

Consolidated financial statements of

**Belvedere Resources Ltd.**

December 31, 2010 and 2009

# **Belvedere Resources Ltd.**

December 31, 2010 and 2009

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**Belvedere Resources Ltd.**

We have audited the accompanying consolidated financial statements of **Belvedere Resources Ltd.**, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of income (loss), comprehensive income (loss), shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the consolidated financial statements**

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

## **Auditors' responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Belvedere Resources Ltd.** as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Other matter**

The financial statements of **Belvedere Resources Ltd.** for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements on April 30, 2010.

Vancouver, Canada,  
May 2, 2011.

*Ernst & Young LLP*

Chartered Accountants

# Belvedere Resources Ltd.

## Consolidated balance sheets as at December 31, 2010 and 2009

(Expressed in Euros)

	2010	2009
	€	€
<b>Assets</b>		
Current assets		
Cash (Note 3)	385,505	918,115
Accounts receivable (Note 7)	1,455,001	-
Sales taxes receivable	675,304	51,932
Inventories (Note 8)	1,410,738	-
Mark-to-market of electricity contracts (Note 9)	450,066	-
Prepaid expenses	222,705	832
	<b>4,599,319</b>	<b>970,879</b>
Long-term assets		
Restricted cash (Note 3)	1,525,000	1,525,000
Mineral property - producing (Notes 4, 5 & 6)	8,128,593	-
Mineral property - exploration (Notes 4, 5 & 6)	4,301,838	3,167,088
Plant and equipment (Notes 4, 5 & 6)	883,657	27,542
	<b>19,438,407</b>	<b>5,690,509</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	2,765,581	343,045
Current portion of capital lease obligation (Note 10)	198,068	-
Current portion of preferred share liability (Note 13)	1,723,225	-
Convertible loan (Note 11)	1,824,268	-
	<b>6,511,142</b>	<b>343,045</b>
Capital lease obligation (Note 10)	52,637	-
Asset retirement obligations (Note 12)	2,427,294	-
Future income taxes (Note 16)	822,596	-
Preferred share liability (Note 13)	4,008,554	5,355,525
	<b>13,822,223</b>	<b>5,698,570</b>
<b>Shareholders' equity</b>		
Share capital (Note 14)	52,276,658	50,341,501
Contributed surplus (Note 14)	5,846,029	5,464,092
Accumulated other comprehensive loss	(282,542)	(282,542)
Deficit	(52,223,961)	(55,531,112)
	<b>5,616,184</b>	<b>(8,061)</b>
	<b>19,438,407</b>	<b>5,690,509</b>

Nature of operations (Note 1)

Commitments (Notes 3, 10, & 11)

## Belvedere Resources Ltd.

Consolidated statements of income (loss) and comprehensive income (loss)  
years ended December 31, 2010 and 2009

(Expressed in Euros, except share amounts)

	2010	2009
<b>Mining revenue</b>	<b>7,120,735</b>	-
Operating expenses		
Operating costs	<b>5,968,078</b>	2,857,070
Depletion, depreciation and amortization	<b>500,193</b>	4,643
	<b>6,468,271</b>	2,861,713
Income (loss) before undernoted items	<b>652,464</b>	(2,861,713)
Other expense (income)		
Foreign exchange (gain) loss	<b>250,351</b>	(238,502)
General and administrative	<b>889,412</b>	850,247
Gain on fair valuation of Hitura assets (Note 4)	<b>(3,861,870)</b>	-
Cumulative preferred share dividend (Note 13)	<b>155,810</b>	-
Stock-based compensation (Note 14)	<b>285,737</b>	327,380
Interest expense	<b>133,030</b>	265,288
Interest income	-	(13,867)
Loss on bankruptcy of subsidiary (Note 5)	-	3,384,081
Mineral properties impairment loss (Note 6)	-	125,613
	<b>(2,147,530)</b>	4,700,240
Income (loss) before income taxes	<b>2,799,994</b>	(7,561,953)
Income tax expense (recovery)		
Future income taxes (Note 16)	<b>(507,157)</b>	-
	<b>(507,157)</b>	-
<b>Net income (loss) for the period</b>	<b>3,307,151</b>	(7,561,953)
Other comprehensive income (loss)		
Cumulative foreign currency translation adjustments, net of tax	-	196,919
<b>Comprehensive income (loss) for the period</b>	<b>3,307,151</b>	(7,365,034)
Basic and diluted earnings (loss) per share	<b>0.03</b>	(0.09)
Basic weighted average number of common shares outstanding	<b>112,176,169</b>	85,075,459
Diluted weighted average number of common shares outstanding	<b>120,386,123</b>	88,951,941

# Belvedere Resources Ltd.

Consolidated statements of cash flows  
years ended December 31, 2010 and 2009

(Expressed in Euros)

	2010	2009
	€	€
<b>Operating activities</b>		
Net income (loss) for the year	3,307,151	(7,561,953)
Items not involving cash		
Accretion	153,179	-
Depletion, depreciation and amortization	500,193	4,643
Gain on electricity hedge	(450,066)	-
Future income tax recovery	(507,157)	-
Mineral properties impairment loss	-	125,613
Stock-based compensation	285,737	327,380
Gain on fair valuation of Hitura assets	(3,861,870)	-
Unrealized foreign exchange (gain) loss	375,621	(26,615)
Bankruptcy loss	-	3,384,081
	<b>(197,212)</b>	<b>(3,746,851)</b>
Net changes in non-cash working capital items		
Accounts receivable	(2,078,373)	269,050
Inventories	(994,119)	23,414
Prepaid expenses	(221,873)	71,797
Accounts payable and accrued liabilities	2,422,536	705,335
	<b>(1,069,041)</b>	<b>(2,677,255)</b>
<b>Financing activities</b>		
Common shares issued for cash, net	1,830,414	1,116,050
Convertible debt	2,000,000	-
Capital lease obligation	(220,006)	-
	<b>3,610,408</b>	<b>1,116,050</b>
<b>Investing activities</b>		
Cash acquired from acquisition net of cash paid	399	-
Mineral properties - Producing	(2,360,725)	(399,585)
Mineral properties - Exploration	(693,958)	-
Plant and equipment expenditures	(7,422)	-
	<b>(3,061,706)</b>	<b>(399,585)</b>
Effect of exchange rate changes on cash	(12,271)	48,629
Decrease in cash	(532,610)	(1,912,161)
Cash, beginning of year	918,115	2,830,276
<b>Cash, end of year</b>	<b>385,505</b>	<b>918,115</b>
Cash	385,505	918,115
<b>Supplementary cash flow information</b>		
Interest paid	133,030	265,288
Asset retirement obligation	2,427,294	
Inventory	416,619	

# Belvedere Resources Ltd.

## Consolidated statements of shareholders' equity years ended December 31, 2010 and 2009

(Expressed in Euros, except share amounts)

	Number of shares	Share Capital €	Contributed surplus €	Accumulated other comprehensive income (loss) €	Deficit €	Total €
Balance, December 31, 2008	79,183,338	49,225,451	5,136,712	(479,461)	(47,969,159)	5,913,543
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	(282,542)	(55,531,112)	(8,061)
Issued for cash under private placement (Note 14)	16,909,667	1,830,414	-	-	-	1,830,414
Issued in respect of loan fees (Notes 11 & 14)	1,000,000	104,743	-	-	-	104,743
Stock-based compensation	-	-	285,737	-	-	285,737
Equity portion of convertible loan	-	-	68,714	-	-	68,714
Equity portion of warrants issued with loan	-	-	27,486	-	-	27,486
Comprehensive income (loss) for the period	-	-	-	-	3,307,151	3,307,151
Balance, December 31, 2010	120,218,005	52,276,658	5,846,029	(282,542)	(52,223,961)	5,616,184

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 1. Nature of operations

Belvedere Resources Limited (“Belvedere” or “the Company”) is focused on exploring and developing nickel and gold projects in Finland. The Company currently produces 2,500 tonnes of Nickel in concentrate per annum. In addition the Company has a portfolio of advanced gold properties in close proximity to the mill and in other areas of Finland which are rapidly being moved down the development pipeline towards production.

Following the re-start of the Hitura Nickel Mine in 2010, the Company aims to bring its nearby Kopsa gold deposit into production, where metallurgical and resource studies are currently underway. The Company is also investigating expanding production at the Hitura Nickel Mine, through extending the open-pit at North Hitura and evaluating other near surface resources at Mid and South Hitura.

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 generated operating income for the year ended December 31, 2010 of €652,464 and net income of €3,307,151, including a gain on fair valuation of the Hitura assets acquired of €3,861,870. At December 31, 2010, the Company held unrestricted cash of €385,505, and had a net working capital deficit of €1,911,823. Subsequent to year end, the Company’s net working capital position improved significantly as a result of the following events.

The net proceeds of the €2 million convertible loan facility in August as further described in Note 11 to the financial statements for the year ended December 31, 2010, provided general working capital 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. As further described in Note 20 to the financial statements for the year ended December 31, 2010, in February 2011, the Company announced that it had given notice to prepay the full amount owing. Upon the receipt of the repayment notice, Investec opted to convert the full outstanding principal amount of €2 million into 19,094,286 common shares of Belvedere.

As further described in Note 20 to the financial statements for the year ended December 31, 2010, the Company generated net proceeds of Cdn\$2,375,760 (€1,830,414) from a private placement completed in January 2011.

The above funding and conversion of the €2 million debt into equity post year end, in conjunction with the restart of nickel production and a profitable fixed price sales agreement in place, will provide sufficient financing for at least the next 12 months.

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 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:

Belvedere Resources BV  
Belvedere Mining Oy  
Belvedere Resources Finland Oy  
Belvedere Resources (UK) Ltd

All significant intercompany transactions and balances have been eliminated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all years presented, unless stated otherwise.

(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 allowance for doubtful accounts, inventories, electricity hedging, 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, Finland, Netherlands and the UK.

The Parent Company's functional currency is the Euro ("€"). As the Company's foreign subsidiaries have been dependent on funding from their parent, their operations are considered to be integrated.

The operating results of the Company's integrated group of entities 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

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 2. Summary of significant accounting policies (continued)

(c) *Foreign currency translation (continued)*

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.

(d) *Financial instruments and hedging*

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.

The Company has classified its financial instruments as follows:

- Cash & restricted cash: held-for-trading
- Accounts receivable: loans and receivables
- Electricity contract hedge: held-for-trading
- Accounts payable & accrued liabilities: other financial liabilities
- Short-term debt: other financial liabilities
- Convertible loan: other financial liabilities
- Preferred share liability: other financial liabilities
- Asset retirement obligation: other financial liabilities

Fair values financial instruments classified as held-for-trading have been estimated by reference to quoted market prices for actual or similar instruments where available and disclosed accordingly. The fair value of financial assets classified as loans and receivables approximates their carrying values, due primarily to their immediate or short-term maturity. 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.

(e) *Cash*

Cash consists of cash on hand.

(f) *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.

(g) *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.

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 2. Summary of significant accounting policies (continued)

(h) *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 net realizable value. Obsolete, redundant and slow moving stores are identified and written down to net realizable value.

(i) *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 recorded at cost and amortized on a units-of-production basis over the estimated useful life of the estimated related ore reserves and resources.

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.

The Company follows the recommendations in CICA Handbook Section 3063 – “Impairment of Long-Lived Assets” and the CICA’s Emerging Issues Committee (“EIC”) emerging extract EIC-174 – “Mining Exploration Costs”. Section 3063 requires that the Company review long-lived assets, including mineral properties for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant an assessment. EIC-174 consensus is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions in Section 3063 for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management’s development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, capitalized costs are written down to the estimated recoverable amount.

Mineral property, plant and equipment, other than non-producing exploration property, 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

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 2. Summary of significant accounting policies (continued)

(i) *Mineral property, plant and equipment (continued)*

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.

(j) *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.

(k) *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 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.

(l) *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.

(m) *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.

(n) *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

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 2. Summary of significant accounting policies (continued)

(n) *Earnings (loss) per share (continued)*

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.

(o) *Employee future benefits*

The costs of retirement benefits and other benefit obligations are recognized over the period in which the employees render services in return for the benefits. The Company has a defined contribution retirement plan for its Finland-based employees. The pension plans are funded by payments from the employees and by the relevant group companies and charged to income as incurred.

(p) *Anticipated changes to Canadian GAAP*

(i) 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. Consequently, the Company will issue its first interim consolidated financial statements in accordance with IFRS as issued by the IASB beginning with the first quarter ending March 31, 2011, with comparative financial results for 2010.

(q) *Accounting standards adopted during the year*

(i) Business combinations

In order to facilitate the transition to IFRS in fiscal 2011, the Company has chosen to early-adopt Section 1582, *Business Combinations*. This section establishes principles and requirements of the acquisition method for business combinations and related disclosures. Under this guidance, the acquirer is required to measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair value. The section generally requires all acquisition costs to be expensed and contingent liabilities to be recognized at their acquisition date fair value. In addition, negative goodwill is required to be recognized immediately in income, as a bargain purchase gain. The Company completed the acquisition of the Hitura Mine and Kopsa gold property on February 15, 2010 and has recorded a bargain purchase gain of €3,861,870.

As a result of early application of this section, the Company has also adopted Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*.

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 2. Summary of significant accounting policies (continued)

(q) Accounting standards adopted during the year

(ii) 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.

### 3. Cash

	2010	2009
	€	€
Cash	385,505	918,115
Restricted cash	1,525,000	1,525,000
	<b>1,910,505</b>	<b>2,443,115</b>

€1,525,000 of cash is restricted under the terms of a standby letter of credit expiring November 1, 2015, in favour of the North Ostrobothnia Regional Environment Centre. This arrangement relates to the Hitura Mine environmental bond. At December 31, 2010, the restricted balance was earning 0.1% interest.

### 4. 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:

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 4. Business Combination (continued)

	<b>Updated Valuation</b>
	<b>€</b>
Land and buildings	600,000
Mineral properties	6,106,133
Plant and equipment	415,000
Inventory	370,000
Cash on deposit	400
Asset retirement obligation	(2,300,000)
Future income tax liability	(1,329,753)
Bargain purchase recognized in income statement	<u>(3,782,180)</u>
	<u>79,600</u>
Consideration paid	
Cash	1
Debt assumed	<u>79,599</u>
Cash consideration paid	<u>79,600</u>

Mineral properties, land and buildings and plant and equipment values are based on independent valuations obtained from third parties. In connection with the business combination, Belvedere assumed Finn Nickel's debt to one of the Company's wholly owned subsidiaries. The debt forgiveness of €79,599 has been recorded as a reduction in the bargain price resulting in a final bargain purchase gain in the income statement of €3,681,870.

### 5. Bankruptcy of Finn Nickel

On July 13, 2009, the Company announced that Finn Nickel (a 100% owned subsidiary) had initiated voluntary bankruptcy proceedings. Production at Finn Nickel's Hitura and Sarkiniemi nickel mining operations had been suspended since December 2008 following a sustained period of extremely low nickel prices. The Hitura mine had been on care and maintenance since that time and a skeleton crew retained to oversee the ongoing pumping and underground maintenance in compliance with Finnish environmental laws. By July of 2009 Finn Nickel had exhausted all cash resources and credit facilities which led to management's decision to initiate voluntary bankruptcy proceedings.

A petition for bankruptcy was entered in the Finnish Court on July 14 and an administrator appointed by the court on July 17.

Having established Loss of Control, management elected to deconsolidate the financial statements of Finn Nickel which resulted in a loss on bankruptcy of €3,384,081 made up as follows:

	€
Mineral property, plant and equipment	10,958,866
Inventory	381,397
Working capital	(2,673,498)
Indebtedness	(7,834,664)
Asset retirement obligation	(3,314,727)
Net investment in Finn Nickel	<u>5,866,707</u>
	<u>3,384,081</u>

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 6. Mineral property, plant and equipment

	2010			
	Cost	Accumulated depreciation/ depletion	Impairment write-down	Net book value
	€	€	€	€
Land and buildings	575,667	-	-	575,667
Mining plant and equipment	442,499	24,801	-	417,698
Mineral property	6,792,417	559,723	-	6,232,694
Net pre-commercial costs				
capitalized	1,400,859	35,938	-	1,364,921
Equipment lease capitalized	470,711	22,164	-	448,547
Exploration costs	4,267,696	-	-	4,267,696
Office equipment	58,705	51,840	-	6,865
	<b>14,008,554</b>	<b>694,466</b>	-	<b>13,314,088</b>

During the year ended December 31, 2010, the Company capitalized €470,711 (2009: €Nil) in leased assets under mining plant and equipment.

	2009			
	Cost	Accumulated depreciation/ depletion	Impairment write-down	Net book value
	€	€	€	€
Land and buildings	136,601	102,459	-	34,142
Mining plant and equipment	1,389,674	1,371,507	-	18,167
Exploration costs	3,258,559	-	125,613	3,132,946
Office equipment	54,036	44,661	-	9,375
	<b>4,838,870</b>	<b>1,518,627</b>	<b>125,613</b>	<b>3,194,630</b>

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

### 7. Concentration of credit risk

The Company currently has an off-take contract to sell the majority of its concentrate production to one customer. Under the contract, the buyer is deemed to have taken ownership at the point of delivery to the shipment departure port. The loss of this customer or unexpected termination of the off-take contract could have a material adverse effect on the Company's results of operations, financial condition and cash flows. The Company has not experienced any bad debts with this customer.

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 8. Inventories

	2010	2009
	€	€
Consumables	435,096	-
Concentrate	975,642	-
	<b>1,410,738</b>	-

### 9. Electricity contract

In 2010, the Company's Finnish subsidiary (Belvedere Mining Oy) entered into an electricity sale contract and a contract on portfolio management service with Savon Voima, a Nordic electricity supplier. According to the electricity sale contract, Belvedere purchases electricity at spot rates without any predetermined fixed quantities. To manage the electricity costs, this agreement has been complemented with the portfolio management agreement. The objective of the portfolio management service is to acquire Belvedere's electricity price hedging as economically as possible while managing financial risks related to electricity procurement.

With respect to the portfolio management agreement, the hedging is carried out on the Company's behalf by the portfolio manager (Savon Voima), which can trade in the products included in the delivery period of the original hedging product. The portfolio manager can cancel and repurchase hedgings, but is not able to increase their volume to exceed the original hedging volume.

Under Canadian GAAP, the open position at period-end is recorded to the balance sheet; hedge accounting does apply to this type of hedge. The valuation report for the open derivatives as of December 31, 2010, indicates the Company is in a €450,066 gain position.

### 10. Lease obligation

During 2010, the Company entered into a long term lease agreement for an on-stream analyzer for use at the Hitura Mine. The principal is repayable over an 18 month period and bears an interest rate of 9.9%.

	2010	2009
	€	€
2011	214,020	-
2012	53,505	-
Total lease payments	267,525	-
Interest expense	(16,820)	-
Capital lease obligation	250,705	-
Less: Current portion	(198,068)	-
Balance, December 31, 2010	52,637	-

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 11. Convertible loan

On August 18, 2010, the Company signed a €2 million convertible loan facility to fund the capital costs and general working capital requirements of the Hitura Nickel Mine, and to fund the feasibility studies on the Kopsa gold deposit.

The €2 million principal amount carries an interest rate of Euro LIBOR + 9.5% and is repayable by December 30, 2011. The loan is convertible at the lender's option into 19,094,286 Belvedere common shares at a conversion price of \$0.14 per share. The Company also issued 7,637,714 detachable warrants which entitles the lender to purchase one common share at an exercise price of \$0.14 per share for two years. 1,000,000 common shares at \$0.14 per share were issued to the lender in payment of an upfront fee of €104,744 for arranging the loan facility. The loan was secured by a general pledge over the assets of the Company's foreign subsidiaries.

In recognition of the conversion feature, the loan has been bifurcated between debt and equity components as follows:

	€
Loan facility	2,000,000
Issuance Costs	(101,505)
Equity portion of loan	(72,537)
Equity portion of warrants issued	(29,015)
Accretion	27,325
Short-term debt portion	<u>1,824,268</u>

See note 20 below regarding the conversion of this loan to common shares subsequent to December 31, 2010.

### 12. Asset retirement obligation

Although the ultimate amount of the Company's 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 December 31, 2010 is €2,427,294 (2009 - €Nil). The undiscounted value of this liability is €3,491,433, which includes an inflation factor of 1.7%. An accretion expense component of €127,294 has been charged to operations in 2010 to reflect an increase in the carrying amount of the asset retirement obligations which has been determined using a credit adjusted risk-free rate of 8.3%. Changes to the asset retirement obligations during the year are as follows:

	€
Balance, December 31, 2009	-
Assumed on acquisition of Hitura Nickel Mine (Note 4)	2,300,000
Accretion	127,294
Balance, December 31, 2010	<u>2,427,294</u>

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 13. Preferred share liability

	Number of preference shares	Amount €
Class A preference shares Series 1	7,676,605	5,731,779
Balance, December 31, 2010	7,676,605	5,731,779

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.

The underlying preferred share liability is denominated in US Dollars and is translated into Euros at each period end in Belvedere's books.

### 14. Share capital

#### *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, net of issuance costs	16,909,667	1,830,414
Shares issued to convertible debt holders	1,000,000	104,743
Balance, December 31, 2010	120,218,005	52,276,658

In June 2010, the Company completed the private placement of 16,909,667 common shares at \$0.15 per share for net proceeds of C\$2,536,450 (€1,830,414). The private placement was brokered by Ocean Equities Ltd. of London for a fee of 5% which was offset against the proceeds.

In August 2010, the Company entered into a convertible loan agreement. The Company issued 1,000,000 common shares to the lender in payment of an upfront loan facility fee at \$0.14 per common share.

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 14. Share capital (continued)

#### (b) Stock options

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 December 31, 2010 and 2009:

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

Under the 2007 Rolling Stock Option Plan, the Company is able to grant options, the aggregate number of which shall not exceed 9.9% 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.

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

	Number of options	2010 Weighted average exercise price Cdn\$	Number of options	2009 Weighted average exercise price Cdn\$
Balance outstanding, beginning of year	7,175,000	1.87	3,270,000	1.87
Options granted	-	-	4,500,000	0.12
Options forfeited	-	-	(595,000)	1.74
Balance outstanding, end of year	7,175,000	0.14	7,175,000	1.24

On September 9, 2010, the Company re-priced 2,675,000 options originally granted in July, 2007 at an exercise price of \$1.89, to \$0.18 per share. All other terms and conditions of the

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 14. Share capital (continued)

#### (b) Stock options (continued)

option agreements remained unchanged. The re-pricing of these options resulted in a stock-based compensation charge of €244,175.

The following table summarizes information concerning outstanding and exercisable options under the 2001 Stock Option Plan at December 31, 2010:

Options outstanding	Options exercisable	Exercise price	Expiry date
		Cdn\$	
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 December 31, 2010:

Options outstanding	Options exercisable	Exercise price	Expiry date
		Cdn\$	
2,675,000	2,675,000	0.18	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		

#### (c) Warrants

The following table summarizes information concerning outstanding and exercisable share purchase warrants at December 31, 2010:

	2010 Weighted average exercise price
	Cdn\$
Warrants issued (Note 8)	7,637,714 0.14
Warrants exercised	-
Warrants expired	-
Balance outstanding, September 30, 2010	7,637,714 0.14

The Company issued 7,637,714 warrants to the lender in connection with a convertible loan facility signed on August 18, 2010. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.14 per share for a two year period (see Note 8).

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 14. Share capital (continued)

#### (c) Warrants (continued)

		<b>2009</b>		2008
	<b>Number of warrants</b>	<b>Weighted average exercise price</b>	Number of warrants	Weighted average exercise price
		<b>Cdn\$</b>		Cdn\$
Balance outstanding, beginning of year	<b>3,741,422</b>	<b>1.33</b>	3,741,422	1.33
Warrants expired	<b>(3,741,422)</b>	<b>1.33</b>	-	-
Balance outstanding, end of year	-	-	3,741,422	1.33

#### (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:

	<b>2010</b>	2009
Risk-free interest rate range	<b>1.47% - 4.33%</b>	2.4% - 4.6%
Expected life	<b>1.92 - 5 years</b>	1 - 5 years
Annualized volatility range	<b>87.4% - 272.5%</b>	75.0% - 272.5%
Dividend rate	<b>0%</b>	0%
Weighted average grant date fair value per option	<b>Cdn\$0.11</b>	Cdn\$0.61

#### (e) Contributed surplus

	<b>€</b>
Balance, December 31, 2008	<b>5,136,712</b>
Stock compensation	<b>327,380</b>
Balance, December 31, 2009	<b>5,464,092</b>
Stock compensation	<b>285,737</b>
Equity portion of convertible loan	<b>68,714</b>
Equity portion of warrants issued with loan	<b>27,486</b>
Balance, December 31, 2010	<b>5,846,029</b>

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 15. 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.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

### 16. Income taxes

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

	2010	2009
	€	€
Statutory tax rate	<b>28.50%</b>	31.00%
Recovery of income taxes computed at statutory rates	<b>(797,999)</b>	2,344,205
Gain on acquisition of assets	<b>1,004,086</b>	
Loss on bankruptcy of subsidiary	-	(990,000)
Non-deductible expenses	<b>(75,519)</b>	(25,536)
Effect of lower tax rates of foreign jurisdiction	<b>96,693</b>	13,214
Valuation allowance	<b>247,663</b>	(1,341,883)
Expiration of loss carryforwards	<b>(52,396)</b>	-
Other	<b>84,629</b>	-
Income tax recovery	<b>507,157</b>	-

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 16. Income taxes (continued)

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets and liabilities are as follows:

	2010	2009
	€	€
Future income tax assets		
Non-capital loss carryforwards - Canada, UK and Netherlands	1,412,868	1,103,542
Non-capital loss carryforwards - Finland	2,211,437	1,627,184
Net capital loss carryforwards	892,572	683,587
Share issuance costs	75,611	90,272
Cumulative eligible capital	12,830	10,780
Mineral property, plant and equipment - Canada	17,952	2,600
	<b>4,623,270</b>	<b>3,517,965</b>
Valuation allowance	<b>(2,509,139)</b>	<b>(2,629,895)</b>
Future income tax assets	<b>2,114,131</b>	<b>888,070</b>
Future income tax liability		
Mineral properties and land	2,431,214	888,070
Equipment - Finland	159,339	-
Asset retirement obligation	256,735	-
Inventory	69,727	-
Unrealized gains and losses	19,712	-
Future income tax liabilities	<b>2,936,727</b>	<b>888,070</b>
Net future income tax asset (liability)	<b>(822,596)</b>	<b>-</b>

At December 31, 2010, the Company has non-capital losses in Canada of approximately Cdn\$6.5 million (€4.9 million) (2009: Cdn\$5.9 million (€3.9 million)) that may be applied against future Canadian income for tax purposes that expire from 2011 to 2029. In addition, the Company has capital loss carryforwards totaling approximately Cdn\$9.5 million (€7.1 million) (2009: Cdn\$5.9 million (€3.9 million)) available that may be applied against future Canadian capital gains. These capital losses can be carried forward indefinitely.

The Company also has non-capital losses carried forward in: the UK of approximately €0.5 million (2009 €0.4 million) that can be carried forward indefinitely; the Netherlands of approximately €0.2 million (2009: €0.1 million) that expire from 2019 to 2020; Finland of approximately €8.5 million (2009: €5.4 million) that expire over the next ten years. These losses may be applied against future taxable income earned in the respective tax jurisdictions.

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net income or loss, tax assets or liabilities and loss carryforwards.

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

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### 17. Financial instruments

The Company's financial instruments consist of cash and restricted cash, accounts receivable, electricity contract hedge, accounts payable and accrued liabilities, short-term debt and preferred share liability.

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.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company aims to protect its cash and cash equivalents from undue risk by holding them with various high credit quality financial institutions.

(i) Credit risk

The Company's accounts receivable are from its single customer. On an ongoing basis, management monitor the level of accounts receivable and the length of time taken for amounts to be settled. Management does not believe that there is significant credit risk arising from its customer. However, should the Company's main customer be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts.

(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 13) and the convertible loan carries a floating rate (see Note 11).

The Company monitors its exposure to interest rates and has not entered into any derivative contracts to hedge against interest rate risk.

(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. The Company does however have a fixed price sales agreement at a fixed US dollar/Euro rate.

(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.

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

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### 18. 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:

	€	€
Wages <sup>(1)</sup>	34,089	47,490
Management fees <sup>(2)</sup>	54,511	43,405

(1) Paid to Midas Exploration relating to wages of an executive director.

(2) Paid to ATC Group, a director of one of the Company's wholly owned subsidiary.

### 19. 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, revenues and expenses by geographic areas for the years ended December 31, 2010 and 2009 are as follows:

	2010		
	Finland	Canada	Total
	€	€	€
Mineral property, plant and equipment	13,314,088	-	13,314,088
Total assets	17,816,900	1,621,508	19,438,408
Mining revenue	(7,120,735)	-	(7,120,735)
Operating costs	5,968,078	-	5,968,078
Depletion, depreciation and amortization	493,350	6,843	500,193
Stock-based compensation	-	285,737	285,737
General and administrative	340,852	548,560	889,412
Interest expense	14,823	118,207	133,030
Foreign exchange loss	-	250,351	250,351
Gain on fair value of Hitura assets	(3,861,870)	-	(3,861,870)
Loss on bankruptcy	-	-	-
Cumulative dividend	-	155,810	155,810
Income before income taxes	(4,165,502)	1,365,508	(2,799,994)

# Belvedere Resources Ltd.

## Notes to the consolidated financial statements

December 31, 2010 and 2009

(Tabular amounts expressed in Euros, except as noted)

### 19. Segmented information (continued)

	2009		
	Finland	Canada	Total
	€	€	€
Mineral property, plant and equipment	3,194,630	-	3,194,630
Total assets	3,609,376	2,081,133	5,690,509
Operating costs	2,857,070	-	2,857,070
Depletion, depreciation and amortization	1,939	2,704	4,643
Stock-based compensation	-	327,380	327,380
General and administrative	445,238	405,009	850,247
Interest income	(1,537)	(12,330)	(13,867)
Interest expense	262,377	2,911	265,288
Foreign exchange loss	(286,181)	47,679	(238,502)
Loss on bankruptcy	3,384,081	-	3,384,081
Cumulative dividend	-	-	-
Mineral property impairment loss	125,613	-	125,613
Loss before income taxes	6,788,600	773,353	7,561,953

### 20. Subsequent events

#### (a) Private placement

In January 2011, the Company completed a private placement through the issuance of 10,420,000 units (the "Units") at a price of C\$ 0.24 per unit. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of Belvedere at an exercise price of \$0.40 per share until July 28, 2012. A finder's fee of 5% was paid to Ocean Equities on the funding of the issue. The net proceeds of Cdn\$ 2,375,760 will be applied to the general working capital of the Company and to develop its gold assets.

#### (b) Settlement of convertible debt

On February 10, 2011 the Company announced that it had given notice to prepay the full amount owing under the convertible loan agreement that was entered into between Belvedere and Investec Bank plc ("Investec") on August 18, 2010 which provided Belvedere with a convertible loan facility of up to €2 million (the "Loan"). Upon the receipt of the repayment notice, Investec opted to convert the full outstanding principal amount of €2 million into 19,094,286 common shares of Belvedere as allowed for in the terms of the loan agreement. The loan was converted on February 11, 2011.

#### (c) Deferral of Jinchuan Preference Share Redemption

On April 20, 2011, the Company announced it had entered into an agreement (the "Amending Agreement") with JinChuan Group Limited ("JinChuan") to amend the terms of an agreement (the "Original Agreement") entered into between Belvedere and JinChuan on July 7, 2009 wherein US\$7,675,605 of debt was converted into preference shares. The Original Agreement was announced in a news release dated July 7, 2009.

JinChuan currently holds 7,675,605 preference shares in Belvedere which are redeemable by Belvedere at any time and redeemable by JinChuan in four annual tranches, beginning on June 30,

# Belvedere Resources Ltd.

Notes to the consolidated financial statements

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## 20. Subsequent events (continued)

### (c) *Deferral of Jinchuan Preference Share Redemption (continued)*

2011 and ending on June 30, 2014. The preference shares have a redemption price of US\$1.00 each, carry a cumulative 2.5% dividend, are non-voting and are not convertible into common shares.

Pursuant to the Amending Agreement, JinChuan has agreed to defer the redemption dates by six months so that the preference shares are redeemable at the option of JinChuan in four annual tranches beginning on December 30, 2011 and ending on December 30, 2014