



Management Interim Report for the six-month  
period ended December 31, 2011



Discovering the James Bay



**Sirios Resources Inc.**

TSX V: SOI  
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**S I R I O S**

**SIRIOS RESOURCES INC.  
MANAGEMENT INTERIM REPORT  
FOR THE SIX-MONTH PERIOD  
ENDED DECEMBER 31, 2011**

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**SIRIOS RESOURCES INC.  
MANAGEMENT INTERIM REPORT  
FOR THE SIX-MONTH PERIOD  
ENDED DECEMBER 31, 2011**

*This Management Discussion and Analysis is dated February 29, 2012 and provides an analysis of our financial results for the quarter ended December 31, 2011. This discussion and analysis of the financial position and results of operation should be read in conjunction with the unaudited interim financial statements for the six-month period ended December 31, 2011 and the audited financial statements for the year ended June 30, 2011 and 2010. The unaudited interim financial statements for the period ended December 31, 2011 were not reviewed by the external auditors.*

*Our report contains «forward-looking statements» not based on historical facts. Forward-looking statements express, as of the date of this report, our estimates, forecasts, projections, expectations and opinions as to future events or results. Forward-looking statements herein expressed are reasonable, but involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to, fluctuations in the market price of precious metals, mining industry risks, uncertainty as to calculation of mineral reserves and requirements of additional financing and the capacity of the Company to obtain financing.*

*Moreover, these interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and in accordance with accounting policies that the Company proposes to adopt for the financial statements ending June 30, 2012. These accounting policies are based on International Financial Reporting Standards which, according to the Company, will thus be in force.*

## **CORPORATE PROFILE AND MISSION**

Sirios Resources Inc.'s ("Sirios" or "the Company") mission is to discover world-class gold or base metals deposits in the James Bay region of Eastern Canada. Sirios' efforts have led to the discovery of numerous gold, silver, copper, zinc and molybdenum showings and occurrences in that region of Quebec.

In 2011, Sirios began the procedures to launch its subsidiary Khalkos Exploration Inc. ("Khalkos") by transferring its base metal and other properties: Tilly (molybdenum), Murdoch (zinc-copper) and Pontax-Lithium (lithium). On December 31, 2011, following Khalkos' initial public offering, Sirios held 11,480,269 shares of Khalkos, consisting of 69.3% of its share capital. As such, the Company's December 31, 2011 financial statements are consolidated.

Common Shares of Sirios, a Tier 1 company, trade on the TSX Venture Exchange under symbol SOI. As of December 31, 2011, there are 121,726,758 ordinary shares issued and outstanding.

## **SUMMARY OF THE ACTIVITIES FOR THE PERIOD**

- Transfer, to the subsidiary, the Tilly, Pontax-Lithium and Murdoch properties.
- Initial Public Offering of Khalkos for an amount of \$1,547,502.
- Exploration and evaluation expenses of \$144,548 were incurred mostly on the Nasa, Pontax-Lithium and Tilly properties during the period (\$718,939 in 2010-2011-Q2).
- Claims acquisition for \$7,749.
- Reimbursing, in shares, of the convertible debenture for \$150,000.

## RESULTS OF OPERATION

### Summary of exploration activities

The following table contents the principals exploration and evaluation expenses made on the properties of the Company during the period:

#### Properties of Sirios Resources Inc.

Property	Geology, prospecting	Geo- chemistry	Geophysics, line-cutting	Transport, helicopter, lodging	Drilling	General expenses, drafting	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Aquilon</b>	8,252	-	-	-	-	-	<b>8,252</b>
<b>Pontax</b>	11,748	-	-	-	-	-	<b>11,748</b>
<b>Baleine</b>	-	3,924	-	-	-	-	<b>3,924</b>
<b>Nasa</b>	-	33,169	-	-	-	-	<b>33,169</b>
<b>AAA</b>	-	-	4,000	-	-	-	<b>4,000</b>
<b>Other</b>	400	636	4,180	131	-	23,539	<b>28,886</b>
<b>Total</b>	20,400	37,729	8,180	131	-	23,539	<b>89,979</b>

*The technical data included in the following text have been revised by Dominique Doucet, Engineer and President of Sirios. He is a qualified person, as defined by National Instrument 43-101. This document describes only the properties that have been subject to exploration activities during the quarter. The reader should refer to the Sirios' June 2011 Annual Management Report and to the other quarterly reports for additional information on the Company's properties.*

#### AQUILON Property

In October 2010, the Company and Golden Tag signed an agreement that the Company has to incur over \$610,000 in expenditures on the property before June 15, 2012, to increase its ownership of the property from 40% to 50%. Golden Tag will remain operator of the future 50/50 joint venture and retain a casting vote in all management decisions. The Company has paid all expenditures on the property since the agreement.

Golden Tag and Sirios are developing a trenching and bulk sampling program on the *Lingo* Occurrence in 2011/2012, but possibly on *Moman* and *Fleur de Lys* occurrences also. The program will be designed to evaluate the potential of those showing to bare extremely high grade pods of gold mineralization. The permitting process started in August 2011 with the regulating authorities. Ideally, if permits are delivered on time, bulk sampling will start during winter 2012. However, as of the date of this report, seeing that the required permit of authorization has not yet been received, it is possible that the planned program will be postponed to winter 2012-2013, in which case, the deadline for Sirios to complete its interest earn-in will be extended accordingly. Fieldwork financed by Sirios on Aquilon totalled \$8,252 for the period. On the date of this report, approximately \$70,000 remains to be incurred in exploration expenses on the property in order for Sirios to complete its interest earn-in to 50%.

### PONTAX Property

A helicopter-borne diamond drilling campaign was completed on the property at the end of the period, in June 2011. Twelve NQ-calibre holes were drilled totalling 1,683 metres. The final assay results were only received recently, in February; this is due to various technical problems that notably occurred at the laboratory. No significant results were returned by these drill holes. A reevaluation of the project is currently in progress. During the period, the final costs in connection with assays of the drilling campaign totaled \$11,748.

### AAA and NASA Projects

The NASA and AAA projects are conceptual projects in areas that have barely been explored, if not explored at all, in James Bay, Quebec. They are incubators for new future projects and will eventually be subject to claim acquisition by Sirios.

During the period, a remote sensing (teledetection) program was granted to a specialized firm for studies on one territory of 10,000 km<sup>2</sup> on the AAA project. An amount of \$4,000 was incurred, in the period, for AAA project. During the period, a regional till sampling program was incurred on the NASA project for a cost of \$33,169.

### **SIRIOS PLANIFICATION – SUMMARY OF EXPLORATION PROGRAMS**

<b>PROPERTY</b>	<b>PLANNED WORK 2011-2012</b>	<b>BUDGET</b>	<b>NEXT STEP</b>
<b>AQUILON</b>	Bulk sampling *	\$400,000 à \$600,000 * (50% share of the project)	Additional drilling
<b>PONTAX</b>	Reevaluation of the project	To be determined	To be determined
<b>CHEECHOO</b>	Data processing of 2011 prospecting, geophysics, drilling	To be determined depending on results, minimum of \$300,000 estimated (40% share of the project)	To be determined depending on results
<b>OTHERS (AAA, NASA)</b>	Remote-sensing, surveying, till sampling, claim acquisition, prospecting	\$200,000	Airborne geophysics, prospecting, drilling
<b>TOTAL 2011-2012</b>		\$900,000 to \$1,100,000	

\* **N.B.** If the permits are not received in time, the bulk sampling will be postponed to 2012-2013 and the budget will therefore be allocated to other projects in 2012.

**Properties of Khalkos Exploration Inc:**

Property	Geology, prospecting	Geo- chemistry	Geophysics, line-cutting	Transport, helicopter, lodging	Drilling	General expenses, drafting	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Murdoch</b>	520	-	-	-	-	3,688	<b>4,208</b>
<b>Pontax-Lithium</b>	23,953	-	-	-	-	3,202	<b>27,155</b>
<b>Tilly</b>	9,350	-	-	-	-	17,970	<b>27,320</b>
<b>Autres</b>	-	-	-	-	-	(4,114)	<b>(4,114)</b>
<b>Total</b>	33,823	-	-	-	-	20,746	<b>54,569</b>

During the period, most of the completed work consisted of data processing and planning of the upcoming fieldwork on Pontax-Lithium and Murdoch. The fieldwork that is recommended by independent consultants is explained in detail in Khalkos' prospectus, date December 7, 2011.

**PONTAX-LITHIUM Property**

The Pontax-Lithium property, 100% owned by the subsidiary, Khalkos, consists of 82 contiguous map-designated cells for an approximate surface area of 4,200 hectares (42 km<sup>2</sup>). The property is located at 350 km north of Matagami and approximately 22 km east from James Bay highway. The lithium occurrence is located about 30 km south of the well-known Cyr-Lithium project and 9 km southwest of the Chambois silver occurrence.

In late 2009, a channel sampling and drilling program was conducted on the Pontax-Lithium occurrence, under the guidance of geologists of Sirios. A total of 10 channels were sampled, for a total length of 198 m and 198 samples. A single drilling program has been conducted up to now on the Pontax-Lithium property, for a total of 7 holes and 864 m, BTW in diameter.

The Pontax-Lithium occurrence is a swarm of about 12 spodumene bearing pegmatite dykes. It extended to 650 m in length and 50 to 75 m in overall width. We can see distinct pegmatite, each 1 to 10 m in thickness, plus a multitude of small dykelets centimetres in thickness. These dykes are trending parallel to the tectonic grain, oriented N040o-N050o. Dips of the dykes were recorded as steep (70°) to the north to subvertical, suggesting a fanning arrangement. Spodumene is present as up to 40 cm long greenish or greyish crystals, in aggregates or with a plumose texture, usually concentrated in the core of the pegmatite dykes.

For more information on this property, please refer to Khalkos' prospectus, filed on December 7, 2011, and to the technical report, both available on SEDAR. The author of the technical report recommends first a stripping campaign in order to widen the exposed swarm of pegmatite dykes. A budget of \$300,000 is recommended for the stripping campaign.

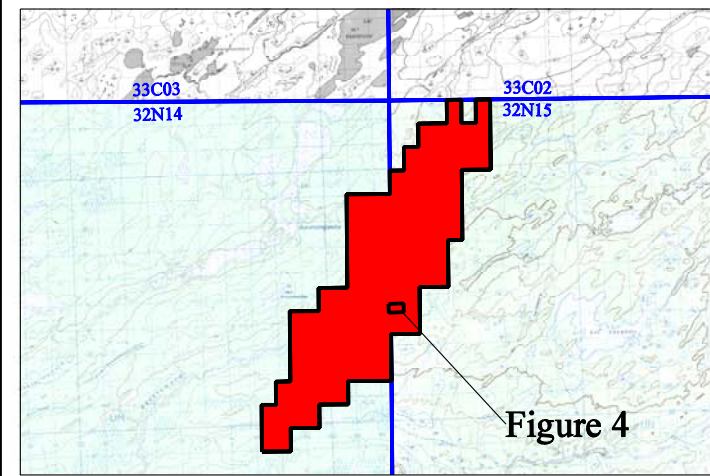


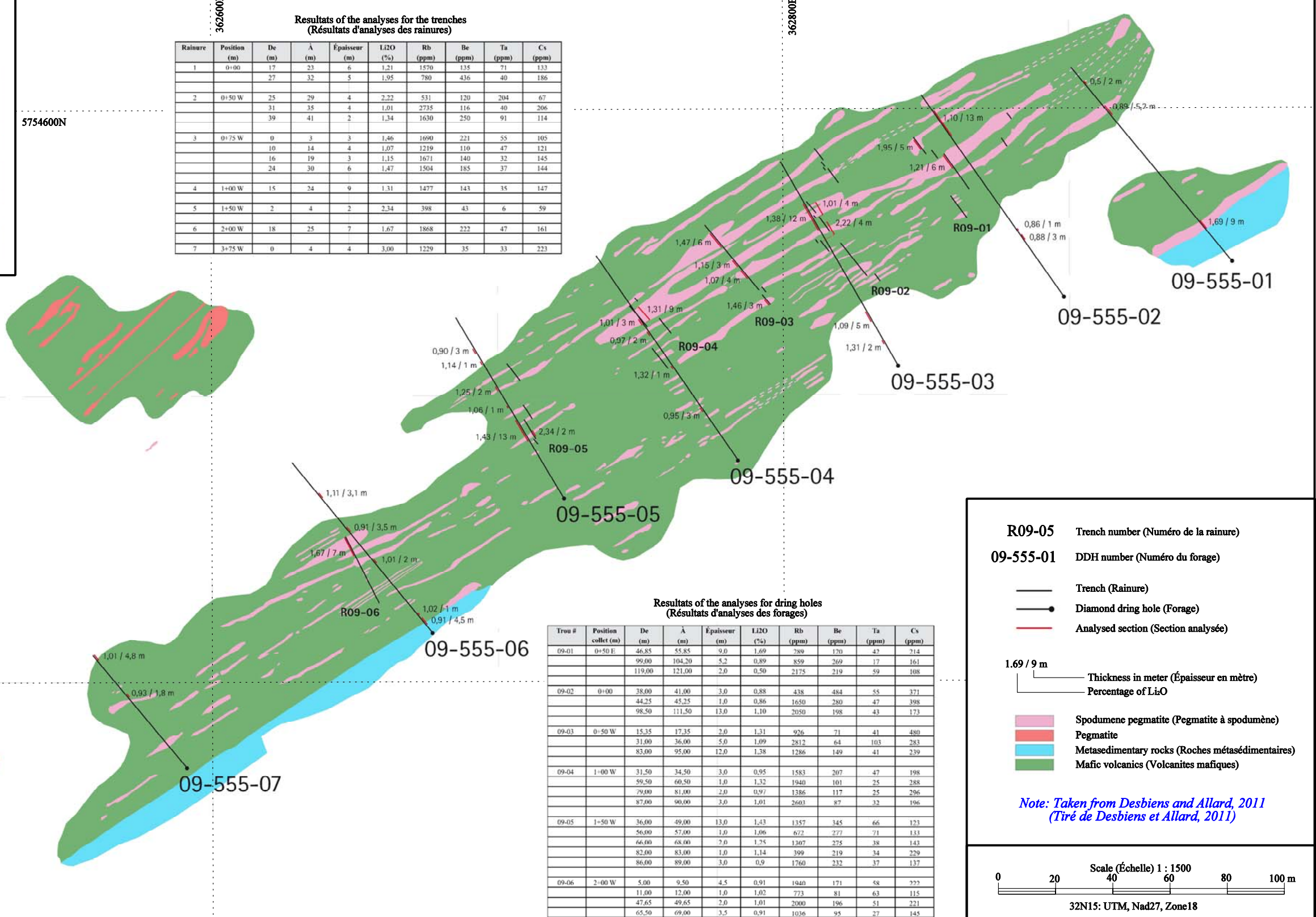
Figure 4

**Results of the analyses for the trenches  
(Résultats d'analyses des rainures)**

Rainure	Position (m)	De (m)	À (m)	Épaisseur (m)	Li2O (%)	Rb (ppm)	Be (ppm)	Ta (ppm)	Cs (ppm)
1	0+00	17	23	6	1,21	1570	135	71	133
		27	32	5	1,95	780	436	40	186
		31	35	4	1,01	2735	116	40	206
2	0+50 W	39	41	2	1,34	1630	250	91	114
		0	3	3	1,46	1690	221	55	105
		10	14	4	1,07	1219	110	47	121
		16	19	3	1,15	1671	140	32	145
3	0+75 W	24	30	6	1,47	1504	185	37	144
		15	24	9	1,31	1477	143	35	147
4	1+00 W	2	4	2	2,34	398	43	6	59
5	1+50 W	18	25	7	1,67	1868	222	47	161
6	2+00 W	0	4	4	3,00	1229	35	33	223
7	3+75 W								

**Results of the analyses for dring holes  
(Résultats d'analyses des forages)**

Trou #	Position collet (m)	De (m)	À (m)	Épaisseur (m)	Li2O (%)	Rb (ppm)	Be (ppm)	Ta (ppm)	Cs (ppm)
09-01	0+50 E	46,85	55,85	9,0	1,69	789	170	42	214
		99,00	104,20	5,2	0,89	859	269	17	161
		119,00	121,00	2,0	0,50	2175	219	59	108
09-02	0+00	38,00	41,00	3,0	0,88	438	484	55	371
		44,25	45,25	1,0	0,86	1650	280	47	398
		98,50	111,50	13,0	1,10	2050	198	43	173
09-03	0+50 W	15,35	17,35	2,0	1,31	926	71	41	480
		31,00	36,00	5,0	1,09	2812	64	103	283
		83,00	95,00	12,0	1,38	1286	149	41	239
09-04	1+00 W	31,50	34,50	3,0	0,95	1583	207	47	198
		59,50	60,50	1,0	1,32	1940	101	25	288
		79,00	81,00	2,0	0,97	1386	117	25	296
		87,00	90,00	3,0	1,01	2603	87	32	196
09-05	1+50 W	36,00	49,00	13,0	1,43	1357	345	66	123
		56,00	57,00	1,0	1,06	672	277	71	133
		66,00	68,00	2,0	1,35	1307	275	38	143
		82,00	83,00	1,0	1,14	399	219	34	229
		86,00	89,00	3,0	0,9	1760	232	37	137
09-06	2+00 W	5,00	9,50	4,5	0,91	1940	171	58	222
		11,00	12,00	1,0	1,02	773	81	63	115
		47,65	49,65	2,0	1,01	2000	196	51	221
		65,50	69,00	3,5	0,91	1036	95	27	145
		89,75	92,85	3,1	1,11	1383	303	27	170
09-07	2+75 W	54,00	55,80	1,8	0,93	4980	131	22	286
		74,20	79,00	4,8	1,01	1334	67	31	177



- R09-05** Trench number (Numéro de la rainure)
- 09-555-01** DDH number (Numéro du forage)
- Trench (Rainure)
- Diamond dring hole (Forage)
- Analysed section (Section analysée)
- 1.69 / 9 m Thickness in meter (Épaisseur en mètre)  
Percentage of Li<sub>2</sub>O
- Spodumene pegmatite (Pegmatite à spodumène)
- Pegmatite
- Metasedimentary rocks (Roches métasédimentaires)
- Mafic volcanics (Volcanites mafiques)

Note: Taken from Desbiens and Allard, 2011  
(Tiré de Desbiens et Allard, 2011)



Figure 4: Detailed geological map  
(Carte de géologie détaillée)



## MURDOCH Property

The property, 100% owned by the subsidiary, is located in a remote area, about 220 kilometres north of Schefferville and approximately 160 km to the southeast of Kuujuaq. The Murdoch property consists of 169 contiguous map-designated cells, for an approximate surface area of 8007 hectares (80 km<sup>2</sup>). The main zinc occurrence is approximately centered on the property.

A high density magnetic and electromagnetic (Skytem) survey was flown over in the entire property in late summer 2006. This helicopter borne program surveyed 746.5 kilometers of lines, and intersected about 360 time-domain electromagnetic anomalies related to two main conductive zones.

A prospecting and sampling program was conducted by a crew of four men in summer 2008, for a period of 21 days. This program aimed at explaining the electromagnetic anomalies indicated by the airborne survey. A total of 180 rock samples was collected, most of them from outcrops, but some from mineralized boulders. The zinc occurrence was discovered in the course of this campaign.

Three zinc bearing boulders were found near the north-eastern arm of Nachicapau Lake, more or less above the dolomite and metasediment horizon. They are thus located almost above the electromagnetic conductors, where the signal gets diffused and broad. The blocks are large (up to a metre across) and sub-rounded, suggesting they were of local origin and dismembered from nearby outcrop or basement. Zinc assayed between 5.67% and 17.5%, which is significant. Some silver is associated, with trace amounts of copper and gold.

For more information on this property, please refer to Khalkos' prospectus, filed on December 7, 2011, and to the technical report, both available on SEDAR. The author of the technical report recommends first a stripping campaign in order to explain the electromagnetic conductors subjacent to the mineralized boulders. A \$400,000 budget is recommended for this stripping campaign.

## TILLY

The Tilly property, 100% owned by the subsidiary, consists of 101 contiguous claims, for an approximate total area of 50 km<sup>2</sup>. The property is located 30 km west of the LG-4 hydroelectric plant, and about 225 km east of Radisson (LG-2), on the James Bay territory in Quebec in the clipping NTS 33G16.

Numerous fieldwork campaigns were completed by Sirios over several years. Numerous molybdenum-copper (silver-gold) showings were discovered in a porphyry-type mineralization (large tonnage at low grades). For more information on this property, please refer to Khalkos' prospectus, filed on December 7, 2011, and to the technical report, both available on SEDAR. As of today, no work is planned in 2012 on this property.

## KHALKOS PLANIFICATION – SUMMARY OF EXPLORATION PROGRAMS

PROPRIÉTÉ	TRAVAUX PLANIFIÉS 2011-2012	BUDGET	ÉTAPES SUIVANTES
<b>MURDOCH</b>	Stripping, trenching, channel sampling	\$400,000	Diamond drilling
<b>PONTAX-LITHIUM</b>	Stripping, trenching, channel sampling	\$300,000	Diamond drilling
<b>TILLY</b>	To be determined	To be determined	Diamond drilling
<b>AUTRES</b>	To be determined	\$150,000	To be determined
<b>TOTAL 2011-2012</b>		<b>\$850,000</b>	

## SUMMARY OF FINANCIAL ACTIVITIES

The net loss of the Company is \$282,332 for the 2011-2012-Q2 in comparison with a net loss of \$170,051 for the 2010-2011-Q2. The variation is mainly caused by the increase of the general and administrative expenses since last year, which can be explained by the launch of the subsidiary, Khalkos Exploration Inc. and the closing of its initial public offering.

### General and Administrative expenses Analysis

General and administrative expenses went from \$232,997 for the 2010-2011-Q2 to \$351,550 for the 2011-2012-Q2.

	2011-2012	2010-2011
	Six-month period ended December 31, 2011 \$	Six-month period ended December 31, 2010 \$
<b>General and administrative expenses</b>		
Professional fees	<b>71,753</b>	62,712
Salaries and employee benefits expense	<b>148,846</b>	83,256
Publicity, travel and promotion	<b>51,729</b>	27,900
Rent expenses	<b>12,065</b>	8,751
Insurance, Tax and permits	<b>3,956</b>	4,491
Office expenses	<b>4,286</b>	4,263
Trustees, registration fees and shareholders relations	<b>31,689</b>	12,510
Interest and bank charges	<b>26,623</b>	18,311
Income taxes of section XII.6	-	7,200
Property and equipment amortization	<b>603</b>	3,603
<b>Total</b>	<b>351,550</b>	<b>232,997</b>

Comparing the general and administrative expenses for the six-month periods of 2010-2011 and 2011-2012, we see an increase in *Salaries and employee benefits expenses* that can be explained by the hiring of new employees since last year. Moreover, the increase in *Trustees, registration and shareholders relation* and *Interest and bank charges* can be explained by the finalization of private placements ended in the last quarter and the preparation of the annual shareholders meeting that took place on December 1, 2011. The increase in those two elements can also be explained by the launch of the subsidiary, Khalkos Exploration and the closing of its initial public offering.

## SUMMARY OF QUARTERLY RESULTS

	2011-2012		2010-2011				2009-2010	
	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$
Revenues	(87,908)	(12,305)	39,741	(21,807)	(47,089)	(15,001)	(336,397)	246,698
Net loss (net gain)	282,332	170,051	383,900	136,576	169,414	116,004	586,411	(338,575)
Net loss (net gain) per share	0.002	0.001	0.005	0.001	0.002	0.001	0.006	(0.004)

Revenues consist mainly of changes in value of listed shares as well as the gain from disposal of listed shares and interest income on cash of the Company.

In the eight last quarters, the quarterly net loss (or exceptionally the net profit) varies irregularly from a profit of \$338,735 to a loss of \$586,411. An exceptional net profit of \$338,575 at Q3-2009-2010 is mainly caused by 1) a non cash plus value of listed shares of \$245,316 which reflects the significant increase of the value of the investment (shares of Dios Exploration Inc.) on the stock exchange and 2) \$176,904 of recovered future income taxes which also strongly increases the net profit of the period. The \$586,411 Q4-2009-2010 net loss is explained by the sale of the Escal property and by the decrease in value of the listed shares on the market.

During Q1-2010-2011, Q3-2010-2011, Q1-2011-2012 and Q2-2011-2012 there is a variation in the value of the listed shares held for trading for an amount of \$16,131, \$46,363, \$13,260 and \$92,822 that significantly diminish the revenue to a negative amount of \$15,001, \$21,807, \$12,305 and \$87,908 respectively.

The net loss during Q2-2010-2011 can be explained by the write-offs of two properties, Phoenix and MTK for an amount of \$122,380 in deferred exploration expenses and \$30,624 in mining properties. The increase of the net loss to \$383,900 in the Q4-2010-2011, can be explained by the write-off of the Cognac property and by an increase in the three following elements: *Salaries and employee benefits expenses*, *Professionals fees* and *Publicity, travel and promotion*. The increase to those three categories of expenses are related to an increase in publicity and promotion undertaken by Sirios in Toronto, Calgary and Vancouver, which assisted in completing financings during the same quarter. The write-offs of the Cognac property consisted of an amount of \$83,835 in deferred exploration expenses and \$13,566 in mining properties.

## CASH FLOW SITUATION

The working capital, including funds held for exploration charges, went from \$1,786,753 on June 30, 2011 to \$1,486,604 on September 30, 2011 to \$2,003,142 on December 31, 2011. During the period, cash was used for exploration and administrative activities. The bank overdraft was calculated by the difference between *Cash held for explorations expenses* and *Cash*.

Management of Sirios evaluates that the amount of liquidity is acceptable and still controls very strictly its general and administrative expenses. The Company is considered to be in the exploration stage, thus it is dependent on obtaining regular financing in order to continue exploration. Despite previous success in acquiring sufficient financing, there is no guarantee of obtaining any future financing. **Moreover, the current economic climate requires larger efforts than before to obtain funds from investors.**

As at December 31, 2011:

- 121,726,758 common shares were issued.
- 4,471,000 options were granted and a total of 3,811,000 can be exercised at prices between \$0.10 and \$0.425 between 2012 and 2016. Each option can be exchanged by its holder thereof for one common share of the Company.
- 12,477,215 warrants were issued. Each warrant can be exchanged by its holder thereof for one common share of the Company.
- 1,228,800 brokers' warrants were issued. Each brokers' warrants can be exchanged by its holder thereof for one common share of the Company.

Variation in share capital as at February 29, 2012:

Description	Number of shares	Amount \$
As at June 30, 2011	118,726,758	20,190,024
Reimbursement of convertible debenture	3,000,000	150,000
As at December 31, 2011 and February 29, 2012	121,726,758	20,340,024

On November 14 2011, the Company reimbursed the convertible debenture by issuing \$150,000 worth of shares. As specified in the original terms of the debenture, a total of 3,000,000 shares were issued at a price of \$0.05 each, in addition to a cash payment of \$9,074 for accrued interest.

## Options

Variation in outstanding options as at February 29, 2012:

Date	Number of options	Average exercise price (\$)
As at June 30, 2011	4,471,000	0.17
As at December 31, 2011 and February 29, 2012	4,471,000	0.17

Options granted and exercisable as at February 29, 2012:

Expiry date	Options granted	Options exercisable	Exercise price (\$)
March 13, 2012	790,000	790,000	0.38
April 30, 2012	25,000	25,000	0.425
February 14, 2013	761,000	761,000	0.18
February 3, 2014	870,000	870,000	0.10
April 22, 2015	925,000	925,000	0.10
May 11, 2016	1,100,000	440,000	0.10
	<b>4,471,000</b>	<b>3,811,000</b>	<b>0.17</b>

## Warrants

Date	Number of warrants	Average exercise price (\$)
As at June 30, 2011	14,657,215	0.14
Expired	(2,180,000)	-
As at December 31, 2011 and February 29, 2012	<b><u>12,477,215</u></b>	<b>0.14</b>

During the period, no warrants were exercised.

## Brokers' warrants

Date	Number of warrants	Average exercise price (\$)
As at June 30, 2011	1,228,800	0.09
As at December 31, 2011 and February 29, 2012	<b><u>1,228,800</u></b>	<b>0.09</b>

Last year, 1,228,800 brokers' warrants were issued, for a private placement, at an exercise price of \$0.09. The fair value of those warrants was recorded in share issue expenses for an amount of \$24,576 and was estimated with the Black-Scholes method.

## RELATED PARTY TRANSACTIONS

The remuneration paid or payable to key management personnel (President and CFO) is as follows:

	Six-month period ended	
	December 31, 2011	December 31, 2010
Salaries	86,807	77,545
Defined contribution State plans	4,591	3,515
Share-based payments	12,856	10,446
	<b><u>104,254</u></b>	<b><u>91,506</u></b>

## SUSTAINABLE DEVELOPMENT PRINCIPLES

The Prospectors and Developers Association of Canada (PDAC), of which Sirios is a member, established a framework for responsible exploration called *E3 Plus*. The *E3 Plus* serves as a framework for exploration companies to continue their activities while improving their environmental, social and health and safety performance as well integrating these three aspects in all their exploration work. Sirios Resources adopted the eight principles of *E3 Plus* and asks its consultants and suppliers to also respect them. Here are the main principles that apply to the company:

- Apply ethical business practices: Sirios continues to abide by management procedures that promote honesty, integrity, transparency and accountability.

- Protect the environment: Sirios conducts its exploration activities in ways that create minimal disturbance to the environment and applies, in all of its operations, the principals of sustainable development.
- Engage host communities and other affected and interested parties: During exploration activities, Sirios makes sure to interact with local and native communities, notably trappers, organizations, groups and individuals on the basis of respect, inclusion and meaningful participation.

On September 9, 2011, a visit of the Aquilon property was undertaken by Mr. Roger Moar, geological consultant, and Mr. Dominique Doucet, President of Sirios, as well as Mrs. Nellie Pashagumiskum and Mr. Bobby Pashagumiskum, Cree trapper from Chisasibi. Mr. Pashagumiskum is the holder of the CH-26 trap line which includes the Aquilon gold property, jointly explored by Sirios and Golden Tag.

The goal of the visit was firstly for the representatives of both companies to get acquainted with the Cree trapper of the area. The second goal was to visit the locations where dynamiting and excavating work is planned as a part of the bulk sampling program.

Mr. and Mrs. Pashagumiskum expressed their wishes for the area to remain clean (free of rubbish) during and after the program. They also wish that the bulk sampling program takes place outside of the bustard hunting season during May.

This visit was very cordial and all the participants seemed to enjoy the day. It was agreed that the representatives of the companies would stay in touch with the trapper and/or his representatives or other members of his family.



**Lingo Lake visit, Aquilon property, James Bay. From left to right : Mr. Bobby Pashagumiskum, Mr. Roger Moar, Mrs. Nellie Pashagumiskum and Mr. Dominique Doucet.**

Moreover, on February 7, 2012, the Company's board of directors signed a resolution with the following commitments about sustainable development governance:

1. Concerning governance and responsible management, the Company must ensure:

- That employees, of all levels, understand their social and environmental responsibilities, and that they work towards improving their workplace environment.
- To plan, evaluate, and manage all its projects with rigor in order to minimize the negative effects on the environment and local communities.

2. Maintaining an open dialogue is key to responsible management of projects on lands used by others. The Company must ensure:

- To develop a proactive, open and transparent communication with local authorities (including Native communities), municipal authorities, as well as governmental organizations.
- To develop a proactive communication with other parties involved from the region.

3. Concerning health and safety, the Company must ensure:

- To diligently apply the regulations, in terms of health and safety in all of its exploration activities.

4. Concerning the environment, the Company must ensure:

- To apply with diligence the environmental regulations in all of its exploration activities.

5. Concerning socio-economic implications, the Company must ensure:

- Whenever possible, to generate benefits on a local level and to contribute to the local development by constructively partnering with native and non-native communities in order to respectively consider the interests of all parties involved.

## **SUBSEQUENT EVENTS**

On January 16, 2012, the board of directors authorized the distribution of 6,086,338 common shares of Khalkos Exploration inc. (the subsidiary) currently held by the Company to the shareholders of Sirios registered as of January 25, 2012. The common shares of Sirios will trade on an ex-dividend basis as of January 23, 2012. Each shareholder of Sirios received 1 common share of Khalkos for each tranche of 20 common shares of Sirios held. Shares of Khalkos were issued in whole numbers only, rounded down.

At the date of this report, Sirios owns 5,393,931 shares of Khalkos, being 29.88% of the issued and outstanding shares.



## ACCOUNTING POLICIES

### *Accounting estimates*

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. Significant estimates include the recoverability of mineral properties and deferred exploration expenses, future income taxes and stock-based compensation. Actual results may differ from those estimates.

### *Off-balance sheet arrangements*

As at December 31, 2011, there is no off-balance sheet arrangement.

### *International financial reporting standards ("IFRS")*

In February 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to the IFRS.

These interim financial statements, on December 31, 2011, of the Company were prepared in accordance with IFRS. As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, on September 30, 2011, they were prepared in accordance with IAS 34, *Interim Financial Reporting* and by IFRS 1, *First-time Adoption of IFRS*.

The Company's financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS. In preparing these interim financial statements, on September 30, 2011, management has amended certain accounting and valuation previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2011 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in note 21 of the interim financial statements, on September 30, 2011, along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive loss.

These financial statements, on December 31, 2011, were prepared under the historical cost convention.

Upon transition, IFRS 1 dictate certain mandatory exceptions and certain optional exemptions from full retrospective application. The exceptions and exemptions adopted by the Company are set out below:

### *Mandatory exceptions*

The estimates established by the Company in accordance with IFRS at the date of transition to IFRS are consistent with estimates made for the same date in accordance with Canadian GAAP, after adjustments to reflect any difference in accounting principles, if applicable.

Financial assets liabilities that were derecognised before June 1, 2010 as per the previous GAAP, have not been accounted for under IFRS. The Company has applied the IFRS amendment in advance at the date of application of the exception, June 1, 2010.

### ***Optional exemption***

The Company has chosen not to apply IFRS 2, *Share-based Payment*, retrospectively to options granted on or before February 4, 2009 or granted after February 4, 2009 and vested before the date of transition to IFRS.

### ***Transition aux IFRS***

Changes observed for the transition to IFRS are mainly the following:

#### **1. Shares issued by flow-through placements**

Under Pre-change accounting standards, the entire proceeds received on the issuance of flow-through shares were credited to share capital.

Under IFRS, issuance of flow-through shares is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between shares issued and a liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to the liability.

Under IFRS, when the Company has renounced to its deductions and has incurred its admissible expenditures, (or when its admissible expenditures and has the intention to renounce), the sale of tax deductions is recognized in profit or loss as a reduction of deferred tax expenses and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of admissible expenditures capitalized as an asset and its tax base.

As there is no exemption under IFRS 1 for first-time adopters regarding flow-through shares, the treatment under IFRS needs to be applied retrospectively.

The impact on the transition to IFRS is as follow:

## Financial Position

	As at December 31, 2011 (6 months) \$	As at July 1st, 2010 \$	As at June 30, 2011 (12 months) \$
<u>Share capital</u>			
Increase (decrease)	-	(435,188)	(372,780)
Total	(435,188)	(435,188)	(807,968)
<u>Deficit</u>			
Increase (decrease)	(16,981)	(494,119)	(16,981)
Total	(511,100)	(494,119)	(511,100)
<u>Other liabilities</u>			
Increase (decrease)	(16,981)	16,982	179,175
Total	1	16,982	196,157
<u>Contributed surplus</u>			
Increase (decrease)	(75,913)	-	176,624
Total	(75,913)	(75,913)	100,711

## Comprehensive income

For the period ended December 31, 2010		
	(3 months) \$	(6 months) \$
<u>Deferred income taxes</u>		
Increase (decrease)	(15,218)	(16,981)
Total	(16,981)	(16,981)

## 2. Presentation differences

### **Statement of Financial Position**

*Mineral Properties* and *Deferred Exploration expenses* were combined for presentation and are now called *Exploration and evaluation assets*.

*Tax credits and credit on duties receivable* is now presented separately from *Other receivables*.

*Cash held for exploration expenses* was presented as long-term with the GAAP, but under IFRS, it is presented as a current asset.

*Other short-term financial assets* include the previous *Shares held for trading*. Also, it is now presented as a current asset.

## Statement of Comprehensive income

Salaries and employee benefits expense for IFRS was adjusted as follows:

December 31, 2010		
	3 months	6 months
	\$	\$
Balance before the transition date	28,248	51,018
Grouping		
Stock-based compensation	8,063	22,569
Share-based payments adjustment	3,628	9,669
Balance as per IFRS	<b>39,939</b>	<b>83,256</b>

*Trustees and registration fees* and *Information to shareholders* were combined and are now presented as *Trustees, registration fees and shareholders relations*.

*Write-off of mineral properties* and *Write-off of deferred exploration expenses* were combined and are now presented as *Disposal of exploration and evaluation assets*.

### 3. Share-based payments

Under Canadian GAAP, the entity can consider the entire award as a group, determine the fair value using the average term of the instruments and then recognize the compensation expense on a straight-line basis over the vesting period. Additionally, under Canadian GAAP, forfeitures must be recognized as they occur.

Pursuant to IFRS 2, each portion of an award with graded vesting options must be considered as a separate award with its own vesting date and fair value and must be recognized on that basis. Additionally, under IFRS, entities are required to estimate awards that are expected to vest and to revise that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. As a result, the Company adjusted its expense for share-based payments to reflect these accounting method differences, resulting in an increase of contributed surplus as follows:

	As at December 31, 2010 (6 months) \$	As at July 1st, 2010 \$	As at June 30, 2011 (12 months) \$
<u>Contributed surplus</u>			
Increase (decrease)	9,669	2,440	6,283
Total	12,109	2,440	8,723
<u>Deficit</u>			
Increase (decrease)	(9,669)	(2,440)	(8,723)
Total	(12,109)	(2,440)	(8,723)

#### 4. Impairment losses recognized at the date of transition

The Company applied IAS 36, Impairment of assets, in determining whether any impairment losses arose at the date of transition to IFRS. No impairment losses (or reversals) were identified.

### **RISK AND UNCERTAINTIES**

#### ***Risk inherent to the industry***

Mineral exploration and development involve several risks which experience, knowledge and careful evaluation may not be sufficient to overcome. Large capital expenditures are required in advance of anticipated revenues from operations. Many exploration programs do not result in the discovery of mineralization; moreover, mineralization discovered may not be of sufficient quantity or quality to be profitably mined. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labor are some of the risks involved in the conduct of exploration programs and the operation of mines. The commercial viability of exploiting any precious metal deposit is dependent on a number of factors including infrastructure and governmental regulations, in particular those respecting the environment, price, taxes, and royalties. No assurance can be given that minerals of sufficient quantity, quality, size and grade will be discovered on any of the Company's properties to justify commercial operation. Numerous external factors influence and may have significant impacts on the operations of the Company and its financing needs.

#### ***Financial risk***

The Company is an exploration company. The Company will periodically have to raise additional funds to continue operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

#### ***Mining claims and title risks***

Although the Company has taken steps to verify title to mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

#### ***Tax***

No assurance can be made that Canada Revenue Agency or Quebec Minister of Revenue will agree with Company's characterization of expenditures as Canadian exploration expenses or Canadian development expenses.

#### ***Dependence on key personnel***

The development of the Company's business is and will continue to be dependent on its ability to attract and retain highly qualified management and mining personnel. The Company faces competition for personnel from other employers.

### ***Conflicts of interest***

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith of view to the best interests of the Company and to disclose any interest, which they may have un any project or opportunity of the Company. If a conflict arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter.

### ***Environmental risks***

The Company is subject to various environmental incidents that can occur during exploration work. The Company maintains an environmental management system including operational plans and practices.

## **MANAGEMENT'S RESPONSABILITY FOR FINANCIAL INFORMATION**

The Company's financial statements are the responsibility of the Company's management, and have been approved by the board of directors. The financial statements were prepared by the Company's management in accordance with International Financial Reporting Standards (IFRS). The financial statements include certain amounts based on the use of estimated and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

Montreal. February 29, 2012

**(signed) Dominique Doucet, President and CEO**

**(signed) Frederic Sahyouni, Chief Financial Officer**