



**CaNickel Mining Limited**

[www.canickel.com](http://www.canickel.com)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*For the three months ended September 30, 2023*

## MANAGEMENT'S DISCUSSION AND ANALYSIS of financial condition and results of operations for the three months ended September 30, 2023

The Management's Discussion and Analysis ("MD&A") focuses on significant factors that affected the performance of CaNickel Mining Limited ("we", "our", "us", "CaNickel", or the "Company") and such factors may also affect future performance. The MD&A for the three and nine months ended September 30, 2023, should be read in conjunction with the Company's unaudited condensed interim financial statements for the three and nine months ended September 30, 2023, and the audited financial statements for the year ended December 31, 2022, and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

This MD&A is prepared as at Nov 27, 2023, and all figures are in Canadian dollars unless otherwise indicated. Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained therein.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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*Except for statements of historical fact relating to CaNickel, certain information contained herein constitutes forward-looking information. Any statements or information that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategies", "targets", "goals", "forecasts", "objectives", "budgets", "schedules", "potential" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements or information. Forward-looking statements or information are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking statements or information, including, without limitation, risks relating to COVID-19, fluctuating commodity prices, fluctuating currency exchange rates, permits and licenses, operations conditions, environmental risks, cyber security, and general economic conditions.*

*This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements or information. Forward-looking statements or information are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those expressed or implied in the forward-looking statements or information. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, described or intended. Accordingly, readers should not place undue reliance on forward-looking statements or information.*

*The Company's forward-looking statements and information are necessarily based on a number of estimates, assumptions, beliefs, expectations and opinions of management as of the date of this MD&A that, while considered reasonable by management of the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. These estimates, assumptions, beliefs, expectations and options include, but are not limited to, those related to the Company's ability to carry on current and future operations, including: the duration and effects of COVID-19 on our operations and workforce; development and exploration activities; the timing, extent, duration and economic viability of such operations; the accuracy and reliability of estimates, projections, forecasts, studies and assessments; the Company's ability to meet or achieve estimates, projections and forecasts; the availability and cost of inputs; the price and market for outputs; foreign exchange rates; taxation levels; the timely receipt of necessary approvals or permits; the ability to meet current and future obligations; the ability to obtain timely financing on reasonable terms when required; the current and future social, economic and political conditions; and other assumptions and factors generally associated with the mining industry.*

*Other than as required by applicable securities laws, the Company does not assume any obligation to update forward-looking statements and information if circumstances or management's assumptions, beliefs, expectations or opinions should change, or changes in any other events affecting such statements or information. For the reasons set forth above, investors should not place undue reliance on forward-looking statements and information.*

### DESCRIPTION OF BUSINESS

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CaNickel Mining Limited ("CaNickel" or "the Company") is a Canadian resource company focused on the care and maintenance of its 100% owned Bucko Lake Mine and nickel sulfide project located ("Bucko Lake Property") near Wabowden, Manitoba. The current registered office and corporate head office of the Company is located at Suite 720, 320 Granville Street, Vancouver, British Columbia, Canada.

The Bucko Lake Property consists of four mineral leases, three surface leases and seven mining claims totaling 3,004 ha in area containing the formerly producing Bucko Lake Mine and several known historical satellite deposits, including the Bowden Lake, M11A and Apex deposits. The Company also holds the Halfway Lake property located 20 km away from the Bucko Lake Property. Together, the Bucko Lake and Halfway Lake properties make up the Thompson Nickel Belt properties ("TNB").

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The Bucko Lake mining lease is subject to a 2.5% net smelter return (“NSR”) held by Glencore Canada Corporation (“Glencore”), formerly Xstrata Nickel Inc. The Company also has an off-take agreement with Glencore over the mine life of the Company's Bucko Lake Mine to sell all concentrates produced from the Bucko Lake Mine to Glencore.

The Bucko Lake Mine achieved commercial production in June 2009 and was in operation periodically in 2010 and 2011 before being placed into care and maintenance in 2012 due to low nickel prices. Since then, the Company's main objective has been focused on carrying out minimal exploration work and running the care and maintenance program at the Bucko Lake Mine to safeguard assets.

Whether and when the Company will resume operations at the Bucko Lake Mine and attain profitability and positive cash flow is uncertain and depends on numerous factors including, but not limited to: production level, production cost, ore grade, metallurgy and nickel price.

In 2017, the Company made an investment in Welichem Research General Partnership (the “Welichem Partnership”), which operates the business of Welichem Biotech Inc. (the “Welichem”), a research business located in Burnaby, British Columbia.

To address its financing requirements, the Company entered into a Mineral Processing Facilities Lease Agreement (“Lease Agreement”) in February 2018 with a third party (the “Lessee”), which granted a right to the Lessee to use the milling facility of the Bucko Lake Mine to process up to 2.1 million tonnes of ore within seven years from the commencement date of the lease. The commencement of the lease was subject to the waiver of feasibility/financing conditions by the Lessee and to maintain its right, the Lessee was required to make certain option payments to the Company. The Lease Agreement was terminated by the Lessee in July 2021.

The Company is currently relying on the support and funding from the Company's largest beneficiary shareholder and creditor, Hebei Wenfeng Industrial Company Limited (“Hebei Wenfeng”). As at September 30, 2023, the Company had \$448,806 cash on hand, which is not sufficient to fund the Company's operational needs for the next 12 months. As a result, the Company needs continued support from Hebei Wenfeng. During the nine months ended September 30, 2023, the Company received a total of \$678,768 from Hebei Wenfeng. However, there is no assurance that Hebei Wenfeng will continue to support the Company without any limit. In the event that the Company is not able to secure additional financing and continue as a going concern, material adjustments could be required to the carrying value of assets and liabilities and the statements of financial position classification used.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties; the discovery of economically recoverable reserves; the achievement of profitable operations; the ability of the Company to raise additional financing, if necessary; or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

### OPERATION REVIEW

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Since the Bucko Lake Mine was placed into care and maintenance in 2012, the Company has been looking at alternatives to minimize cost to run the care and maintenance program to safeguards assets and ensure compliance.

Excluding the non-cash costs, the costs to run the care and maintenance program were \$181,979 and \$547,939 for the three and nine months ended September 30, 2023, compared to \$162,466 and \$476,956 during the same prior year periods.

The Company's interest in the Bucko Lake mining lease is subject to a back-in right held by Glencore Canada Corporation (“Glencore”), formerly Xstrata Nickel Inc. In the event that the Company identifies a new deposit (in addition to the Bucko Lake Mine) with estimated Measured and Indicated resources in excess of 200 million pounds of nickel, Glencore has the right to purchase a 50% interest in the property and to become the operator of the new deposit in consideration for a payment to the Company of an amount equal to the aggregate of all direct expenditures that were incurred by the Company

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in carrying out mining operations on the Bucko Lake mining lease outside of the Bucko resource block prior to the date of exercise of the back-in right. Accordingly, the potential benefit to the Company of any discovery of a significantly increased deposit will be limited to a 50% interest in the project.

### EXPLORATION

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Management has determined that the carrying value of TNB properties exceeded its recoverable value and its carrying value was impaired to be \$nil based on its cash flow projections, representing fair value less costs of disposal (“FVLVD”), which incorporate management’s assumptions about future metal prices, operating costs, capital expenditures requirements and property option value. Additional expenditures, net of government assistance received, if any, arising from qualified exploration expenditures incurred at TNB properties is directly expensed as exploration and evaluation expenses on the statements of income (loss) and comprehensive income (loss).

During the three and nine months ended September 30, 2023, the Company incurred expenditures of \$nil and \$32,380 (same prior year period - \$nil and \$23,723) at TNB properties to maintain certain mineral claims and leases in good standing.

The Company’s 100% interest in the TNB properties is subject to a back-in right whereby should the Company outline a threshold deposit or deposits, each of which exceed 500 million pounds of nickel in Measured and Indicated resources, Glencore has the right to back-in for a 50% interest and become the operator of the threshold deposit or deposits by incurring expenditures on the property in an amount equal to two times the aggregate of all expenditures which were incurred by the Company in carrying out mining operations on the property prior to the back-in. Provided that if Glencore exercises more than one back-in right, then in calculating the required back-in expenditures for each subsequent back-in right, expenditures relating to any previously exercised back-in right are excluded from such expenditure calculation.

The properties are also subject to underlying agreements, specifically a 2.5% NSR held by Glencore.

### INVESTMENT IN ASSOCIATE

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The Company owns 10 million Class A Preferred Units and 50% General Units of Welichem Research General Partnership, a technology partnership (the “Welichem Partnership”), which operates the business formerly carried on by Welichem Biotech Inc. (“Welichem”), a Burnaby, British Columbia research business. Welichem owns 10 million Class B Preferred Units and 50% General Units of the Welichem Partnership and is the Managing Partner of the Welichem Partnership. Welichem was amalgamated into its parent company, LJ Resources Co., Ltd. (“LJ Resources”) in 2019. The Company uses the equity method to account for its investment in the Welichem Partnership.

During the three and nine months ended September 30, 2023, the Company recorded share of income of \$63,299 and loss of \$285,907, respectively, arising from the equity pickup in the Welichem Partnership (same prior year periods – share of income \$12,274,363 and \$11,864,325). A Summary of the investment account is as follows:

As at	September 30, 2023	December 31, 2022
Investment amount	\$ 10,000,000	\$ 10,000,000
Accumulated share of income	44,785,261	45,071,168
Distribution received	(58,471,962)	(54,721,962)
Reclassification of over distribution to accounts payable	3,686,701	-
Total	\$ -	\$ 349,206

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## RESULTS OF OPERATIONS

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**Net loss/income** during the three months ended September 30, 2023 ("Q3 2023"), was \$5,599,319, compared to income of \$3,445,062 during the three months ended September 30, 2022 ("Q3 2022"). The Company's financial results in Q3 2023 was mainly impacted by i) less finance costs, ii) less share of income in associate.

For the nine months ended September 30, 2023, net loss was \$10,542,123, compared to \$4,595,427 for the same prior year period. The decrease was mainly due to i) less finance costs, ii) less share of income in associate.

**Care and maintenance costs** in Q3 2023 were \$181,979, up \$19,513, compared to \$162,466 in Q3 2022. The increase in costs was due to the Company carrying out additional care and maintenance activities.

Care and maintenance costs for the nine months ended September 30, 2023, was \$547,939, up \$70,983 compared to \$476,956 during the same prior year period. The increase in costs was due to the Company carrying out additional care and maintenance activities.

**Loss from mine operations** in Q3 2023 was \$449,301, compared to \$402,822 in Q3 2022. The increase was mainly due to the increase in care and maintenance activities as discussed above.

Loss from mine operations for the nine months ended September 30, 2023 was \$1,349,905, compared to \$1,198,022 during the same prior year period. The increase was mainly due to an increase in care and maintenance costs.

**Finance costs** in Q3 2023 were \$5,039,915, compared to \$8,362,388 in Q3 2022. Finance costs primarily included interest expense of \$2,949,257 (Q3 2022 - \$2,858,762), foreign exchange loss of \$2,017,694 (Q3 2022 – loss of \$5,487,727), and accretion of site closure and reclamation provisions of \$72,964 (Q3 2022 - \$15,899). Foreign exchange gain or loss was mainly due to the revaluation of US dollars against Canadian dollars as significant portions of the outstanding balance of loans and advances from shareholder are denominated in US dollars. The interest was associated to the outstanding US dollar loans from a shareholder.

Finance costs for the nine months ended September 30, 2023, were \$8,400,862, compared to \$14,965,359 during the same prior year period. Finance costs primarily included interest expense of \$8,307,300 (same prior year period - \$7,938,210), foreign exchange gain of \$122,952 (same prior year period – loss of \$6,979,989), and accretion of site closure and reclamation provisions of \$216,514 (same prior year period - \$47,160).

**General and administration costs** in Q3 2023 was \$9,315, up \$4,367 compared to \$4,948 in Q3 2022. The increase in cost was due to additional corporate development activities.

General and administration for the nine months ended September 30, 2023, was \$18,446, up \$5,015, compared to \$13,431 during the same prior year period. The increase in cost was due to additional corporate development activities.

**Exploration and evaluation expense** in Q3 2023 was \$nil, compared to \$nil in Q3 2022. The Company determined that the carrying value of the TNB properties was impaired to \$nil. The difference between the expenditures incurred and the government assistance received on the qualified expenditures incurred on the TNB properties was recorded as exploration and evaluation expense or recovery.

Exploration and evaluation expenses for the nine months ended September 30, 2023, were \$32,380 compared to \$23,723 during the same prior year period.

**Legal and professional fees** in Q3 2023 was \$52,475, up \$51,608, compared to \$867 in Q3 2022. The increase in legal fees related to corporate development activities.

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Legal and professional fees for the nine months ended September 30, 2023, were \$110,535, up \$54,961, compared to \$55,574 during the same prior year period. The increase in legal fees related to corporate development activities.

**Salaries, consulting and management fees** in Q3 2023 was \$108,500, compared to \$55,000 in Q3 2022. The increase was mainly due to consulting fees paid to the Company's Vice President, Corporate Development.

Salaries, consulting and management fees for the nine months ended September 30, 2023, were \$318,569, up \$148,488 compared to \$170,081 during the same prior year period. The increase was mainly due to the increase of consulting fees paid to the Company's new Vice President, Corporate Development.

**Shareholder communication and investor relations** in Q3 2023 were \$3,112, down \$164, compared to \$3,276 in Q3 2022. Shareholder communication and investor relations fees include expenses related to regulatory filing, stock exchange listing, annual shareholder meeting and newswire services.

Shareholder communication and investor relations for the nine months ended September 30, 2023, were \$25,519, down \$8,043 compared to \$33,562 during the same prior year period.

**Share of income in associate** in Q3 2023 was \$63,299, down \$12,211,064, compared to \$12,274,363 in Q3 2022, representing the equity pickup of the income recorded in the Welichem Partnership.

Share of income/loss in associate for the nine months ended September 30, 2023, was loss of \$285,907 compared to income of \$11,864,325 during the same prior year period.

### QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Income (loss) from mine operations	\$ (458,301)	\$ (430,942)	\$ (469,662)	\$ (473,031)
Other items	(5,141,018)	(874,946)	(3,167,254)	(4,300,626)
<b>Net income (loss)</b>	<b>\$ (5,599,319)</b>	<b>\$ (1,305,888)</b>	<b>\$ (3,636,916)</b>	<b>\$ (4,773,657)</b>
<b>Income (loss) per share - basis and diluted</b>	<b>\$ (0.15)</b>	<b>\$ (0.03)</b>	<b>\$ (0.10)</b>	<b>\$ (0.13)</b>

	Quarters ended			
	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Loss from mine operations	\$ (402,822)	\$ (481,082)	\$ (314,118)	\$ (244,196)
Other items	3,847,884	(5,816,926)	(1,428,363)	21,178,056
<b>Net income (loss)</b>	<b>\$ 3,445,062</b>	<b>\$ (6,298,008)</b>	<b>\$ (1,742,481)</b>	<b>\$ 20,933,860</b>
<b>Income (loss) per share - basis and diluted</b>	<b>\$ 0.09</b>	<b>\$ (0.17)</b>	<b>\$ (0.05)</b>	<b>\$ 0.56</b>

The fluctuation of US dollars has a significant impact on the foreign exchange gain or loss, which is included in other items as above. The fluctuation of other items is mainly arising from the fluctuation of foreign exchange unless otherwise specifically stated.

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## ANNUAL INFORMATION

	Years ended December 31		
	2022	2021	2020
Total assets	\$ 8,087,495	\$ 7,726,222	\$ 7,130,557
Total liabilities	106,346,622	96,544,228	108,469,044
Shareholders' equity	(98,259,127)	(88,818,006)	(101,338,487)
Dividend declared		-	-
Loss from mine operations	(1,671,053)	(400,679)	(723,769)
Other items	(7,770,068)	12,921,160	(9,787,059)
Net income (loss)	(9,441,121)	12,520,481	(10,510,828)
Loss per share - basis & diluted	\$ (0.25)	\$ 0.33	\$ (0.28)

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2023, the Company had cash of \$448,806, up \$393,445, compared to \$55,361 as at December 31, 2022. The increase in cash is from an advance of \$678,768 made by Hebei Wenfeng during the period.

**Cash used in operating activities** in Q3 2023 was \$376,399, compared to \$324,757 in Q3 2022. Before net change in non-cash working capital, cash used in operating activities was \$355,250, compared to \$226,147 cash used in operations in Q3 2022.

Cash used in operating activities for the nine months ended September 30, 2023, was \$1,144,075, compared to \$872,590 during the same prior year period. Before net change in non-cash working capital, cash used in operations was \$1,021,020, compared to \$749,090. The increase of cash used was mainly due to higher care and maintenance expenses.

**Cash used in financing activities** in Q3 2023 was \$3.0 million, compared to \$12,240,000 in Q3 2022. The Company advanced \$nil from Hebei Wenfeng (Q3 2022- \$260,000) and repaid \$141,132 to Hebei Wenfeng (Q3 2022- \$12.5 million). On July 31, 2023, the Company repaid the outstanding loan balance of \$2,858,868 to LJ Resources.

Cash used in financing activities for the nine months ended September 30, 2023, was \$2,180,100, compared to \$11,540,000 during the same prior year period. The Company advanced \$819,900 from Hebei Wenfeng (Q3 2022- \$960,000) and repaid \$141,132 to Hebei Wenfeng (Q3 2022- \$12.5 million). In the current period, the Company repaid the outstanding loan balance of \$2,858,868 to LJ Resources.

**Cash from investing activities** in Q3 2023 was \$3.75 million compared to \$12.5 million in Q3 2022.

Cash from investing activities for the nine months ended September 30, 2023, was \$3,717,620 compared to \$12,476,277 during the same prior year period. In the current period, the Company received a \$3.75 million distribution from Welichem Partnership (Q3 2022- \$12.5 million) and spent \$32,380 at TNB properties to maintain certain mineral claims and leases in good standing (same prior year period - \$23,723).

**Working capital** as at September 30, 2023, was a deficit of \$106,611,812 compared to a deficit of \$97,437,375 as at December 31, 2022. Excluding loans and advances from a shareholder, the working capital as at September 30, 2023 was a deficit of \$3,444,893 (December 31, 2022 – deficit of \$3,085,154).

**Shareholder's equity** as at September 30, 2023, was a deficit of \$108,801,250 (December 31, 2022 – deficit of \$98,259,127)

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and the increase in equity deficit was mainly due to additional loss recorded. The Company did not carry out any equity financing in the related periods as reported.

The estimated cash outflow based on the Company's contractual obligations and assuming Hebei Wenfeng calls upon its debt as at September 30, 2022, was \$107,094,238 and is due within one year. Accordingly, additional financing is required for the Company to continue as a going concern. The Company is currently relying on the support and funding from the Company's largest beneficiary shareholder and creditor, Hebei Wenfeng.

In the event that Hebei Wenfeng discontinues its support or demands repayments, the Company might not be able to raise enough funds to continue as a going concern, and material adjustments would be required to be made to the carrying value of assets and liabilities and the classification presented on the statement of financial position.

The Company's current objective when managing its capital is to safeguard its assets and carry out the care and maintenance program at its Bucko Lake Mine. The Company is also looking at options to bring the Bucko Lake Mine back to production.

### FAIR VALUE MEASUREMENTS

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates. Management assessed that the fair value of cash and accounts payables approximates their carrying amounts largely due to the short-term maturities of these instruments.

Fair value of the loans and advances from shareholder(s) could be materially less than its carrying amount as the terms of the loans and advances from shareholder(s) do not represent terms that the Company could obtain on similar loans with arm's length parties. Accordingly, the fair value of these loans would differ from the current book value. Due to the Company's credit risk, it is unrealistic to expect an arm's length third party to provide an equivalent level of debt financing, or at least the terms on which such funding would be made available is undeterminable. Accordingly, the fair value of these loans has not been disclosed as a reasonable estimate cannot be made. For all other current assets and liabilities, book value approximates fair value.

The following table provides the quantitative disclosures of fair value measurement hierarchy of the Company's financial assets and liabilities measured on a recurring basis.

	September 30, 2023			December 31, 2022		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets and liabilities measured at fair value						
Cash	\$ 448,806	\$ -	\$ -	\$ 55,361	\$ -	\$ -

There was no transfer between fair value levels during the reporting period.

### RISK AND UNCERTAINTIES

The Company manages its exposure to key financial risk in accordance with the Company's financial risk management framework. The objective of the framework is to protect the Company's future financial security. The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are liquidity risk, credit risk and market risk, which include foreign exchange rate risk, interest rate risk, and metal price risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. Currently, the Company does not apply any form of hedge accounting.

Management constantly monitors and assesses the fluctuation of the nickel price and US dollars. The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on its financial



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condition or results of operations, other than those disclosed in this MD&A and the unaudited condensed interim financial statements for the three months ended September 30, 2023, and the related notes.

### a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily associated to accounts receivable and cash. The carrying value of financial assets represents the maximum credit exposure.

The Company undertakes credit evaluations on counterparties as necessary and has monitoring processes intended to mitigate credit risks.

### b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at September 30, 2023, the Company has limited funds to meet its short-term financial liabilities, and the working capital, net of \$103,166,919 loans from related parties and advances from shareholder, was a deficit of \$3,444,893. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at September 30, 2023, cash outflow of those obligations based on contractual undiscounted payments, are estimated and summarized as follows:

Contractual Obligations	Payment Due by Period			
	Less than 1 year	1 - 3 years	After 3 years	Total
Accounts payable and accrued liabilities	\$ 3,927,319	\$ -	\$ -	\$ 3,927,319
Loans and advances from a shareholder	103,166,919	-	-	103,166,919
<b>Total Contractual Obligations</b>	<b>\$ 107,094,238</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 107,094,238</b>

### c) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and commodity price risk. Financial instruments affected by market risk include cash, receivables, accounts payable and accrued liabilities, and loans and advances from a shareholder.

### d) Interest Rate Risk

The Company has cash subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposits issued by financial institutions. As at September 30, 2023, the Company had \$99.3 million in loans payable bearing a fixed coupon rate of 12% per annum. Due to the financial condition of the Company and the nature of the loans, which are owed to the largest shareholder of the Company, its fair value may not be reasonably estimated, and therefore the impact on the fair value of loans arising from the change of interest rate may not be reasonably estimated. Currently, the Company does not hedge against interest rate risk.

### e) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of some financing activities being denominated in US dollars. As at September 30, 2023, the following financial assets and liabilities are denominated in US dollars.

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Expressed in Canadian dollar equivalents	September 30, 2023		December 31, 2022
<b>Financial assets denominated in US Dollars</b>			
Cash	\$	6,316	\$ 6,735
		<b>6,316</b>	<b>6,735</b>
<b>Financial liabilities denominated in US Dollars</b>			
Loans and advances from a shareholder		99,348,151	91,212,221
	\$	99,348,151	\$ 91,212,221
<b>Net Liabilities</b>	\$	<b>99,341,835</b>	\$ 91,205,486

Based on the financial assets and liabilities denominated in US dollars as at September 30, 2023, every 5% strengthening in the US dollar would increase net loss by approximately \$5.0 million (December 31, 2022 - \$4.6 million). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

### f) Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices, mainly nickel prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken. The Company's future mining operations will be significantly affected by changes in the market prices for nickel. Prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for nickel, the level of interest rates, the rate of inflation, investment decisions by large holders of nickel and stability of exchange rates can all cause significant fluctuations in nickel prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

In July 2012, the Company suspended its mining operation due to unfavorable nickel prices. The timing to resume mining operations would mainly depend on the nickel prices. As at September 30, 2023, the Company has no nickel sales receivable, forward sales contracts, or call options outstanding. Changes in commodity prices would not have any significant impact on the financial position of the Company. However, changes in the nickel price would have a significant impact on the estimation of the fair value of the Company's mineral properties.

### g) Environmental Risk

The Company's activities are subject to extensive laws and regulations governing environmental protection and employee health and safety in Canada. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species, and reclamation of lands disturbed by mining operations.

The Company's Bucko Lake Mine has been placed on care and maintenance since 2012. During the care and maintenance period, the Company is required to maintain active environmental monitoring at the Bucko Lake Mine to comply with all requirements of federal and provincial rules related to mining operations. If the Company fails to comply with those requirements, the Company could be subject to significant fines and penalties, and the Bucko Lake Mine could be required to be reclaimed immediately. In 2021, the Company was charged \$200,000 in fines for offences under the Fisheries Act (Canada) for an alleged "deposit of deleterious substances and an alleged failure to collect acute lethality samples" at the Bucko Lake Mine in 2017. The fine has been paid over four instalment payments of \$50,000 every six months between March 2022 and September 2023. In 2022, the Company also reassessed the closure and reclamation obligation related to the Bucko Lake Mine, and the undiscounted obligation increased to \$14,632,558 from \$6,548,404 as at December 31, 2022.

Environmental legislation is evolving, and the trend has been toward stricter standards and enforcement; increased fines and penalties for non-compliance; more stringent environmental assessments of proposed projects; and increasing responsibilities placed upon companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outflows from the Company and may cause material

## CaNickel Mining Limited

changes or delays in the Company's intended activities. There can be no assurance that the Company has been, or will be at all times, in complete compliance with current and future environmental, health and safety laws and permits will not materially adversely affect the Company's business, results of operations or financial condition. It is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of the Company's business, causing the Company to re-evaluate those activities at that time. The Company's compliance with environmental laws and regulations entails uncertain cost.

### h) Cybersecurity Risks

The Company is subject to cybersecurity risks including, without limitation: unauthorized access to privileged information and risks related to the destruction of data or the disabling, degrading or sabotaging of the Company's systems, including through the introduction of computer viruses. Although the Company takes steps to secure configurations and manage information system, including, without limitation, computer systems, internet sites, emails and other telecommunications, and financial/geological data, there can be no assurance that measures the Company takes to ensure the integrity of its systems will provide protection, especially because cyberattack techniques used change frequently or are often not recognized until successful. The Company has not experienced any material cybersecurity incident in the past, but there can be no assurance that the Company would not experience the same in the future. If the Company's systems are compromised, do not operate properly or are disabled, the Company could, among other things, suffer financial loss, disruption of business, loss of geological data which could affect its ability to conduct effective mine planning and accurate mineral resource estimates, and loss of financial data which could affect the Company's ability to provide accurate and timely financial reporting.

### i) General Economic Conditions

General economic conditions may adversely affect the Company's operations and ability to obtain financing. Events in global financial markets in the past several years have had a profound impact on the global economy. Many industries, including the nickel mining industry, have been and continue to be impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and commodity markets and a lack of market confidence and liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Company's operation and ability to obtain financing.

## RELATED PARTY TRANSACTIONS

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Related party transactions were measured at fair value. Related party transactions not disclosed elsewhere include the following:

### Transactions with key management

The Company has identified its directors and certain senior officers as its key management personnel. The compensation cost for key management personnel, including fees paid or payable to companies controlled by key management personnel, is as follows:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<b>2023</b>	2022	<b>2023</b>	2022
Salaries and fees	\$ <b>104,831</b>	\$ 53,500	\$ <b>318,000</b>	\$ 165,500
	\$ <b>104,831</b>	\$ 53,500	\$ <b>318,000</b>	\$ 165,500

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### Transactions with Hebei Wenfeng

	Interest bearing loans	Non interest bearing advances	Total
As at December 31, 2021	\$ 87,242,630	\$ 2,000,000	\$ 89,242,630
Interest accrued	10,565,570	-	10,565,570
Additions	-	1,140,000	1,140,000
Repayments	(12,500,000)	-	(12,500,000)
Foreign exchange	5,904,021	-	5,904,021
As at December 31, 2022	91,212,221	3,140,000	94,352,221
Interest accrued	8,258,893	-	8,258,893
Additions	-	678,768	678,768
Foreign exchange	(122,963)	-	(122,963)
<b>As at September 30, 2023</b>	<b>\$ 99,348,151</b>	<b>\$ 3,818,768</b>	<b>\$ 103,166,919</b>

#### i) Interest-bearing loans

In May 2011, the Company arranged a one-year term unsecured debt facility of up to US\$5 million (the “Loan”) with Hebei Wenfeng. The Loan was drawn down at the option of the Company and bears interest at 10% per annum. The Company was also required to pay 2% of any funds drawn down under the Loan as a structuring fee to Hebei Wenfeng. Principal, interest and structure fees are payable upon maturity. The Loan was subsequently extended to a three-year term but expired on May 28, 2014 and became payable on demand.

In July 2011, the Company entered into an unsecured debt facility of up to US\$15 million with Luckyup, an arm's-length party based in Hong Kong. In December 2011, this debt facility was increased to US\$25 million. This debt facility was drawn down at the option of the Company and bears interest of 12% per annum. Principal and interest are payable upon maturity. In March 2012, this debt facility was extended from a one-year term to a three-year term but expired on July 22, 2014. In October 2014, Hebei Wenfeng and Luckyup entered into an Assignment Agreement that Luckyup assigned and transferred its right and interest in this debt facility to Hebei Wenfeng. Immediately after this Assignment Agreement, Hebei Wenfeng waived a total interest of US\$3.5 million accrued on the above interest-bearing loans and became the only interest-bearing loan creditor.

The Company repaid \$7,882,745 to Hebei Weifeng in 2021, and \$12.5 million in August 2022.

As at September 30, 2023, the total outstanding balance of interest-bearing loans from Hebei Wenfeng, including interest accretion and foreign exchange impact, was \$99,348,151 or US\$73,482,360 (December 31, 2022 - \$91,212,221 or US\$67,345,113).

For the three and nine months ended September 30, 2023, a total of \$2,942,179 and \$8,258,893 interest expenses (same prior year periods - 2,858,762 and \$7,938,210) and \$2,017,694 foreign exchange loss and \$122,952 foreign exchange gain (same prior year periods – loss of \$5,487,727 and \$6,979,989), respectively, were recorded arising from the US dollar denominated interest-bearing loans.

#### ii) Non-interest-bearing advances

Due to the financial condition of the Company, Hebei Wenfeng advanced funds from time to time to the Company to support the Company’s operation. As at September 30, 2023, the outstanding balance of the advances from Hebei Wenfeng, including foreign exchange impact, was \$3,818,768 (December 31, 2022 - \$3,140,000).

The advances bear no interest and are due on demand.

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### Transactions with LJ Resources

In 2022, the Company signed a loan agreement in the amount of \$2,778,039 with LJ Resources, the other partner of the Welichem Partnership. The loan bears interest of 3% per annum, compound annually on the last day of each year. The loan is due on demand. A total of \$48,406 interest expenses were accrued in the nine months ended September 30, 2023, and the outstanding balance of the loan of \$2,858,868 was fully repaid in July 2023.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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The accounting policies applied in preparation of these financial statements are consistent with those applied and disclosed in Note 2 of the unaudited condensed consolidated financial statements for the three months ended September 30, 2023, as well as the audited financial statements for the year ended December 31, 2022.

The preparation of the financial statements in conformity with IFRS requires management to make adjustments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of these condensed interim financial statements are consistent with those applied and disclosed in note 2 to the Company's financial statements for the year ended December 31, 2022.

Readers are encouraged to refer to the critical accounting policies and estimates as described in the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2022.

### CHANGE IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

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The accounting policies applied in the preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2022.

New account standards and interpretations have been published that are not mandatory for the current period and have not been early adopted. These standards are not expected to have a material impact on the Company in the current or future reporting periods. The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective.

### CONTINGENCIES AND LEGAL MATTERS

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The Company was charged with offences under the Fisheries Act (Canada) for certain alleged infractions at the Bucko Lake Mine. In 2022, the Company pleaded guilty and accepted a total fine of \$200,000, which was to be paid in four instalments of \$50,000 every six months. The first payment was made in March 2022, the second payment was made in October 2022, the third payment was made in April 2023 and the final payment was made in September 2023.

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### OUTSTANDING SHARE DATA

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As at the date of this report, a total of 37,520,369 common shares of the Company were issued and outstanding. No common shares are reserved, and no Class A and Class B preferred shares are issued and outstanding.

### OFF BALANCE SHEET ITEMS

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There are no off-balance-sheet items.

### PROPOSED TRANSACTIONS

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There are no proposed assets or business acquisition or disposition.

### ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

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(a) capitalized or expensed exploration and development costs;

The required disclosure is presented on note 4 to the unaudited condensed interim financial statements for the three months ended September 30, 2023.

(b) expense research and development costs;

Not applicable.

(c) deferred development costs;

Not applicable.

(d) general and administration expenses;

This required disclosure is presented on unaudited condensed interim financial statements of loss and comprehensive loss for the three months ended September 30, 2023.

(e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);

None

### END OF THIS REPORT

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