

FLETCHER NICKEL INC.
(A Development and Exploration Stage Company)
Interim Financial Statements
For the three and six months ended
June 30, 2008
(Unaudited)

FLETCHER NICKEL INC.

(A Development and Exploration Stage Company)

Interim Balance Sheets

Unaudited

| | June 30, 2008 | December 31, 2007 |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current | | |
| Cash and equivalents | \$ 1,397,868 | \$ 2,048,812 |
| Restricted cash and equivalents (Note 15) | 1,737,899 | 3,885,822 |
| | <u>3,135,767</u> | <u>5,934,634</u> |
| Accounts receivable | 84,170 | 70,287 |
| Contractor advances | 20,000 | 62,500 |
| Prepaid expenses | 58,793 | 22,503 |
| | <u>3,298,730</u> | <u>6,089,924</u> |
| Fixed Assets (Note 5) | 53,856 | - |
| Investment in Claim Lake Resources - at cost | 6,000 | 6,000 |
| Interest in Mineral Properties (Note 6) | 10,297,213 | 7,660,839 |
| | <u><u>\$ 13,655,799</u></u> | <u><u>\$ 13,756,763</u></u> |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Accounts payable and accruals | \$ 385,972 | \$ 168,820 |
| Long Term Liabilities | | |
| Convertible Debenture (Note 7) | 176,957 | 132,100 |
| Preference shares (Note 8) | 4,974,847 | 4,809,840 |
| Future income tax liability (Note 16) | 324,000 | - |
| | <u>5,475,804</u> | <u>4,941,940</u> |
| Total Liabilities | <u>5,861,776</u> | <u>5,110,760</u> |
| Shareholders Equity | | |
| Common shares (Note 9) | 8,808,291 | 9,578,436 |
| Equity component of convertible debenture (Note 7) | 436,740 | 436,740 |
| Warrants (Note 10) | 1,432,310 | 1,328,282 |
| Contributed surplus (Note 12) | 1,149,372 | 1,073,400 |
| Deficit | (4,032,690) | (3,770,855) |
| Total Equity | <u>7,794,023</u> | <u>8,646,003</u> |
| | <u><u>\$ 13,655,799</u></u> | <u><u>\$ 13,756,763</u></u> |

FLETCHER NICKEL INC.

(A Development and Exploration Stage Company)

Interim Statements of Operations and Deficit

Unaudited

| | 3 Months Ending June 30, | | 6 Months Ending June 30, | | Cumulative since inception |
|--|-----------------------------|-----------------------|-----------------------------|-----------------------|----------------------------------|
| | 2008 | 2007 | 2008 | 2007 | |
| Income | | | | | |
| Interest Income | \$ 19,445 | \$ 10,909 | \$ 61,009 | \$ 10,909 | \$ 93,320 |
| Expenditures | | | | | |
| Accounting | 7,156 | 4,241 | 18,990 | 4,241 | 50,466 |
| Accretion of preference shares (Note 8) | 82,504 | 73,365 | 165,007 | 147,970 | 666,157 |
| Accretion of convertible debentures (Note 7) | 22,429 | 15,431 | 44,857 | 38,227 | 135,542 |
| Administrative and general expenses | 29,607 | 33,563 | 101,565 | 65,962 | 436,306 |
| Amortization | 1,900 | - | 1,900 | - | 3,434 |
| Audit and legal | 35,670 | 16,000 | 69,421 | 24,167 | 203,432 |
| Consulting | 35,024 | 20,250 | 69,650 | 26,250 | 484,629 |
| Directors fees | 42,000 | - | 42,000 | - | 42,000 |
| Insurance | 7,078 | 29,106 | 16,023 | 29,106 | 30,576 |
| Interest and bank charges | 944 | 3,009 | 1,494 | 6,657 | 44,517 |
| Interest on preference shares (Note 8) | 100,000 | 100,000 | 200,000 | 200,000 | 866,527 |
| Penalty on debenture conversion | - | - | - | - | 126,000 |
| Rent | 2,275 | 6,225 | 9,100 | 11,925 | 102,675 |
| Salaries and benefits | 71,232 | 56,021 | 142,617 | 113,994 | 361,611 |
| Stock-based compensation | - | - | - | - | 950,400 |
| Tax interest on flow-thru funds | 83,303 | - | 83,303 | - | 83,303 |
| Travel | 4,898 | 7,146 | 13,062 | 8,910 | 82,821 |
| Warrant extension expense | - | - | 180,000 | - | 370,784 |
| | <u>526,020</u> | <u>364,357</u> | <u>1,158,989</u> | <u>677,409</u> | <u>5,041,180</u> |
| Net loss before income taxes | (506,575) | (353,448) | (1,097,980) | (666,500) | (4,947,860) |
| Future income tax recovery | 84,500 | - | 836,145 | - | 915,170 |
| Net and comprehensive income (loss) | (422,075) | (353,448) | (261,835) | (666,500) | (4,032,690) |
| Deficit, beginning of period | <u>(3,610,615)</u> | <u>(1,620,352)</u> | <u>(3,770,855)</u> | <u>(1,307,300)</u> | <u>-</u> |
| Deficit, end of period | \$ (4,032,690) | \$ (1,973,800) | \$ (4,032,690) | \$ (1,973,800) | \$ (4,032,690) |
| Income (loss) per share - basic and diluted | \$ (0.02) | \$ (0.04) | \$ (0.01) | \$ (0.07) | |
| Weighted average number of shares outstanding during the period - basic and diluted | <u>22,781,051</u> | <u>9,553,325</u> | <u>22,606,325</u> | <u>8,998,042</u> | |

FLETCHER NICKEL INC.

(A Development and Exploration Stage Company)

Interim Statements of Cash Flows

Unaudited

| | 3 Months Ending June 30, | | 6 Months Ending June 30, | | Cumulative since inception |
|--|-----------------------------|-------------------|-----------------------------|-------------------|----------------------------------|
| | 2008 | 2007 | 2008 | 2007 | |
| Cash derived from (applied to) | | | | | |
| Operating activities | | | | | |
| Net Income (Loss) | \$ (422,075) | \$ (353,448) | \$ (261,835) | \$ (666,500) | \$ (4,032,690) |
| Less: Operating items not involving cash | | | | | |
| Amortization | 1,900 | - | 1,900 | - | 3,434 |
| Accretion of preference shares | 82,504 | 73,365 | 165,007 | 147,970 | 666,157 |
| Accretion of convertible debenture | 22,429 | 15,431 | 44,857 | 38,227 | 135,542 |
| Non-cash interest payments | - | - | - | - | 125,000 |
| Non-cash consulting fees | - | - | - | - | 25,939 |
| Penalty on debenture | - | - | - | - | 126,000 |
| Stock-based compensation | - | - | - | - | 950,400 |
| Warrant extension expense | - | - | 180,000 | - | 370,784 |
| Future income tax recovery | (84,500) | - | (836,145) | - | (915,170) |
| Change in non cash working capital | | | | | |
| (Increase) Decrease accounts receivable | (42,408) | 5,067 | (13,883) | (8,302) | (84,150) |
| (Increase) Decrease in prepaid expenses | (29,000) | - | (36,290) | (750) | (58,793) |
| (increase) Decrease in contractor advances | 127,500 | - | 42,500 | - | (20,000) |
| Increase (Decrease) in accounts payable | 175,807 | (88,705) | 217,152 | (332,621) | 285,972 |
| | (167,843) | (348,290) | (496,737) | (821,976) | (2,421,575) |
| Financing activities | | | | | |
| Issuance of common shares | - | 975,000 | - | 1,725,000 | 9,369,700 |
| Issuance of special warrants | - | - | - | - | 1,080,400 |
| Issuance of warrants | - | - | - | - | 44,000 |
| Share issuance costs | - | - | - | (17,252) | (1,349,767) |
| Issue of convertible debenture | - | - | - | - | 750,000 |
| Advances from shareholders | - | - | - | - | 100,000 |
| Deferred financing costs | - | (113,312) | - | (187,652) | (86,058) |
| | - | 861,688 | - | 1,520,096 | 9,908,275 |
| Investing activities | | | | | |
| Interest in mineral properties | (1,665,099) | 27,975 | (2,239,174) | 20,574 | (4,280,443) |
| Investment in Claim Lake resources | - | - | - | - | (6,000) |
| Purchase of fixed assets | (18,461) | - | (62,956) | - | (64,490) |
| | (1,683,560) | 27,975 | (2,302,130) | 20,574 | (4,350,933) |
| Increase (decrease) in cash | (1,851,403) | 541,373 | (2,798,867) | 718,694 | 3,135,767 |
| Cash at beginning of period | 4,987,170 | 179,455 | 5,934,634 | 2,134 | - |
| Cash at end of period | \$3,135,767 | \$ 720,828 | \$3,135,767 | \$ 720,828 | \$ 3,135,767 |

FLETCHER NICKEL INC.
(A Development and Exploration Stage Company)
Notes to Unaudited Interim Financial Statements
For the six months ended June 30, 2008

1. NATURE OF OPERATIONS AND GOING CONCERN

Fletcher Nickel Inc. (the "Company") is a development and exploration stage company and currently has interests in exploration and development properties in Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves which are economically recoverable.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values.

The Company has a need for equity capital and financing in order to explore and develop its properties and for working capital requirements. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

2. BASIS OF PRESENTATION

The unaudited interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of the financial statements is based on accounting policies and practices consistent with those used in the preparation of the audited annual financial statements except as noted below. The accompanying unaudited interim financial statements should be read in conjunction with the notes to the Company's audited financial statements for the year ended December 31, 2007, since they do not contain all disclosures required by GAAP for annual financial statements. These unaudited interim financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

Change in accounting policies

On January 1, 2008, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

FLETCHER NICKEL INC.
(A Development and Exploration Stage Company)
Notes to Unaudited Interim Financial Statements
For the six months ended June 30, 2008

2. BASIS OF PRESENTATION (continued)

Capital Disclosures

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 3 to these financial statements.

Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook sections in note 4 to these financial statements.

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Several properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended June 30, 2008. The Company is not subject to externally imposed capital requirements.

4. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to short-term investments and receivables included in other assets. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of bank deposits which have been invested with or purchased from reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2008, the Company had cash and equivalents of \$1,397,868 and restricted cash and equivalents of \$1,737,899 (see Note 15) for a total of \$3,135,767 (December 31, 2007 - \$5,934,634) to settle current liabilities of \$385,972 (December 31, 2007 - \$168,820). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

FLETCHER NICKEL INC.
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Notes to Unaudited Interim Financial Statements
For the six months ended June 30, 2008

4. FINANCIAL RISK FACTORS (continued)

Market risk

(a) Interest rate risk

The Company has cash balances and debt and preference shares bearing fixed interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company's convertible debentures and preference shares are at fixed interest rates and, therefore, the Company's exposure to interest rate risk over the term of the debentures and preference shares is minimal.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. From time to time, the Company funds certain operations, exploration and administrative expenses in US dollars on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

The Company has designated its cash and cash equivalents and short term investments as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at June 30, 2008, the carrying and fair value amounts of the Company's financial instruments are the same.

The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Price risk is remote since the Company is not a revenue producing entity.

5. FIXED ASSETS

| | Cost | Accumulated Depreciation | Net June 30, 2008 | Net December 31, 2007 |
|------------------|------------------|-----------------------------|-------------------------|-----------------------------|
| Office furniture | \$ 18,255 | \$ 1,900 | \$ 16,355 | \$ - |
| Vehicles | 44,701 | 7,200 | 37,501 | - |
| | <u>\$ 62,956</u> | <u>\$ 9,100</u> | <u>\$ 53,856</u> | <u>\$ -</u> |

FLETCHER NICKEL INC.
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6. INTEREST IN MINERAL PROPERTIES

| | Balance June 30, 2008 | Additions During Period | Balance December 31, 2007 |
|------------------------------|-----------------------------|-------------------------------|---------------------------------|
| New Texmont Project | | | |
| Acquisition Costs | \$ 7,243,903 | \$ 528,777 | \$ 6,715,126 |
| Airborne geophysics | 77,000 | 77,000 | - |
| Assaying | 73,292 | 72,395 | 897 |
| Depreciation | 7,200 | 7,200 | - |
| Drilling | 1,638,607 | 1,315,400 | 323,207 |
| Environmental studies | 107,592 | 107,592 | - |
| Field office expense | 89,976 | 55,963 | 34,013 |
| Geology | 765,784 | 350,034 | 415,750 |
| Ground geophysics | 113,570 | 29,991 | 83,579 |
| Lease rental and land taxes | 2,827 | 606 | 2,221 |
| Project management | 226,172 | 58,623 | 167,549 |
| Project planning and reports | 49,503 | 28,543 | 20,960 |
| Surveying | 4,250 | 4,250 | - |
| Sale of concentrates | (102,463) | - | (102,463) |
| | <u>\$ 10,297,213</u> | <u>\$ 2,636,374</u> | <u>\$ 7,660,839</u> |

The New Texmont Project is comprised of fourteen mining leases expiring February 28, 2017, plus 51 adjoining mineral claims totaling 443 claim units. The mining leases are located 40 kilometres south of Timmins, Ontario, in Geikie and Bartlett Townships. The adjoining mineral claims extend into Bartlett, McArthur, English, Semple, Hutt, Zavitz and Montrose Townships. The leases cover a surface area of 188 hectares and the mineral claims cover a surface area of 7,172 hectares. Under various option terms, minerals recovered from the leases and the claims will be subject to royalties payable to prior holders. A 1.5% net smelter royalty is payable on minerals recovered from the claims but may be reduced to 0.5% for specified fixed-price payments. A 3% net smelter royalty is payable on minerals recovered from the leases during the first three years of commercial production, after which 5% is payable. However, royalties from the leases are halved upon payment of \$2 million.

On May 2, 2008 the company entered into an option agreement to acquire 81 additional claim units adjacent to its properties for 600,000 shares, \$600,000 payable in eight equal quarterly instalments, and \$325,000 payable in shares on May 15, 2009, at 95% of their weighted average price over the prior 20 trading days. The Company may, at any time prior to the commercial production of any part of the optioned property, purchase two-thirds of the 1.5% net smelter royalty on the property for \$1,000,000. Pursuant to this agreement, the company issued 600,000 common shares on May 8, 2008 at a value of \$390,000.

In addition the Company has signed a letter of intent to acquire a majority operating interest in 183 claim units adjoining its properties. The Company may earn a 55% joint venture interest in the claim group by completing \$1,000,000 of exploration expenditures over four years and issuing 50,000 shares annually until the interest is earned. A minimum of \$150,000 of such exploration expenditures must be incurred in the first year; \$200,000 in the second year; \$250,000 in the third year; and, \$400,000 in the fourth year. The Company may purchase one-half of a 2% net smelter royalty on the property, should the optionor's interest in the joint venture dilute below 10%, for \$1,000,000.

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7. CONVERTIBLE DEBENTURE

On January 4, 2006 the company issued for cash a \$750,000 principal amount special note, convertible into a \$750,000 principal amount unsecured convertible debenture and an aggregate of 1,500,000 common share purchase warrants, each such warrant entitling the holder to purchase one common share at \$0.65 until January 4, 2008. The special note was converted on March 15, 2006 and the \$750,000 principal amount unsecured convertible debenture and 1,500,000 warrants were issued upon such conversion. The fair value of the warrants was determined to be \$211,845. These warrants were exercised on May 22, 2007. The unsecured convertible debenture bears interest at 4% per annum and may be converted by the holder at any time into an aggregate of up to 1,500,000 units of the company at a deemed price of \$0.50 per unit. Each unit will comprise one common share and one common share purchase warrant, each such warrant entitling the holder to purchase one common share at \$0.65. In addition, compensation warrants were issued to an agent entitling it to purchase up to 150,000 common shares of the Company at \$0.50 each at any time prior to January 4, 2008.

The components of these financial instruments consisting of the debenture, warrants and conversion features were valued on a pro-rata basis based on the relative fair values of each component. The fair value of the debenture was estimated by discounting the future cash flows at an interest rate applicable to non-convertible debt. The fair value of the warrants was determined using the Black-Scholes option pricing model assuming a risk-free interest rate of 3.97% on the date of issue, an expected life of 2 years, a volatility of 85% and dividends of \$Nil. The fair value of the conversion was similarly valued, with the exception of an expected life of 5 years.

The debt component of the unsecured convertible debenture will be accreted to its face value over its 5 year term. The accretion of the convertible debenture for the six months ended June 30, 2008 was calculated to be \$44,857 (2007 - \$38,227).

8. PREFERENCE SHARES

The Series A preference shares entitle the holder to receive a 5% per share fixed cumulative annual preferential cash dividend, payable in quarterly installments on the fifteenth (15th) day of February, May, August and November. The Company may at any time, upon a minimum 14 days notice, redeem all or part of the Series A preference shares at a price of \$1.00 per share, together with unpaid dividends accrued to the date of redemption. On the eighth anniversary date of issuance, March 15, 2014, the Company must redeem all of the Series A preference shares at a price of \$1.00 per share, together with unpaid dividends accrued to the date of redemption.

The value of the Series A preference shares has been determined by discounting the future interest payments until March 15, 2014 at a discount rate of 15% which represents the borrowing rate available to the Company for similar instruments of debt having no conversion rights.

The Company accretes the value assigned to the par value of \$8,000,000. Dividend expense related to the Series A preference shares is recorded as interest. For the six months ended June 30, 2008, the Company recorded \$165,007 of accretion expense (2007 - \$147,970) and \$200,000 of dividends as interest expense (2007 - \$200,000).

The Company has deposited an executed re-assignment of the mining lease with an escrow agent. New Texmont Explorations Limited ("NTE") may require delivery of the re-assignment by the escrow agent in exchange for delivery of the preferred shares for cancellation, at any time the company has failed to cure a default in payment of the preferred share dividends within thirty days of a notice of default from NTE. The Company may also require NTE to deliver the preferred shares for cancellation at any time it wishes to relinquish and re-assign the mining leases.

FLETCHER NICKEL INC.
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10. WARRANTS (continued)

Warrants Outstanding

| Number of Warrants | Exercise Price | Expiry Date |
|-------------------------------|---------------------------|--------------------|
| 300,000 | \$0.75 | June 30, 2009 |
| 200,000 | 1.25 | November 12, 2008 |
| 725,000 | 1.25 | February 28, 2009 |
| 500,000 | 1.25 | March 20, 2009 |
| 50,000 | 1.25 | March 28, 2009 |
| 500,000 | 1.25 | April 3, 2009 |
| 50,000 | 1.20 | April 25, 2009 |
| 15,000 | 1.50 | May 21, 2009 |
| 300,000 | 1.20 | February 6, 2009 |
| 75,000 | 1.20 | February 15, 2009 |
| 50,000 | 1.20 | February 6, 2009 |
| 60,000 | 1.00 | February 6, 2009 |
| 7,500 | 1.00 | February 15, 2009 |
| 2,143,000 | 1.00 | May 29, 2009 |
| 571,500 | 1.00 | May 29, 2009 |
| 428,600 | 1.00 | May 29, 2009 |
| <u>236,000</u> | 1.00 | May 29, 2009 |
| <u><u>6,211,600</u></u> | | |

Each warrant entitles the holder to purchase one common share of the Company.

11. OPTIONS

The Company's Stock Option Plan (the "Stock Option Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed five years at exercise prices not less than the closing sale price of the shares on the TSX on the trading day immediately preceding the date options are granted, and are not transferrable. The plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual, the exercise price and the term. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued shares.

Options Outstanding

| Number of Options | Exercise Price | Expiry Date |
|------------------------------|---------------------------|--------------------|
| 1,900,000 | \$0.70 | November 29, 2012 |
| <u>150,000</u> | \$0.75 | December 12, 2012 |
| <u><u>2,050,000</u></u> | | |

FLETCHER NICKEL INC.
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12. CONTRIBUTED SURPLUS

| | <u>2008</u> |
|----------------------------|---------------------|
| Balance, December 31, 2007 | <u>\$ 1,073,400</u> |
| Expiry of warrants | <u>75,972</u> |
| Balance, June 30, 2008 | <u>\$ 1,149,372</u> |

13. RELATED PARTY TRANSACTIONS AND BALANCES

| | <u>2008</u> |
|--|------------------|
| Balances: | |
| Due to directors and officers | <u>\$ 12,343</u> |
| Amount included in accounts payable, due to a law firm of which a partner is a director of the Company | <u>4,024</u> |
| | <u>\$ 16,367</u> |
| Transactions: | |
| Management fees paid to directors and officers | <u>\$ 8,925</u> |
| Legal fees incurred to a law firm of which a partner is a director of the Company | <u>44,797</u> |
| | <u>\$ 53,722</u> |

Amounts due to directors and officers are non-interest bearing, have no set terms of repayment and are due on demand.

14. FINANCIAL INSTRUMENTS

(a) Fair value:

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, due to related parties, dividends payable and non-interest bearing loan approximates fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

(b) Commodity Price Risk

The ability of the company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

15. COMMITMENT

The Company, by undertaking the issuance of flow-through shares during 2007, has a spending commitment of \$4,000,500 on its mineral properties by December 31, 2008. To June 30, 2008, \$2,262,601 of this spending has occurred. The Company has restricted cash and equivalents of \$1,737,899 to meet this commitment.

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For the six months ended June 30, 2008

16. INCOME TAXES

During the first quarter, the Company renounced to investors \$4,000,500 of resource expenditures. The future income tax liability resulting from the renunciation of these qualifying expenditures amounted to \$1,160,145, and was recorded in the quarter ended March 31, 2008. This liability was partially offset by a future tax recovery of \$751,645, resulting in a net future tax liability of \$408,500. The second quarter loss resulted in a future tax recovery of \$84,500, thereby reducing the future tax liability to \$324,000.