

**FLETCHER NICKEL INC.**  
**(A Development Stage Company)**

**Interim Financial Statements**

**September 30, 2011**

**Unaudited**

**(Expressed in Canadian Dollars)**

**FLETCHER NICKEL INC.**  
**(A Development Stage Company)**  
**Notes to the interim financial statements**  
**September 30, 2011**

**Unaudited**

**Management's Responsibility for Financial Reporting**

The interim financial statements and other information in management's discussion and analysis were prepared by the management of Fletcher Nickel Inc., reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for preparation of the interim financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's interim financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is composed of three directors and meets periodically with management and the external auditors to review accounting, auditing, internal control and financial reporting matters.

# FLETCHER NICKEL INC.

(An Exploration Stage Company)

Interim Balance Sheets

Unaudited

(Expressed in Canadian Dollars)

September 30, December 31,  
2011 2010

## Assets

### Current

Cash	\$ 9,866	\$ 14,054
Receivables	1,352	368
	<u>\$ 11,218</u>	<u>\$ 14,422</u>

## Liabilities and Shareholders' Deficiency

### Current Liabilities

Trade and other payables	\$ 276,657	\$ 295,880
Loan payable (Note 13)	-	20,000
Dividends payable (Note 8)	670,027	340,027
Preference shares Series A (Note 8)	6,370,724	5,990,275
Preference shares Series B (Note 8)	191,569	169,773
Total Liabilities	<u>7,508,977</u>	<u>6,815,955</u>

### Shareholders' Equity

Common shares (Note 9)	9,715,041	9,617,041
Preference shares Series B (Note 8)	39,241	39,241
Commitment to issue shares (Note 8)	127,713	113,182
Warrants (Note 10)	-	14,000
Contributed surplus (Note 12)	2,447,659	2,447,659
Deficit	(19,827,413)	(19,032,656)
Total equity	<u>(7,497,759)</u>	<u>(6,801,533)</u>

\$ 11,218 \$ 14,422

Going concern (Note 1)

Approved by the board of directors

Signed \_\_\_\_\_, Director

Signed \_\_\_\_\_, Director

See accompanying notes to the interim unaudited financial statements

**FLETCHER NICKEL INC.**  
**(An Exploration Stage Company)**  
**Interim Statements of Net and Comprehensive Loss**  
**Unaudited**  
**(Expressed in Canadian Dollars)**

	<b>3 Months Ended</b>		<b>9 Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Expenditures</b>				
Accretion of preference shares (Note 8)	\$ 147,513	\$ 114,115	\$ 416,776	\$ 342,346
Administrative and general expenses	2,243	1,745	9,299	4,737
Accounting, audit and legal	11,653	16,390	27,131	66,200
Consulting	-	-	-	2,000
Evaluation and exploration expenses (recovery)	1,500	880	4,643	(49,590)
Insurance	-	-	8,426	11,804
Dividends on preference shares (Note 8)	110,000	100,000	330,000	300,000
Rent	-	-	(1,518)	(9,633)
Salaries and benefits	-	1,256	-	4,856
	<u>272,909</u>	<u>234,386</u>	<u>794,757</u>	<u>672,720</u>
<b>Other items</b>				
Gain on dividend payment (Note 8)	-	-	-	35,170
Gain on sale of furniture (Note 6)	-	-	-	10,632
Gain on sale of tax benefits (Note 14)	-	-	-	14,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,802</u>
<b>Net and comprehensive loss</b>	<u>\$ (272,909)</u>	<u>\$ (234,386)</u>	<u>\$ (794,757)</u>	<u>\$ (612,918)</u>
<b>Loss per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of shares outstanding during the period</b>	<u>27,340,296</u>	<u>25,984,347</u>	<u>26,472,626</u>	<u>25,982,512</u>

See accompanying notes to the interim unaudited financial statements

## FLETCHER NICKEL INC.

(An Exploration Stage Company)

Statements of Changes in Equity

Unaudited

(Expressed in Canadian Dollars)

	Common Shares	Preference Series B Shares	Commitment to issue Shares	Warrants	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2010	\$ 9,616,041	\$ 29,880	\$ 55,469	\$ 14,000	\$ 2,447,659	\$ (18,105,105)	\$ (5,942,056)
Series B Preference shares issued to pay A dividends		9,361					9,361
Dividends in Series B preference shares to be issued			55,469				55,469
Common shares issued for property	1,000						1,000
Net and Comprehensive Loss for the period						(612,918)	(612,918)
Balance September 30, 2010 (Note 14)	9,617,041	39,241	110,938	14,000	2,447,659	(18,718,023)	(6,489,144)
Accretion on commitment to issue shares			2,244				2,244
Net and Comprehensive Loss for the period						(314,633)	(314,633)
Balance December 31, 2010 (Note 14)	9,617,041	39,241	113,182	14,000	2,447,659	(19,032,656)	(6,801,533)
Exercise of warrants	98,000			(14,000)			84,000
Accretion on commitment to issue shares			14,531				14,531
Net and Comprehensive Loss for the period						(794,757)	(794,757)
Balance September 30, 2011	<u>\$ 9,715,041</u>	<u>\$ 39,241</u>	<u>\$ 127,713</u>	<u>\$ -</u>	<u>\$ 2,447,659</u>	<u>\$ (19,827,413)</u>	<u>\$ (7,497,759)</u>

See accompanying notes to the interim unaudited financial statements

**FLETCHER NICKEL INC.**  
**(An Exploration Stage Company)**  
**Statements of Cash Flows**  
**Unaudited**  
**(Expressed in Canadian Dollars)**

**3 Months Ended**  
**September 30,**  
**2011**      **2010**

**9 Months Ended**  
**September 30,**  
**2011**      **2010**

**Cash derived from (applied to)**

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Fletcher Nickel Inc. (the "Company") is a development 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.

The Company was incorporated on December 4, 2003 under the laws of the Province of Ontario and its registered office is 141 Adelaide Street West, Suite 1000, Toronto, Ontario.

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 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.

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 or claims by aboriginal people.

These financial statements have been prepared in accordance with International Financial Reporting Standards 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 interim financial statements.

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.

The Company has not yet realized profitable operations and has incurred significant losses to date resulting in a cumulative deficit of \$19,827,413 (December 31, 2010 - \$19,032,656). At September 30, 2011, the Company had cash of \$9,866 (December 31, 2010 - \$14,054) to settle current liabilities of \$7,508,977 (December 31, 2010 - \$6,815,955).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation and adoption of IFRS**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements. In these interim financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and IFRS refers to Canadian GAAP subsequent to the adoption of IFRS.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

These interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 Interim Financial Reporting, and IFRS 1 First-time Adoption of International Financial Reporting Standards. The Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. The impact as a result of the Company’s adoption of IFRS as of the transition date is disclosed in note 14 to these interim financial statements.

The policies applied in these interim financial statements are based on IFRS policies effective as of November 21, 2011, the date the Board of Directors approved the interim financial statements. Any subsequent changes to IFRS that are given effect in the Company’s financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on changeover to IFRS.

These interim financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010.

**(b) Basis of presentation**

The interim financial statements have been prepared under the historical cost convention, except for financial assets designated as fair value through profit and loss.

**(c) Financial assets and liabilities**

The Company’s financial instruments consist of the following:

Financial assets	Classification
Cash	Fair value through profit and loss
Receivables	Loans and receivables
Financial liabilities	Classification
Trade and other payables	Other financial liabilities
Loan payable	Other financial liabilities
Dividends payable	Other financial liabilities
Preference shares, Series A	Other financial liabilities
Preference shares, Series B	Other financial liabilities

**Loans and receivables:**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

**Other financial liabilities:**

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

The Series B preference shares contain both a liability and equity component represented by the conversion feature. The Company allocates the proceeds received between the debt and equity components by first determining the fair value of the debt component and the remainder is applied to the equity component.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Cash***

Cash is the amount on deposit in a bank chequing account and is classified as fair value through profit and loss. Changes in fair value are recorded in net earnings at each period end.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Cash is classified as Level 1 in the fair value hierarchy.

***Impairment of Financial Assets***

Financial assets are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. When indicators of impairment of the carrying value of the financial assets exist and the carrying value is greater than the fair value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

**(d) Interest in Mineral Properties**

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of mineral properties, property option payments and exploration and evaluation activities.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

**(e) Loss and Diluted Loss per Share**

Basic loss per share is calculated using the weighted average number of shares outstanding. In order to determine diluted loss per share, any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The dilutive effect of convertible securities is reflected in dilutive loss per share by assuming such conversions occurred at the beginning of the period. The diluted loss per share calculation excludes any potential conversion of options, warrants and debentures that would increase earnings per share or decrease loss per share.

**(f) Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets is determined not to be probable, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(g) Flow-through Financing**

The Company has adopted a policy whereby proceeds from flow-through issuances are allocated between the offering of shares and the sale of tax benefits based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A liability is recognized for this difference and is extinguished by crediting gain on sale of tax benefits when the entity renounces the tax differences. The Company takes the initial recognition exemption on deferred taxes as it relates to flow-through shares.

**(h) Stock-based Compensation**

The Company accounts for stock-based compensation to employees using the fair value-based method. The fair value of each option granted is recognized over the period during which the options vest and accounted for in operations over the expected life of the option and the related credit is included in contributed surplus. When options are exercised this amount is transferred to capital.

**(i) Significant accounting judgments and estimates**

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the related reported amounts of expenses during the reporting period. Actual results could differ from those reported. The significant items subject to such assumptions include the carrying amount and impairment of mineral properties, discount rate in estimating the fair value of preference shares, the valuation of warrants and stock-based compensation, and determination of contingent liabilities. Management believes that the estimates are reasonable.

**(j) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably. The Company had no material provisions at September 30, 2011 and December 31, 2010.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

**(i) Income taxes**

IAS 12, Income Taxes, is amended to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. This amendment is effective for annual periods beginning on or after January 1, 2012.

**(ii) Financial instruments**

IFRS 9, Financial Instruments, replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard requires entities to classify financial assets as being measured either at amortized cost or fair value depending on the business model and contractual cash flow characteristics of the asset. For financial liabilities, IFRS 9 requires an entity choosing to measure a liability at fair value to present the portion of the change in its fair value due to change in the entity's own credit risk in the other comprehensive income rather than in the statement of profit or loss. The new standard applies to annual periods beginning on or after January 1, 2013.

**3. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)**

**(iv) Employee benefits**

IAS 19, Employee Benefits, is revised to eliminate the option to defer the recognition of actuarial gains and losses, enhance the guidance around measurement of plan assets and defined benefit obligations, streamline the presentation of changes in assets and liabilities arising from defined benefit plans and enhance disclosure requirements for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013.

**(v) Fair value measurement**

IFRS 13, Fair Value Measurements, provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The new standard is effective for years beginning on or after January 1, 2013.

**(vi) New standards addressing the scope of a reporting entity**

*Consolidated financial statements*

IFRS 10, Consolidated Financial Statements, replaces SIC 12, Consolidation – Special Purpose Entities, and the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements. IFRS 10 includes a new definition of control that determines which entities are consolidated, and requires control of an investee to be reassessed when the facts and circumstances indicate that there have been changes to one or more of the criteria for determining control.

*Joint arrangements*

IFRS 11, Joint Arrangements, replaces IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities – Non-monetary Contributions by Venturers. The new standard reduces the types of joint arrangements to two: joint ventures and joint operations, and establishes principles for the financial reporting by parties to a joint arrangement.

*Disclosure of interests in other entities*

IFRS 12, Disclosure of Interests in Other Entities, sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28, Investments in Associates.

*Separate financial statements*

IAS 27, Consolidated and Separate Financial Statements, is renamed Separate Financial Statements and deals solely with separate financial statements, the guidance for which remains unchanged. These standards are effective for annual periods beginning on or after January 1, 2013.

**4. 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.

The Company considers its capital to be equity, which is comprised of common shares, preference shares, commitment to issue shares, warrants, contributed surplus and deficit, which as at September 30, 2011 totalled a deficiency of \$7,497,759 ( December 31, 2010 – a deficiency of \$6,801,533).

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**4. CAPITAL MANAGEMENT (continued)**

The Company is subject to external restrictions on its capital. The Company is required to make quarterly dividend payments on its Series A preference shares and entered into an agreement for alternate payment of the dividends until November 15, 2010 (see Note 8). As well, preference shares will be required to be repaid in 2014. Failure to meet these requirements may result in the loss of the New Texmont property (Note 7). The Company is also required to make quarterly dividend payments on its Series B preference shares. The Company does not have any other external restrictions on its capital.

As at September 30, 2011, the Company has not made all required dividend payments under the preference share agreements. As a result, the preference share liabilities have been classified as current. The Company has not yet been served a notice of default.

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 nine months ended September 30, 2011.

**5. FINANCIAL RISK FACTORS**

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

**Fair value**

International Financial Reporting Standards 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 accruals, loan payable and dividends payable 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.

As at September 30, 2011, the fair value of the Series A preference shares, estimated using a discounted cash flow model and a discount rate of 25%, is \$5,091,000 (December 31, 2010 - \$4,510,000) and the fair value of the Series B preference shares, estimated using a discounted cash flow model and a discount rate of 25%, is \$190,000 (December 31, 2010 - \$169,000).

**Credit risk**

The Company's credit risk is primarily attributable to accounts receivable included in current assets. The Company has no significant concentration of credit risk arising from operations. Cash consists 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.

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**5. FINANCIAL RISK FACTORS (continued)**

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities.

To continue operations and to fund future obligations, the Company will be required to raise funds through equity or other financing alternatives. Global economic conditions and market uncertainties may have an impact on the Company's ability to raise funds through the equity markets. There can be no assurance that the Company will be successful in its fund-raising activities.

The following are the expected maturities and related undiscounted cash disbursements of the Company's liabilities:

	2011	2012	2013	2014
Accounts payable and accruals	\$ 276,657	\$ -	\$ -	\$ -
Dividends payable	670,027	-	-	-
Preference Shares - Series A	-	-	-	8,000,000
Preference Shares - Series B	-	-	-	300,000
	<u>\$ 946,684</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,300,000</u>

**Market risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as: interest rates, the trading price of equity and other securities, and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Following is a discussion of the Company's primary market risk exposures and how they are currently managed.

**(a) Interest rate risk**

The Company has preference shares bearing fixed interest rates and, therefore, the Company's exposure to interest rate risk over the term of the 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.

**6. FIXED ASSETS**

The Company's office furniture was sold during 2010 and the Company recorded a gain on disposal of \$10,632.

**7. INTEREST IN MINERAL PROPERTIES**

**The New Texmont Project**

The New Texmont Project is comprised of fourteen mining leases expiring February 28, 2017, plus 53 adjoining mineral claims totaling 548 claim units. The mining leases are located 42 kilometers 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 8,768 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. The mining leases are collateral for the preference shares (Note 8).

On May 2, 2008 the Company entered into an option agreement to acquire 88 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. Prior to December 31, 2008, this agreement was amended. The new terms require payment in the amount of \$250,000 in the first year; \$300,000 in the second year; and, \$50,000 in the third year. 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 and made three payments totalling \$175,000. On October 13, 2009 the Company terminated the option agreement.

On April 8, 2008 the Company entered into an option agreement 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. The first anniversary date of this agreement was July 8, 2009. As at December 31, 2009, the Company had issued 50,000 shares and had spent \$227,187. The optionor agreed to postpone the second and subsequent anniversary dates by six months, to January 8<sup>th</sup> in 2011, 2012 and 2013, in consideration of the Company's payment of an additional 50,000 shares, which were delivered on August 25, 2010. The Company had not spent the required amount by January 8, 2011 and has not issued the 50,000 shares. The optionor and the Company are negotiating an extension to the anniversary date and related commitments.

**8. PREFERENCE SHARES**

In conjunction with the New Texmont Project, the Company issued 8,000,000 Series A preference shares having a redemption value of \$1 each. The Series A preference shares entitle the holder to receive a 5% fixed cumulative annual preferential cash dividend, payable in quarterly installments on the fifteenth (15<sup>th</sup>) day of February, May, August and November of each year. 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 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.

On March 15, 2006, the value of the Series A preference shares was 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.

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**8. PREFERENCE SHARES (continued)**

The Company has deposited an executed re-assignment of the mining leases 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 Series A preference shares for cancellation, at any time the Company has failed to cure a default in payment of the preference share dividends within thirty days of a notice of default from NTE. If the Company is unable to cure such a default within thirty days of a notice of default, the Company will either surrender and transfer the mining leases associated with New Texmont Project to NTE or remedy the default by other means at NTE's discretion. The Company may also require NTE to deliver the preference shares for cancellation at any time it wishes to relinquish and re-assign the mining leases.

On March 24, 2009, the Company arranged to issue and authorized the issuance of 500,000 Series B preference shares to satisfy the dividends due to the Series A preference shareholder in amounts of \$100,000 each on the 15<sup>th</sup> day of April, May, August and November 2009 and February 2010. Subsequently, the Company arranged to issue a further 300,000 Series B preference shares to satisfy the dividends due to the Series A preference shareholder in amounts of \$100,000 on the 15<sup>th</sup> day of May, August and November, 2010. Each Series B preference share will be redeemable at \$1 on or before March 15, 2014, will entitle the holder to receive a 5% cumulative annual preferential cash dividend payable quarterly, and will be convertible at the holder's option into 2.5 common shares at any time prior to redemption.

As of September 30, 2011, the status of these dividend payments is as follows:

Series B Preference shares authorized and issued	300,000
Series B Preference shares authorized and committed to be issued	200,000
Series B Preference shares not yet authorized	300,000

The cumulative fair value of the conversion feature of the Series B preference shares issued and authorized to be issued was determined to be \$39,241 and has been recorded in equity as "Preference shares Series B". The fair value of the debt portion of the Series B preference shares issued and authorized to be issued was estimated by management by discounting the future payments until March 15, 2014 at a discount rate of 25%. The equity portion was calculated using the Black-Scholes option-pricing model assuming a risk-free interest rate of 1.95%, an expected life of 4 years, a volatility of 153% and no dividends. The gain on settlement for the six months ended June 30, 2010 was \$35,170. The Series A dividends for May 15, August 15 and November 15, 2010 are recorded as dividends payable as the Series B preference shares for these payments have not yet been authorized. The Series A and Series B preference dividends for February 15, 2011, May 15, 2011 and August 15, 2011 are also recorded as dividends payable. As a result of the non-payment of dividends, the preference share liability has been classified as current (Note 4).

The Company accretes the value assigned to the par value of the Series A and Series B preference shares using the effective interest rate method. Dividends related to the preference shares are recorded as dividend expense. For the nine months ended September 30, 2011, the Company recorded \$416,776 of accretion expense (2010 - \$342,346) and \$330,000 of dividends expense (2010 - \$300,000).

**9. COMMON SHARES**

	<b>Number of Shares</b>	<b>Amount</b>
Balance at December 31, 2010	<b>26,031,600</b>	<b>\$ 9,617,041</b>
Exercise of warrants	<b>1,400,000</b>	<b>98,000</b>
Balance at September 30, 2011	<b>27,431,600</b>	<b>\$ 9,715,041</b>

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**9. COMMON SHARES (continued)**

On July 12, 2011, the Company issued 1,400,000 common shares pursuant to the exercise of 1,400,000 warrants for proceeds of \$84,000 by an officer of the Company. The proceeds were settled by discharging the loan payable to the same officer.

**10. WARRANTS**

	<u>Number of Warrants</u>	<u>Amount</u>
Balance at December 31, 2010	1,400,000	\$ 14,000
Exercised	(1,400,000)	(14,000)
Balance at end of year	<u>-</u>	<u>\$ -</u>

**11. OPTIONS**

The Company's Stock Option Plan (the "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 trading day immediately proceeding the date options are granted, and are not transferable. 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 Transactions**

	<u>2011</u>	
	<u>Number of Options</u>	<u>Weighted average exercise price per share</u>
Options outstanding, December 31, 2010	1,430,000	\$ 0.70
Expired	(125,000)	0.70
Options outstanding, September 30, 2011	<u>1,305,000</u>	<u>\$ 0.70</u>

**Options Outstanding**

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,175,000	\$ 0.70	November 29, 2012
100,000	\$ 0.75	December 12, 2012
30,000	\$ 0.75	March 24, 2013
<u>1,305,000</u>		

**12. CONTRIBUTED SURPLUS**

Balance, September 30, 2011 and December 31, 2010 \$2,447,659

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**13. RELATED PARTY TRANSACTIONS AND BALANCES**

	<b>September 30 2011</b>	December 31 2010
Balances due to directors and officers:		
Loan received from an officer	-	\$20,000
Amount included in accounts payable, due to a law firm of which a partner was a director of the Company	-	\$66,808
Transactions with directors and officers:		
Legal fees incurred to a law firm of which a partner was a director of the Company.	-	\$10,621
Loan repaid b a director	<b>\$64,000</b>	-

Amounts due to directors and officers are non-interest bearing, have no set terms of repayment and are due on demand. All transactions were made in the normal course of business.

**14. TRANSITION TO IFRS**

**Overview**

The effect of the Company's transition to IFRS is summarized in the Company's interim financial statements for the three month period ended March 31, 2011. There have been no changes in accounting policies, use of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") exemptions or reclassifications during the current fiscal quarter.

**Reconciliation of equity and comprehensive loss of previously reported Canadian GAAP to IFRS**

***Reconciliation of equity***

The following is a reconciliation of the Company's equity from previously reported Canadian GAAP to IFRS as at September 30, 2010:

	Common Shares	Preference Series B Shares	Commitment to Issue Shares	Warrants	Contributed Surplus	Deficit	Total
As reported under Canadian GAAP, September 30, 2010	\$ 9,631,041	\$ 39,241	\$ 110,938	\$ 14,000	\$ 2,447,659	(\$12,986,695)	(\$ 743,816)
Evaluation and exploration expenses (i)	-	-	-	-	-	(5,745,328)	(5,745,328)
Flow-through shares adjustment (ii)	(14,000)	-	-	-	-	14,000	-
As reported under IFRS, September 30, 2010	\$ 9,617,041	\$ 39,241	\$ 110,938	\$ 14,000	\$ 2,447,659	(\$18,718,023)	(\$6,489,144)

***Reconciliation of comprehensive loss***

The following is a reconciliation of the Company's comprehensive loss reporting under Canadian GAAP to IFRS for the three and nine month periods ended September 30, 2010:

	<b>Three months ended September 30, 2010</b>	<b>Nine months ended September 30, 2010</b>
Comprehensive loss as reported under Canadian GAAP	\$ (6,233,506)	\$ (6,676,508)
Evaluation and exploration recovery (expenses) (i)	(880)	49,590
Flow-through shares adjustment (ii)	-	14,000
Write down of mineral properties	6,000,000	6,000,000
Comprehensive loss as reported under IFRS	<b>\$ (234,386)</b>	<b>\$ (612,918)</b>

(i) Exploration and evaluation expenses

Under IFRS, the Company has changed its policy to expense all exploration and evaluation expenses until such time as a technical feasibility study shows the economic potential on the property. Under Canadian GAAP, the Company's policy was to capitalize all exploration and evaluation expenses on the balance sheet once the legal right to explore on the property was obtained.

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**14. TRANSITION TO IFRS (Continued)**

The adoption of IFRS resulted in the interests in the mineral property of \$11,794,918 being charged to the deficit on the Company's transition date being January 1, 2010 (the "transition date"). For the three and nine month periods ended September 30, 2010, the adoption of IFRS resulted in exploration and evaluation expenses of \$880 and an exploration and evaluation recovery of \$49,590, respectively, which were recorded in the statement of net and comprehensive loss. Additionally, the write-down of the mineral property of \$6,000,000 recorded in the three month period ended September 30, 2010 was reversed.

(ii) Flow-through shares adjustment

Under IFRS, proceeds from the issuance of flow-through shares are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A deferred tax liability is recognized for the premium paid by the investors and is then recognized as a deferred income tax recovery in the period onw -2(o6(state)ao)53.72 5