

Unaudited interim consolidated financial statements of

Belvedere Resources Ltd.

Three and six month periods ended June 30, 2010 and 2009

The financial statements for the three and six month periods ended June 30, 2010 have not been reviewed by the Company's auditors.

Belvedere Resources Ltd.

Three and six month periods ended June 30, 2010 and 2009

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Belvedere Resources Ltd.

Consolidated statements of income (loss) and comprehensive income (loss)
three and six month periods ended June 30, 2010 and 2009

(Expressed in Euros, except share amounts)

| | Three Month Period Ended June 30 2010 € | Three Month Period Ended June 30 2009 € | Six Month Period Ended June 30 2010 | Six Month Period Ended June 30 2009 |
|--|---|---|--|--|
| Mining revenue | - | - | - | - |
| Operating expenses | | | | |
| Operating costs | 799,639 | 1,042,003 | 967,187 | 1,967,077 |
| Depletion, depreciation and amortization | 1,563 | 787 | 2,979 | 1,558 |
| | 801,202 | 1,042,790 | 970,166 | 1,968,635 |
| Loss before undernoted items | (801,202) | (1,042,790) | (970,166) | (1,968,635) |
| Other expense (income) | | | | |
| Foreign exchange (gain) loss | 570,161 | (345,376) | 864,104 | (227,313) |
| General and administrative | 254,618 | 163,688 | 432,841 | 372,991 |
| Interest expense | 2,428 | 142,155 | 3,862 | 249,114 |
| Interest income | (518) | 35,268 | (962) | (8,924) |
| Gain on fair valuation of Hitura assets | (3,256,596) | - | (3,256,596) | - |
| Cumulative dividend | 35,498 | - | 75,015 | - |
| Stock-based compensation | 11,550 | - | 21,385 | 73,092 |
| | (2,382,859) | (4,265) | (1,860,351) | 458,960 |
| Net income (loss) for the period | 1,581,657 | (1,038,525) | 890,185 | (2,427,595) |
| Other comprehensive income (loss) | | | | |
| Cumulative foreign currency translation adjustments, net of tax | - | 8,827 | - | 32,416 |
| Comprehensive income (loss) for the period | 1,581,657 | (1,029,698) | 890,185 | (2,395,179) |
| Basic and diluted gain (loss) per share | 0.02 | (0.01) | 0.01 | (0.03) |
| Basic weighted average number of common shares outstanding | 97,886,433 | 79,183,336 | 97,886,433 | 79,183,336 |
| Diluted weighted average number of common shares outstanding | 103,996,718 | 84,329,822 | 103,996,718 | 84,329,822 |

Belvedere Resources Ltd.

Consolidated statements of shareholders' equity three and six month periods ended June 30, 2010 and 2009

(Expressed in Euros, except share amounts)

| | Number of shares | Amount € | Contributed surplus € | Accumulated other comprehensive income (loss) € | Deficit € | Total € |
|--|------------------------|-------------|-----------------------------|---|--------------|--------------|
| Balance, December 31, 2007 | 79,133,338 | 49,189,135 | 4,538,844 | 201,783 | (19,632,384) | 34,297,378 |
| Issued for cash under private placement | - | - | - | - | - | - |
| Exercise of options in 2008 | 50,000 | 26,863 | (10,745) | - | - | 16,118 |
| Adjustment for exercise of options in 2007 | - | 9,453 | (9,453) | - | - | - |
| Stock-based compensation | - | - | 618,066 | - | - | 618,066 |
| Comprehensive income (loss) for the year | - | - | - | (681,243) | (28,336,775) | (29,018,018) |
| Balance, December 31, 2008 | 79,183,338 | 49,225,451 | 5,136,712 | (479,460) | (47,969,159) | 5,913,544 |
| Issued for cash under private placement | 23,125,000 | 1,116,050 | - | - | - | 1,116,050 |
| Stock-based compensation | - | - | 327,380 | - | - | 327,380 |
| Comprehensive income (loss) for the year | - | - | - | 196,919 | (7,561,953) | (7,365,034) |
| Balance, December 31, 2009 | 102,308,338 | 50,341,501 | 5,464,092 | (282,541) | (55,531,112) | (8,060) |
| Stock-based compensation | - | - | 9,835 | - | - | 9,835 |
| Comprehensive income (loss) for the period | - | - | - | - | (691,472) | (691,472) |
| Balance, March 31, 2010 | 102,308,338 | 50,341,501 | 5,473,927 | (282,541) | (56,222,584) | (689,697) |
| Issued for cash under private placement | 16,909,667 | 1,849,543 | - | - | - | 1,849,543 |
| Stock-based compensation | - | - | 10,853 | - | - | 10,853 |
| Comprehensive income (loss) for the period | - | - | - | - | 1,581,657 | 1,581,657 |
| Balance, June 30, 2010 | 119,218,005 | 52,191,044 | 5,484,780 | (282,541) | (54,640,927) | 2,752,356 |

Belvedere Resources Ltd.

Consolidated balance sheets as at June 30, 2010 and 2009

(Expressed in Euros)

| | 2010 | 2009 |
|---|-------------------|------------------|
| | € | € |
| Assets | | |
| Current assets | | |
| Cash | 1,228,433 | 918,115 |
| Restricted Cash (Note 1) | 1,525,000 | 1,525,000 |
| Accounts receivable | 81,883 | 51,932 |
| Inventories (Note 5) | 314,500 | - |
| Prepaid expenses | 143,627 | 832 |
| | 3,293,443 | 2,495,879 |
| Mineral property, plant and equipment (Notes 3 & 4) | 11,272,405 | 3,194,630 |
| | 14,565,848 | 5,690,509 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 1,139,389 | 343,044 |
| | 1,139,389 | 343,044 |
| Asset retirement obligations (Note 6) | 3,414,735 | - |
| Future income taxes (Note 7) | 1,014,069 | - |
| Preferred share liability (Note 8) | 6,245,299 | 5,355,525 |
| | 11,813,492 | 5,698,569 |
| Shareholders' equity | | |
| Share capital (Note 8) | 52,191,044 | 50,341,501 |
| Contributed surplus | 5,484,780 | 5,464,092 |
| Accumulated other comprehensive loss | (282,541) | (282,541) |
| Deficit | (54,640,927) | (55,531,112) |
| | 2,752,356 | (8,060) |
| | 14,565,848 | 5,690,509 |

Nature of operations (Note 1)

Subsequent events (Note 13)

Belvedere Resources Ltd.

Consolidated statements of cash flows
three and six month periods ended June 30, 2010 and 2009

(Expressed in Euros)

| | Three Month Period Ended June 30 2010 € | Three Month Period Ended June 30 2009 € | Six Month Period Ended June 30 2010 € | Six Month Period Ended June 30 2009 € |
|--|--|---|--|---|
| Operating activities | | | | |
| Net income (loss) for the period | 1,581,657 | (1,038,525) | 890,185 | (2,427,595) |
| Items not involving cash | | | | |
| Accretion | - | 34,812 | - | 69,624 |
| Depletion, depreciation and amortization | 1,563 | 787 | 2,979 | 1,558 |
| Stock-based compensation | 11,550 | - | 21,385 | 74,291 |
| Gain on fair valuation of Hitura assets | (3,256,596) | - | (3,256,596) | - |
| Unrealized foreign exchange (gain) loss | 569,895 | - | 889,077 | - |
| | (1,091,931) | (1,002,926) | (1,452,970) | (2,282,122) |
| Net changes in non-cash working capital items | | | | |
| Accounts receivable | 12,572 | 21,726 | (29,951) | 96,520 |
| Inventories | 55,500 | 877 | (314,500) | 22,339 |
| Prepaid expenses | (142,816) | 21,937 | (142,795) | 73,608 |
| Accounts payable and accrued liabilities | 701,263 | 74,303 | 796,345 | (562) |
| | (465,412) | (884,083) | (1,143,871) | (2,090,217) |
| Financing activities | | | | |
| Common shares issued for cash, net | 1,849,543 | - | 1,849,543 | - |
| Asset retirement obligation | - | - | 3,414,735 | - |
| Repayment of debt | - | (317) | - | (3,163) |
| | 1,849,543 | (317) | 5,264,278 | (3,163) |
| Investing activities | | | | |
| Mineral property, plant and equipment expenditures | (537,160) | (236,196) | (3,810,089) | (494,353) |
| | (537,160) | (236,196) | (3,810,089) | (494,353) |
| Effect of exchange rate changes on cash | - | 8,827 | - | 32,416 |
| Decrease in cash | 846,971 | (1,111,769) | 310,318 | (2,555,317) |
| Cash, beginning of period | 1,906,462 | 2,911,728 | 2,443,115 | 4,355,276 |
| Cash, end of period | 2,753,433 | 1,799,959 | 2,753,433 | 1,799,959 |
| Cash | 1,228,433 | 274,959 | 1,228,433 | 274,959 |
| Restricted cash | 1,525,000 | 1,525,000 | 1,525,000 | 1,525,000 |
| | 2,753,433 | 1,799,959 | 2,753,433 | 1,799,959 |
| Supplementary cash flow information | | | | |
| Interest paid | 1,434 | 36,891 | 3,826 | 36,891 |

Belvedere Resources Ltd.

Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

1. Nature of operations

Belvedere Resources Ltd. (the "Company" or "Belvedere") is engaged in the acquisition, exploration, development and mining of mineral properties located in Finland. Its common shares trade on the TSX Venture Exchange under the symbol 'BEL' and in Frankfurt under the symbol 'BD4'.

On February 15, 2010, Belvedere reacquired the Hitura Mine and Kopsa gold property for the net purchase price of €1. The Company also reassumed the environmental liabilities of €3.4 million. On April 7, 2010, Belvedere Mining Oy a 100% owned subsidiary of the Company, signed a fixed price sales agreement with Jinchuan Group Ltd for the sale of the nickel, copper and cobalt concentrate from the Hitura mine. The first delivery under the sales agreement was shipped in August ahead of schedule. In securing the fixed price sales agreement, the Company was able to take advantage of the upswing in Nickel prices and lock in a price which enabled the mine to safely return to production with no downside pricing risk.

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and discharge of liabilities in the normal course of operations for the foreseeable future. The Company has incurred significant recurring operating losses over the past two years, and has not generated positive cash flow from operations. For the three and six month periods ended June 30, 2010, the Company generated net income of €1,581,657 and €890,185 respectively (2009 - losses of €1,029,698 and €2,395,179).

During the second quarter the Company raised net proceeds of €1.9 million through a brokered private placement to be directed towards the restart of the Hitura nickel mine. Shortly after the end of the second quarter the Company announced it had signed a mandate with Investec Bank Plc to secure up to €2 million to fund its capital requirements and for general working capital purposes at the Hitura Nickel Mine, and to finance feasibility studies for the Kopsa gold deposit. The deal was closed on August 18th and the details are discussed in greater depth in Note 13 - Subsequent Events.

At June 30, 2010, the Company held cash of €2,753,433 (2009 - €1,799,959) and had a net working capital surplus of €629,054 (2009 - net working capital deficit of €8,594,298). The working capital figures for 2010 and 2009 exclude €1,525,000 cash restricted under a standby letter of credit relating to the environmental bond for the Hitura Mine. Net working capital is defined as current assets minus current liabilities.

At June 30, 2010, the Company held unrestricted cash of €1.2 million. The net proceeds of €1.9 million from the private placement in June and the €2 million Investec loan facility in August, provides general working capital for the Company and the resources to fund the capital costs associated with the restart of operations at the Hitura Nickel Mine and the feasibility studies of the Kopsa gold deposit. The combination of the above funding, in conjunction with the successful restart of nickel production, the first shipment of concentrates delivered and a profitable fixed price sales agreement in place, mitigates the significance of going concern issues of earlier quarters to lower levels associated with mining operations of this type and size.

There is no assurance that operations will generate expected revenues or that additional financing, if required, can be obtained, or if obtained, on terms that are acceptable to management.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on recoverability and classification of assets or liabilities should the Company not be able to continue as a going concern.

Belvedere Resources Ltd.

Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The principal accounting policies are outlined below:

(a) *Basis of consolidation*

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany transactions and balances have been eliminated.

As a result of the voluntary application for bankruptcy and the subsequent Loss of Control of Finn Nickel (a former subsidiary of Belvedere Resources Limited), the Company deconsolidated all remaining assets and liabilities of Finn Nickel from its consolidated balance sheet as at July 17, 2009 with the difference recorded to loss on bankruptcy of subsidiary on the consolidated statement of loss. The consolidated statements of loss and comprehensive loss, for the year ending December 31, 2009, include the financial results of Finn Nickel up to July 17, 2009, which is the point in time the subsidiary ceased business operations.

(b) *Measurement uncertainty*

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items that require, or could require estimates as the basis for determining the stated amounts include accounting for doubtful accounts, inventories, mineral property, plant and equipment, asset retirement obligations, stock-based compensation, allocation of purchase price of acquisitions and income and mining taxes.

Depreciation and depletion of mineral property, plant and equipment assets are dependent upon estimates of useful lives and reserves estimates, both of which are determined with the exercise of judgement. The assessment of any impairment of mineral property, plant and equipment is dependent upon estimates of fair value that take into account factors such as reserves, economic and market conditions and the useful lives of assets. Asset retirement obligations are recognized in the period in which they arise and are stated as the fair value of estimated future costs. These estimates require extensive judgement about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices.

(c) *Foreign currency translation*

The Company and its subsidiaries operate in Canada and Finland.

The Company's functional currency is the Euro ("€").

The operating results of the Company's foreign operations are translated using the temporal method. Under this method, foreign currency monetary assets and liabilities are translated at the exchange rates prevailing at the balance sheet date; non-monetary assets denominated in foreign currencies are translated using the rate of exchange at the transaction date; foreign currency transactions are translated at the exchange rate prevailing on the transaction date; and foreign exchange gains and losses are included in net loss.

Belvedere Resources Ltd.

Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

2. Summary of significant accounting policies (continued)

(c) *Foreign currency translation (continued)*

The measurement currency of the Company is the Canadian dollar while the reporting currency is the Euro. Therefore the operating results for the Company's non-consolidated financial statements are translated using the current rate method. Under this method, assets and liabilities are translated at the exchange rates prevailing at the balance sheet date; foreign currency transactions are translated at the exchange rate prevailing on the transaction date; and foreign exchange gains and losses are included in other comprehensive income.

(d) *Financial instruments*

The Company's financial instruments primarily consist of cash, accounts receivable, accounts payable, short-term debt and preference shares. The fair value of these instruments approximates their carrying values, due primarily to their immediate or short-term maturity. Fair values of other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available and disclosed accordingly.

Comprehensive income or loss comprises the Company's net income and other comprehensive income. Comprehensive income represents changes in shareholders' equity during a period arising from non-owner sources. Other comprehensive income includes currency translation adjustments for translation from measurement currency to reporting currency by the parent company.

Financial assets and financial liabilities are recognized on the balance sheet when the Company has become party to the contractual provisions of the instruments. Financial instruments are initially measured at fair value, which includes transaction costs.

(e) *Cash*

Cash consists of cash on hand and restricted under a standby letter of credit.

(f) *Financial assets*

Financial assets that are classified as held for trading are recognized on the trade date at market value, which is the date that the Company commits to purchase or sell the asset. After initial recognition, the assets are carried at fair market value, with the fair value adjustment accounted for in the statement of operations.

(g) *Accounts receivable*

Accounts receivable are carried at amortized cost unless a provision has been recorded for uncollectability of these receivables. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

(h) *Impairment and uncollectability of financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and an impairment loss is recognized for the difference between the recoverable amount and the carrying amount as follows. The carrying amount of the asset is reduced to its discounted estimated recoverable

Belvedere Resources Ltd.

Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

2. Summary of significant accounting policies (continued)

(h) *Impairment and uncollectability of financial assets (continued)*

amount, and the resulting loss is recognized in the consolidated statement of loss and comprehensive loss for the year.

For investments included under financial instruments, if there is an other than temporary decline in the value of the investment, such reduction is included in the consolidated statement of loss and comprehensive loss.

(i) *Financial liabilities*

After initial recognition, financial liabilities, other than held for trading liabilities, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Financial liabilities that are classified as held for trading are recognized on the trade date at fair value, which is the date that the Company commits to the contract. After initial recognition, the liabilities are carried at fair market value, with the fair value adjustments accounted for in the statement of loss and comprehensive loss.

(j) *Accounts payable*

Liabilities for trade payables which are normally settled on 30 to 90 day terms are carried at amortized cost.

(k) *Short-term debt*

Short-term debt is recognized initially at the proceeds received, net of transactions costs incurred. Loans payable are subsequently measured at amortized cost using the effective interest rate method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of loss and comprehensive loss over the period of the loan.

(l) *Embedded derivatives*

Derivatives may be embedded in other financial instruments (the "host instrument"). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in gains or losses on derivatives within interest and other in the consolidated statement of loss and comprehensive loss.

(m) *Inventories*

Inventories comprising stockpiled ore and concentrate awaiting further processing and sale, are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method and includes direct mining expenditures and an appropriate portion of normal overhead expenditure. In the case of concentrate, direct concentrate costs are also included. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Consumables are valued at the lower of cost and replacement value. Obsolete, redundant and slow moving stores are identified and written down to net realizable value.

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Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

2. Summary of significant accounting policies (continued)

(n) *Mineral property, plant and equipment*

Property, plant and equipment are recorded at cost less accumulated depreciation and depletion. Maintenance, repairs and renewals are charged to operations.

Mineral properties are amortized on a units-of-production basis which is measured by the portion of the mine's economically recoverable and proven ore reserves recovered during the period.

All direct costs related to the acquisition, exploration and development of mineral properties are capitalized until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the units-of-production method following commencement of production.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Mineral property, plant and equipment are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

(o) *Asset retirement obligations*

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, the fair value of the liability for an asset retirement obligation is recognized in the period incurred. The net present value is added to the carrying amount of the associated asset and amortized over the asset's useful life. The liability is accreted over time through periodic charges to operations and it is reduced by actual costs of reclamation.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. Estimated discount rates are reviewed annually or as new information becomes available. Expenditures relating to ongoing environmental programs are charged against operations as incurred or capitalized and amortized depending on their relationship to future earnings.

(p) *Income taxes*

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when

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Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

2. Summary of significant accounting policies (continued)

(p) *Income taxes (continued)*

the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(q) *Revenue recognition*

Revenue from the sale of metals is recognized when all significant risks and rewards of ownership pass to the purchaser including delivery of the product, there is a fixed or determinable selling price and collectability is reasonable assured. Settlement adjustments, if any, are reflected in revenue when the amounts are finally settled.

(r) *Stock-based compensation*

The Company accounts for stock-based compensation using the Black-Scholes fair value option pricing model. Stock-based compensation is accrued and charged to operations, with a corresponding credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(s) *Earnings (loss) per share*

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings (loss) per share is computed similarly to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting years.

(t) *Adoption of new accounting standards*

(i) Goodwill and intangible assets

Effective January 1, 2009, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*, which aligns Canadian GAAP for goodwill and intangible assets with International Financial Reporting Standards ("IFRS"). The new standard provides more comprehensive guidance on intangible assets, in particular for internally developed intangible assets.

(ii) Credit risk and the fair value of financial assets and financial liabilities

Effective January 1, 2009, the CICA issued EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities including derivative instruments. The adoption of EIC 173 did not have any material impact on the Company's financial position or results.

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Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

2. Summary of significant accounting policies (continued)

(t) *Adoption of new accounting standards (continued)*

(iii) Mining exploration costs

In March 2009, the CICA issued EIC 174, *Mining Exploration Costs*, which supersedes EIC 126 and provides additional guidance on the capitalization of exploration costs and when an impairment test on these costs is required. The adoption of EIC 174 did not have any material impact on the Company's financial position or results.

(iv) Financial instruments - disclosures

In June 2009, the CICA amended Section 3862, *Financial Instruments Disclosures* ("Section 3862"), to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are adjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instrument.

The application of this amendment did not have an impact on the Company's disclosure since fair value of all instruments classified as held for trading approximates carrying value due to the immediate or short-term maturity of these financial instruments. Based on these inputs the evaluation of cash is classified as Level 1 in the fair value hierarchy.

(v) Financial instruments - recognition and measurement

In 2009, the Company adopted the amendments made by the CICA to Handbook Section 3855, *Financial Instruments - Recognition and Measurement* ("Section 3855"), to provide additional guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category, amend the definition of loans and receivables, amend the categories of financial assets into which debt instruments are required or permitted to be classified, amend the impairment guidance for held-to-maturity debt instruments and require reversal of impairment losses on available-for-sale debt instruments when conditions have changed. The additional guidance on assessment of embedded derivatives is applicable for reclassifications made on or after July 1, 2009. All other amendments are applicable as of January 1, 2009. The adoption of these amendments did not result in a material impact on the Company's consolidated financial statements.

(vi) Business combinations

In 2010, the Company early adopted Section 1582, *Business Combinations*, which replaces Section 1581, and enhances accounting standards for business combinations. It is the Canadian GAAP equivalent to IFRS 3, *Business Combinations*.

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Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

2. Summary of significant accounting policies (continued)

(vi) Business combinations (continued)

Adoption of this standard has had a material impact on its financial results as evidenced by the fair value adjustment discussed in Note 3.

(u) Recent accounting pronouncements

(i) Consolidated financial statements and non-controlling interests

Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, replace current standards. Section 1601 describes standards for the preparation of consolidated financial statements. Section 1602 describes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*. These standards are effective for the Company for interim and annual financial statements beginning on January 1, 2011. The Company does not anticipate that adoption of this standard will have a significant impact on its financial position or results.

(ii) International financial reporting standards

In February 2008, the Accounting Standards Board ("AcSB") announced that accounting standards in Canada will be harmonized with IFRS and that public companies will be required to present their financial statements, with comparative data, under these standards for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of these requirements on its financial statements.

3. Business Combination

On February 15, 2010, Belvedere reacquired the Hitura Mine and Kopsa gold property for the net purchase price of €1.

The business combination has been accounted for in accordance with Section 1582, *Business Combinations*, with the Company as the acquirer of the assets. The allocation of the purchase price based on the consideration paid and the fair value of the assets acquired is:

| | Valuation on Acquisition | Fair Value Adjustment | June 30 2010 |
|---|-----------------------------|--------------------------|------------------|
| | € | € | € |
| Land and buildings | 138,075 | 461,925 | 600,000 |
| Mineral properties | 2,906,260 | 3,393,741 | 6,300,001 |
| Plant and equipment | 0 | 415,000 | 415,000 |
| Inventory | 370,000 | 0 | 370,000 |
| Cash on deposit | 400 | 0 | 400 |
| Asset retirement obligation | (3,414,735) | 0 | (3,414,735) |
| | | | <u>4,270,666</u> |
| Negative goodwill recognized in income statement | | | (4,270,665) |
| Cash consideration paid | | | <u><u>1</u></u> |

Belvedere Resources Ltd.

Notes to the consolidated financial statements

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(Tabular amounts expressed in Euros, except as noted)

3. Business Combination (continued)

The figures in the table above are based on independent valuations obtained from third parties and management's estimate of the fair value of the assets acquired

The Company anticipates the completion of an updated NI43-101 resource estimate in the third quarter, in view of which, the fair value of the assets reported above should be considered provisional and subject to change in subsequent periods.

4. Mineral property, plant and equipment

| | 2010 | | | |
|----------------------------|-------------------|-------------------------------------|-----------------------|-------------------|
| | Cost | Accumulated depreciation/ depletion | Impairment write-down | Net book value |
| | € | € | € | € |
| Land and buildings | 634,142 | - | - | 634,142 |
| Mining plant and equipment | 466,932 | 44,695 | - | 422,237 |
| Mineral property | 6,000,000 | - | - | 6,000,000 |
| Exploration costs | 4,208,844 | - | - | 4,208,844 |
| Software | 34,490 | 29,789 | - | 4,701 |
| Office equipment | 19,546 | 17,065 | - | 2,481 |
| | 11,363,954 | 91,549 | - | 11,272,405 |

| | 2009 | | | |
|----------------------------|------------------|-------------------------------------|-----------------------|------------------|
| | Cost | Accumulated depreciation/ depletion | Impairment write-down | Net book value |
| | € | € | € | € |
| Land | 136,601 | 102,459 | - | 34,142 |
| Mining plant and equipment | 1,389,674 | 1,371,507 | - | 18,167 |
| Mine Development | - | - | - | - |
| Exploration costs | 3,258,559 | - | 125,613 | 3,132,946 |
| Software | 34,490 | 28,086 | - | 6,404 |
| Office equipment | 19,546 | 16,575 | - | 2,971 |
| | 4,838,870 | 1,518,627 | 125,613 | 3,194,630 |

In 2009, management determined an asset impairment loss of €125,613 against the Company's gold exploration projects for abandoned claims.

Belvedere Resources Ltd.

Notes to the consolidated financial statements

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(Tabular amounts expressed in Euros, except as noted)

5. Inventories

| | 2010 | 2009 |
|---------------------|----------------|------|
| | € | € |
| Consumables | 314,500 | - |
| Ore and concentrate | - | - |
| | 314,500 | - |

6. Asset retirement obligation

Although the ultimate amount of the asset retirement obligations is uncertain, the fair value of these obligations is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs.

The reported liability for asset retirement obligations at June 30, 2010 is €3,414,735. This figure is provisional and may be subject to change upon completion of management's review of the closure plans and regulations referred to above.

7. Future income tax liability

The provision for Future Income Taxes of €1,014,069 is based on the provisional fair value of the assets described in Note 3 and will be adjusted upon finalization of the purchase price allocation.

8. Share capital and preferred share liability

Authorized

Unlimited number of common shares with no par value

Unlimited number of Class A preference shares with no par value, non-voting

(a) Issued common shares

| | Number of common shares | Amount € |
|----------------------------|-------------------------------|-------------|
| Balance, December 31, 2008 | 79,183,338 | 49,225,451 |
| Shares issued for cash | 23,125,000 | 1,116,050 |
| Balance, December 31, 2009 | 102,308,338 | 50,341,501 |
| Shares issued for cash | - | - |
| Balance, March 31, 2010 | 102,308,338 | 50,341,501 |
| Shares issued for cash | 16,909,667 | 1,849,543 |
| Balance, June 30, 2010 | 119,218,005 | 52,191,044 |

In June 2010, the Company completed the private placement of 16,909,667 common shares at \$0.15 per share for net proceeds of Cdn\$2,536,450 (€1,894,543). The private placement was brokered by Ocean Equities Ltd. of London for a fee of 5%.

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Notes to the consolidated financial statements

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(Tabular amounts expressed in Euros, except as noted)

8. Share capital and preferred share liability (continued)

(b) *Preferred share liability*

| | Number of preference shares | Amount € |
|------------------------------------|-----------------------------------|-------------|
| Class A preference shares Series 1 | 7,675,705 | 6,245,299 |
| Balance, June30, 2010 | 7,675,705 | 6,245,299 |

In July 2009 the Company issued 7,675,605 Class A preference shares to Jinchuan for US\$1.00 per share. The preference shares have a redemption price of US\$1.00 per share and carry a 2.5% cumulative dividend, are non-voting and are not convertible to common shares. The preference shares are redeemable by the Company at any time and redeemable by Jinchuan in four annual tranches beginning on June 30, 2011 and ending on June 30, 2014.

Issuance of the preference shares discharges all obligations of Belvedere and Finn Nickel for a debt of US\$7,675,605 owed by Finn Nickel and guaranteed by Belvedere, to Jinchuan under a prepayment agreement.

(c) *Stock options and warrants*

Under the 2001 Stock Option Plan, the Company is able to grant up to 2,000,000 options. The options are exercisable for a period of up to ten years from the date of grant, as determined by the Board of Directors, and the exercise price cannot be less than the fair market value per share of common stock at the date of the grant as determined by the Plan Administrator. The Board of Directors determines the time at which any options may vest.

The following table summarizes the Company's stock options under the 2001 Stock Option Plan at June 30 and December 31, 2009:

| | Number of options | 2010 Weighted average exercise price Cdn\$ | Number of options | 2009 Weighted average exercise price Cdn\$ |
|---|----------------------|---|----------------------|---|
| Balance outstanding, beginning of period | 75,000 | 0.99 | 360,000 | 0.99 |
| Options exercised | - | - | - | - |
| Options forfeited | - | 1.12 | (285,000) | 1.12 |
| Balance outstanding, end of period | 75,000 | 0.50 | 75,000 | 0.99 |

Under the 2007 Rolling Stock Option Plan, the Company is able to grant options, the aggregate number of which shall not exceed 10% of the issued share capital of the Company at the time of granting any options (on a non-diluted basis). The options are exercisable for a period of up to five years from the date of grant, as determined by the Board of Directors, and the exercise price cannot be less than the price permitted by any stock exchange on which the shares are then listed. The Board of Directors determines the time at which any options may vest.

Belvedere Resources Ltd.

Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

8. Share capital and preferred share liability (continued)

(c) *Stock options and warrants (continued)*

The following table summarizes the Company's stock options under the 2007 Rolling Stock Option Plan at June 30, 2010 and December 31, 2009:

| | 2010 | | 2009 | |
|--|-------------------|---------------------------------------|-------------------|---------------------------------------|
| | Number of options | Weighted average exercise price Cdn\$ | Number of options | Weighted average exercise price Cdn\$ |
| Balance outstanding, beginning of period | 7,175,000 | 1.87 | 3,270,000 | 1.87 |
| Options granted | - | 0.12 | 4,500,000 | 0.12 |
| Options forfeited | - | 1.74 | (595,000) | 1.74 |
| Balance outstanding, end of period | 7,175,000 | 1.24 | 7,175,000 | 1.87 |

The following table summarizes information concerning outstanding and exercisable options under the 2001 Stock Option Plan at June 30, 2010:

| Options outstanding | Options exercisable | Exercise price Cdn\$ | Expiry date |
|---------------------|---------------------|----------------------|-------------|
| 75,000 | 75,000 | 0.50 | May 2, 2011 |

The following table summarizes information concerning outstanding and exercisable options under the 2007 Rolling Stock Option Plan at June 30, 2010:

| Options outstanding | Options exercisable | Exercise price Cdn\$ | Expiry date |
|---------------------|---------------------|----------------------|------------------|
| 2,675,000 | 2,675,000 | 1.89 | July 26, 2012 |
| 3,800,000 | 3,800,000 | 0.10 | August 20, 2014 |
| 700,000 | 275,000 | 0.20 | December 1, 2014 |
| 7,175,000 | 6,750,000 | | |

(d) *Stock-based compensation*

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Belvedere Resources Ltd.

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8. Share capital and preferred share liability (continued)

(d) *Stock-based compensation (continued)*

| | 2010 | 2009 |
|---|----------------|----------------|
| Risk-free interest rate range | 2.4% - 4.6% | 2.4% - 4.6% |
| Expected life | 1 - 5 years | 1 - 5 years |
| Annualized volatility range | 75.0% - 272.5% | 75.0% - 272.5% |
| Dividend rate | 0% | 0% |
| Weighted average grant date fair value per option | Cdn\$0.61 | Cdn\$0.61 |

9. Capital disclosures

The Company's objectives when managing capital are to:

- (i) Maintain a flexible capital structure which optimizes the cost of capital at acceptable risk;
- (ii) Continue the development and exploration of its mineral properties; and
- (iii) Support any expansion plans.

In the management of capital, the Company includes shareholders' equity, long-term debt, and cash.

The Company manages its capital structure and makes adjustments when the economic and risk conditions of the underlying assets require change. In order to maintain or adjust the capital structure, the Company may issue new shares, issue new debt, and/or issue new debt to refinance existing debt.

The Company closely monitors its funding requirements to ensure it has the appropriate liquidity to meet its operating and growth objectives. At June 30, 2010, the Company had a working capital surplus of €0.6 million and a more detailed discussion of steps being taken by management to address the liquidity issue can be found in Notes 1 and 12 of these consolidated financial statements.

10. Fair values of financial instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable. The carrying-values are considered to be reasonable approximations of their fair values given the short-term nature of the instruments.

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include currency, credit, interest rate and liquidity risks. Where material, these risks are reviewed and monitored by the Board of Directors.

- (i) Credit risk

The Company manages credit risk by investing its cash with long established and reputable banks. The maximum exposure to credit risk at June 30, 2010 is the carrying value of the Company's cash.

Belvedere Resources Ltd.

Notes to the consolidated financial statements

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(Tabular amounts expressed in Euros, except as noted)

10. Fair values of financial instruments (continued)

(ii) Interest rate risk

The Company is exposed to interest rate risks primarily on its cash balances. The preferred share liability is at a fixed interest rate (see Note 9b). The Company monitors its exposure to interest rates and has not entered into any derivative contracts.

(iii) Currency risk

The Company is exposed to currency risk. Management actively monitors movements in foreign currency and forecasts foreign currency payments. No derivative contracts have been used to reduce currency risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent upon management's ability to generate revenues through mining activities or to raise the funds required through future equity or debt financings, asset sales or exploration option agreements, or a combination thereof. The Company manages its liquidity risk by forecasting cash flow requirements for its planned production, exploration and development projects and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's mineral properties.

11. Related party transactions

The Company incurred the following expenses in the normal course of operations, measured at the exchange amount which is determined on a cost recovery basis, with companies and individuals related by way of directors and officers in common:

| | June 30 | June 30 |
|-------|----------------|---------|
| | 2010 | 2009 |
| | € | € |
| Wages | 22,232 | 10,773 |

12. Segmented information

- (a) Operating segment - The Company's operations are primarily directed towards the acquisition, exploration and development of mineral properties in Finland.
- (b) Geographic segments - The Company's assets at June 30, 2010 and December 31, 2009, and revenues and expenses by geographic areas for the six months ended June 30, 2010 and June 30, 2009 are as follows:

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Notes to the consolidated financial statements

Three and six month periods ended June 30, 2010 and 2009

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13. Subsequent events

On July 12th, 2010, the Company announced that it had signed an exclusive mandate with Investec Resources for the issuance of up to two million Euros as a convertible debenture. Proceeds will be applied to working capital and financing feasibility studies for the Kopsa gold deposit. The mandate is non-binding to both parties and is subject to final due diligence and internal credit control arrangements by Investec. A break fee must be paid by Belvedere should the arrangement be terminated during the period of the mandate. On August 18th, 2010, the Company announced that it had closed the private placement of the convertible loan facility of up to €2 million with Investec Bank plc, previously announced on July 12, 2010. Belvedere will use the proceeds of the loan to fund capital requirements and for general working capital purposes at its Finnish Hitura Nickel Mine, and to fund financing studies on the feasibility of the gold deposit at its Finnish Kopsa gold property. The loan matures on December 30, 2011. The principal amount of the loan is convertible at the lender's option into up to 19,094,286 common shares of Belvedere, at a conversion price of \$0.14 per share (and an exchange rate of €1 to \$1.3366). Belvedere has also issued 7,637,714 detachable warrants to Investec in connection with the loan. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.14 for a two-year period. Belvedere also issued 1,000,000 common shares to Investec in payment of an upfront fee, as compensation for arranging the loan facility, at a deemed price of \$0.14 per share. All of the securities issued by Belvedere on closing (and any securities that may be issued on conversion of any part of the loan or on the exercise of any warrants) are subject to a hold period that expires on December 19, 2010. The TSX Venture Exchange has subsequently confirmed its approval of the transaction.

On July 28th, 2010, the Company announced the successful restart of its 100% owned Hitura nickel mine in Finland. First concentrate had been produced well ahead of the scheduled restart of the mine in August and the mine and mill were ramping up to full production.

On August 24th, 2010, the Company announced that the "Baltic Sea" left Kokkola Port in Finland, for China on August 21, carrying the first 1,000 tonnes of nickel concentrate from the newly re-commissioned Hitura Nickel Mine on board. A further 1,000 tonnes are planned to ship at the end of August ramping up to 2,500 tonnes per month by year-end.