Secured debt financing with CPPIB Credit Investments Inc. ("CPPIB"). The loan bears interest at a rate of 7.5% per annum payable in cash on a quarterly basis. The principal is payable on or before the maturity date based on cash flow availability, the maturity date being on October 31, 2014. The loan is secured by a pledge of all Company owned assets. The first tranche of $75,000,000 was drawn in November 2009 and the Company granted CPPIB 7,000,000 warrants exercisable on or before September 24, 2014, at a price of $10.75 per warrant. Transaction costs amounted to $7,114,000 including the fair value of $5,530,000 assigned to the warrants. The second tranche of $75,000,000 was drawn on December 31, 2010 and the Company granted CPPIB 5,500,000 warrants exercisable on or before December 31, 2015 at a price of $19.25 each. Transaction costs amounted to $8,568,000 including the fair value of $7,636,000 assigned to the warrants. The principal is payable as follows: $60,000,000 on September 30, 2011 and 2012 and $30,000,000 on September 30, 2013. Considering the debt issuance costs, the effective interest rates on the first and second tranches of the loan are respectively 11.6% and 16.1%.

Unsecured debt financing of $20,000,000 with Fonds de solidarité FTQ ("Fonds"). The loan bears interest at a rate of 9.5% per annum payable semi-annually in shares or cash prior to commercial production and in cash thereafter. The principal is payable in a minimum of 48 equal monthly instalments commencing on the earlier of commercial production of the Canadian Malartic project or May 9, 2011. The loan has a seven-year term. The Company also granted Fonds 1,100,000 warrants exercisable within 60 months from closing at a price of $7.46 each. A fair value of $341,000 was assigned to these warrants and is included in the total transaction costs of $833,000. The warrants were fully exercised in May 2010. Considering the debt issuance costs, the effective interest rate on the loan is 10.6%.

(ii) Senior non-guaranteed debenture for $75,000,000 with Société générale de financement du Québec ("SGF"), convertible at the discretion of SGF into the Company's shares at a price of $9.18 per share. The debenture bears interest at a rate of 7.5% per annum payable on a quarterly basis in shares until commercial production and in cash thereafter. The debenture has a five-year term maturing on November 9, 2014.

At initial recognition, the net proceeds after transaction costs of $1,554,000 amounted to $73,446,000. Of this amount, the liability and equity components represented $62,410,000 net of transaction costs of $1,320,000 (included in debt issuance costs) and $11,036,000 net of transaction costs of $234,000, respectively. The effective interest rate used is 11.5% representing the estimated market rate at closing that the Company would obtain for similar financing without the conversion option.

(iii) Obligations under capital lease with CAT Financial Services Limited ("CAT") in two tranches. Tranche A bears interest at the one-month London Inter-Bank Offer Rate (the "LIBOR") plus 2.75%. The capital and interest are payable in 60 monthly instalments commencing on the day of delivery of the equipment. Tranche B bears interest at three-month LIBOR plus 2.75% and a credit spread based on the indicative pricing for a five-year medium term note. The capital and interest are payable in 15 quarterly instalments commencing on the day of delivery of the equipment. For Tranche B, the Company has chosen to prepay the capital and interest to cover the period starting from the delivery of the equipment until June 30, 2011 as a means to reduce its financing costs. Transaction costs for Tranches A and B amounted to $795,000 (US$753,000). The Company has purchase options for the equipment at the end of the leases, which it intends to exercise.

For the year ended December 31, 2010, an amount of $2,794,000 (2009 – $1,110,000) was accounted for as unrealized foreign exchange gain on the translation of the obligations on the *Consolidated statements of operations*.

(tabular amounts expressed in thousands of dollars, except per share amounts)

8. Long-term debt *(continued)*

For the year ended December 31, 2010, interest expenses of $20,446,000 (2009 – $4,649,000) were capitalized to Mining assets, including amortization of transaction fees of $3,002,000 (2009 – $560,000) and accretion of $1,805,000 (2009 – $221 000).

Both the secured debt financing with CPPIB and the senior non-guaranteed debenture with SGF include covenants that require the Company to maintain certain financial ratios. As at December 31, 2010, all such ratios were in conformity with the requirements.

The amount of principal of long-term debt payments required in each of the next five years and thereafter is as follows:

	Loans	Convertible debenture	Obligations under capital lease	Total
	$	$	$	$
2011	63,333	-	8,376	71,709
2012	65,000	-	14,735	79,735
2013	35,000	-	15,435	50,435
2014	5,000	75,000	13,928	93,928
2015	1,667	-	18,809	20,476
Thereafter	-	-	1,755	1,755
	170,000	75,000	73,038	318,038
Less: Imputed interest	-	-	(5,969)	(5,969)
	170,000	75,000	67,069	312,069

For the obligations under capital lease, imputed interest used is based on the December 31, 2010 one-month LIBOR plus 2.75% for Tranche A and the December 31, 2010 three-month LIBOR plus 2.75% and a credit spread for Tranche B.

9. Asset retirement obligations

	2010	2009
	$	$
Balance – beginning of year	355	355
Accretion expense	29	19
New liability	3,110	653
Liabilities settlement	-	(672)
Balance – end of year	3,494	355
Current portion	-	-
Long-term portion	3,494	355

The asset retirement obligations represent the legal and contractual obligations associated with the eventual closure of the Company's mining assets. These obligations consist of costs associated with reclamation and monitoring of activities and the removal of tangible assets. At December 31, 2010, the estimated inflation-adjusted undiscounted cash flows required to settle the asset retirement obligations amounts to $8,725,000. A discount rate of 8.2% was used to estimate the disbursements which are expected to be made between 2021 and 2024.

(tabular amounts expressed in thousands of dollars, except per share amounts)

10. Share capital and warrants

Capital management

Capital is defined as shareholders' equity and long-term debt, including the current portion and the debt issuance costs. The Company is currently developing its flagship asset, the Canadian Malartic project, which is expected to cost approximately $981,000,000 as per the latest forecast. The construction program is to be financed from cash resources on hand, following equity issues during the past three years and debt. The Company's objective is to minimize the cost of capital while ensuring availability without restricting the Company's upside exposure to the price of gold. In 2009, the Company secured the necessary capital to fund the development of the Project by raising $841,000,000 in equity and $150,000,000 in debt. In 2010, the Company exercised its option to draw another $75,000,000 in debt.

	2010	2009
	$	$
Long-term debt	287,886	180,069
Shareholders' equity	1,588,281	1,112,302
	1,876,167	1,292,371

Common shares

Authorized
Unlimited number of common shares, without par value

Issued and paid
The following table details the changes in the Company's common shares:

	2010		2009	
	Number of shares	Amount	Number of shares	Amount
		$		$
Balance – beginning of year	336,287,092	1,116,229	166,472,945	256,450
Issued in connection with the acquisition of Brett(i)	38,919,961	395,329	-	-
Public offering(vii)	-	-	109,911,250	485,860
Exercise of warrants(ii)	1,100,000	8,547	53,685,496	337,710
Exercise of options (note 11)	1,820,502	13,128	4,103,600	19,965
Exercise of replacement options (note 11)	1,830,054	17,177	-	-
Flow-through private placements(iii)	982,827	16,904	1,551,290	14,124
Flow-through share renunciation (note 16)	-	(2,586)	-	(2,016)
Payment of interest(iv)	657,920	7,525	268,503	1,759
Property payment(v)	83,300	1,166	-	-
Employee share purchase plan(vi)	78,409	838	44,008	302
Donation(viii)	-	-	250,000	2,075
Balance – end of year	381,760,065	1,574,257	336,287,092	1,116,229

(tabular amounts expressed in thousands of dollars, except per share amounts)

10. Share capital and warrants *(continued)*

Warrants

The following table details the changes in the Company's warrants:

	2010			2009		
	Number of warrants	Amount	Weighted average exercise price	Number of warrants	Amount	Weighted average exercise price
		$	$		$	$
Balance – beginning of year	8,100,000	5,871	10.30	15,130,000	17,164	6.15
Public offering(vii)	-	-	-	44,275,000	37,800	5.45
Granted to lenders (note 8)	5,500,000	7,636	19.25	7,000,000	5,530	10.75
Exercised(ii)	(1,100,000)	(341)	7.46	(53,685,496)	(48,029)	5.40
Expired(ix)	-	-	-	(4,619,504)	(6,594)	7.89
Balance – end of year	12,500,000	13,166	14.49	8,100,000	5,871	10.30

(i) On May 19, 2010, the Company issued 30,020,141 common shares and 1,971,118 replacement share options in connection with the acquisition of Brett. On August 13, 2010, the Company issued 8,899,820 additional common shares to complete the acquisition of 100% of the common shares of Brett. Total share issue costs amounted to $226,000.

(ii) In 2010, 1,100,000 warrants (2009 – 53,685,496) were exercised (note 8) for a cash consideration of $8,206,000 (2009 – $289,681,000). The fair value of $341,000 (2009 – $48,029,000) assigned to these warrants was reclassified from warrants to share capital.

(iii) In 2010, the Company closed a non-brokered private placement with funds, certain accredited investors, employees and officers. The Company issued 982,827 flow-through shares at a price of $17.50 per share for gross proceeds of $17,199,000. Share issue expenses of $295,000 were incurred.

On June 26, 2009, the Company closed a non-brokered private placement with funds, certain accredited investors, employees and officers. The Company issued 1,216,000 flow-through shares at a price of $8.75 per share for gross proceeds of $10,640,000. Share issue expenses of $225,000 were incurred.

On December 18, 2009, the Company closed a non-brokered private placement with funds, certain accredited investors, employees and officers. The Company issued 335,290 flow-through shares at a price of $11.30 per share for gross proceeds of $3,789,000. Share issue expenses of $80,000 were incurred.

The employees and officers have subscribed to the flow-through shares under the same terms and conditions set forth for all subscribers for a total of 107,600 shares (2009 – 34,740).

(iv) In 2010, the Company issued 657,920 common shares (2009 – 268,503) at an average price of $11.44 per share (2009 – $6.55) for the payment of interest on its loan and debenture.

(v) In 2010, the Company issued 83,300 common shares at an average price of $14.00 with respect to agreements signed by Brett and related to mineral claims surrounding the Hammond Reef property.

(tabular amounts expressed in thousands of dollars, except per share amounts)

10. Share capital and warrants *(continued)*

(vi) For the year ended December 31, 2010, 78,409 common shares (2009 – 44,008) were issued under the Employee Share Purchase Plan for a cash consideration of $838,000 (2009 – $302,000) including the Company's contribution of $314,000 (2009 – $113,000).

(vii) On February 25, 2009, the Company closed a public offering of 77,000,000 units at a price of $4.55 per unit for cash consideration of $350,350,000. Also, on the same day, the underwriters exercised in full the over-allotment option of 11,550,000 units at a price of $4.55 per unit for cash consideration of $52,553,000. Each unit consists of one common share and one-half common share purchase warrant. Each whole common share purchase warrant entitled the holder to acquire one common share at a price of $5.45 until November 17, 2009. From the total proceeds received, $39,888,000 was assigned to the warrants. Share issue expenses of $21,088,000 were incurred. Of this amount, $19,000,000 was assigned to the common shares and $2,088,000 to the warrants.

On September 1, 2009, the Company closed a public offering of 18,575,000 shares at a price of $7.00 per share for cash consideration of $130,025,000. The underwriters exercised in full the over-allotment option of 2,786,250 shares at a price of $7.00 per share for cash consideration of $19,504,000. Share issue expenses of $7,684,000 were incurred.

(viii) On November 25, 2009, the Company and Mr. Robert Wares, Executive Vice President, Chief Operating Officer and Founder of Osisko, announced a joint gift of common shares of the Company to McGill University in Montreal. The gift consists of 250,000 personal shares from Mr. Wares and 250,000 treasury shares from the Company. A value of $2,075,000 was assigned to the Company's contribution and accounted for as *general and administrative expenses*.

(ix) In 2009, 4,619,504 warrants expired without being exercised and a fair value of $6,594,000 from these warrants has been reclassified from *warrants* to *contributed surplus*.

The following table summarizes the Company's warrants outstanding as at December 31, 2010:

Expiry date	Number of warrants	Exercise price
		$
September 24, 2014	7,000,000	10.75
December 31, 2015	5,500,000	19.25
	12,500,000	

The warrants, when issued, are accounted for at their fair value determined by the Black-Scholes option pricing model based on the following weighted average assumptions:

	2010	2009
Dividend per share	0%	0%
Volatility	65%	87%
Risk-free interest rate	2%	1%
Expected life	60 months	16 months
Weighted average fair value of warrants granted	$1.39	$0.89

10. Share capital and warrants *(continued)*

Shareholder Rights Plan

During the year, the Company adopted a shareholder rights plan (the "Rights Plan") designed to ensure that Osisko's shareholders are treated fairly in the event of a take-over bid for Osisko's common shares and that Osisko's Board of Directors and shareholders will have adequate time to evaluate any unsolicited take-over bid and, if appropriate, to evaluate and pursue other alternatives to maximize shareholder value. The Rights Plan is not intended to block take-over bids, but includes "Permitted Bid" provisions which will prevent the dilutive effects of the Rights Plan from operating if a take-over bid is made by way of a take-over bid circular that, among other things, remains open for a minimum of 60 days and is accepted by a specified proportion of the common shares held by independent shareholders. The Rights Plan will be triggered by an acquisition, other than pursuant to a Permitted Bid, of 20% or more of the outstanding common shares of Osisko or the commencement of a take-over bid that is not a Permitted Bid.

Employee share purchase plan

On May 8, 2008, the shareholders of the Company approved the establishment of an employee share purchase plan (the "Plan"). Under the terms of the Plan, the Company contributes an amount equal to 60% of the eligible employee's contribution towards the acquisition of shares from the treasury on a quarterly basis. A maximum of 5% of the issued and outstanding common shares are reserved for issuance under the Plan.

Eligible employees may contribute up to the lower of 10% of their basic annual gross salary or $15,000 in any given year. The number of common shares issued to insiders of the Company within one year and issuable to insiders of the Company at any time under the Plan or combined with all other share compensation arrangements, cannot exceed 10% of the issued and outstanding common shares. The share price for the shares to be issued each quarter will be determined by the 20-day trading average at the end of each such quarter. The Company's portion will vest on every January 1st of the calendar year following the contribution.

11. Share options

The Company has a share option plan (the "Option Plan") offered to its directors, officers, management, employees and consultants. Options may be granted at an exercise price determined by the Board of Directors but shall not be less than the closing market price of the common shares of the Company on the TSX on the day prior to their grant. No participant shall be granted an option which exceeds 5% of the issued and outstanding shares of the Company at the time of granting of the option. The number of common shares issued to insiders of the Company within one year and issuable to the insiders of the Company at any time under the Option Plan or combined with all other share compensation arrangements, cannot exceed 10% of the issued and outstanding common shares. The duration and the vesting period are determined by the Board of Directors. However, the expiry date may not exceed 10 years after the date of granting.

(tabular amounts expressed in thousands of dollars, except per share amounts)

11. Share options *(continued)*

The following table summarizes information about the Company's share options outstanding:

	2010		2009	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
		$		$
Balance – beginning of year	9,619,500	5.30	10,043,100	3.68
Granted	5,585,000	11.15	3,680,000	7.43
Replacement options issued (note 4)	1,971,118	3.81	-	-
Exercised	(1,820,502)	5.01	(4,103,600)	3.22
Replacement options exercised	(1,830,054)	3.64	-	-
Cancelled	(53,334)	5.70	-	-
Balance – end of year	13,471,728	7.77	9,619,500	5.30
Options exercisable – end of year	7,677,558	5.80	5,653,670	4.70

In 2010, 1,820,502 share options (2009 – 4,103,600) were exercised for a cash consideration of $9,120,000 (2009 – $13,223,000). The fair value of $4,009,000 (2009 – $6,742,000) assigned to these share options was reclassified from contributed surplus to share capital. Also in 2010, 1,830,054 replacement share options were exercised for a cash consideration of $6,664,000. The fair value of $10,513,000 assigned to these replacement share options was reclassified from contributed surplus to share capital.

In 2010, 53,334 options were cancelled without being exercised.

The following table summarizes the Company's share options as at December 31, 2010:

	Options outstanding			Options exercisable	
Exercise price range	**Number**	**Weighted average exercise price**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average exercise price**
$		$			$
1.97 – 2.20	2,149,500	2.20	2.7	2,149,500	2.20
4.18 – 5.88	2,632,000	5.36	1.8	2,488,666	5.35
6.59 – 8.70	3,279,395	7.67	3.8	2,119,396	7.62
10.56 – 14.98	5,410,833	11.22	4.5	919,996	11.24
	13,471,728	7.77	3.5	7,677,558	5.80

(tabular amounts expressed in thousands of dollars, except per share amounts)

11. Share options *(continued)*

The options, when granted, are accounted for at their fair value determined by the Black-Scholes option pricing model based on the vesting period and on the following weighted average assumptions:

	2010	2009
Dividend per share	0%	0%
Volatility	65%	67%
Risk-free interest rate	2%	2%
Expected life	36 months	36 months
Weighted average fair value of options granted	$4.93	$3.36

The expected volatility was determined by calculating the historical volatility of the Company's common share price back from the date of grant and for a period corresponding to the expected life of the options. When computing historical volatility, management may disregard an identifiable period of time in which it considers that its share price was extraordinarily volatile because of a specific event that is not expected to recur during the expected life of the option. In addition, if the Company's share price was extremely volatile for an identifiable period of time, for instance, due to a general market decline, management may place less weight on its volatility during that period of time.

12. Contributed surplus

The following table details the changes in the Company's contributed surplus:

	2010 $	2009 $
Balance – beginning of year	24,272	18,007
Stock-based compensation	22,159	6,413
Fair value of options exercised	(4,009)	(6,742)
Fair value of replacement options	11,481	-
Fair value of replacement options exercised	(10,513)	-
Fair value of warrants expired	-	6,594
Balance – end of year	43,390	24,272

Stock-based compensation for the years ended December 31, 2010 and 2009 has been included in the undernoted items in the consolidated financial statements as follows:

	2010 $	2009 $
Expenses		
Stock-based compensation	13,630	3,958
Mining assets		
Asset under construction and mineral properties	8,529	2,455
	22,159	6,413

13. Income (loss) per share

Income (loss) per share has been calculated using the weighted average number of shares outstanding during the year. Diluted income (loss) per share is calculated based on the treasury stock method. As a result of the loss for the years ended December 31, 2010 and 2009, diluted loss per share was calculated from the basic weighted average shares outstanding because to do otherwise would be anti-dilutive.

(tabular amounts expressed in thousands of dollars, except per share amounts)

14. Cash flow information

	2010	2009
	$	$
Changes in non-cash working capital items		
Decrease (increase) in accounts receivable	13,887	(3,955)
Decrease (increase) in other current assets	(4,560)	442
Increase (decrease) in accounts payable and accrued liabilities	(9,270)	11,143
	57	7,630
Non-cash transactions		
Other current assets reclassified to debt issuance costs	-	734
Stock-based compensation allocated to mining assets	8,529	2,455
Equipment under capital lease acquired	50,565	26,631
Amortization allocated to mining assets	5,182	1,300
Amortization of debt issuance costs allocated to mining assets	3,001	560
Accrued interest allocated to mining assets	1,805	383
Unrealized exchange gain allocated to accounts payable and accrued liabilities	280	44
Warrants issued and accounted for as deferred transaction costs on long-term debt	7,636	5,530
Shares issued for payment of interest on long-term debt	7,525	1,759
Supplementary cash flow information		
Interest paid in cash	8,096	2,066
Refundable tax credits received	13,671	10,541

For the year ended December 31, 2010, the Company acquired property, plant and equipment amounting to $4,008,000 (2009 – $343,000).

For the year ended December 31, 2010, the Company's investments in assets under construction and mineral properties amounted to $546,194,000 (2009 – $279,865,000) of which $493,952,000 (2009 – $276,154,000) has been paid. Also, the Company accrued refundable tax credits and mining duties of $7,740,000 (2009 – $12,153,000).

15. Related party transactions

Related party transactions occurred in the normal course of business and were recorded at the exchange value, which is the consideration determined and agreed to by the related parties.

The Company entered into the following transactions with officers or companies owned by officers:

	2010	2009
	$	$
Acquisition of an office building from an officer	1,753	-
General and administrative expenses (office rent) paid to a company controlled by an officer	-	131
General and administrative expenses (office rent) charged to a significant shareholder	-	34
Property, plant and equipment rebilled by a significant shareholder, at cost	-	94

(tabular amounts expressed in thousands of dollars, except per share amounts)

16. Income taxes

Future income tax liability

In 2010 and 2009, the Company issued 982,827 flow-through shares for gross proceeds of $17,199,000 and 1,551,290 flow-through shares for gross proceeds of $14,429,000, respectively. Under the flow-through share agreements, the Company agreed to renounce $17,199,000 in 2010 and $14,429,000 in 2009, of qualifying expenditures to the investors effective December 31, 2010 and December 31, 2009, although under Canadian tax law, the expenditures may actually be incurred up to December 31, 2011 and December 31, 2010, respectively.

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, for the future income taxes related to the tax deductions the Company has forgone. The Company has estimated that the future income taxes recorded at the time of renunciation are approximately $2,765,000 and $2,586,000 for the years ended December 31, 2011 and 2010, respectively. Consequently, the Company has recognized share issue expenses and an increase in future income tax liability of these amounts at the time of renunciation.

The Company has future income tax assets related to loss carry-forwards and deductible temporary differences that it had not recognized in previous years, as a result of applying the “more likely than not” test. The taxable temporary differences which arose through the issuance of the flow-through shares in 2010 and 2009 are expected to reverse, so that part of the unrecognized future income tax assets can be applied against the full taxable temporary differences. Accordingly, the Company will recognize that portion of its unrecognized future income tax assets by reversing a valuation allowance of $2,765,000 in the *Consolidated statements of operations* in the first quarter of 2011 ($2,586,000 in the first quarter of 2010).

Income tax balances

(a) The provision for income taxes presented in the consolidated financial statements differs from what would have resulted from applying the combined federal and provincial tax rate of 29.9% and 30.9% for 2010 and 2009, respectively, as a result of the following:

	2010	2009
	$	$
Loss before incomes taxes	(23,767)	(22,770)
Combined income tax	(7,106)	(7,036)
Impact of changes in tax rate of future income taxes	(147)	20
Portion of capital loss (gain) not taxable	(549)	1,134
Stock-based compensation	4,135	1,883
Non-deductible expenses	78	744
Non-taxable refundable mining duty credit	1,493	(715)
Other	(473)	341
Valuation allowance	(1,717)	1,613
Future income tax recovery	(4,286)	(2,016)

(tabular amounts expressed in thousands of dollars, except per share amounts)

16. Income taxes *(continued)*

(b) The components that give rise to future tax liabilities are as follows:

	2010	2009
	$	$
Future tax assets		
Mining assets	74,822	52
Asset retirement obligations	940	95
Non-capital losses carried forward	26,430	12,577
Share and debt issue expenses	6,623	7,781
Donation	560	2
Capital losses carried forward	271	-
Unrealized foreign exchange loss	23	-
	109,669	20,507
Valuation allowance	(12,864)	(14,581)
Future tax assets after valuation allowance	96,805	5,926
Future tax liabilities		
Investments	(789)	(166)
Mining assets	(205,610)	(5,739)
Unrealized capital gain on other comprehensive income	(1,700)	-
Unrealized foreign exchange gain	-	(21)
	(208,099)	(5,926)
Net future tax liability	(111,294)	-

(c) The Company has non capital loss carry forwards for Canadian income tax purposes of approximately $99,604,000 which may be used to reduce taxable income on or prior to 2030. The Company has cumulative Canadian exploration and cumulative Canadian development expenses of approximately $491,258,000 and mining assets unamortized capital cost of approximately $489,727,000 which may be carried forward indefinitely, subject to certain restrictions, to reduce taxable income in the future. The Company has also an unamortized balance of share and debt issue expenses for tax purposes of $26,607,000, which is deductible over the next four years.

Losses carried forward as at December 31, 2010 will expire as follows:

December 31,	$
2014	1,103
2015	1,133
2026	3,781
2027	6,363
2028	10,964
2029	35,744
2030	40,516
	99,604

(tabular amounts expressed in thousands of dollars, except per share amounts)

17. Financial instruments

The Company's activities are exposed to financial risks: market risks (including interest rate risk and foreign currency risk), credit risk and liquidity risk.

(a) Market risks

(i) Fair value

The fair value of the investments in shares without significant influence is determined using the quoted market price on a recognized securities exchange at the balance sheet dates. The fair value of the investments in warrants is determined using the Black-Scholes option pricing model at each balance sheet date as they are not traded on a recognized securities exchange. The Company has determined that the fair value of the other financial assets as well as the fair value of accounts payable and accrued liabilities approximates their carrying amount.

The fair value of the financial liabilities that do not approximate their carrying amount as at December 31, 2010 and 2009 is summarized as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial liabilities				
Other liabilities				
Long-term debt	302,825	314,287	189,458	192,877

Fair value estimates are made at the balance sheet date, based on relevant market information like actual interest rates and interest risk spread and other information about the financial instruments.

(ii) Fair value hierarchy

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

	Assets measured at fair value 2010			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Held for trading				
Bank balances and cash on hand	37,398	-	-	37,398
Investments in warrants	-	-	7,699	7,699
	37,398	-	7,699	45,097
Available for sale				
Investments in shares, without significant influence	28,670	-	-	28,670

(tabular amounts expressed in thousands of dollars, except per share amounts)

17. Financial instruments *(continued)*

(ii) Fair value hierarchy *(continued)*

				Assets measured at fair value 2009
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Held for trading				
Bank balances and cash on hand	381,971	-	-	381,971
Investments in warrants	-	-	975	975
	381,971	-	975	382,946
Available for sale				
Investments in shares, without significant influence	1,755	-	-	1,755

For those fair value measurements included in Level 3 of the fair value hierarchy, a reconciliation from the beginning balance to the ending balance is provided below:

	Reconciliation of long-term investments measured at fair value based on Level 3 inputs 2010
	$
Balance - beginning of year	975
Acquisition	2,698
Unrealized change in fair value[i]	4,026
Balance - end of year	7,699

	Reconciliation of long-term investments measured at fair value based on Level 3 inputs 2009
	$
Balance - beginning of year	-
Acquisition	1,000
Unrealized change in fair value[i]	(25)
Balance - end of year	975

(i) Recognized on the *Consolidated Statements of Operations* under gain on investments.

(tabular amounts expressed in thousands of dollars, except per share amounts)

17. Financial instruments *(continued)*

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest rate risk is primarily related to cash and cash equivalents, short-term investments and restricted cash, which bear interest at fixed rates. However, as these investments come to maturity within a short period of time, the impact would likely be not significant.

Other current financial assets and financial liabilities are not exposed to interest rate risk because they are non-interest bearing.

The loans and the debenture bear interest at a fixed rate and are not exposed to interest rate risk. The capital lease obligations are subject to market sensitivity of the LIBOR. For 2010, a fluctuation of 5% of the LIBOR would have no significant impact on the consolidated financial statements.

The Company does not use derivatives to mitigate its exposure to interest rate risk.

(iv) Foreign currency risk

The Company is exposed to currency fluctuations in the acquisition of mining assets manufactured outside of Canada and denominated in foreign currencies. As at December 31, 2010, the Company has commitments of US$58,639,000 and €90,000 for the acquisition of mining assets.

Also, the Company holds balances in cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and obligations under capital lease in various currencies and is therefore exposed to gains or losses on foreign exchange. The Company does not use derivatives to mitigate its exposure to foreign currency risk.

As at December 31, 2010 and 2009, the balances in foreign currencies were as follows:

		2010
	US Dollars	**Euro**
Cash and cash equivalents	2,470	-
Restricted cash	1,944	-
Accounts receivable and advances	4,639	-
Accounts payable and accrued liabilities	(769)	(33)
Obligations under capital lease	(67,433)	-
Net balance	(59,149)	(33)
Equivalent in Canadian dollars	(58,830)	(43)

Based on the balances as at December 31, 2010, a 5% fluctuation in the exchange rates on that date would have resulted in a variation of approximately $2,942,000 in net income, before income taxes.

(tabular amounts expressed in thousands of dollars, except per share amounts)

17. Financial instruments *(continued)*

(iv) Foreign currency risk *(continued)*

	2009		
	US Dollars	**Euro**	**Brazilian Real**
Cash and cash equivalents	19,966	-	69
Restricted cash	3,645	-	-
Cash collateral investments	5,209	-	-
Accounts receivable and advances	8,305	-	-
Accounts payable and accrued liabilities	(4,413)	(3)	-
Obligations under capital lease	(29,149)	-	-
Net balance	3,563	(3)	69
Equivalent in Canadian dollars	3,729	(5)	41

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, short-term investments, restricted cash, and advances to suppliers and other receivables. The Company reduces its credit risk by investing its cash and cash equivalents, short-term investments and restricted cash in guaranteed investment certificates, treasury bills, bankers acceptances and commercial paper issued by Canadian chartered banks and Canadian and provincial governments. With regards to advances to suppliers and other receivables, a credit analysis is performed on the suppliers assuring the risk to the Company as being minimal.

The carrying amount representing the maximum credit exposure of the Company by class of financial assets are as follows:

	2010	2009
	$	$
Held for trading:		
Bank balances and cash on hand	37,398	381,971
Held to maturity:		
Bankers acceptances	104,412	104,990
Treasury bills	36,942	185,335
Commercial papers	9,977	19,996
	151,331	310,321
Loans and receivable:		
Guaranteed investment certificates	207,554	91,300
Advances to suppliers and other receivables	12,195	9,440
Deposits in escrow	1,656	6,595
	221,405	107,335

(tabular amounts expressed in thousands of dollars, except per share amounts)

17. Financial instruments *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company manages the liquidity risk by continuously monitoring actual and projected cash flows, taking into account the requirements related to the Canadian Malartic project and other mining properties and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on mergers, acquisitions or other major investment or divestitures. The Company also manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 10. As at December 31, 2010, cash and cash equivalents and short-term investments are invested in guaranteed investment certificates, treasury bonds, bankers' acceptances and commercial paper having maturity dates of January to April 2011. As a result, the Company estimates that it has enough funds available to meet its financial liabilities and future financial liabilities from its commitments for the current year.

The following table summarizes the Company's financial liabilities as at December 31, 2010 and 2009:

			2010
	Less than one year	**Between one and three years**	**More than three years**
	$	**$**	**$**
Accounts payable and accrued liabilities	73,311	-	-
Long-term debt	71,709	130,170	116,159
	145,020	130,170	116,159

			2009
	Less than one year	**Between one and three years**	**More than three years**
	$	**$**	**$**
Accounts payable and accrued liabilities	46,047	-	-
Long-term debt	7,383	77,909	118,178
	53,430	77,909	118,178

(tabular amounts expressed in thousands of dollars, except per share amounts)

18. Commitments

Operating leases

The Company is committed to minimum amounts under long-term lease agreements for office space, which expire in 2014. Minimum commitments remaining under these leases were approximately $1,471,000 over the following years:

December 31,	$
2011	491
2012	386
2013	301
2014	293
2015	-
	1,471

Canadian Malartic project

As at December 31, 2010, the total purchase commitments on the construction of the Canadian Malartic project amount to $30,337,000.

The Company has entered into irrevocable letters of credit in favour of suppliers with respect to contracts and purchase orders for equipment and services. As at December 31, 2010, the letters of credit outstanding amount to $18,788,000 and US$1,944,000 ($1,934,000) and expire between 2011 and 2015. The suppliers may draw on the letters of credit in the event of a default by the Company under the terms of the contracts or the purchase orders. The letters of credit are 100% secured by deposits amounting to $18,788,000 and US$1,944,000. The Company has also deposits in escrow amounting to $1,656,000, including $1,630,000 as a guarantee for the restoration of the southern neighbourhood of the Town of Malartic. Based on the expected maturity dates of the letters of credit and deposits in escrow, an amount of $11,176,000 is presented as restricted cash under Current assets and an amount of $11,202,000 is presented as restricted cash under Long-term assets

Exploration expenses

The Company is committed to incur Canadian exploration expenditures of $17,199,000 by December 31, 2011 and to transfer these expenditures to the subscribers of its flow-through shares underwritings completed in 2010. As at December 31, 2010, approximately $16,008,000 has been incurred against this commitment.

As at December 31, 2010, the Company is committed to spend approximately $83,000,000 in exploration expenditures over a four-year period, in connection with the options and joint venture agreements signed in 2010 and 2009.

Sustainability fund

The Company created in 2008 the “Fonds Essor Malartic Osisko”, a sustainable development fund for the Town of Malartic. The fund is managed by a board of directors comprising seven individuals, including two from the Company. The Company has pledged an initial contribution of 300,000 shares which are to be held in escrow until attainment of certain project milestones, and cash contributions of $150,000 will be made annually during the Canadian Malartic operations. The shares will be issued and contributions will be made upon the fund receiving government designation as a charitable foundation.

18. Commitments *(continued)*

Installation of a new 120 kV electrical transmission line for the Canadian Malartic project

The Company has signed an agreement with Hydro-Québec for the installation of a new electrical transmission line for the Project. The power line will be the property of Hydro-Québec, which will be in charge of the engineering, construction and commissioning. Hydro-Québec has initially incurred the installation costs, and the Company is committed to using the electricity line up to an amount to cover the total cost of installation, which is estimated at $18,600,000 including interest calculated at 5.69% amounting to $3,300,000. If the Company does not use the power line, it is required to pay this amount in no more than five annual instalments starting in September 2011. The Company has secured this agreement with a letter of credit.

19. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the year ended December 31, 2010.