

FLETCHER NICKEL INC.
(A Development Stage Company)

Interim Financial Statements

June 30, 2011

Unaudited

(Expressed in Canadian Dollars)

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

Management's Responsibility for Financial Reporting

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

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

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

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

FLETCHER NICKEL INC.

(A Development Stage Company)

Interim Balance Sheets

Unaudited

(Expressed in Canadian Dollars)

	June 30, 2011	December 31, 2010
Assets		
Current		
Cash	\$ 8,034	\$ 14,054
Accounts receivable	1,186	368
	<u>9,220</u>	<u>14,422</u>
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accruals	\$ 289,263	\$ 295,880
Loan payable (Note 13)	54,000	20,000
Dividends payable (Note 8)	560,027	340,027
Preference shares Series A (Note 8)	6,236,258	5,990,275
Preference shares Series B (Note 8)	183,741	169,773
Total Liabilities	<u>7,323,289</u>	<u>6,815,955</u>
Shareholders' Deficiency		
Common shares (Note 9)	9,617,041	9,617,041
Preference shares Series B (Note 8)	39,241	39,241
Commitment to issue shares (Note 8)	122,494	113,182
Warrants (Note 10)	14,000	14,000
Contributed surplus (Note 12)	2,447,659	2,447,659
Deficit	(19,554,504)	(19,032,656)
Total Deficiency	<u>(7,314,069)</u>	<u>(6,801,533)</u>
	<u>\$ 9,220</u>	<u>\$ 14,422</u>

Going concern (Note 1)

Approved by the board of directors

Signed _____, Director

Signed _____, Director

See accompanying notes to the interim unaudited financial statements

FLETCHER NICKEL INC.

(A Development Stage Company)

Statements of Changes in Equity (Deficiency)

Unaudited

(Expressed in Canadian Dollars)

	Common Shares	Preference Series B Shares	Commitment to issue Shares	Warrants	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2010	\$ 9,616,041	\$ 29,880	\$ 55,469	\$ 14,000	\$ 2,447,659	\$ (18,105,105)	\$ (5,942,056)
Series B Preference shares issued to pay A dividends		9,361					9,361
Dividends in Series B preference shares to be issued			55,469				55,469
Net and Comprehensive Loss for the period						(378,532)	(378,532)
Balance June 30, 2010 (Note 14)	9,616,041	39,241	110,938	14,000	2,447,659	(18,483,637)	(6,255,758)
Common shares issued for property	1,000						1,000
Accretion on commitment to issue shares			2,244				2,244
Net and Comprehensive Loss for the period						(549,019)	(549,019)
Balance December 31, 2010 (Note 14)	9,617,041	39,241	113,182	14,000	2,447,659	(19,032,656)	(6,801,533)
Accretion on commitment to issue shares			9,312				9,312
Net and Comprehensive Loss for the period						(521,848)	(521,848)
Balance June 30, 2011	<u>\$ 9,617,041</u>	<u>\$ 39,241</u>	<u>\$ 122,494</u>	<u>\$ 14,000</u>	<u>\$ 2,447,659</u>	<u>\$ (19,554,504)</u>	<u>\$ (7,314,069)</u>

See accompanying notes to the interim unaudited financial statements

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

	3 Months Ended		6 Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Expenditures				
Accretion of preference shares (Note 8)	\$ 139,011	\$ 114,115	\$ 269,263	\$ 228,230
Administrative and general expenses	4,991	855	7,056	2,993
Accounting, audit and legal	18,097	21,846	15,478	49,810
Consulting	-	-	-	2,000
Evaluation and exploration expenses (recovery)	1,828	-	3,143	(50,470)
Insurance	5,039	6,437	8,426	11,804
Dividends on preference shares (Note 8)	110,000	100,000	220,000	200,000
Rent	(1,518)	(8,848)	(1,518)	(9,633)
Salaries and benefits	-	3,600	-	3,600
	<u>277,448</u>	<u>238,005</u>	<u>521,848</u>	<u>438,334</u>
Other items				
Gain on dividend payment (Note 8)	-	-	-	35,170
Gain on sale of furniture (Note 6)	-	10,632	-	10,632
Gain on sale of tax benefits (Note 14)	-	14,000	-	14,000
	<u>-</u>	<u>24,632</u>	<u>-</u>	<u>59,802</u>
Net and comprehensive loss	<u>(277,448)</u>	<u>(213,373)</u>	<u>(521,848)</u>	<u>(378,532)</u>
Loss per share	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.01)</u>
Weighted average number of shares outstanding during the period	<u>26,031,600</u>	<u>25,981,600</u>	<u>26,031,600</u>	<u>25,981,600</u>

See accompanying notes to the interim unaudited financial statements

FLETCHER NICKEL INC.

(A Development Stage Company)

Statements of Cash Flows

Unaudited

(Expressed in Canadian Dollars)

	3 Months Ended June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
Cash derived from (applied to)				
Operating activities				
Net Loss	\$ (277,448)	\$ (213,373)	\$ (521,848)	\$ (378,532)
Less: Operating items not involving cash				
Accretion of preference shares	139,011	114,115	269,263	228,230
Non-cash dividend payments	110,000	100,000	220,000	200,000
Gain on sale of furniture	-	(10,632)	-	(10,632)
Gain on dividend payment	-	-	-	(35,170)
Gain on sale of tax benefits	-	(14,000)	-	(14,000)
Change in non-cash working capital				
Decrease in accounts receivable	766	(860)	(818)	(3,212)
Increase (Decrease) in accounts payable and accruals	10,363	(199)	(6,617)	2,544
	(17,308)	(24,949)	(40,020)	(10,772)
Financing activities				
Increase in loan payable	14,000	-	34,000	-
	14,000	-	34,000	-
Investing activities				
Proceeds from sale of fixed assets	-	23,100	-	23,625
	-	23,100	-	23,625
Increase (decrease) in cash	(3,308)	(1,849)	(6,020)	12,853
Cash at beginning of period	11,342	15,366	14,054	664
Cash at end of period	8,034	13,517	8,034	13,517

See accompanying notes to the interim unaudited financial statements

FLETCHER NICKEL INC.
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Notes to Interim Financial Statements
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1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

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

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

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

The Company has not yet realized profitable operations and has incurred significant losses to date resulting in a cumulative deficit of \$19,554,504 (December 31, 2010 - \$19,032,656). At June 30, 2011, the Company had cash of \$8,034 (December 31, 2010 - \$14,054) to settle current liabilities of \$903,290 (December 31, 2010 - \$655,907).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation and adoption of IFRS

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The policies applied in these interim financial statements are based on IFRS policies effective as of August 24, 2011, the date the Board of Directors approved the interim financial statements. Any subsequent changes to IFRS that are given effect in the Company’s financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on changeover to IFRS.

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

(b) Basis of presentation

The interim financial statements have been prepared under the historical cost convention.

(c) Financial assets and liabilities

The Company’s financial instruments consist of the following:

Financial assets	Classification
Cash	Fair value through profit and loss
Accounts receivable	Loans and receivables
Financial liabilities	Classification
Accounts payable and accruals	Other financial liabilities
Loan payable	Other financial liabilities
Dividends payable	Other financial liabilities
Preference shares, Series A	Other financial liabilities
Preference shares, Series B	Other financial liabilities

Loans and receivables:

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

Other financial liabilities:

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash

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

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

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

Impairment of Financial Assets

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

(d) Interest in Mineral Properties

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

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

(e) Loss and Diluted Loss per Share

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Income Taxes

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

(g) Flow-through Financing

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

(h) Stock-based Compensation

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

(i) Significant accounting judgments and estimates

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

(j) Provisions

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

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3. RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standard 9, Financial Instruments – Classification and Measurement (IFRS 9). Effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, IFRS 9 introduces new requirements for the classification and measurement of financial instruments. This standard will be adopted in the Company's financial statements for the period beginning January 1, 2013. The Company has not yet considered the potential impact of the adoption of IFRS 9.

International Financial Reporting Standard 13, Fair Value Measurement (IFRS 13). Effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The Company has not yet considered the potential impact of the adoption of IFRS 13.

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 June 30, 2011 totalled a deficiency of \$7,314,069 (December 31, 2010 – a deficiency of \$6,801,533).

The Company is subject to external restrictions on its capital. The Company is required to make quarterly dividend payments on its Series A preference shares and entered into an agreement for alternate payment of the dividends until November 15, 2010 (see Note 8). As well, 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 (Note 7). The Company is also required to make quarterly dividend payments on its Series B preference shares. The Company does not have any other external restrictions on its capital.

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

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

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

There were no changes in the Company's approach to capital management during the six months ended June 30, 2011.

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5. FINANCIAL RISK FACTORS

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

Fair value

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

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

As at June 30, 2011, the fair value of the Series A preference shares, estimated using a discounted cash flow model and a discount rate of 25%, is \$4,885,000 (December 31, 2010 - \$4,510,000) and the fair value of the Series B preference shares, estimated using a discounted cash flow model and a discount rate of 25%, is \$183,000 (December 31, 2010 - \$169,000).

Credit risk

The Company's credit risk is primarily attributable to accounts receivable included in current assets. The Company has no significant concentration of credit risk arising from operations. Cash consists of bank deposits which have been invested with or purchased from reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity risk

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

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

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

	2011	2012	2013	2014
Accounts payable and accruals	\$ 289,263	\$ -	\$ -	\$ -
Loan payable	54,000	-	-	-
Dividends payable	560,027	-	-	-
Preference Shares - Series A	-	-	-	8,000,000
Preference Shares - Series B	-	-	-	300,000
	<u>\$ 903,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,300,000</u>

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5. FINANCIAL RISK FACTORS (continued)

Market risk

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

(a) Interest rate risk

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

(b) Foreign currency risk

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

6. FIXED ASSETS

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

7. INTEREST IN MINERAL PROPERTIES

The New Texmont Project

The New Texmont Project is comprised of fourteen mining leases expiring February 28, 2017, plus 53 adjoining mineral claims totaling 548 claim units. The mining leases are located 42 kilometers south of Timmins, Ontario, in Geikie and Bartlett Townships. The adjoining mineral claims extend into Bartlett, McArthur, English, Semple, Hutt, Zavitz and Montrose Townships. The leases cover a surface area of 188 hectares and the mineral claims cover a surface area of 8,768 hectares. Under various option terms, minerals recovered from the leases and the claims will be subject to royalties payable to prior holders. A 1.5% net smelter royalty is payable on minerals recovered from the claims but may be reduced to 0.5% for specified fixed-price payments. A 3% net smelter royalty is payable on minerals recovered from the leases during the first three years of commercial production, after which 5% is payable. However, royalties from the leases are halved upon payment of \$2 million.

On May 2, 2008 the Company entered into an option agreement to acquire 88 additional claim units adjacent to its properties for 600,000 shares, \$600,000 payable in eight equal quarterly instalments, and \$325,000 payable in shares on May 15, 2009, at 95% of their weighted average price over the prior 20 trading days. Prior to December 31, 2008, this agreement was amended. The new terms require payment in the amount of \$250,000 in the first year; \$300,000 in the second year; and, \$50,000 in the third year. The Company may, at any time prior to the commercial production of any part of the optioned property, purchase two-thirds of the 1.5% net smelter royalty on the property for \$1,000,000. Pursuant to this agreement, the Company issued 600,000 common shares on May 8, 2008 at a value of \$390,000 and made three payments totalling \$175,000.

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7. INTEREST IN MINERAL PROPERTIES (continued)

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 had not spent the required amount by January 8, 2011 and has not issued the 50,000 shares. The optionor and the Company are negotiating an extension to the anniversary date and related commitments.

8. PREFERENCE SHARES

In conjunction with the New Texmont Project, the Company issued 8,000,000 Series A preference shares having a redemption value of \$1.00 each. The Series A preference shares entitle the holder to receive a 5% fixed cumulative annual preferential cash dividend, payable in quarterly installments on the fifteenth (15th) day of February, May, August and November of each year. The Company may at any time, upon a minimum 14 days notice, redeem all or part of the Series A preference shares at a price of \$1.00 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 leases with an escrow agent. New Texmont Explorations Limited ("NTE") may require delivery of the re-assignment by the escrow agent in exchange for delivery of the preference shares for cancellation, at any time the Company has failed to cure a default in payment of the preference share dividends within thirty days of a notice of default from NTE. If the Company is unable to cure such a default within thirty days of a notice of default, the Company will either surrender and transfer the mining leases associated with New Texmont Project to NTE or remedy the default by other means at NTE's discretion. The Company may also require NTE to deliver the preference shares for cancellation at any time it wishes to relinquish and re-assign the mining leases.

On March 24, 2009, the Company arranged to issue and authorized the issuance of 500,000 Series B preference shares to satisfy the dividends due to the Series A preference shareholder in amounts of \$100,000 each on the 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 at the holders option into 2.5 common shares at any time prior to redemption.

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8. PREFERENCE SHARES (continued)

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

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

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

The Company accretes the value assigned to the par value of the Series A and Series B preference shares using the effective interest rate method. Dividends related to the preference shares are recorded as dividend expense. For the six months ended June 30, 2011, the Company recorded \$269,263 of accretion expense (2010 - \$228,230) and \$220,000 of dividends expense (2010 - \$200,000).

9. COMMON SHARES

	Number of Shares	Amount
Balance, June 30, 2011 and December 31, 2010	<u>26,031,600</u>	<u>\$ 9,617,041</u>

10. WARRANTS

	Number of Warrants	Amount
Balance, June 30, 2011 and December 31, 2010	<u>1,400,000</u>	<u>\$ 14,000</u>

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. (Note 15)

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11. OPTIONS

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

Options Transactions

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

Options Outstanding

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

12. CONTRIBUTED SURPLUS

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

	June 30, 2011	December 31 2010
Balances due to directors and officers:		
Loan payable to an officer	\$54,000	\$20,000
Amount included in accounts payable, due to a law firm of which a partner was a director of the Company	-	\$66,808
Transactions with directors and officers:		
Legal fees incurred to a law firm of which a partner was a director of the Company	-	\$10,621

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13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Amounts due to 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.

14. TRANSITION TO IFRS

Overview

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

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

Reconciliation of equity

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

	Common Shares	Preference Series B Shares	Commitment to Issue Shares	Warrants	Contributed Surplus	Deficit	Total
As reported under Canadian GAAP, June 30, 2010	\$ 9,630,041	\$ 39,241	\$ 110,938	\$ 14,000	\$ 2,447,659	(\$6,753,189)	\$ 5,488,690
Evaluation and exploration expenses (i)	-	-	-	-	-	(\$11,744,448)	(\$11,744,448)
Flow-through shares adjustment (ii)	(\$14,000)	-	-	-	-	\$14,000	-
As reported under IFRS, June 30, 2010	\$ 9,616,041	\$ 39,241	\$ 110,938	\$ 14,000	\$ 2,447,659	(\$18,483,637)	(\$6,255,758)

Reconciliation of comprehensive loss

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

	Three months ended June 30, 2010	Six months ended June 30, 2010
Comprehensive loss as reported under Canadian GAAP	\$ (227,373)	\$ (443,002)
Evaluation and exploration expenses (i)	-	50,470
Flow-through shares adjustment (ii)	14,000	14,000
Comprehensive loss as reported under IFRS	\$ (213,373)	\$ (378,532)

(i) Exploration and evaluation expenses

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

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14. TRANSITION TO IFRS (Continued)

The adoption of IFRS resulted in the interests in the mineral property of \$11,794,918 being charged to the deficit on the Company's transition date being January 1, 2010 (the "transition date"). For the three and six month periods ended June 30, 2010, the adoption of IFRS resulted in recoveries of exploration and evaluation expenses of nil and \$50,470, respectively, which were recorded in the statement of net and comprehensive loss.

(ii) Flow-through shares adjustment

Under IFRS, proceeds from the issuance of flow-through shares are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A deferred tax liability is recognized for the premium paid by the investors and is then recognized as a deferred income tax recovery in the period of renunciation. Previously, the Company's Canadian GAAP policy was to adopt the recommendations of EIC 146 with respect to the accounting for flow-through shares. This resulted in the Company reducing the net proceeds of the flow-through share issuance by the deferred tax liability of the Company resulting from the renunciation of the exploration and development expenditures in favour of the flow through share subscribers provided that there was reasonable assurance that the expenditures would be made. The deferred income tax liability is calculated net of any benefit resulting from unrecorded income tax loss carry forwards and income tax pools in excess of the accounting value available for deduction. The Company elected to take the initial recognition exemption and does not recognize any deferred income taxes related to flow-through shares.

The adoption of IFRS resulted in a liability of \$14,000 and a reduction of share capital of \$14,000 on the transition date. During the three month period ended June 30, 2010, the liability was reduced by \$14,000 and the sale of the income tax benefit was recorded in the statement of net and comprehensive loss.

Adjustments to the Statement of Cash Flows

The transition from Canadian GAAP to IFRS had no significant impact on the presentation of cash flows by the Company.

15. SUBSEQUENT EVENT

Effective July 12, 2011, the Company issued 1,400,000 common shares pursuant to the exercise of 1,400,000 warrants for proceeds of \$84,000 by an officer of the Company.