

FLETCHER NICKEL INC.

(A Development Stage Company)

Financial Statements

For the Years ended

December 31, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
Fletcher Nickel Inc.

We have audited the balance sheets of Fletcher Nickel Inc. as at December 31, 2009 and 2008 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
April 29, 2010

FLETCHER NICKEL INC.
(A Development Stage Company)
Balance Sheets

As at December 31,	2009	2008
Assets		
Current		
Cash and cash equivalents	\$ 664	\$ 519,830
Accounts receivable	8,924	33,998
Contractor advances	-	74,988
Prepaid expenses	7,421	28,421
	17,009	657,237
Fixed Assets (Note 6)	12,993	58,794
Investment in Claim Lake Resources - at cost	-	6,000
Interest in Mineral Properties (Note 7)	11,794,918	12,286,932
	\$ 11,824,920	\$ 13,008,963
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accruals	\$ 281,496	\$ 384,697
Long Term Liabilities		
Convertible Debenture (Note 8)	-	221,815
Preference shares Series A (Note 9)	5,533,814	5,139,855
Preference shares Series B (Note 9)	142,748	-
Total Liabilities	5,958,058	5,746,367
Shareholders' Equity		
Common shares (Note 10)	9,630,041	8,808,291
Commitment to issue shares (Note 9)	55,469	
Equity component of preference shares Series B (Note 9)	29,880	-
Equity component of convertible debenture (Note 8)	-	436,740
Warrants (Note 11)	14,000	1,330,888
Contributed surplus (Note 13)	2,447,659	1,116,771
Deficit	(6,310,187)	(4,430,094)
Total Equity	5,866,862	7,262,596
	\$ 11,824,920	\$ 13,008,963

Commitments (note 7)

See accompanying notes to the financial statements.

Approved by the board of directors

,Director

,Director

FLETCHER NICKEL INC.
(A Development Stage Company)
Statements of Operations and Deficit

For the year ended December 31,	2009	2008	Cumulative since inception
Income			
Interest Income	\$ 383	\$ 74,599	\$ 107,293
	<u>383</u>	<u>74,599</u>	<u>107,293</u>
Expenditures			
Accretion of preference shares (Note 9)	393,959	330,015	1,225,124
Accretion of convertible debentures (Note 8)	91,445	89,715	271,845
Administrative and general expenses	112,466	219,306	779,295
Amortization	10,185	4,330	16,049
Accounting, audit and legal	110,956	147,688	424,131
Consulting	61,833	150,673	627,485
Directors fees	-	42,000	42,000
Insurance	32,829	34,073	81,455
Interest on preference shares (Note 9)	400,000	400,000	1,466,527
Penalty on debenture conversion	-	-	126,000
Rent	30,000	41,259	164,834
Salaries and benefits	103,124	285,591	607,709
Stock-based compensation	-	45,977	1,103,361
Tax interest on flow-through funds	-	103,356	103,356
Warrant extension expense	-	-	83,800
	<u>1,346,797</u>	<u>1,893,983</u>	<u>7,122,971</u>
Other items			
Gain on dividend payment (Note 9)	171,903	-	171,903
Write-down of mineral properties (Note 7)	(699,582)	-	(699,582)
Write down of investment	(6,000)	-	(6,000)
	<u>(533,679)</u>	<u>-</u>	<u>(533,679)</u>
Net loss before income taxes	(1,880,093)	(1,819,384)	(7,549,357)
Future income tax recovery	-	1,160,145	1,239,170
Net loss	(1,880,093)	(659,239)	(6,310,187)
Deficit, beginning of year	(4,430,094)	(3,770,855)	-
Deficit, end of year	\$ (6,310,187)	\$ (4,430,094)	\$ (6,310,187)
Loss per share	\$ 0.08	\$ 0.03	
Weighted average number of shares outstanding during the year	24,266,258	22,819,545	

See accompanying notes to the financial statements.

FLETCHER NICKEL INC.
(A Development Stage Company)
Statements of Cash Flows

For the year ended December 31	2009	2008	Cumulative since inception
Cash derived from (applied to)			
Operating activities			
Net loss	\$ (1,880,093)	\$ (659,239)	\$ (6,310,187)
Less: Operating items not involving cash			
Amortization	10,185	4,330	16,049
Accretion of preference shares	393,959	330,015	1,225,124
Accretion of convertible debenture	91,445	89,715	271,845
Non cash interest payments	300,000	-	425,000
Non cash consulting fees	-	-	25,939
Penalty on debenture	-	-	126,000
Stock-based compensation	-	45,977	1,103,361
Warrant extension expense	-	-	83,800
Gain on dividend payment	(171,903)	-	(171,903)
Write-down of mineral properties	699,582	-	699,582
Write down of investment	6,000	-	6,000
Future income tax recovery	-	(1,160,145)	(1,239,170)
Change in non cash working capital			
(Increase) Decrease accounts receivable	25,074	36,289	(8,904)
(Increase) Decrease in prepaid expenses	21,000	(5,918)	(7,421)
(increase) Decrease) in contractor advances	74,988	(12,488)	-
Increase (Decrease) in accounts payable	(103,201)	17,102	(46,185)
Increase in dividend payable	100,000	-	100,000
	<u>(432,964)</u>	<u>(1,314,362)</u>	<u>(3,701,070)</u>
Financing activities			
Issuance of common shares	70,000	-	9,439,700
Issuance of special warrants	-	-	1,080,400
Issuance of warrants	14,000	-	58,000
Share issuance costs	-	-	(1,435,825)
Issue of convertible debenture	-	-	750,000
Advances from shareholders	-	-	100,000
	<u>84,000</u>	<u>-</u>	<u>9,992,275</u>
Investing activities			
Interest in Mineral Properties	(207,202)	(4,016,584)	(6,265,055)
Increase in accounts payable due to mineral properties	-	-	28,906
Investment in Claim Lake Resources	-	-	(6,000)
Purchase of fixed assets	-	(83,858)	(85,392)
Proceeds on sale of fixed assets	37,000	-	37,000
	<u>(170,202)</u>	<u>(4,100,442)</u>	<u>(6,290,541)</u>
Increase (decrease) in cash and cash equivalents	(519,166)	(5,414,804)	664
Cash and cash equivalents at beginning of year	519,830	5,934,634	-
Cash and cash equivalents at end of year	\$ 664	\$ 519,830	\$ 664
<i>See accompanying notes to the financial statements.</i>			
Supplementary information			
Interest paid	<u>\$ 405,851</u>	<u>\$ 402,278</u>	

FLETCHER NICKEL INC.

(A Development Stage Company)

Notes to Financial Statements

December 31, 2009 and 2008

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 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. Given the lack of working capital, 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.

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 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 \$6,393,359. As at December 31, 2009, the Company had cash of \$664 to settle current liabilities of \$381,496.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those reported. The significant items subject to such assumptions include the carrying amount of mineral exploration properties, amortized cost of preference shares and convertible debentures and stock based compensation, determination of asset retirement obligations, the valuation of warrants, determination of income tax assets and loss carry-forwards and determination of contingent liabilities. Management believes that the estimates are reasonable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates (continued)

The Black-Scholes option pricing model, used by the Company, was developed for use in the estimating the value of freely traded warrants and options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in subjective input assumptions can materially affect the fair value estimate and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's warrants and options issued during the year.

Cash and Cash Equivalents

Cash and cash equivalents include certificates of deposit and short-term money market investments which on acquisition have a term to maturity of three months or less.

Interest in Mineral Properties

The cost of mineral properties and related exploration expenditures are deferred until the properties to which they relate are placed into production, sold or allowed to lapse. These costs will be amortized over the estimated useful life of the properties following commencement of production or written off if the properties are sold or allowed to lapse. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures are charged to operations as incurred.

The Company reviews its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that change in future conditions in the near-term could require a change in the determination of the need for and amount of any write-down.

Asset Retirement Obligations

The Company recognizes a liability for its legal obligations associated with the retirement of its tangible long-lived assets, which includes mineral exploration properties and property and equipment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset, provided a reasonable estimate of the obligation can be made. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. The liability may be adjusted prospectively in future periods as a result of changes in estimates relating to timing or amounts of underlying cash flows.

As at December 31, 2009 and 2008, the Company has not incurred or committed any asset retirement obligations related to its mineral exploration properties.

Revenue Recognition

Interest income is recorded as earned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per Share

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that 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 year, 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 application of the "if converted" method. 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.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future 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 future 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 does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Flow-through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock. Related exploration expenditures have been charged to mineral properties and deferred exploration expenditures. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce share capital.

Fixed Assets

Fixed assets, comprised of furniture and fixtures, are recorded at cost and amortized on the diminishing balance method at 20%.

Stock-based Compensation

The Company accounts for other stock-based compensation using the fair value-based method. The fair value of each option granted is accounted for in operations over the expected life of the option and the related credit is included in contributed surplus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The CICA Handbook Section 1530 established standards for reporting and presenting a comprehensive income statement. Sections 3855 and 3862 require all financial assets and financial liabilities to be classified into one of five categories. Financial assets are to be classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at their fair values in the balance sheet, except those held to maturity, loans and receivables and other financial liabilities which are to be carried at amortized cost.

The subsequent accounting for changes in the fair value of financial assets and financial liabilities will depend on their initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the statement of operations. Unrealized gains and losses on financial assets that are classified as available for sale will be recorded in other comprehensive income until they become realized, at which time they will be recorded in the statement of operations.

As a result of the adoption of these new standards, cash and contractor advances are classified as held-for-trading and are recorded on the balance sheet at fair value. Accounts payable and accrued liabilities are measured at amortized cost and are classified as other financial liabilities. Convertible debentures and preference shares have been classified as other liabilities and are measured at amortized cost, net of transaction costs, with amortization of interest and costs calculated using the effective interest rate method. There is no change to these financial statements as a result of these classifications.

Impairment of Long-lived Assets

Long-lived 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 long-lived 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.

Change in accounting policies

Financial Instruments – Disclosure

In June 2009, the Canadian Accounting Standard Board issued an amendment to CICA *Section 3862 Financial Instruments – Disclosures* in an effort to make *Section 3862* consistent with IFRS *Section 7 Disclosures ("IFRS 7")*. The purpose was to establish a framework for measuring fair value in Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify 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). The adoption of the new standard has not resulted in additional disclosures in the notes to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and Intangibles

Effective January 1, 2009, the Company adopted Section 3064 – Goodwill and Intangible Assets which replaced CICA Handbook sections 3062 and 3450, EIC 27 and part of Accounting Guideline 11. Under previous Canadian standards, more items were recognized as assets than under International Financial Reporting Standards (“IFRS”). The objectives of CICA 3064 are to reinforce the principle based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets intends to reduce the differences with IFRS in the accounting for intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The adoption of this standard did not have any impact on the financial statements of the Company as at, or for the year ended December 31, 2009.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which applies to interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at December 31, 2009.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2006, the CICA's Accounting Standards Board (“AcSB”) formally adopted the strategy of replacing Canadian GAAP with International Financial Reporting Standards (“IFRS”) for Canadian enterprises with public accountability. On February 13, 2008, the AcSB confirmed that the use of IFRS would be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter of fiscal 2011 filing, comparative financial statements in accordance with IFRS for the three months ended March 31, 2010. While the Company has begun assessing the impact of the adoption of IFRS on its financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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, equity component of convertible debenture, warrants, contributed surplus and deficit, which as at December 31, 2009 totalled \$5,706,277 (2008 - \$7,262,596).

FLETCHER NICKEL INC.
(A Development Stage Company)
Notes to Financial Statements
December 31, 2009 and 2008

4. CAPITAL MANAGEMENT (continued)

The Company is subject to external restrictions on its capital. The Company is required to make quarterly dividend payments on their preferred shares and has entered into an agreement for alternate payment of the dividends until February 15, 2010 (see Note 9). As well, these preferred shares will be required to be repaid in 2014. Failure to meet these requirements may result in the loss of the New Texmont property (see Note 6). The Company does not have any other external restrictions on its capital.

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 year ended December 31, 2009.

5. FINANCIAL RISK FACTORS

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

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 and equivalents, accounts payable and accruals and dividend 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 December 31, 2009, the fair value of the Series A preference shares, estimated using a discounted cash flow model and a discount rate of 25% is \$3,883,000 and the fair value of the Series B preference shares, estimated using a discounted cash flow model and a discount rate of 25% is \$141,000.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge its obligations and thereby causes financial loss to another party. 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.

FLETCHER NICKEL INC.

(A Development Stage Company)

Notes to Financial Statements

December 31, 2009 and 2008

5. FINANCIAL RISK FACTORS (continued)

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 December 31, 2009, the Company had cash and equivalents of \$664 (2008 - \$519,830) to settle current liabilities of \$381,496 (2008 - \$384,697). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The preference shares Series A and Series B mature on March 15, 2014.

To continue operations and to fund future obligations for at least the next twelve months, 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.

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 cash balances, convertible debentures 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.

6. FIXED ASSETS

	Cost	Accumulated Depreciation	Net December 31, 2009	Net December 31, 2008
Office furniture	\$ 21,654	\$ 8,661	\$ 12,993	\$ 17,324
Vehicles	-	-	-	41,470
	<u>\$ 21,654</u>	<u>\$ 8,661</u>	<u>\$ 12,993</u>	<u>\$ 58,794</u>

FLETCHER NICKEL INC.

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Notes to Financial Statements

December 31, 2009 and 2008

7. INTEREST IN MINERAL PROPERTIES

	Balance December 31, 2009	Additions During Year	Balance December 31, 2008
New Texmont Project			
Acquisition costs	\$ 7,345,653	\$ 1,750	\$ 7,343,903
Airborne geophysics	77,000	-	77,000
Assaying	234,444	12,154	222,290
Depreciation	19,350	(1,384)	20,734
Drilling	2,528,799	1,385	2,527,414
Engineering studies	66,234	22,086	44,148
Environmental studies	328,234	34,892	293,342
Field office expense	148,992	33,047	115,945
Geology	1,136,048	39,008	1,097,040
Ground geophysics	281,497	4,900	276,597
Lease rental and land taxes	3,391	564	2,827
Matallutgical testing	12,749	7,596	5,153
Project management	320,892	22,420	298,472
Project planning and reports	85,790	29,150	56,640
Surveying	7,890	-	7,890
Sale of concentrates	(102,463)	-	(102,463)
Write-down	(699,582)	(699,582)	-
	<u>\$ 11,794,918</u>	<u>\$ (492,014)</u>	<u>\$ 12,286,932</u>

	Balance December 31, 2008	Additions During Year	Balance December 31, 2007
New Texmont Project			
Acquisition costs	\$ 7,343,903	\$ 628,777	\$ 6,715,126
Airborne geophysics	77,000	77,000	-
Assaying	222,290	221,393	897
Depreciation	20,734	20,734	-
Drilling	2,527,414	2,204,207	323,207
Engineering studies	44,148	44,148	-
Environmental studies	293,342	293,342	-
Field office expense	115,945	81,932	34,013
Geology	1,097,040	681,290	415,750
Ground geophysics	276,597	193,018	83,579
Lease rental and land taxes	2,827	606	2,221
Matallutgical testing	5,153	5,153	-
Project management	298,472	130,923	167,549
Project planning and reports	56,640	35,680	20,960
Surveying	7,890	7,890	-
Sale of concentrates	(102,463)	-	(102,463)
	<u>\$ 12,286,932</u>	<u>\$ 4,626,093</u>	<u>\$ 7,660,839</u>

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7. INTEREST IN MINERAL PROPERTIES (continued)

- (a) 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.
- (b) 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 payments of \$175,000. On October 13, 2009, the Company and Pele Mountain Resources Inc. effected a termination of the option agreement between them and the Company has written off the option payments of \$565,000 and exploration expenses on the optioned property of \$134,582.
- (c) 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 the agreement is July 8th, 2009. As at December 31, 2009, the Company has issued 50,000 shares and has spent \$227,187.

8. 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 matures March 14, 2011, 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. These warrants expired unexercised.

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8. CONVERTIBLE DEBENTURE (continued)

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-Sholes 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 was accreted to its face value up to its conversion date. The accretion of the convertible debenture for the period January 1, 2009 to August 20, 2009 was calculated to be \$91,445 and 1,500,000 common shares were delivered in discharge of the debenture. No warrants were delivered as the time within which they might be exercised had expired when the debenture was discharged.

9. 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.

On March 15, 2006, the value of the Series A preference shares was determined on the date of issue by discounting the future 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 using the effective interest rate method. Dividend expense related to the Series A preference shares is recorded as interest. For the year ended December 31, 2009, the Company recorded \$393,959 of accretion expense (2008 - \$330,015) and \$400,000 of dividends as interest expense (2008 - \$400,000). In addition, \$5,000 of interest expense was paid as a penalty for late payment of the February 15, 2009 dividend payment which had been deferred to April 15, 2009.

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 remedy 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.

On March 24, 2009, the Company arranged to issue 500,000 Series B preference shares to satisfy the dividends due to the Series A preference shareholder in amounts of 100,000 on the 15th day of April, May, August and November 2009 and February 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 into 2.5 common shares at any time prior to redemption. 400,000 Series B preference shares were issued and 100,000 Series B preference shares were committed to be issued as at December 31, 2009 for payment of the April, May, August and November, 2009 dividends due.

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9. PREFERENCE SHARES (continued)

The fair value of the conversion feature of the Series B preference shares issued was determined to be \$20,518 and has been recorded in equity as "Equity portion of preference shares Series B". The fair value of the debt portion of \$142,749 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 4.5 years, a volatility of 153% and no dividends. The gain on settlement was \$136,733.

The fair value of the conversion feature of the Series B preference shares committed to be issued was determined to be \$9,362 and has been recorded in equity as "Equity portion of preference shares Series B". The fair value of the debt portion of \$55,469 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 4.2 years, a volatility of 153% and no dividends. The gain on settlement was \$35,170.

10. COMMON SHARES

	2009		2008	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	23,031,600	\$ 8,808,291	22,431,600	\$ 9,578,436
Issued for property (note (a))	50,000	1,750	600,000	390,000
Issued for cash (note (b))	1,400,000	84,000	-	-
Value ascribed to warrants	-	(14,000)	-	-
Issued on debenture conversion (note (c))	1,500,000	750,000	-	-
Renunciation of flow-through expenses	-	-	-	(1,160,145)
Balance, end of year	25,981,600	\$ 9,630,041	23,031,600	\$ 8,808,291

(a) On May 8, 2008 the Company issued 600,000 common shares for property acquisitions under an option agreement (see Note 7(a)). On July 8, 2009 pursuant to the letter of intent (see Note 7(c)) the Company executed an option agreement with Eoro Resources Ltd. to acquire a majority operating interest in 183 claim units adjoining its properties and issued the 50,000 first tranche of shares.

(b) On July 13, 2009 the Company, on a private placement basis, issued an aggregate of 1,400,000 units of securities of the Company at a price of \$0.06 per unit for gross proceeds of \$84,000. Each unit is comprised of one flow-through common share and one common share purchase warrant enabling the holder to acquire an additional share at \$0.06 until July 12, 2011. The estimated fair value of warrants under the Black-Scholes option pricing model was \$14,000. The following assumptions were used to estimate that value: expected dividend yield – 0%, expected volatility – 85%, risk-free interest rate – 1.18% and an average expected life of 2 years.

(c) On August 20, 2009 the Company issued 1,500,000 common shares pursuant to the conversion of the convertible debenture (see Note 8).

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11. WARRANTS

Warrants Issued	2009		2009	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	6,011,600	\$ 1,330,888	6,361,600	\$ 1,328,282
Issued for cash (note 10(b))	1,400,000	14,000	-	-
Expired	(6,011,600)	(1,330,888)	(350,000)	(177,394)
Expiry extension	-	-	-	180,000
Balance, end of year	1,400,000	\$ 14,000	6,011,600	\$ 1,330,888

Warrants Outstanding

Number of Warrants	Exercise Price	Expiry Date	Book Value
1,400,000	\$ 0.06	July 12, 2011	\$ 14,000

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

12. 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.

On March 24, 2008, 30,000 share options were granted to a consultant of the Company for a term of five years at an exercise price of \$0.75. The fair value of the options has been determined to be \$15,400 under the Black-Scholes option pricing model using the following assumptions; expected dividend yield of 0%, expected volatility of 85%, risk-free interest rate 3.05% and an expected life of 5 years. The options vest as follows: 40% at date of grant, 20% after 6 months, 20% after 12 months and 20% after 18 months.

On August 12, 2008, 50,000 share options were granted to a consultant of the Company for a term of two years at an exercise price of \$0.70. The fair value of the options has been determined to be \$6,300 under the Black-Scholes option pricing model using the following assumptions; expected dividend yield of 0%, expected volatility of 85%, risk-free interest rate 2.72% and an expected life of 2 years. The options vested when granted.

During the year ended December 31, 2009, 450,000 options issued on November 29, 2007 expired, unexercised.

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12. OPTIONS (continued)

Options Outstanding

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
50,000	0.70	August 11, 2010
1,450,000	0.70	November 29, 2012
150,000	0.75	December 12, 2012
30,000	0.75	March 24, 2013
<u>1,680,000</u>		

The weighted average exercise price and remaining contractual life of the options is 2.86 years and \$0.71 respectively.

13. CONTRIBUTED SURPLUS

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 1,116,771	\$ 1,073,400
Stock-based compensation	-	45,977
Warrant extension	-	(180,000)
Expiry of warrants	1,330,888	177,394
Balance, end of year	<u>\$ 2,447,659</u>	<u>\$ 1,116,771</u>

14. RELATED PARTY TRANSACTIONS AND BALANCES

	<u>2009</u>	<u>2008</u>
Balances:		
Due to directors and officers	\$ 8,400	\$ 4,491
Amount included in accounts payable, due to a law firm of which a partner is a director of the Company	<u>\$ 65,937</u>	<u>\$ 2,501</u>
Transactions:		
Management fees paid to directors and officers	\$ 13,000	\$ 15,500
Legal fees incurred to a law firm of which a partner is a director of the Company	<u>\$ 58,344</u>	<u>\$ 49,879</u>

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 and are measured at the exchange amount.

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15. INCOME TAXES

(a) Provision for income taxes

The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 33.0% (2008 – 33.5%) were the following:

	2009	2008
Loss before income taxes	\$ (1,880,093)	\$ (2,179,384)
Expected tax recovery at statutory rates	\$ (620,431)	\$ (730,094)
Increase (decrease) resulting from:		
Non-deductible payments on financial instruments	293,833	275,000-
Write down of mineral property	230,862	120,600
Non-deductible items and other	42,028	26,500
Share issue and financing costs		(116,300)
Change in tax rates	208,208	
Change in valuation allowance	(154,500)	(735,851)
	\$ -	\$ (1,160,145)

(b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities are as follows:

	2009	2008
Future income tax assets (liabilities)		
Non-capital losses	\$ 941,500	\$ 854,200
Preferred shares		
Share issue costs and other	157,000	280,200
Mineral properties	(78,600)	(269,000)
Valuation allowance	(1,019,900)	(865,400)
	\$ -	\$ -

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15. INCOME TAXES (continued)

(c) Losses carried forward

The Company has cumulative Canadian Exploration Expenses of \$10,794,000 and cumulative Canadian Development Expenses of \$686,000 which can be carried forward and applied against future taxable income.

The Company has non-capital losses that will expire, if not utilized, as follows:

Year Incurred	Year Expires	Amount
2003	2010	\$ 4,000
2004	2014	111,000
2005	2015	89,000
2006	2026	519,000
2007	2027	955,000
2008	2028	1,267,000
2009	2029	820,000
		<u>\$ 3,765,000</u>