

FLETCHER NICKEL INC.
(A Development Stage Company)
Financial Statements
For the Years ended
December 31, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Fletcher Nickel Inc.

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We have audited the accompanying financial statements of Fletcher Nickel Inc. which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fletcher Nickel Inc. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes the material uncertainties that may cast significant doubt about Fletcher Nickel Inc.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
April 29, 2011
Toronto, Ontario

FLETCHER NICKEL INC.

(A Development Stage Company)

Balance Sheets

As at December 31,	2010	2009
Assets		
Current		
Cash	\$ 14,054	\$ 664
Accounts receivable	368	8,924
Prepaid expenses	-	7,421
	<u>14,422</u>	<u>17,009</u>
Fixed Assets (Note 6)	-	12,993
Interest in Mineral Properties (Note 7)	-	11,794,918
	<u>\$ 14,422</u>	<u>\$ 11,824,920</u>
Liabilities and Shareholders' Equity (Deficiency)		
Current Liabilities		
Accounts payable and accruals	\$ 295,880	\$ 281,496
Loan payable	20,000	-
Dividends payable (Note 9)	340,027	-
	<u>655,907</u>	<u>281,496</u>
Long-Term Liabilities		
Preference shares Series A (Note 9)	5,990,275	5,533,814
Preference shares Series B (Note 9)	169,773	142,748
Total Liabilities	<u>6,815,955</u>	<u>5,958,058</u>
Shareholders' Equity (Deficiency)		
Common shares (Note 10)	9,631,041	9,630,041
Preference shares Series B (Note 9)	39,241	29,880
Commitment to issue shares (Note 9)	113,182	55,469
Warrants (Note 11)	14,000	14,000
Contributed surplus (Note 13)	2,447,659	2,447,659
Deficit	(19,046,656)	(6,310,187)
Total Equity (Deficiency)	<u>(6,801,533)</u>	<u>5,866,862</u>
	<u>\$ 14,422</u>	<u>\$ 11,824,920</u>

Going concern (Note 1)

Approved by the board of directors

(signed) "Michael O'Leary", Director

(signed) "Patrick Crowley", Director

FLETCHER NICKEL INC.

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Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31,	2010	2009
Expenditures		
Accretion of preference shares (Note 9)	485,730	393,959
Accretion of convertible debentures (Note 8)	-	91,445
Administrative and general expenses	5,191	112,083
Amortization	-	10,185
Accounting, audit and legal	89,094	110,956
Consulting	2,000	61,833
Insurance	15,191	32,829
Interest on preference shares (Note 9)	440,027	400,000
Rent	(10,019)	30,000
Salaries and benefits	4,856	103,124
	<u>1,032,070</u>	<u>1,346,414</u>
Other items		
Gain on dividend payment (Note 9)	35,170	171,903
Gain on sale of furniture (Note 6)	10,632	-
Write-down of mineral properties (Note 7)	(11,750,201)	(699,582)
Write-down of investment	-	(6,000)
	<u>(11,704,399)</u>	<u>(533,679)</u>
Net and comprehensive loss	(12,736,469)	(1,880,093)
Deficit, beginning of year	(6,310,187)	(4,430,094)
Deficit, end of year	\$ (19,046,656)	\$ (6,310,187)
Loss per share	\$ (0.49)	\$ (0.08)
Weighted average number of shares outstanding during the year	25,994,888	24,266,258

FLETCHER NICKEL INC.

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Statements of Cash Flows

For the years ended December 31,

2010

2009

Cash derived from (applied to)

Operating activities

Net Income (Loss)	\$ (12,736,469)	\$ (1,880,093)
Less: Operating items not involving cash		
Amortization	-	10,185
Accretion of preference shares	485,730	393,959
Accretion of convertible debenture	-	91,445
Non-cash interest payments	100,000	300,000
Gain on sale of furniture	(10,632)	-
Gain on dividend payment	(35,170)	(171,903)
Write-down of mineral properties	11,750,201	699,582
Write-down of investment	-	6,000
Change in non-cash working capital		
Decrease in accounts receivable	8,556	25,074
Decrease in prepaid expenses	7,421	21,000
Decrease in contractor advances	-	74,988
Increase (Decrease) in accounts payable and accruals	14,384	(103,201)
Increase in dividend payable	340,027	100,000
	<u>(75,952)</u>	<u>(432,964)</u>

Financing activities

Issuance of common shares	-	70,000
Issuance of warrants	-	14,000
Increase in loan payable	20,000	-
	<u>20,000</u>	<u>84,000</u>

Investing activities

Recovery of mineral properties expenditures	45,717	-
Interest in mineral properties	-	(207,202)
Proceeds from sale of fixed assets	23,625	37,000
	<u>69,342</u>	<u>(170,202)</u>

Increase (decrease) in cash

13,390 (519,166)

Cash at beginning of year

664 519,830

Cash at end of year

\$ 14,054 \$ 664

Supplementary information

Interest paid	-	405,851
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FLETCHER NICKEL INC.
(A Development Stage Company)
Notes to Financial Statements
December 31, 2010 and 2009

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. 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.

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 \$19,046,656. As at December 31, 2010, the Company had cash of \$14,054 to settle current liabilities of \$655,907.

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 and impairment of mineral 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.

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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 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

Cash is the amount on deposit in bank chequing account.

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 properties. 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, 2010 and 2009, the Company has not incurred or committed any asset retirement obligations related to its mineral properties.

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 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 diluted 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 declining 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.

Financial Instruments

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (continued)

Accounts receivable, classified as loans and receivables, are recorded on the balance sheet at amortized cost. Accounts payable and accruals are also measured at amortized cost and are classified as other financial liabilities. 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.

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).

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.

3. RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

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.

Business Combinations

In October of 2008, the CICA Issued Handbook Section 1582, Business combinations, concurrently with Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-controlling interests. Section 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces CICA Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company has not elected for the early adoption of these standards.

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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 December 31, 2010 totalled a deficit of (\$6,801,533) (2009 – equity of \$5,866,862).

The Company is subject to external restrictions on its capital. The Company is required to make quarterly dividend payments on their series A preference shares and has entered into an agreement for alternate payment of the dividends until November 15, 2010 (see Note 9). As well, these 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. The Company is also required to make quarterly dividend payments on their series B preference shares. 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, 2010.

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, 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 December 31, 2010, the fair value of the Series A preference shares, estimated using a discounted cash flow model and a discount rate of 25% is \$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 \$169,000.

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5. FINANCIAL RISK FACTORS (continued)

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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities on March 15, 2014.

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.

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.

FLETCHER NICKEL INC.

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7. INTEREST IN MINERAL PROPERTIES

	Balance December 31, 2010	Additions (Recoveries) During Period	Balance December 31, 2009
New Texmont Project			
Acquisition Costs	\$ 7,346,653	\$ 1,000	\$ 7,345,653
Airborne geophysics	77,000	-	77,000
Assaying	234,494	50	234,444
Depreciation	19,350	-	19,350
Drilling	2,528,799	-	2,528,799
Engineering studies	66,234	-	66,234
Environmental studies	280,404	(47,830)	328,234
Field office expense	146,897	(2,095)	148,992
Geology	1,136,048	-	1,136,048
Ground geophysics	281,497	-	281,497
Lease rental and land taxes	4,124	733	3,391
Metallurgical testing	12,749	-	12,749
Project management	321,317	425	320,892
Project planning and reports	88,790	3,000	85,790
Surveying	7,890	-	7,890
Sale of concentrates	(102,463)	-	(102,463)
	12,449,783	(44,717)	12,494,500
Write-down	(12,449,783)	(11,750,201)	(699,582)
	\$ 0	\$ (11,794,918)	\$11,794,918
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	Balance December 31, 2009	Additions During Period	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
Metallurgical 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)
	12,494,500	207,568	12,286,932
Write-down	(699,582)	(699,582)	-
	\$ 11,794,918	\$ (492,014)	\$ 12,286,932

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7. INTEREST IN MINERAL PROPERTIES (continued)

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.

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.

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 8th 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 has 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.

In the year ended December 31, 2010 the Company recognised an impairment loss on its properties of \$11,750,201. The impairment loss is based on the Company's assessment of its ability to recover the deferred costs.

8. CONVERTIBLE DEBENTURE

On August 20, 2009 the Company issued 1,500,000 common shares pursuant to the conversion and discharge of the convertible debenture issued in 2006.

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.

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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 by discounting the future interest payments until March 15, 2014 at a discount rate of 15% which represents the borrowing rate available to the Company for similar instruments of debt having no conversion rights.

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

On March 24, 2009 the Company arranged to issue and authorized the issue of 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. 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 15th 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 into 2.5 common shares at any time prior to redemption.

As of December 31, 2010 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 (2009 - \$29,880) and has been recorded in equity as "Equity portion of 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 was \$35,170 (2009 - \$171,903). 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 Company accretes the value assigned to the par value of the Series A and Series B preference shares using the effective interest rate method. Dividend expense related to the preference shares is recorded as interest. For the year ended December 31, 2010, the Company recorded \$485,730 of accretion expense (2009 - \$393,959) and \$440,027 of dividends as interest expense (2009 - \$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.

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10. COMMON SHARES

	2010		2009	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	25,981,600	\$ 9,630,041	23,031,600	\$ 8,808,291
Issued for property (a)	50,000	1,000	50,000	1,750
Issued for cash (b)	-	-	1,400,000	84,000
Value ascribed to warrants	-	-	-	(14,000)
Issued on debenture conversion (c)	-	-	1,500,000	750,000
Balance, end of year	26,031,600	\$ 9,631,041	25,981,600	\$ 9,630,041

(a) On July 8, 2009 pursuant to the letter of intent (Note 7(c)) the Company executed an option agreement with Eloro Resources Inc. to acquire a majority operating interest in 183 claim units adjoining its properties and issued the 50,000 first tranche of shares. On July 8, 2010 the optionor agreed to postpone the second and subsequent anniversary dates by six months, to January 8th in 2011, 2012 and 2013, in consideration of the Company's payment of an additional 50,000 shares. As of April 29, 2011 no additional shares have been issued.

(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 a convertible debenture.

11. WARRANTS

Warrants Issued	2010		2009	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance at beginning of year	1,400,000	\$ 14,000	6,011,600	\$ 1,330,888
Issued for cash (note (10(b)))	-	-	1,400,000	14,000
Expired	-	-	(6,011,600)	(1,330,888)
Balance at end of year	1,400,000	\$ 14,000	1,400,000	\$ 14,000

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.

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12. 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 TSX on the trading day immediately preceding the date options are granted, and are not transferrable. The plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual, the exercise price and the term. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued shares.

Options Transactions	2010		2009	
	Number of Options	Weighted average exercise price per share	Number of Options	Weighted average exercise price per share
Options outstanding, beginning of year	1,680,000	\$ 0.71	2,130,000	\$ 0.71
Expired	(250,000)	\$ 0.71	(450,000)	\$ 0.72
Options outstanding, end of year	1,430,000	\$ 0.71	1,680,000	\$ 0.71

Options Outstanding

Number of Options	Exercise Price	Expiry Date
125,000	\$ 0.70	February 28, 2011
1,175,000	\$ 0.70	November 29, 2012
100,000	\$ 0.75	December 12, 2012
30,000	\$ 0.75	March 24, 2013
<u>1,430,000</u>		

13. CONTRIBUTED SURPLUS

	2010	2009
Balance, beginning of year	\$2,447,659	\$1,116,771
Expiry of warrants	-	1,330,888
Balance, end of year	\$2,447,659	\$2,447,659

14. RELATED PARTY TRANSACTIONS AND BALANCES

Balances:	2010	2009
Due to directors and officers	-	\$8,400
Loan payable to an officer	\$20,000	-
Amount included in accounts payable, due to a law firm of which a partner is a director of the Company	\$66,808	\$65,937
Transactions:		
Management fees paid to directors and officers	-	\$13,000
Legal fees incurred to a law firm of which a partner is a director of the Company	\$10,621	\$58,344

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 Corporation's combined federal and provincial statutory Canadian income tax rates of 31.0% (2009 – 33.0%) were the following:

	2010	2009
Loss before income taxes	\$(12,736,469)	\$ (1,880,093)
Expected tax recovery at statutory rates	\$ (3,948,305)	\$ (620,431)
Increase (decrease) resulting from:		
Non-deductible payments on financial instruments	276,081	293,833
Non-deductible items and other	(79,339)	(36,110)
Change in tax rates	710,863	208,208
Change in valuation allowance	3,040,700	154,500
	\$ -	\$ -

(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:

	2010	2009
Future income tax assets (liabilities)		
Non-capital losses	\$ 1,051,400	\$ 941,600
Share issue costs	68,000	167,000
Resource properties	2,941,200	(78,600)
Valuation allowance	(4,060,600)	(1,030,000)
	\$ -	\$ -

(c) Losses carried forward

The Company has cumulative Canadian Exploration Expenses of \$11,078,000 and cumulative Canadian Development Expenses of \$687,000 which can be carried forward and applied against future taxable income.

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

	Year Incurred	Year Expires	Amount
	2004	2014	\$ 111,000
	2005	2015	89,000
	2006	2016	519,000
	2007	2017	955,000
	2008	2018	1,267,000
	2009	2019	812,000
	2010	2020	451,000
			\$ 4,204,000

16. COMPARATIVE FIGURES

Certain comparative amounts have been modified from those previously presented to conform to the presentation of the current years financial statement presentation.