

Condensed consolidated interim financial statements of

## **Belvedere Resources Ltd.**

June 30, 2011 and 2010

The financial statements for the six months ended June 30, 2011 have not been reviewed by the Company's auditors.

*These condensed consolidated interim financial statements for the period ended June 30, 2011, expressed in Euros and prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These are the Company's first International Financial Reporting Standards (IFRS) condensed consolidated interim financial statements and IFRS 1, First Time Adoption of IFRS has been applied, as they are part of the period covered by the Company's first IFRS consolidated financial statements for the year ending December 31, 2011.*

# **Belvedere Resources Ltd.**

June 30, 2011 and 2010

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# Belvedere Resources Ltd.

## Interim condensed consolidated balance sheets as at June 30, 2011 and December 31, 2010

(Unaudited - Expressed in Euros)

	June 30 2011	December 31, 2010
	€	€
<b>Assets</b>		
Current assets		
Cash (Note 3)	2,808,604	385,505
Accounts receivable (Note 6)	593,099	1,455,001
Sales taxes receivable	721,206	675,304
Inventories (Note 7)	1,519,990	1,410,738
Mark-to-market of electricity contracts (Note 8)	(107,857)	450,066
Prepaid expenses	109,052	222,705
	<b>5,644,094</b>	<b>4,599,319</b>
Long-term assets		
Restricted cash (Note 3)	1,525,000	1,525,000
Mineral property - producing (Notes 4 & 5)	8,952,518	8,049,427
Exploration and evaluation assets (Notes 4 & 5)	4,945,282	4,301,838
Plant and equipment (Notes 4 & 5)	750,966	883,657
	<b>21,817,860</b>	<b>19,359,241</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	3,323,689	2,765,581
Current portion of capital lease obligation (Note 9)	154,105	198,068
Current portion of preferred share liability (Note 12)	1,506,031	1,723,225
Convertible loan (Note 10)	-	1,427,807
	<b>4,983,825</b>	<b>6,114,681</b>
Long-term liabilities		
Finance lease obligation (Note 9)	-	52,637
Asset retirement obligations (Note 11)	2,444,684	2,348,128
Warrants liability (Note 10)	283,154	1,275,920
Deferred income taxes	572,618	822,596
Preferred share liability (Note 12)	3,778,929	4,008,554
	<b>12,063,210</b>	<b>14,622,516</b>
<b>Shareholders' equity</b>		
Share capital (Note 13)	55,892,390	52,276,658
Other equity reserve (Note 13)	5,853,434	5,846,029
Deficit	(51,991,174)	(53,385,962)
	<b>9,754,650</b>	<b>4,736,725</b>
	<b>21,817,860</b>	<b>19,359,241</b>

Nature of operations (Note 1)

Commitments (Notes 3, 9 & 10)

# Belvedere Resources Ltd.

## Interim condensed consolidated statements of income and comprehensive income three and six months ended June 30, 2011 and 2010

(Unaudited - Expressed in Euros, except share amounts)

	Three Month Period Ended June 30 2011	Three Month Period Ended June 30 2010	Six Month Period Ended June 30 2011	Six Month Period Ended June 30 2010
	€	€	€	€
<b>Mining revenue</b>	<b>4,382,398</b>	-	<b>11,347,185</b>	-
Operating expenses				
Operating costs	4,500,064	-	10,330,458	-
Depletion, depreciation and amortization	253,134	-	351,829	-
	<b>4,753,198</b>	-	<b>10,682,287</b>	-
Income (loss) before undernoted items	<b>(370,800)</b>	-	<b>664,898</b>	-
Other expense (income)				
Foreign exchange (gain) loss	(50,985)	570,161	(281,360)	864,104
General and administrative	301,202	254,618	604,007	432,841
Gain on fair valuation of Hitura assets (Note 4)	-	-	-	(3,861,870)
Fair value (gain) loss on derivative liability	(533,986)	-	(992,766)	-
Cumulative preferred share dividend (Note 13)	30,056	35,498	52,948	75,015
Stock-based compensation (Note 14)	3,607	11,550	7,308	21,385
Interest expense	7,244	1,466	140,480	2,900
Interest income	(6,777)	444	(10,529)	-
	<b>(249,639)</b>	873,737	<b>(479,912)</b>	(2,465,625)
Income (loss) before income taxes	<b>(121,161)</b>	(873,737)	<b>1,144,810</b>	2,465,625
Income tax expense (recovery)				
Deferred income taxes	(72,217)	-	(249,978)	-
	<b>(72,217)</b>	-	<b>(249,978)</b>	-
<b>Net income (loss) for the period</b>	<b>(48,944)</b>	(873,737)	<b>1,394,788</b>	2,465,625
Other comprehensive income (loss)	-	-	-	-
<b>Comprehensive income (loss) for the period</b>	<b>(48,944)</b>	(873,737)	<b>1,394,788</b>	2,465,625
Basic and diluted earnings (loss) per share	<b>(0.00)</b>	(0.01)	<b>0.01</b>	0.03
Basic weighted average number of common shares outstanding	<b>133,938,513</b>	97,886,433	<b>133,938,513</b>	97,886,433
Diluted weighted average number of common shares outstanding	<b>144,087,921</b>	103,996,718	<b>144,087,921</b>	103,996,718

# Belvedere Resources Ltd.

## Interim condensed consolidated statements of cash flows three and six months ended June 30, 2011 and 2010

(Unaudited - Expressed in Euros)

	Three Month Period Ended June 30 2011	Three Month Period Ended June 30 2010	Six Month Period Ended June 30 2011	Six Month Period Ended June 30 2010
		<small>(See Note 18 - First time adoption of IFRS)</small>		<small>(See Note 18 - First time adoption of IFRS)</small>
<b>Operating activities</b>				
Net income (loss) for the period	(48,944)	(873,737)	1,394,788	2,465,625
Items not involving cash				
Accretion	48,278	(22,579)	96,556	-
Depletion, depreciation and amortization	253,134	1,563	351,829	2,979
Gain on conversion feature derivative liability	(533,986)	-	(992,766)	-
Loss on mark-to-market electricity contract	261,621	-	557,923	-
Deferred income tax recovery	(72,217)	-	(249,978)	-
Mineral properties impairment loss	-	-	-	-
Stock-based compensation	3,607	11,550	7,308	21,385
Gain on fair valuation of Hitura assets	-	-	-	-
Gain on fair valuation of Hitura assets	-	-	-	(3,861,870)
Unrealized foreign exchange (gain) loss	(50,985)	570,161	(281,360)	864,104
	(139,492)	(313,042)	884,300	(507,777)
Net changes in non-cash working capital items				
Accounts receivable	2,060,506	12,572	816,000	(29,951)
Inventories	(768,051)	55,500	(109,252)	(314,500)
Prepaid expenses	(11,754)	(142,816)	113,653	(142,795)
Accounts payable and accrued liabilities	140,447	701,263	558,108	796,345
	1,281,656	313,477	2,262,809	(198,678)
<b>Financing activities</b>				
Common shares issued for cash, net	-	1,849,543	2,128,107	1,849,543
Capital lease obligation	(43,095)	-	(96,600)	-
	(43,095)	1,849,543	2,031,507	1,849,543
<b>Investing activities</b>				
Cash acquired from acquisition net of cash paid	-	(399)	-	-
Mineral properties - Producing	(737,264)	(1,365,519)	(1,303,198)	(1,365,520)
Mineral properties - Exploration	(473,958)	23,656	(643,444)	-
Plant and equipment expenditures	137,864	-	132,691	-
	(1,073,358)	(1,342,262)	(1,813,951)	(1,365,520)
Effect of exchange rate changes on cash	(47,454)	26,213	(57,266)	24,973
Increase in cash	117,749	846,971	2,423,099	310,318
Cash, beginning of period	2,690,855	381,462	385,505	918,115
<b>Cash, end of period</b>	<b>2,808,604</b>	<b>1,228,433</b>	<b>2,808,604</b>	<b>1,228,433</b>
Cash	2,808,604	1,228,433	2,808,604	1,228,433
<b>Supplementary cash flow information</b>				
Interest paid	7,244	1,910	140,480	2,900
Asset retirement obligation	2,396,406	2,300,000	2,396,406	2,300,000
Inventory	1,519,990	314,500	1,519,990	314,500

# Belvedere Resources Ltd.

## Interim condensed consolidated statements of changes in equity three and six months ended June 30, 2011 and 2010

(Unaudited - Expressed in Euros, except share amounts)

	Number of shares	Amount €	Other equity reserve €	Deficit €	Total €
<b>Balance, January 1, 2010</b>	<b>102,308,338</b>	<b>50,341,501</b>	<b>5,464,092</b>	<b>(55,813,654)</b>	<b>(8,061)</b>
Issued for cash under private placement	16,909,667	1,849,543	-	-	1,849,543
Stock-based compensation	-	-	20,688	-	20,688
Comprehensive income for the period	-	-	-	2,465,625	2,465,625
<b>Balance, June 30, 2010</b>	<b>119,218,005</b>	<b>52,191,044</b>	<b>5,484,780</b>	<b>(53,348,029)</b>	<b>4,327,795</b>
Issued for cash under private placement	-	(19,129)	-	-	(19,129)
Issued in respect of loan fees	1,000,000	104,743	-	-	104,743
Stock-based compensation	-	-	265,049	-	265,049
Equity portion of convertible loan	-	-	68,714	-	68,714
Equity portion of warrants issued with loan	-	-	27,486	-	27,486
Comprehensive loss for the period	-	-	-	(37,933)	(37,933)
<b>Balance, December 31, 2010</b>	<b>120,218,005</b>	<b>52,276,658</b>	<b>5,846,029</b>	<b>(53,385,962)</b>	<b>4,736,725</b>
Issued for cash under private placement	12,500,000	2,128,107	-	-	2,128,107
Issued on conversion of convertible debt	19,094,286	1,487,625	-	-	1,487,625
Stock-based compensation	-	-	7,405	-	7,405
Comprehensive income for the period	-	-	-	1,394,788	1,394,788
<b>Balance, June 30, 2011</b>	<b>151,812,291</b>	<b>55,892,390</b>	<b>5,853,434</b>	<b>(51,991,174)</b>	<b>9,754,650</b>

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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#### 1. Nature of operations

Belvedere Resources Limited (“Belvedere” or “the Company”) is domiciled in Vancouver, Canada and 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 condensed consolidated interim 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 (loss) for the three and six months ended June 30, 2011 of €(370,800) and €664,898 respectively (2010 – €Nil), and net income (loss) for the three and six months ended June 30, 2011 of €(48,944) and €1,394,788 respectively (three and six months ended June 30, 2010 – net income (loss) of €(873,737) and €2,465,625 respectively).

At June 30, 2011, the Company held unrestricted cash of €2,808,604 (June 30, 2010 - €1,228,433), and had a net working capital surplus of €660,269 (June 30, 2010 – surplus of €552,355).

#### 2. Summary of significant accounting policies

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). These are the Company’s first International Financial Reporting Standards (IFRS) condensed consolidated interim financial statements and IFRS 1, *First Time Adoption of IFRS* has been applied, as they are part of the period covered by the Company’s first IFRS consolidated financial statements for the year ending December 31, 2011. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The Company’s condensed consolidated interim financial statements were prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) until December 31, 2010. Canadian GAAP differs from IFRS in some areas and accordingly, the significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below and have been consistently applied to all periods presented except in instances where IFRS 1 either requires or permits an exemption. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported consolidated statements of income, comprehensive income, financial position, and cash flows of the Company is provided in note 18. This note includes information on the provisions of IFRS 1 and the exemptions that the Company elected to apply, reconciliations of equity, net income and comprehensive income for comparative periods and equity at the date of transition, January 1, 2010.

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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

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.

(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.

(b) *Measurement uncertainty*

The preparation of financial statements in accordance with IFRS 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, discount rates, 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 functional currency of the Company and its subsidiaries is the Euro ("€"). Foreign currency monetary assets and liabilities are translated to the Euro 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 condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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

##### (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
- Warrant liability: held-for-trading
- Finance lease obligation: other financial liabilities
- 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 profit or loss and comprehensive profit or loss.

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(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.

(h) *Provisions*

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

(j) *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 reviews the carrying value of long-lived assets for impairment when circumstances indicate an asset's value may not be recoverable. The evaluation is based on the higher of the asset's fair value less costs to sell and its value in use, which is present value of future cash flows expected to be derived from the asset in its current state. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the higher of fair value less costs to sell and value in use.

(k) *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

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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

(k) *Asset retirement obligations (continued)*

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.

(l) *Income taxes*

Deferred income taxes are recorded using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred 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 deferred 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 deferred tax asset will be recovered, it provides a valuation allowance against the excess.

(m) *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.

(n) *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 other equity reserve, on a graded basis over the vesting period of each vesting instalment. If and when the stock options are ultimately exercised, the applicable amounts of other equity reserve are transferred to share capital.

(o) *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.

(q) *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.

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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

(r) *Anticipated changes to IFRS*

A number of new standards, amendments to standards and interpretations are not yet effective as of June 30, 2011 and have not been applied in preparing these condensed consolidated interim financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Company.

#### 3. Cash

	June 30 2011	December 31 2010
	€	€
Cash	2,808,604	385,505
Restricted cash	1,525,000	1,525,000
	<u>4,333,604</u>	<u>1,910,505</u>

€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 June 30, 2011, 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 IFRS 3, *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:

	<b>Updated Valuation €</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	79,599
Cash consideration paid	<u>79,600</u>

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

#### 4. Business Combination (continued)

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 Fin 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 €3,861,870.

#### 5. Mineral property, plant and equipment

	Land and Buildings	Mining plant and equipment	Mineral property	Equipment lease capitalized	Exploration and Evaluation assets	Office equipment	Total
	€		€		€		€
Cost at January 1, 2011	575,667	363,333	8,193,276	470,711	4,276,696	58,705	13,938,388
Current period additions	-	20,900	1,018,792	-	668,586	23,597	1,731,875
Current period disposals	-	-	-	-	-	-	-
<b>Cost at June 30, 2011</b>	<b>575,667</b>	<b>384,233</b>	<b>9,212,068</b>	<b>470,711</b>	<b>4,945,282</b>	<b>82,302</b>	<b>15,670,263</b>
Accumulated depreciation at January 1, 2011	-	24,801	595,661	22,164	-	51,840	694,466
Current period retirements	-	-	-	-	-	-	-
Current period depreciation/depletion	-	12,158	268,410	44,855	-	1,608	327,031
<b>Accumulated depreciation at June 30, 2011</b>	<b>-</b>	<b>36,959</b>	<b>864,071</b>	<b>67,019</b>	<b>-</b>	<b>53,448</b>	<b>1,021,497</b>
<b>Net book value at June 30, 2011</b>	<b>575,667</b>	<b>347,274</b>	<b>8,347,997</b>	<b>403,692</b>	<b>4,945,282</b>	<b>28,854</b>	<b>14,648,766</b>
	Land and Buildings	Mining plant and equipment	Mineral property	Equipment lease capitalized	Exploration and Evaluation assets	Office equipment	Total
	€		€		€		€
Cost at January 1, 2010	34,142	51,931	-	-	3,132,947	54,036	3,273,056
Current period additions	541,525	311,402	8,193,276	470,711	1,143,749	4,669	10,665,332
Current period disposals	-	-	-	-	-	-	-
<b>Cost at December 31, 2010</b>	<b>575,667</b>	<b>363,333</b>	<b>8,193,276</b>	<b>470,711</b>	<b>4,276,696</b>	<b>58,705</b>	<b>13,938,388</b>
Accumulated depreciation at January 1, 2010	-	29,658	-	-	-	44,661	74,319
Current period retirements	-	-	-	-	-	-	-
Current period depreciation/depletion	-	(4,857)	595,661	22,164	-	7,179	620,147
<b>Accumulated depreciation at December 31, 2010</b>	<b>-</b>	<b>24,801</b>	<b>595,661</b>	<b>22,164</b>	<b>-</b>	<b>51,840</b>	<b>694,466</b>
<b>Net book value at December 31, 2010</b>	<b>575,667</b>	<b>338,532</b>	<b>7,597,615</b>	<b>448,547</b>	<b>4,276,696</b>	<b>6,865</b>	<b>13,243,922</b>

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

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

#### 6. Accounts receivable

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.

#### 7. Inventories

	June 30 2011	December 31 2010
	€	€
Consumables	527,227	435,096
Concentrate	992,763	975,642
	<b>1,519,990</b>	<b>1,410,738</b>

#### 8. 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 supply as economically as possible while managing financial risks related to electricity procurement.

With respect to the portfolio management agreement, electricity purchasing 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 the volume to exceed the original hedges volume.

Under IFRS, the open position at period-end is recorded to the balance sheet; derivative financial instrument accounting does apply. The valuation report for the open derivatives as of June 30, 2011, indicates the Company is in a €107,857 loss position.

#### 9. 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%.

	June 30 2011	December 31 2010
	€	€
2011	214,020	214,020
2012	52,636	53,505
Total lease payments	266,656	267,525
Interest expense	(15,951)	(16,820)
Capital lease obligation	250,705	250,705
Less: Current portion	(250,705)	(198,068)
Balance	-	52,637

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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#### 10. 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 carried an interest rate of Euro LIBOR + 9.5% and was repayable by December 30, 2011. The loan was convertible at the lender's option into 19,094,286 Belvedere common shares at a conversion price of \$0.14 per share; the conversion price was fixed at the exchange rate from Euros to Canadian dollars on the closing date. 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 was bifurcated between debt and equity components as follows:

	€
Loan facility	2,000,000
Issuance Costs	(101,505)
Equity portion of loan	(66,010)
Fair value of warrants issued	(594,828)
Accretion	190,150
Short-term debt portion at December 31, 2010	<u>1,427,807</u>

Because the share settlement price of the warrants is denominated in a different currency (Canadian dollar) than the Company's functional currency (Euro), the warrants are accounted for as derivative financial liabilities, with changes in fair value recorded in the consolidated statements of income (loss). During the six months ended June 30, 2011, the Company recorded a €523,346 gain on the change in fair value of the warrants. The fair value at June 30, 2011 of €752,574 was determined using the Black-Scholes option pricing model with the following inputs: risk-free interest rate: 1.56%; expected life: 1.1 years; annualized volatility: 103%; and dividend rate: 0%.

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 consistent with the terms of the loan agreement. The loan was converted on February 11, 2011.

#### 11. 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 June 30, 2011 is €2,444,684 (December 31, 2010 - €2,348,128). The undiscounted value of this liability is €3,491,433, which includes an inflation factor of 1.7%. An accretion expense component of €96,556 has been charged to operations in 2011 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 3.0%. Changes to the asset retirement obligations during the year are as follows:

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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#### 11. Asset retirement obligation (continued)

	€
Balance, December 31, 2010	2,348,128
Accretion	96,556
<u>Balance, June 30, 2011</u>	<u>2,444,684</u>

	€
Balance, December 31, 2009	-
Assumed on acquisition of Hitura Nickel Mine (Note 4)	2,300,000
Accretion	48,128
<u>Balance, December 31, 2010</u>	<u>2,348,128</u>

#### 12. Preferred share liability

	Number of preference shares	Amount €
<u>Class A preference shares Series 1</u>	<u>7,676,605</u>	<u>5,412,243</u>
<u>Balance, March 31, 2011</u>	<u>7,676,605</u>	<u>5,412,243</u>

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. On the 20th April, 2011, Jinchuan agreed to defer the redemption dates by six months so that the 7,675,605 preference shares are redeemable at the option of Jinchuan in four annual tranches beginning on December 30, 2011 and ending on December 30, 2014..

The underlying preferred share liability is denominated in US Dollars and is translated into Euros at the period end rate.

#### 13. 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

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

#### 13. Share capital (continued)

##### (a) Issued common shares

	Number of common shares	Amount €
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 holder	1,000,000	104,743
Balance, December 31, 2010	120,218,005	52,276,658
Shares issued for cash, net of issuance costs	12,500,000	2,128,107
Shares issued on debt conversion	19,094,286	1,487,625
Balance, June 30, 2011	151,812,291	55,892,390

In January 2011, the Company completed the private placement of 12,500,000 Units at C\$0.24 per Unit for net proceeds of C\$2,834,030 (€2,128,107). Each Unit consists of one common share of Belvedere and one-half of a common share purchase warrant of Belvedere. Each whole warrant entitles the holder to purchase one additional common share of Belvedere at an exercise price of \$0.40 per share for a period of 18 months. The private placement was brokered by Ocean Equities Ltd. of London for a fee of 5% which was offset against the proceeds.

In February 2011, the Company gave 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.

##### (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 June 30, 2011 and December 31, 2010:

# Belvedere Resources Ltd.

Notes to the condensed consolidated interim financial statements

Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

## 13. Share capital (continued)

### (b) Stock options (continued)

	Number of options	2011 Weighted average exercise price Cdn\$	Number of options	2010 Weighted average exercise price Cdn\$
Balance outstanding, beginning of period	75,000	0.50	75,000	0.50
Options exercised	-	-	-	-
Options forfeited	(75,000)	0.50	-	-
Balance outstanding, end of period	-	-	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 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.

The following table summarizes the Company's stock options under the 2007 Rolling Stock Option Plan at June 30, 2011 and December 31, 2010:

	Number of options	2011 Weighted average exercise price Cdn\$	Number of options	2010 Weighted average exercise price Cdn\$
Balance outstanding, beginning of period	7,175,000	0.14	7,175,000	1.87
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Balance outstanding, end of period	7,175,000	0.14	7,175,000	0.14

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

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

#### 13. Share capital (continued)

The following table summarizes information concerning outstanding and exercisable options under the 2007 Rolling Stock Option Plan at June 30, 2011:

Options outstanding	Options exercisable	Exercise price Cdn\$	Expiry date
2,675,000	2,675,000	0.18	July 26, 2012
3,800,000	3,800,000	0.10	August 20, 2014
700,000	500,000	0.20	December 1, 2014
<b>7,175,000</b>	<b>6,975,000</b>		

#### (c) Warrants

The following table summarizes information concerning outstanding and exercisable share purchase warrants at June 30, 2011:

	2011		2010	
	Number of warrants	Weighted average exercise price Cdn\$	Number of warrants	Weighted average exercise price Cdn\$
Balance outstanding, beginning of period	7,637,714	0.14	-	-
Warrants issued	6,250,000	0.40	7,637,714	0.14
Warrants exercised	-	-	-	-
Warrants expired	-	-	-	-
Balance outstanding, end of period	<b>13,887,714</b>	<b>0.26</b>	<b>7,637,714</b>	<b>0.14</b>

The Company issued 6,250,000 warrants in connection with a private placement completed in January 2011. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.40 per share for an 18 month period (see Note 13a).

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 10).

#### (d) Other equity reserve

	€
Balance, January 1, 2010	<b>5,464,092</b>
Stock compensation	<b>285,737</b>
Equity portion of convertible loan	<b>96,200</b>
Balance, December 31, 2010	<b>5,846,029</b>
Stock compensation	<b>7,405</b>
Balance, June 30, 2011	<b>5,853,434</b>

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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#### 14. 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.

#### 15. 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 12).

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

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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#### 15. Financial instruments (continued)

(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.

#### 16. 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:

	2011	2010
	€	€
Wages <sup>(1)</sup>	<b>35,293</b>	22,232
Management fees <sup>(2)</sup>	<b>21,952</b>	21,748

(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.

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

#### 17. 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 six months ended June 30, 2011 and 2010 are as follows:

	2011		
	Finland	Canada	Total
	€	€	€
Mineral property, plant and equipment	14,648,766	-	14,648,766
<b>Total assets</b>	<b>19,408,764</b>	<b>2,409,096</b>	<b>21,817,860</b>
Mining revenue	(11,347,185)	-	(11,347,185)
Operating costs	10,282,180	-	10,282,180
Depletion, depreciation and amortization	349,881	1,948	351,829
Stock-based compensation	-	7,308	7,308
General and administrative	206,336	397,671	604,007
Interest income	(1,867)	(8,662)	(10,529)
Interest expense	137,565	2,915	140,480
Foreign exchange (gain) loss	65,782	(347,142)	(281,360)
Fair value (gain) loss on derivative liability	(992,766)	-	(992,766)
Cumulative dividend	-	52,948	52,948
<b>Income before income taxes</b>	<b>(1,300,074)</b>	<b>106,986</b>	<b>(1,193,088)</b>
	2010		
	Finland	Canada	Total
	€	€	€
Mineral property, plant and equipment	13,314,088	-	13,314,088
<b>Total assets</b>	<b>17,816,900</b>	<b>1,621,508</b>	<b>19,438,408</b>
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
<b>Income before income taxes</b>	<b>(4,165,502)</b>	<b>1,365,508</b>	<b>(2,799,994)</b>

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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#### 18. First-time adoptions of International Financial Reporting Standards

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

##### (a) IFRS exemption options

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

###### *Share-based payments*

IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

###### *Business combinations*

The Company has elected to apply IFRS 3, *Business Combinations*, prospectively to business combinations that occur after the date of transition. The Company has elected this exemption under IFRS 1, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

###### *Borrowing Costs*

IAS 23 *Borrowing Costs* requires capitalization of eligible borrowing costs directly attributable to the acquisition or construction of qualifying assets. Under Canadian GAAP, the Company's accounting policy was to expense interest costs in connection with development activity. A first-time adopter may elect to apply the transitional provisions prescribed by IAS 23, and thereby be exempt from having to apply the standard to past transactions. The Company has elected to utilize this exemption, and will therefore apply IAS 23 on a strictly prospective basis from the date of transition to IFRS.

###### *Cumulative translation differences*

The Company has elected to apply the IFRS 1 exemption whereby cumulative translation differences included in accumulated other comprehensive income are reset to zero at the transition date.

##### (b) Reconciliations

The adoption of IFRS has resulted in changes to the Company's reported financial position and results of operations. The Company's adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. In order to allow the users of the financial statements to better understand these changes, the financial statements previously presented under Canadian GAAP have been reconciled to IFRS. For a description of the changes, see the discussion in Notes to the IFRS Reconciliations below.

# Belvedere Resources Ltd.

Notes to the condensed consolidated interim financial statements

Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

The Canadian GAAP consolidated statement of comprehensive (loss) income for the six month period ended June 30, 2010 has been reconciled to IFRS as follows:

	Canadian GAAP	Capitalizing pre- operating operating costs	Fair value of Finland assets Adj	Canadian GAAP	IFRS Adjustment s	IFRS
Mining revenue	-			-	-	-
Operating expenses	970,166	(970,166)		-	-	-
Other expenses						
Foreign exchange (gain) loss	864,104			864,104	-	864,104
General and administrative	432,841			432,841	-	432,841
Gain on fair valuation of Hitura assets	(3,256,596)		(605,274)	(3,861,870)	-	3,861,870
Cumulative preferred share dividend	75,015			75,015	-	75,015
Stock-based compensation	21,385			21,385	-	21,385
Interest expense	2,900			2,900	-	2,900
Income (loss) before income taxes	890,185		605,274	2,465,625	-	2,465,625
Future income tax expense (recovery)	-			-		
Net income (loss) for the period	890,185			2,465,625	-	2,465,625
Deficit - beginning of period	5,464,092			5,464,092		5,464,092
Deficit - end of period	6,354,277		-	7,929,717	-	7,929,717
Other comprehensive income (loss)	-			-	-	-
AOCI - beginning of period	50,341,501			50,341,501	-	50,341,501
AOCI - end of period	50,341,501		-	50,341,501	-	50,341,501

# Belvedere Resources Ltd.

Notes to the condensed consolidated interim financial statements

Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

The June 30, 2010 Canadian GAAP consolidated balance sheets have been reconciled to IFRS as follows:

	Canadian GAAP	CTA Adj	Adjustments	IFRS	Ref
	Jun 30 2010			Jun 30 2010	
<b>Assets</b>					
<b>Current</b>					
Current assets	€ 1,768,443		€ -	€ 1,768,443	
Restricted cash	€ 1,525,000		€ -	€ 1,525,000	
Mineral property, plant and equipment	€ 13,139,562		€ -	€ 13,139,562	
	€ 16,433,005	€ -	€ -	€ 16,433,005	
<b>Liabilities And Shareholders' Equity</b>					
Current liabilities	€ 1,216,088		€ -	€ 1,216,088	
Capital lease obligation	€ -		€ -	€ -	
Asset retirement obligations	€ 2,300,000		€ -	€ 2,300,000	
Deferred income taxes	€ 2,343,822			€ 2,343,822	
Preferred share liability	€ 6,245,299		€ -	€ 6,245,299	
<b>Shareholders' equity</b>					
Share capital	€ 52,191,044		€ -	€ 52,191,044	
Other equity reserve	€ 5,484,780		€ -	€ 5,484,780	
Accumulated other comprehensive loss	€ (282,541)	€ 282,541	€ 282,541	€ -	(i)
Deficit	€ (53,065,487)	€ (282,541)	€ (282,541)	€ (53,348,028)	(i)
	€ 4,327,796	€ -	€ -	€ 4,327,796	
	€ 16,433,005	€ -	€ -	€ 16,433,005	

i) At January 1, 2010, the Company carried a foreign currency translation loss of €282,542 in Accumulated Other Comprehensive income in its Canadian GAAP financial statements. As the Company has elected to apply the IFRS 1 exemption for cumulative translation differences, the Company recorded an adjusting entry to reset cumulative translation differences to zero at January

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

The December 31, 2010 Canadian GAAP consolidated balance sheets have been reconciled to IFRS as follows:

	Canadian GAAP	Adjustments	IFRS	Ref
	Dec 31 2010		Dec 31 2010	
<b>Assets</b>				
<b>Current</b>				
Current assets	€ 4,599,319	€ -	€ 4,599,319	
Restricted cash	€ 1,525,000	€ -	€ 1,525,000	
Mineral property - producing	€ 8,128,593	€ (79,166)	€ 8,049,427	(iii)
Mineral property - exploration	€ 4,301,838	€ -	€ 4,301,838	
Plant and equipment	€ 883,657	€ -	€ 883,657	
	€ 19,438,407	€ (79,166)	€ 19,359,241	
<b>Liabilities And Shareholders' Equity</b>				
Current liabilities	€ 6,511,142	€ (396,461)	€ 6,114,681	(ii)
Capital lease obligation	€ 52,637	€ -	€ 52,637	
Asset retirement obligations	€ 2,427,294	€ (79,166)	€ 2,348,128	(iii)
Deferred income taxes	€ 822,596	€ -	€ 822,596	
Preferred share liability	€ 4,008,554	€ -	€ 4,008,554	
Conversion feature derivative liability	€ -	€ 1,275,920	€ 1,275,920	(ii)
<b>Shareholders' equity</b>				
Share capital	€ 52,276,658	€ -	€ 52,276,658	
Other equity reserve	€ 5,846,029	€ (0)	€ 5,846,029	(ii)
Accumulated other comprehensive loss	€ (282,542)	€ 282,542	€ -	(i)
Deficit	€ (52,223,961)	€ (1,162,001)	€ (53,385,962)	(i), (ii)
	€ 5,616,184	€ (879,459)	€ 4,736,725	
	€ 19,438,407	€ (79,166)	€ 19,359,241	

#### Notes to the IFRS reconciliations:

##### i) Cumulative translation adjustments

At January 1, 2010, the Company carried a foreign currency translation loss of €282,542 in Accumulated Other Comprehensive income in its Canadian GAAP financial statements. As the Company has elected to apply the IFRS 1 exemption for cumulative translation differences, the Company recorded an adjusting entry to reset cumulative translation differences to zero at January 1, 2010.

# Belvedere Resources Ltd.

## Notes to the condensed consolidated interim financial statements

### Three and six month periods ended June 30, 2011 and 2010

(Tabular amounts expressed in Euros, except as noted)

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#### ii) *Convertible loan and warrants*

On August 18, 2010, the Company signed a €2 million convertible loan facility. 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.

Under Canadian GAAP, the loan was bifurcated between debt and equity components by determining the fair value of the debt component first and allocating the residual to the equity components.

Under IFRS, because the share settlement price is denominated in a different currency (Canadian dollar) than the Company's functional currency (Euro), the warrants are accounted for as derivative financial liabilities, with changes in fair value recorded in the consolidated statements of income (loss). The carrying value of the loan on issuance is calculated as the residual of the fair value of the loan less the fair value of the warrants on issuance. Application of the IFRS requirements results in the recognition of a derivative financial liability and a corresponding item in the consolidated statements of income (loss) to reflect changes in the fair value of the derivative liability, a reduction in the carrying value of the loan liability, and an increase in accretion expense. In addition, under IFRS, the €30,189 portion of the financing fees attributable to the warrants are expensed on issuance; under Canadian GAAP, these fees were deferred and amortized over the term of the loan.

#### iii) *Asset retirement obligations*

Canadian GAAP and IFRS are similar in their requirements for measurement of asset retirement obligations subsequent to initial recognition in that they both require adjustments to be made for changes in the timing or amount of the cash flows and the unwinding of the discount. Under IFRS, the measurement of the obligation must be adjusted at each year-end for changes in the discount rate; such adjustments are not required under Canadian GAAP. Applying a risk-free discount rate of 3% at December 31, 2010 to the nominal estimate of the obligation, the present value measurement of the obligation was increased by €76,199, with a corresponding adjustment to the carrying value of the Hitura plant asset. .

## 19. **Subsequent events**

On July 21, 2011, REBgold Corporation (TSX-V: RBG) and Belvedere jointly announced that their respective Finnish subsidiaries had entered into a definitive Shareholders' Agreement as contemplated by the Letter of Intent announced in a news release dated March 24, 2011. Under the terms of the Shareholders' Agreement, REBgold has the right to earn up to a 50% interest in a special purpose joint venture company which holds the Kiimala and Rantasalmi projects by contributing expenditures of C\$6 million over a 4 year period. To maintain its earn-in right, during the first year REBgold must contribute at least C\$1.5 million on the projects. Currently, Belvedere Resources Finland Oy (a wholly-owned Finnish subsidiary of Belvedere) holds a 100% interest in the special purpose joint venture company.

The Shareholders' Agreement will come into force upon satisfaction or waiver of certain conditions precedent, including a condition that REBgold shall have completed an equity financing as required to fund the first year's expenditure commitment. Upon execution of the Shareholders' Agreement REBgold will pay C\$100,000 to Belvedere Resources Finland Oy. After the earn-in has been completed, a decision will be made whether to proceed to a feasibility study. If REBgold proceeds with and completes the feasibility study it will increase its stake in the projects to between 55% and 75% depending on the level of Belvedere's contribution to the study. A further 5% can be earned if REBgold's bioleaching technology can lead to a material improvement in the project economics.