NETCO SILVER INC.
(formerly known as Netco Energy Inc.)

Interim Consolidated Financial Statements

For the six months ended June 30, 2011 and 2010

Index

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim financial statements as at and for the six months ended June 30, 2011 and 2010.

Netco Silver Inc.
(formerly known as Netco Energy Inc.)

Condensed Consolidated Interim Statements of Financial Position
(Unaudited - Prepared by Management)
(Expressed in Canadian dollars)

	Notes	As at June 30, 2011	As at December 31, 2010 (note 14)
ASSETS			
Current assets			
Cash		**$ 587,072**	$ 63,861
Accounts receivable		**50,348**	-
Harmonized sales tax recoverable		**6,744**	2,424
		644,164	66,285
Non-current assets			
Resource property	8	**47,500**	-
Petroleum and natural gas interests	7	**138,465**	126,118
		185,965	126,118
		$ 830,129	$ 192,403
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 48,641**	$ 55,118
Loan	11	**7,204**	7,030
		55,845	62,148
SHAREHOLDERS' EQUITY			
Share capital	10	**18,032,625**	17,276,465
Share based payment reserve	10c	**602,193**	495,807
Deficit		**(17,860,534)**	(17,642,017)
		774,284	130,255
		$ 830,129	$ 192,403

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Nature and continuance of operations (note 1)

Approved on behalf of the Board:

"Michael Sweatman" **Director**

"Andrew Gourlay" **Director**

Netco Silver Inc.
(formerly known as Netco Energy Inc.)

Condensed Consolidated Interim Statements of Comprehensive Loss
For the period ended June 30, 2011, with comparative figures for 2010
(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes	**For the six months ended June 30, 2011**	**For the three months ended June 30, 2011**	For the six months ended June 30, 2010 (note 14)	For the three months ended June 30, 2010 (note 14)
GENERAL AND ADMINISTRATION EXPENSES					
Director and officer fees	11	**$ 12,000**	**6,000**	$ 6,000	$ 3,000
Office and general	11	**30,063**	**14,710**	67,069	34,025
Professional fees		**32,671**	**24,476**	(1,101)	(6,851)
Management fees		**13,440**	**13,440**	-	-
Transfer agent and filing		**23,138**	**15,802**	10,157	4,321
Share-based compensation	9	**106,385**	**36,648**	-	-
		217,697	**74,428**	82,125	34,495
Loss before other items		**(217,697)**	**(74,428)**	(82,125)	(34,495)
OTHER ITEMS					
Reclamation costs		**-**	**-**	(107,660)	(107,660)
Foreign exchange gain (loss)		**(820)**	**116**	(3,145)	7,458
Interest income		**-**	**-**	3,945	2,872
		(820)	**116**	(106,860)	(97,330)
Loss and comprehensive loss for the period		**$ (218,517)**	**(74,312)**	$ (188,985)	$ (131,825)
Basic and diluted loss per share		**$ (0.01)**	**$ (0.00)**	$ (0.01)	$ (0.00)
Weighted average shares outstanding		**33,823,330**	**33,823,330**	32,683,275	32,683,275

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Netco Silver Inc.
(formerly known as Netco Energy Inc.)

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity
For the period ended June 30, 2011
(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Share Capital	Share Based Payment Reserve	Deficit	Total
Balance as at January 1, 2011	$ 17,276,465	$ 495,807	$ (17,642,017)	$ 130,255
Share-based compensation	-	106,385	-	106,385
Issue of share capital	756,160	-	-	756,160
Total comprehensive loss for the period	-	-	(218,517)	(218,517)
Balance as at June 30, 2011	**$ 18,032,625**	**$ 602,193**	**$ (17,860,534)**	**$ 774,284**

	Share Capital	Share Based Payment Reserve	Deficit	Total
Balance as at January 1, 2010	$ 17,155,345	$ 495,807	$ (17,273,921)	$ 377,231
Share-based compensation	-	-	-	-
Issue of share capital	-	-	-	-
Total comprehensive loss for the period	-	-	(188,985)	(188,985)
Balance as at June 30, 2010	**$ 17,155,345**	**$ 495,807**	**$ (17,462,906)**	**$ 188,246**

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Netco Silver Inc.
(formerly known as Netco Energy Inc.)

Condensed Consolidated Interim Statements of Cash Flows
For the period ended June 30, 2011, with comparative figures for 2010
(Unaudited - Prepared by Management)
(Expressed in Canadian dollars)

	Notes	**For the six months ended June 30, 2011**	For the six months ended June 30, 2010 (note 14)
CASH FLOWS PROVIDED BY (USED IN):			
Operating activities			
Net loss for the period from continuing operations		**$ (218,517)**	$ (188,985)
Adjustment for items not involving cash:			
Foreign exchange		**(820)**	(3,145)
Share based compensation		**106,386**	-
		(112,951)	(192,130)
Changes in non-cash working capital:			
Decrease (increase) in accounts receivable		**(50,348)**	-
Decrease in loans receivable		**-**	333,054
Increase in accounts payable		**(6,477)**	(124,934)
Decrease in goods and services tax recoverable		**(4,320)**	(836)
		(174,096)	15,154
Investing activities			
Acquistion of petroleum and natural gas interests		**(12,347)**	(29,429)
Acquistion of resource property		**(47,500)**	-
Increase in loans receivable		**174**	-
		(59,673)	(29,429)
Financing activities			
Increase in loans payable		**-**	15,571
Issuance of common shares		**756,160**	-
		756,160	15,571
Foreign exchange on cash		**820**	-
Increase in cash		**523,211**	1,296
Cash, beginning of period		**63,861**	88,408
Cash, end of period		**$ 587,072**	$ 89,704

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Netco Silver Inc. (the "Company") is a publicly listed company incorporated in Canada with limited liability under the legislation of the Provinces of British Columbia and Alberta. The Company's shares are listed on the TSX Venture Exchange.

The condensed consolidated interim financial statements of the Company as at and for the six months ended June 30, 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group primarily is involved in the petroleum and natural gas and mining business.

The head office, principal address is 609 Granville Street, Suite 880, Vancouver, British Columbia, Canada, V7Y 1G5 and the records of the Group are located at 609 West Hastings Street, Suite 900, Vancouver, British Columbia, Canada, V6B 4W4. The Company's registered address is 885 West Georgia Street, Suite 800, Vancouver, British Columbia, Canada, V6H 3H1.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Group will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Group currently has no source of revenues, has working capital of $588,319 (December 31, 2010 - $4,137) and a deficit of $17,860,534 (December 31, 2010 - $17,642,017). The Group's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. BASIS OF PREPARATION

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These are the Group's second IFRS condensed consolidated interim financial statements. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The preparation of these condensed interim consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("GAAP"). The accounting policies set out below have been applied consistently to all years presented in these financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010, as required by IFRS 1.

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued):

The disclosures concerning the transition from Canadian GAAP to IFRS are included in notes 13 and 14 and in the first quarter financial statements filed on SEDAR.

The accounting policies have been selected to be consistent with IFRS and are expected to be effective on December 31, 2011, the Group's first annual IFRS reporting date. However, the standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated interim financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 23, 2011.

(b) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Group's functional currency.

(c) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial assets classified as fair value through profit or loss which are stated at their fair value.

(d) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant areas requiring the use of estimates include the collectability of accounts receivable, the recoverability of exploration and evaluation assets, the fair value of financial instruments, balance of accrued liabilities, determination of decommissioning and environmental obligations, the rates of depletion and accretion of petroleum and natural gas interests, and the valuation of deferred tax amounts. Actual results may differ from these estimates.

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgments:

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Notes 7 – valuation of exploration and evaluation assets
- Note 8 – provisions and contingencies
- Note 4 – valuation of financial instruments
- Note 10 – inputs used in accounting for share-based compensation expense in the statement of comprehensive loss

Reserve estimates impact a number of the areas referred to above, in particular the valuation of property, plant and equipment and the calculation of depletion and depreciation.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements, and have been applied consistently by the Group.

(a) Basis of consolidation

(i) Subsidiaries:

The consolidated financial statements of the Company include its wholly-owned subsidiaries, Green River Petroleum (USA) Inc., incorporated in the State of Wyoming and in the State of Washington. All inter-company transactions and balances have been eliminated on consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Subsidiaries (continued):

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the income statement.

(ii) Jointly controlled operations and jointly controlled assets:

Many of the Group's oil and natural gas activities involve jointly controlled assets. The condensed consolidated interim financial statements include the Group's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements.

(b) Foreign Currency

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand with original maturities of three months or less that are readily convertible into cash and which are subject to insignificant risk of changes in value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial assets at fair value through profit or loss ("FVTPL"):

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Group has designated cash and cash equivalents at FVTPL.

Other:

Other non-derivative financial instruments, such as trade and other receivables, loans and borrowings, and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

The Group is not engaged in any financial derivative contracts.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

(f) Exploration and evaluation assets

Exploration and evaluation ("E&E") costs are those expenditures incurred for which technical feasibility and commercial viability have not been determined. Exploration and evaluation costs, including the costs of acquiring licenses, acquisition of rights to explore, geological and geophysical, drilling, sampling, trenching and survey costs, decommissioning and often directly attributable internal costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area and not depreciated pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment or expensed to exploration and evaluation impairments.

(g) Property, plant and equipment

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into Cost Generating Units ("CGU's") for impairment testing.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expenses" in profit or loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a minimum 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and a maximum 10 percent statistical probability that it will be less. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven if future economic feasibility is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

(h) Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets:

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment (continued)

(ii) Non-financial assets (continued):

profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that if the income tax expense related to items recognized directly in equity, the income tax expense would also be recognized in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Earnings (loss) per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similar 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.

(k) Share-based payments

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period that the employees earn the options. The fair value is recognized as compensation expense, within general and administrative expenses, with a corresponding increase in share-based payments reserve over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(l) Decommissioning obligations

When the Group's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities, provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

(m) New accounting standards and interpretations not yet adopted

Amendments to IFRS 7, Financial Instruments: Disclosures are effective for annual periods beginning on or after July 1, 2011. These amendments increase the disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) New accounting standards and interpretations not yet adopted (continued)

IFRS 9 – Financial Instruments

In an effort to reduce the complexity of accounting for financial instruments, the IASB has is engaged in a project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognized the change in other comprehensive income. The standard is not applicable until January 1, 2013 but is available for early adoption.

IFRS 10 – Consolidation

IFRS 10 was issued on May 12, 2011. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The standard is not applicable until January 1, 2013 but is available for early adoption.

IFRS 13 – Fair Value Measurement

IFRS 13 was issued on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is not applicable until January 1, 2013 but is available for early adoption.

The Group is currently assessing the impact that these revised or new standards will have on the financial statements.

(Expressed in Canadian Dollars)

4. DETERMINATION OF FAIR VALUES

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. At June 30, 2011, the Group's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and loan payable. These items are recognized on the balance sheet at their fair value which approximated their carrying value due to their short-term nature.

All financial instruments measured at fair value are categorized into a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Group's financial assets measured at fair value by level within the fair value hierarchy.

June 30, 2011	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 587,072	$ -	$ -	$ 587,072

December 31, 2010	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 63,861	$ -	$ -	$ 63,861

5. FINANCIAL RISK MANGEMENT

(a) Overview

The Group's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- market risk
- credit risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors oversees managements' establishment and execution of the Group's risk management framework. Management has implemented and monitors compliance with risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Group's activities.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Group's cash is held in bank accounts and due to the short-term nature of these financial instruments fluctuations in market interest rates do not have an impact on the fair value as at June 30, 2011.

The Group's sensitivity to interest rates is currently immaterial due to the short term maturity of its monetary assets and liabilities.

(Expressed in Canadian Dollars)

5. FINANCIAL RISK MANGEMENT (continued)

(b) Market risk (continued)

(ii) Foreign currency risk

Currency risk is the risk to the Group's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Group does not use derivative instruments to reduce its exposure to foreign currency risk.

At June 30, 2011, the Group had the following financial assets and liabilities:

		US Dollars
Cash	$	422
Accounts payable	$	19,725

At June 30, 2011 US dollar amounts were converted at a rate of $1.00 US dollars to $0.9645 Canadian dollar.

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk. The Group is not exposed to significant other price risk.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. The Group’s cash and accounts receivable are exposed to credit risk. The credit risk on cash is considered small because the funds have been placed with major Canadian financial institutions. Management believes that the credit risk related to its accounts receivable is remote.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group’s approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet liabilities when due.

At June 30, 2011, the Group had a cash balance of $587,072, accounts receivable of $50,348 and HST receivable of $6,744. The Group has accounts payable and accrued liabilities of $48,641 and a loan payable of $7,204.

(Expressed in Canadian Dollars)

6. CAPITAL MANAGEMENT

The Group considers its capital structure to include working capital and shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. Management reviews its capital management approach on an ongoing basis and believes that its approach, given the relative size of the Group is reasonable.

The Group is not subject to any external capital restrictions and the Group did not change its approach to capital management during the period.

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (E&E) assets consist of the Group's exploration projects which are pending the determination of proven and/or probable reserves, commercial viability or to be technically feasible.

	June 30, 2011	December 31, 2010
United States, Columbia River Basin		
Oil and natural gas interests	$138,465	$126,118
Argentina, Toruel property		
Mineral resource interest	47,500	-
Net carrying amount	$185,965	$126,118

Reconciliation of activity during the period:	
Balance, January 1, 2010	$ 287,303
Additions	43,742
Impairment loss	(204,928)
Balance, December 31, 2010	126,118
Additions	59,847
Balance, June 30, 2011	$185,965

7. EXPLORATION AND EVALUATION ASSETS (continued)

United States - Columbia River Basin (unproven):

Effective August 1, 2007, the Company acquired by way of an Acquisition and Exploration Agreement with joint venture partners EnCana Oil & Gas (USA) Inc. ("EnCana"), SWEPI LP ("Shell") and Exxel Energy (USA) Inc. ("Exxel") an undivided 7.5% working interest in leases in the Columbia River Basin for US$8,000,000 including a working interest in the Brown 7-24 exploration well drilled in Grant County, Washington.

The Brown 7-24 well was abandoned in May 2010 and all costs associated with the well have been expensed.

Ownership in petroleum and natural gas interests involve certain inherent risks due to the difficulties in determining the validity of certain interests as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many petroleum and natural gas interests. The Company has investigated the ownership of its interests and, to the best of its knowledge, they are in good standing.

Argentina, Toruel property:

In June 2011, the Company entered into an option agreement (the "Agreement") with Marifil Mines Ltd. ("Marifil") whereby Marifil granted the Company an option (the "Option") to acquire up to a 75% interest in Marifil's Toruel property located in the Rio Negro Province of the Republic of Argentina (the "Property"). Under the terms of the Agreement, Netco can earn a 50% interest in the Property during the period of March 3, 2011 to March 3, 2014 by paying Marifil an aggregate of US$200,000 in cash ($25,000 paid), issuing Marifil 3,150,000 of its common shares (150,000 common shares issued), and expending US$2,800,000 on the Property. The Company can earn a further 10% interest during the period from March 3, 2014 to March 3, 2015 by providing Marifil with a pre-feasibility study on the Property and paying Marifil US$100,000 on each of the fourth and fifth anniversaries of the Agreement date. The Company can earn a further 10% interest in the Property during the period from March 3, 2016 to March 3, 2017 by providing Marifil with a feasibility study on the Property. Upon completion of the feasibility study, all further expenditures relating to the Property will be shared by the Company and Marifil, with 70% covered by the Company and 30% by Marifil. However, at Marifil's sole option, it can elect to be carried through to the commencement of commercial production on the Property, in which case the Company will earn an additional 5% interest, bringing its total interest in the Property to 75%. In the event the Company fails to provide Marifil with a feasibility study by March 3, 2017, the Company's interest in the Property may be reduced to 49% at Marifil's sole option.

7. EXPLORATION AND EVALUATION ASSETS (continued)

During the six-months ended June 30, 2011, there were no indications, events or changes in circumstance which would cause the Company to question whether the carrying amount of the assets may not be recoverable, as such there is no provision for impairment recorded.

(Expressed in Canadian Dollars)

8. DECOMMISSIONING OBLIGATIONS

As at June 30, 2011 the Group has liquidated all of its decommissioning liabilities. All reclamation work was completed in May 2010 and expensed during fiscal year 2010.

No decommissioning liability has been accrued at June 30, 2011 for the Group's properties as there has been no activity on the properties that would obligate the Group to do so.

9. SEGMENTED REPORTING

The Group's activities are in two industry segments comprised of exploration, development and production of petroleum, natural gas reserves and mineral exploration.

Petroleum and natural gas and mineral resource interests (exploration and evaluation assets) by geographical segment are as follows:

June 30, 2011	United States	Argentina	Total
Petroleum and natural gas	$ 138,465	$ -	$ 138,465
Mineral resource	$ -	$ 47,500	$ 47,500

December 31, 2010	United States	Argentina	Total
Petroleum and natural gas	$ 126,118	$ -	$ 126,118
Mineral resource	$ -	$ -	$ -

(Expressed in Canadian Dollars)

10. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

(b) Issued:

	Period ended June 30, 2011		Year ended December 31, 2010	
	Number of Shares	Amount	Number of Shares	Amount
Common shares:				
Balance, beginning of period	33,683,275	$ 17,276,465	32,683,275	$ 17,155,345
Transactions during the period:				
Private placement	6,240,000	733,660		
Marifil option agreement	150,000	22,500		
Shares for debt	-	-	1,000,000	121,120
Balance, end of period	**40,073,275**	**$ 18,032,625**	**33,683,275**	**$ 17,276,465**

On June 22, 2011, the Company closed a non-brokered private placement financing (the "Financing") of units (each, a "Unit"). The Company has issued 6,240,000 Units, at a price of $0.125 per Unit, for aggregate gross proceeds of $780,000. Each Unit consists of one common share and one-half of one share purchase warrant (each, a "Warrant"), with each whole Warrant entitling the holder to acquire one common share at an exercise price of $0.22 for a period of two years from the closing of the Financing. In connection with the Financing, the Company paid aggregate finder's fee of $46,340 and issued a total of 370,720 finder's warrants in accordance with the rules of the TSX Venture Exchange.

Also, on June 22, 2011, in connection with the closing of the Transaction (described above under the heading "Exploration and Evaluation Assets"), the Company issued a total of 150,000 common shares of the Company to Marifil in accordance to the terms of the Option Agreement

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

(c) Share-based payments reserve:

	Period ended June 30, 2011	Year ended December 31, 2010
Balance, beginning of period	**$495,807**	$495,807
Stock-based compensation	**106,386**	-
Balance, end of period	**$602,193**	$495,807

(d) Stock Options

The Company has a stock option plan in accordance with the policies on the TSX Venture Exchange whereby, from time to time at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants.

Under the plan up to 6,415,600 common shares are reserved for the issuance of stock options. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options can be granted for a maximum term of 10 years. The maximum number of options that may be granted to any one person must not exceed 5% of the common shares issued and outstanding at the time of grant unless disinterested shareholder approval is obtained. Any options granted to Consultants or persons performing Investor Relations under the Amended Stock Option Plan shall vest to the optionee as follows: 25% at date of grant, 25% six months from date of grant, 25% nine months from date of grant and the remaining 25% twelve months from the date of grant. All other options granted under the Amended Stock Option Plan shall have vesting terms set at the discretion of the Board of Directors.

On March 4, 2011, the Company granted a total of 525,000 stock options to officers, directors and consultants of the Company. Each option is exercisable into one common share at a price of $0.12 for a period of five years. The stock options are subject to the terms of the Company's stock option plan.

On April 28, 2011, the Company granted 200,000 stock options to a director and a consultant of the Company. Each option is exercisable into one common share of the Company at a price of $0.165 per shares for a period of five years. The options are subject to the terms of the Company's stock option plan.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

(d) Stock Options (continued)

For the period ended June 30, 2011, $106,385 (2010 – $Nil) has been recorded as share-based compensation relating to options issued and fully vested during the period. The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: Dividend yield Nil, expected volatility 133% - 137%; risk-free interest rate 2.61% - 2.76%; market share price of $0.15 - $0.21; forfeiture rate of 0% and expected life of 5 years. The weighted average fair value of options granted was $0.13 - $0.18 per option. Expected volatility was based on the historical share price volatility over the past 5 years. The expected life of the option was calculated based on the history of option exercises.

A summary of the stock option activity is as follows:

	June 30, 2011		December 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of period	750,000	$0.40	750,000	$0.40
Issued	725,000	$0.13	-	-
Expired/Cancelled	(750,000)	$0.40	-	-
Balance, end of period	725,000	$0.13	750,000	$0.40

As at June 30, 2011, the Company has outstanding directors' and employees' incentive stock options enabling the holders to acquire additional common shares as follows:

Number of options outstanding	Number of options exercisable	Exercise Price	Expiry Date
525,000	525,000	$ 0.12	March 4, 2016
200,000	200,000	$0.165	April 28, 2016
725,000	725,000		

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

(e) Warrants

As at June 30, 2011, the Company has outstanding share purchase warrants entitling the holders to acquire additional common shares, as follows:

Number of Warrants	Exercise Price	Expiry Date
4,395,000	$0.43	August 2, 2011 [1]
5,000,000	$0.28	June 29, 2012
4,000,000	$0.52	September 4, 2012
3,120,000	$0.22	June 22, 2013
370,720	$0.125	June 22, 2013
16,885,720		

[1] Expired subsequent to quarter end, June 30, 2011.

11. RELATED PARTY TRANSACTIONS

The aggregate amount of expenditures made to parties not at arm's length to the Group for the period ended June 30, 2011 and 2010

June 30,	**2011**	2010
Compensation of key management:		
Directors fees	$ 12,000	$ 6,000
Management fees	$ 13,440	$ -
Share-based payments	$ 106,385	$ -
Rent paid/accrued to a company owned by a former director and officer of the Company: - included in accounts payable: 2011- $nil	$ 14,500	$ -
Administrative and consulting fees paid/accrued to a company owned by a former director: - included in accounts payable: 2011 - $nil	$ 12,000	$ 61,800
Loan owed to a company owned by a director	$ 7,204	$ -

11. RELATED PARTY TRANSACTIONS (continued)

During the period ended June 30, 2011, Canadian Nexus Ventures, a company wholly-owned by a former director and officer of the Company, loaned the Company $6,988 with interest in the amount of $215 accruing at Royal Bank prime + 2%, which is due on December 31, 2011.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, unless otherwise noted.

12. SUBSEQUENT EVENTS

The Company changed its name from "Netco Energy Inc." to "Netco Silver Inc." effective on the commencement of trading on July 14, 2011. The Company will continue to trade on the TSXV under the symbol "NEI". The Company's new CUSIP number is 64111T108.

Also in July 2011, the Company retained Acenta Capital Partners Inc. ("**Acenta**") of Vancouver, British Columbia, to provide investor relation services. Acenta will receive a monthly retainer of $3,000 to $6,000, depending on services rendered, for a twelve-month term.

13. IFRS

IFRS 1 *First-time Adoption of International Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Group has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

(a) Business combinations:

The Group has elected not to retrospectively apply IFRS 3 to business combinations that occurred before the date of transition to IFRS.

(b) Share-based payment transactions:

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and that vest before the transition date. As a result of applying this exemption, the Company has applied the provision of IFRS 2 to all outstanding equity instruments that were unvested prior to the date of transition to IFRS.

13. IFRS (continued)

(c) Petroleum and natural gas interests and resource property:

In accordance with IFRS, the Group reclassified their interest in petroleum and natural gas interests as exploration and evaluation assets, with no change to the recorded amount.

The Group has reviewed all changes required under IFRS and determined that there are no material adjustments required to the prior period financial statements. The reconciliations follow below, in Note 14.

(Expressed in Canadian Dollars)

14. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

	Note	December 31, 2010 Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash and cash equivalents		**$ 63,861**	$ -	$ 63,861
Harmonized sales tax recoverable		**2,424**	-	2,424
Loan receivable		**-**	-	-
		66,285	-	66,285
Petroleum and natural gas interests		**126,118**	-	126,118
		$ 192,403	$ -	$ 192,403
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**$ 55,118**	$ -	$ 55,118
Asset retirement obligation		**-**	-	-
Loan		**7,030**	-	7,030
		62,148	-	62,148
Long Term				
Loan		**-**	-	-
		62,148	-	62,148
SHAREHOLDERS' EQUITY				
Share capital		**17,276,465**	-	17,276,465
Contributed surplus		**495,807**	-	495,807
Deficit		**(17,642,017)**	-	(17,642,017)
		130,255	-	130,255
		$ 192,403	$ -	$ 192,403

(Expressed in Canadian Dollars)

14. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)

The Canadian GAAP statement of income and comprehensive income for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		Six-months ended June 30, 2010		
GENERAL AND ADMINISTRATION EXPENSES				
Director and officer fees		**$ 6,000**		$ 6,000
Office and general		**67,069**		67,069
Professional fees		**(1,101)**		(1,101)
Transfer agent and filing		**10,157**		10,157
		82,125	-	82,125
Loss before other items		**(82,125)**	-	(82,125)
OTHER ITEMS				
Reclalmation costs		**(107,660)**		(107,660)
Foreign exchange gain (loss)		**(3,145)**		(3,145)
Interest income		**3,945**		3,945
		(106,860)	-	(106,860)
Net loss and comprehensive loss for the period		**(188,985)**	-	(188,985)
Basic and diluted net (loss) per share		**$ (0.01)**		$ (0.01)
Weighted average shares outstanding - basic and diluted		**32,683,275**		32,683,275

(Expressed in Canadian Dollars)

14. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)

The Canadian GAAP statement of income and comprehensive income for the three months ended June 30, 2010 has been reconciled to IFRS as follows

		Three-months ended June 30, 2010		
	Note	**Canadian GAAP**	**Effect of transition to IFRS**	**IFRS**
GENERAL AND ADMINISTRATION EXPENSES				
Director and officer fees		**$ 3,000**		$ 3,000
Office and general		**34,025**		34,025
Professional fees		**(6,851)**		(6,851)
Transfer agent and filing		**4,321**		4,321
		34,495	-	34,495
Loss before other items		**(34,495)**	-	(34,495)
OTHER ITEMS				
Reclalmation costs		**(107,660)**		(107,660)
Foreign exchange gain (loss)		**7,458**		7,458
Interest income		**2,872**		2,872
		(97,330)	-	(97,330)
Net loss and comprehensive loss for the period		**(131,825)**	-	(131,825)
Basic and diluted net (loss) per share		**$ (0.00)**		$ (0.00)
Weighted average shares outstanding - basic and diluted		**32,683,275**		32,683,275