crowflight minerals inc.

ANNUAL

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended
December 31, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
CROWFLIGHT MINERALS INC.

We have audited the consolidated balance sheets of Crowflight Minerals Inc. as at December 31, 2009 and 2008 and the consolidated statements of shareholders' equity, operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
February 26, 2010, except for Note 18
which is dated as at March 19, 2010

CONSOLIDATED BALANCE SHEETS
As at December 31,

		2009		2008
ASSETS				
Current				
Cash and cash equivalents	**$**	**10,040,475**	$	10,607,543
Restricted cash (Note 9)		**-**		2,999,998
Amounts receivable		**1,291,687**		607,125
Inventory (Note 4)		**1,031,734**		268,285
Prepaid expenses and deposits		**135,290**		138,463
Derivative asset (Note 6)		**-**		8,668,392
		12,499,186		23,289,806
Deposits and advances		**534,709**		536,709
Property, plant and equipment (Note 5)		**138,568,967**		109,241
Exploration and development property and deferred expenditures (Note 7)		**14,704,437**		153,939,715
	$	**166,307,299**	$	177,875,471
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 12)	**$**	**9,282,060**	$	14,950,385
Equipment leases		**45,371**		48,129
Derivative liability (Note 6)		**-**		624,223
		9,327,431		15,622,737
Equipment leases		**61,281**		107,286
Long term debt (Note 9)		**-**		7,600,000
Asset retirement obligations (Note 10)		**918,387**		359,000
Future income tax liability (Note 13)		**6,000,200**		24,139,000
		16,307,299		47,828,023
SHAREHOLDERS' EQUITY				
Common shares (Note 11(a))		**138,758,903**		99,289,864
Warrants (Note 11(b))		**10,195,919**		4,944,374
Contributed surplus (Note 11(d))		**15,698,606**		13,485,751
Retained Earnings		**(14,653,428)**		12,327,459
		150,000,000		130,047,448
	$	**166,307,299**	$	177,875,471

Commitments and contingencies (Notes 1, 5, 7, and 16)
Subsequent events (Note 18)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Stan Bharti", Director

"Bruce Humphrey", Director

Consolidated Statements of Shareholders' Equity

	Common Shares		Warrants	Contributed Surplus	Accumulated Deficit	Shareholders' Equity
	No.	$	$	$	$	$
Balance, December 31, 2007	249,978,487	86,671,512	2,025,712	10,193,512	(22,151,940)	76,738,796
			-			
Private placement	39,680,000	15,251,000	-	-	-	15,251,000
Value of warrants granted related to debt facility	-	-	3,719,479	-	-	3,719,479
Value of warrants to be granted	-	-	849,709	-	-	849,709
Exercise of warrants and broker warrants	1,115,836	446,334	-	-	-	446,334
Valuation allocation on exercise of warrants	-	118,742	(118,742)	-	-	-
Exercise of stock options	2,530,000	569,531	-	-	-	569,531
Valuation allocation on exercise of stock options	-	979,566	-	(979,566)	-	-
Stock based compensation (Note 11 (c))	-	-	-	2,364,835	-	2,364,835
Flow through share tax effect	-	(3,563,000)	-	-	-	(3,563,000)
Value of broker warrants	-	(375,186)	375,186	-	-	-
Valuation allocation on expiry of warrants and broker warrants	-	-	(1,906,970)	1,906,970	-	-
Share issue costs	-	(1,198,635)	-	-	-	(1,198,635)
Tax effect of cost of issue	-	390,000	-	-	-	390,000
Income for the period	-	-	-	-	34,479,399	34,479,399
Balance, December 31, 2008	293,304,323	99,289,864	4,944,374	13,485,751	12,327,459	130,047,448
Private placement	215,411,765	47,820,000	-	-	-	47,820,000
Value of warrants granted	-	(4,842,336)	4,842,336	-	-	-
Value of warrants granted related to debt facility	-	-	107,597	-	-	107,597
Exercise of stock options	245,000	49,000	-	-	-	49,000
Valuation allocation on exercise of stock options	-	18,586	-	(18,586)	-	-
Stock based compensation - shares (Note 11 (a))	562,464	113,130	-	-	-	113,130
Stock based compensation - options (Note 11 (c))	-	-	-	2,231,441	-	2,231,441
Flow through share tax effect (Note 13)	-	(2,982,000)	-	-		(2,982,000)
Value of broker warrants	-	(301,612)	301,612	-	-	-
Share issue costs	-	(523,400)				(523,400)
Tax effect of cost of issue	-	117,671	-	-	-	117,671
Loss for the period	-	-	-	-	(26,980,887)	(26,980,887)
Balance, December 31, 2009	**509,523,552**	**138,758,903**	**10,195,919**	**15,698,606**	**(14,653,428)**	**150,000,000**

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31,

	2009	2008
Revenue		
Nickel sales	**$ 6,493,906**	$ -
Pricing adjustments	**236,981**	$ -
Revenue - after pricing adjustments	**6,730,887**	$ -
Cost of sales (excludes accretion, depreciation, depletion and amortization)	**9,383,311**	-
Depreciation, depletion and amortization	**1,299,174**	-
Gross margin - mining operations	**(3,951,598)**	**-**
Temporary shutdown costs (Note 3)	**4,943,000**	-
Loss from mine operations	**(8,894,598)**	**-**
Other expenses		
Professional, consulting and management fees (Notes 11(a) and (c))	**4,439,524**	3,194,231
General and office	**1,359,469**	410,509
Shareholder communications and investor relations	**375,500**	439,525
Travel	**202,637**	169,088
Interest expenses and bank charges	**140,930**	11,495
Amortization	**1,557**	6,816
	6,519,617	4,231,664
(*Loss*) before the undernoted	**(15,414,215)**	(4,231,664)
Interest income	**45,581**	253,448
Interest on long term debt	**(48,673)**	(2,317,355)
General exploration	**(50,000)**	(106,921)
Debt facility transaction costs	**(383,464)**	(5,993,883)
Write down of property, plant and equipment (Note 5)	**(30,601,829)**	-
Write down of exploration property and deferred expenditures (Note 7)	**(3,185,941)**	(5,244,395)
Accretion (Note 10)	**57,416**	(28,000)
Recovery of expenditures	**66,958**	-
Net gain on derivative instruments (Note 6)	**1,530,151**	70,624,169
Income/(loss) before income taxes	**(47,984,016)**	52,955,399
Future income taxes (Note 13)	**21,003,129**	(18,476,000)
Income/(loss) for the year	**(26,980,887)**	34,479,399
RETAINED EARNINGS/(DEFICIT), beginning of year	**12,327,459**	(22,151,940)
RETAINED EARNINGS/(DEFICIT), end of year	**$ (14,653,428)**	$ 12,327,459
Income (loss) per share - basic & diluted	**$ (0.07)**	$ 0.13
Weighted average number of shares - basic	**390,323,874**	264,303,511
Weighted average number of shares - diluted	**390,323,874**	267,145,855

CROWFLIGHT MINERALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2009	2008
OPERATING ACTIVITIES:		
Net income/(loss) for the period	**$ (26,980,887)**	$ 34,479,399
Charges not affecting cash:		
Depreciation, depletion and amortization	**1,300,731**	6,816
Stock-based compensation expense (Notes 11(a) and (c))	**2,330,321**	2,364,835
Warrants issued on In-process working capital facility	**107,597**	-
Accretion (Note 10)	**(57,416)**	28,000
Debt facility transaction costs	**-**	7,175,683
Capitalized interest	**-**	-
Change in value of derivative instruments	**8,044,169**	(8,044,169)
Write down of property, plant and equipment	**30,601,829**	-
Write down of exploration property and deferred expenditures	**3,135,941**	5,244,395
Future income tax (recovery)/expense (Note 13)	**(21,003,129)**	18,476,000
Net change in non-cash working capital	**8,730,235**	(498,933)
	6,209,391	59,232,026
FINANCING ACTIVITIES:		
Debt facility, net of transaction costs	**-**	47,612,059
Retirement of debt facility	**(7,600,000)**	(42,400,000)
Private placements	**37,242,661**	14,052,365
Shares issued from exercise of warrants and options	**49,000**	1,015,865
Payments on equipment leases	**(48,763)**	(74,444)
	29,642,898	20,205,845
INVESTING ACTIVITIES:		
Exploration and development property, plant and equipment, and deferred expenditures	**(33,631,896)**	(82,559,511)
(Increase) decrease in deposits and prepaid exploraton expenditure	**-**	318,554
(Decrease)/Increase in accounts payable attributable to property development and exploration	**(5,787,459)**	7,405,839
Change in restricted cash	**2,999,998**	(2,999,998)
	(36,419,357)	(77,835,116)
CHANGE IN CASH AND CASH EQUIVALENTS	**(567,068)**	1,602,755
CASH AND CASH EQUIVALENTS, beginning of year	**10,607,543**	9,004,788
CASH AND CASH EQUIVALENTS, end of year	**$ 10,040,475**	$ 10,607,543
Cash and cash equivalents consist of:		
Cash	**2,259,673**	559,438
Cash equivalents	**7,780,802**	10,048,105
	$ 10,040,475	$ 10,607,543
SUPPLEMENTAL INFORMATION:		
Warrants granted related to debt facility (Note 9)	107,597	4,569,188
Warrants granted as cost of issue (Note 11 (a))	301,612	375,186
Stock based compensation charged to exploration properties (Note 11 (a))	14,250	-
Amortization of assets deferred to exploration properties	10,041	28,242
Equipment acquired by capital lease	-	41,003
Repayment of bridge facility with final tranche	-	15,000,000
Interest received	34,363	257,347
Interest paid	83,807	1,135,555
Income taxes paid	-	-
Common shares issued for settlement of accounts payable (Note 11 (a))	10,053,939	-

1. NATURE OF OPERATIONS AND GOING CONCERN

Crowflight Minerals Inc. (the "Company") has interests in mineral exploration and development properties in Canada and is currently focusing its resources on the development of the Bucko Deposit and the exploration of the Thompson Nickel Belt, both in the province of Manitoba. During the second quarter of 2009, the Company announced commercial production at the Bucko Lake mine site. Prior to June 1, 2009 the Company was a development stage company in accordance with Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration programs, 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.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these financial statements. Such adjustments could be material.

The Company has a need for working capital for operations and for the exploration and development of its properties. Because of continuing operating losses and working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. The financial markets throughout the world have experienced a dramatic decline which has affected the market value of the Company’s shares. The decline in equity markets and value of the Company’s shares has affected its financing efforts and may continue to do so for the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that in the previous year, except as described under new accounting pronouncements. Outlined below are those policies considered particularly significant.

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its proportionate share of the accounts of the joint venture in which the Company has an interest.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of exploration and development properties, inventories, depreciation, depletion and amortization, stock-based compensation, warrants, derivative instruments and tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and deposits that generally mature within 90 days from the date of acquisition. Deposits are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

d) Property, plant and equipment

Producing properties include items that were previously included under “Exploration and development property and deferred expenditures” and were reclassified when the Company declared commercial production at the related property. These costs are amortized on a unit of production basis. Other equipment is recorded at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives of 2 years to 5 years. Amortization expense related to assets used in exploration and development activities is deferred to exploration and development properties, while amortization expense related to administration or producing properties are expensed to operations.

e) Exploration and development property, and deferred expenditures

Expenses, net of government assistance and pre-production revenues, relating to exploration and development properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit of production basis. Other general exploration expenses are charged to operations as incurred. The cost of exploration and development properties abandoned or sold and their related deferred expenditures are expensed to operations in the year of abandonment or sale.

Costs include the cash consideration and the quoted market value of the shares issued for the acquisition of exploration and development properties. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

The Company reviews capitalized costs on its exploration and development properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

The Company qualifies for mineral exploration assistance programs associated with the exploration and development of its properties located in Manitoba. Recoverable amounts are offset against deferred expenditures incurred when the Company has complied with the terms and conditions of the program and the amount of government assistance is reasonably assured.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Joint ventures

A portion of the Company's exploration activities are conducted jointly with others wherein the Company enters into agreements that provide for a specified percentage interest in exploration properties. Expenditures on these properties are capitalized to exploration and development properties. Joint venture accounting, which reflects the Company's proportionate interest in exploration properties, is applied by the Company only when the parties have earned their respective interests and enter into a formal comprehensive agreement for joint ownership and exploration participation.

g) Asset retirement obligations

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration and development properties and deferred expenditures and amortized over the useful life of the properties.

h) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

i) Flow-through financing

The Company finances a portion of its exploration activities through the issue of flow-through shares. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to exploration and development properties. Funds raised pursuant to exploration financing agreements must be expended on qualifying exploration expenditures. For income tax purposes, exploration expenses under flow-through financing agreements are renounced in favour of the investors and are not deductible by the Company. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce common shares. The Company indemnifies the subscribers of flow-through shares from any tax consequences arising from the failure of the Company to meet its commitments under the flow-through subscription agreements.

j) Stock-based compensation

The Company has a stock-based compensation plan which is described in Note 11(c). The Company applies the fair value based method of accounting for stock option awards, as prescribed by CICA 3870 "Stock-based Compensation and Other Stock-based Payments". Under this method, the estimated fair value of the stock options at the date of grant is recorded over the vesting period, with the offsetting credit to contributed surplus. If the stock options are exercised, the proceeds, along with any related amount in contributed surplus, are credited to common shares.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial instruments and derivatives

The Company's financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, accounts payable, long-term debt, equipment (capital) leases and derivative instruments. Cash and cash equivalents and restricted cash are designated as held-for-trading and are measured at fair value. Amounts receivable are designated as loans and receivables and are measured at amortized cost using the effective interest rate method. Accounts payables, long-term debt and capital leases are designated as other liabilities and are measured at amortized cost. Derivative instruments are not designated as hedges and are classified as held-for-trading. As such, derivative instruments are carried at their estimated fair market value with any unrealized gains or losses being recognized in the statement of operations. The Company does not enter into derivative contracts for speculative purposes. Transaction costs related to the debt facility are expensed as incurred.

l) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding. Diluted earnings (loss) per share is calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. The diluted earnings (loss) per share calculation excludes the following dilutive securities as at December 31, 2009: options 33,530,000 (2008 – 19,564,375); warrants 93,846,682 (2008 – 18,288,686); and warrants to be issued nil (2008 – 20,000,000).

m) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

n) Revenue recognition

Revenue is affected by production volumes, commodity prices and exchange rates. Sales of metals in concentrate are recognized in revenue when they are delivered to a third party smelter based on provisional assays and volumes. Final pricing and assays are not determined until the final metal is settled which can be up to three months later. Accordingly, revenue in the year is based on the US denominated three month forward nickel price at the time of delivery for sales occurring in the year, plus on-going pricing adjustments from prior sales that are still subject to final pricing, assays, and volumes.

o) Inventory

Materials and supplies expected to be used in production are valued at the lower of cost and net realizable value. Nickel in process inventory is valued at the lower of current month production cost and net realizable value. Ore stockpile inventory is valued at the lower of current month mining cost and net realizable value. Mining cost includes the cost of direct labour, supplies consumed and equipment costs. Ore stockpile tonnage is estimated based on storage bin levels and average metallurgical recovery rates for the preceding periods. Finished goods inventory which consists of nickel concentrate and nickel in transit to the third party smelter are valued at the lower of the current month production cost and net realizable value. Production costs include the cost of raw materials, supplies consumed, direct labour, mine site overhead expenses, amortization of operating property and equipment and depletion of mineral property costs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Comprehensive income (loss)

Comprehensive income (loss), composed of net income (loss) and other comprehensive income (loss), is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income (loss) are disclosed in the statement of operations and comprehensive income (loss). Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity. The Company does not currently have any OCI items or AOCI. Therefore, comprehensive income (loss) is equal to net income (loss) for the years ended December 31, 2009 and 2008.

q) Foreign currency translation

The Company's functional currency is the Canadian dollar. Monetary assets and liabilities of the Company's operations denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at average rates throughout the reporting period, with the exception of depreciation, depletion and amortization which is translated at historical exchange rates. Gains and losses on translation of foreign currencies are included in operations.

New Accounting Pronouncements

Goodwill and Intangible Assets
In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective for the Company commencing January 1, 2009. The adoption of this section had no impact on the consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks and taking this into account when determining fair value. The adoption of this standard had no impact on these consolidated financial statements.

Mining Exploration Costs
On March 27, 2009, the Emerging Issues Committee ("EIC") issued EIC-174. In this EIC the Committee reached a consensus that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Pronouncements

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests
The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. Sections 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The adoption of these standards is not expected to have a material impact on the Company’s financial statements.

International Financial Reporting Standards (“IFRS”)
On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will prepare IFRS financial statements for the interim periods and fiscal year ends beginning January 1, 2011 with comparative information for 2010 restated under IFRS. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices and could materially impact the reported financial position and results of operations. The Company is currently evaluating the impact that the adoption of these new standards will have on the Company’s financial statements.

3. TEMPORARY SUSPENSION OF BUCKO MINE OPERATIONS

On November 16, 2009, the Company announced that it would be temporarily suspending all production mining and milling operations at the Bucko Lake Nickel Mine (“Bucko”) located in the Thompson Nickel Belt near Wabowden, Manitoba for three months to complete ramp development, accelerate mine development and upgrade the backfill plant. Mill operations were also temporarily suspended during July 2009.

Expenses incurred during the temporary shutdowns were recorded either as capital or, if they were determined to be maintenance or support expenses, as temporary shutdown costs included in the statement of operations. Temporary shutdown costs were $4.94 million for the year ended December 31, 2009.

4. INVENTORY

The major components of the Company's inventory are as follows:

	December 31, 2009	December 31, 2008
Nickel concentrate	$ **41,336**	$ -
Nickel in transit	**324,361**	-
Materials and supplies	**666,037**	268,285
	1,031,734	268,285

All inventory is valued at the lesser of cost or net realizable value. As at December 31, 2009 and 2008, nickel concentrate and nickel in transit are recorded at net realizable value, while materials and supplies are recorded at cost. A write-down of $1,900 for nickel inventory as at December 31, 2009 to net realizable value is included in cost of sales. The remaining amount of cost of sales for the years ended December 31, 2009 and 2008 represents the amount of inventory expensed in the period.

5. PROPERTY, PLANT AND EQUIPMENT

	2009 Cost	2009 Accumulated Amortization	2009 Net	2008 Net
	$	$	$	$
Computers	527,661	(189,583)	338,078	5,480
Furniture	50,962	(12,107)	38,855	4,453
Field equipment	104,760	(69,463)	35,297	53,224
Vehicles	131,897	(27,925)	103,972	46,084
	815,280	(299,078)	516,202	109,241
Producing properties*				
Buildings & equipment	236,986	(1,616)	235,370	-
Plant & equipment	82,921,643	(565,569)	82,356,073	-
Deferred mine development costs	74,124,571	(505,569)	73,619,002	-
Asset retirement costs & adjustment:	1,650,952	(11,260)	1,639,692	-
Bucko deferred project costs	9,307,346	(63,481)	9,243,865	-
Acquisition costs	4,738,501	(32,319)	4,706,182	-
Less: preproduction net revenue**	(3,167,192)	21,602	(3,145,590)	-
	169,812,807	(1,158,213)	168,654,594	-
Less: write down to fair value	(30,601,829)		(30,601,829)	
	140,026,258	(1,457,291)	138,568,967	109,241

*Producing properties are amortized on a unit of production basis; all other assets are amortized on straight-line basis over their estimated useful life.
**Net revenue includes other metal revenue, pre-production treatment and refining charges and inventory adjustments to COGS.

During the year ended December 31, 2009, the Company declared commercial production (see Note 1) and reclassified items that were previously included under "Exploration and development property plant and equipment and deferred expenditures" and began amortizing them on a unit of production basis.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended December 31, 2009, the Company identified that the Property, plant and equipment related to Bucko deposit was impaired and as a result, these items were written down by $30,601,829.

Producing Properties - Bucko Deposit

The Company owns a 100% interest in the Bucko Lake Lease, subject to a 2.5% Net Smelter Royalty ("NSR") payable to Xstrata Nickel ("Xstrata"). The Bucko Deposit is also subject to a $500,000 payment due on commencement of commercial production which has been accrued as at December 31, 2009.

6. DERIVATIVE INSTRUMENTS

At the end of 2008, the Company held future sales contracts for a total of 2.3 million pounds of nickel at a price of US$8.49 as well as forward currency contracts to sell US$19,200,000 at forward exchange rates ranging from $1.183 to $1.191 per US dollar. In January 2009, the Company entered into additional forward sales contracts for a total of 700,000 pounds of nickel at a price of US$5.32 per pound. In addition, the Canadian dollar was hedged at a weighted average exchange rate of 1.1959 for these contracts.

In February 2009, the Company monetized their forward sales contract position of 2.97 million pounds of nickel and corresponding foreign exchange price protection for 2009 for net proceeds of approximately $10,000,000. A portion of the proceeds of this monetization has been used to repay the $7,600,000 debt facility plus interest (see Note 9). Included in the net gain (loss) on derivative instruments for the year ended December 31, 2009 is a net gain on this monetization of $2,090,556.

In November 2009, the Company closed all outstanding forward sales contracts. As at December 31, 2009, nil contracts remained outstanding and the realized value of these instruments has been recognized in the statement of operations.

The Company does not use hedge accounting for its derivative instruments.

7. EXPLORATION AND DEVELOPMENT PROPERTY AND DEFERRED EXPENDITURES

	MANITOBA			ONTARIO	
	BUCKO DEPOSIT	THOMPSON NICKEL BELT	PURE NICKEL JV	SUDBURY	TOTAL
		($)	($)	($)	($)
Balance, January 1, 2009	137,185,242	15,440,513	513,107	800,853	153,939,715
Acquisition or property maintenance costs	5,849	(102,345)	-	-	(96,496)
Project capital costs	2,275,691	-	-	-	2,275,691
Project development costs	16,598,754	-	-	-	16,598,754
Exploration costs	1,615,067	1,196,859	8,549	-	2,820,475
Asset retirement obligations	612,442	-	-	-	612,442
Less: preproduction revenue	(3,167,192)	-	-	-	(3,167,192)
Less: government assistance	-	-	(17,158)	-	(17,158)
*Less: transferred to producing property**	(155,125,853)	-	-	-	(155,125,853)
Less: write off	-	(2,991,072)	-	(144,869)	(3,135,941)
Balance, December 31, 2009	-	13,543,955	504,498	655,984	14,704,437

	MANITOBA			ONTARIO	
	BUCKO DEPOSIT	THOMPSON NICKEL BELT	PURE NICKEL JV	SUDBURY	TOTAL
		($)	($)	($)	($)
Balance, January 1, 2008	57,667,721	12,752,670	131,475	6,045,018	76,596,884
Acquisition or property maintenance costs	306,684	112,590	-	-	419,274
Project capital costs	41,448,415	-	-	-	41,448,415
Project development costs	37,459,597	-	-	-	37,459,597
Exploration costs	302,825	2,803,316	381,632	230	3,488,003
Less: government assistance	-	(228,063)	-	-	(228,063)
Less: write off	-	-	-	(5,244,395)	(5,244,395)
Balance, December 31, 2008	137,185,242	15,440,513	513,107	800,853	153,939,715

* During the quarter ending June 30, 2009, the Company announced commercial production at the Bucko property and re-classed the project costs to “Property, plant and equipment” (see Note 5).

During the year ended December 31, 2009, the Company identified that certain exploration assets were impaired and as a result, these items were written down by $3,135,941.

7. EXPLORATION AND DEVELOPMENT PROPERTY AND DEFERRED EXPENDITURES (continued)

MANITOBA

Thompson Nickel Belt

The Company can earn a 100% interest in the Thompson Nickel Belt properties by incurring $13,200,000 in gross expenditures, including a 10% administration charge, from January 1, 2007 up to and including December 31, 2013 (the "Option Period"). The Company has exceeded its exploration expenditures commitment to December 31, 2009 by $147,000 that can be applied to its expenditure commitment for 2010. The Company is required to spend approximately $6,000,000 to meet its expenditure commitment over the next four years as follows:

- $1,500,000 by December 31, 2010 ($147,000 incurred to December 31, 2009);
- $1,500,000 by December 31, 2011;
- $1,500,000 by December 31, 2012; and
- $1,500,000 by December 31, 2013.

The properties are also subject to underlying agreements, specifically i) a 2% NSR; and ii) a 10% net proceeds of production royalty.

The Company also received $nil (2008 - $228,063) in government assistance during the year ended December 31, 2009 related to its exploration expenditures in the Thompson Nickel Belt which has been applied directly against this expenditure.

Pure Nickel Joint Venture

In November 2007, the Company entered into a 50-50 Joint Venture Agreement with Pure Nickel Inc. ("Pure Nickel") to explore and develop nickel deposits on properties controlled by both parties near Wabowden, Manitoba near the past-producing Manibridge Nickel Mine. The Company will also have the right to permit, operate and close the historic tailings facility in the joint venture.

Each party contributed property to the joint venture and agreed to make an initial aggregate contribution of $6,000,000 by the end of 2011 to fund preliminary exploration activities within the joint venture area. Pure Nickel also has the option to earn a 50% interest in an expanded area surrounding the Manibridge deposit by incurring increased exploration expenditures totalling $3,000,000 by 2012.

Pursuant to an option agreement with Hudson Bay Exploration and Development Company Limited, the Company can acquire a 100% interest in two claims within the area of interest of the Pure Nickel joint venture by making payments of $250,000 and funding a total of $750,000 in exploration expenditures by 2011, subject to a back in clause, right of offer for off-take and a 2% NSR.

The Company received $17,158 (2008 - $nil) in government assistance related to its exploration expenditures on the Pure Nickel JV properties during the year ended December 31, 2009.

SUDBURY

AER Kidd Property

The Company has written off the value of the property an amount of $5,244,395 as at December 31, 2008. During the year ended December 31, 2009, an amount of $50,000 was paid to maintain the property in good standing and has been recorded to the statement of operations.

7. EXPLORATION AND DEVELOPMENT PROPERTY AND DEFERRED EXPENDITURES (continued)

SUDBURY (continued)

Peter's Roost Property

The Company holds a number of claims along the North Range of the Sudbury Basin, subject to an option agreement with Wallbridge Mining Company Limited ("Wallbridge"). In January 2008, Wallbridge earned an initial 50% interest in the Company's interests in the property. Wallbridge holds a further option to increase its ownership to a 70% vested interest in any or all of the four separate project areas by funding a further $1,000,000 in exploration expenditures in each project area in which it selects to vest by December 31, 2010. Failure to vest in a specific project area will result in ownership of that area reverting back to the Company. In April 2009, the Company granted Wallbridge an extension to the period required to complete minimum exploration expenditures for 2009. Wallbridge has committed to funding additional work on the property in 2010.

8. IN-PROCESS WORKING CAPITAL FACILITY

On April 29, 2009, subsequently amended June 2009, the Company entered into an agreement with Auramet Trading, LLC ("Auramet") to maintain a US$5,000,000 In-Process Working Capital Facility (the "Facility") for the nickel concentrate produced by the Company from the Bucko Deposit whereby the Company can draw up to 75% of the prevailing spot price of the estimated quantity of nickel contained in each shipment. Per the Facility, these nickel quantities are forward sold at the prevailing spot prices and settled on delivery. At the end of each quarter, all outstanding sales contracts for the quarter are valued based on the three month forward price and offset against nickel sales The Facility carries an interest rate of Libor + 6.75% and a fee of 2.5% in cash (paid) and 1,000,000 warrants of the Company priced at the weighted average price of the Company's common stock for the 5 business days preceding the execution of the agreement (issued, at an exercise price of $0.2057 per share) (see Note 11(b)). The grant date fair value of these warrants was estimated at $107,597 using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield: 0%; expected volatility: 95%; risk-free interest rate: 1%; and expected life: 2 years.

9. LONG-TERM DEBT

At the end of 2008, the Company carried $7,600,000 in debt related to an amended loan facility agreement entered into with First Rand Ireland Plc during 2008. Through this loan facility, the Company was required to enter into a price protection program, and acquired forward nickel and currency contracts. During the first quarter of 2009, the Company monetized these contracts for net proceeds of approximately $10,000,000, of which $7,600,000 was used to pay off the outstanding debt (Note 6). The restriction on a $3,000,000 debt reserve that was required as part of this amended loan facility was lifted and these funds became available to the Company.

As well, in January 2009, 17,324,786 warrants with an exercise price of $0.64 were cancelled in accordance with the debt facility restructuring agreement. These were replaced with 20,000,000 warrants at a strike price of $0.2125 expiring three years from the date of issue (Note 11(b)). The grant date fair value of these warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield: 0%; expected volatility: 93%; risk-free interest rate: 1%; and expected life: 3 years. The incremental value of these warrants was estimated at $4,569,188 and recorded during the year ended December 31, 2008.

10. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations ("ARO") are based on management's estimates of costs to abandon and reclaim producing properties, exploration and development property, plant and equipment as well as an estimate of the future timing of the costs to be incurred.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the ARO associated with the retirement of the Company's producing properties, exploration and development property, plant and equipment:

	December 31, 2009	December 31, 2008
Balance, beginning of year	$ 359,000	$ 331,000
Increase in asset retirement obligation	$ 616,803	$ -
Accretion expense	$ (57,416)	$ 28,000
Balance, end of year	$ 918,387	$ 359,000

The Company has estimated the present value of its total asset retirement obligations to be $918,387 (2008 – $359,000) at December 31, 2009 based on a total future liability estimated to be approximately $2,284,000 (2008 - $632,000). The credit adjusted risk-free rates used in estimating the site restoration obligation were 8.75% and 8.4%. Reclamation is expected to take place in 2021. As a result of increased reserves and a longer mine life, the Company revised the assumptions used to discount its asset retirement obligations, such that an adjustment to accretion expense was recorded.

11. CAPITAL STOCK

Authorized

Unlimited common shares without par value
Unlimited class A preference shares with a par value of $10 each, issuable in series, cumulative dividends
Unlimited class B preference shares with a par value of $50 each, issuable in series, cumulative dividends

11. CAPITAL STOCK (continued)

a) Common shares issued

	Shares		Value
Balance, December 31, 2007	249,978,487	$	86,671,512
Private placement, flow through	31,615,000		10,250,700
Private placement, non flow through	8,065,000		5,000,300
Exercise of warrants	1,115,836		446,334
Exercise of warrants - warrant valuation	-		118,742
Exercise of options	2,530,000		569,531
Exercise of options - option valuation	-		979,566
Flow-through share tax effect	-		(3,563,000)
Cost of issue	-		(1,573,821)
Tax effect of cost of issue	-		390,000
Balance, December 31, 2008	293,304,323	$	99,289,864
Private placement, non flow through	215,411,765		47,820,000
Warrant valuation	-		(4,842,336)
Cost of issue	-		(825,012)
Shares issued through share compensation plan	562,464		113,130
Exercise of options	245,000		49,000
Exercise of options - option valuation	-		18,586
Flow-through share tax effect	-		(2,982,000)
Tax effect of cost of issue	-		117,671
Balance, December 31, 2009	**509,523,552**	**$**	**138,758,903**

On September 21, 2009, the Company announced it had entered into an agreement with Kingplace Enterprises Limited ("Kingplace") for a $20,000,000 private placement financing, pursuant to which Kingplace agreed to purchase an aggregate of 80,000,000 common shares of the Company at a price of $0.25 per share. The financing closed in two tranches. The first tranche closed on September 29, 2009, through the issuance of 44,733,221 common shares of the Company at a price of $0.25 per share for gross proceeds of $11,183,305. The second tranche closed on October 14, 2009, for gross proceeds of $8,816,695 through the issuance of 35,266,779 common shares of the Company at a price of $0.25 per share.

11. CAPITAL STOCK (continued)

a) Common shares issued (continued)

On July 7, 2009, the Company entered into an agreement with Pala Investments Holdings Limited ("Pala") for a $15,000,000 private placement financing. On July 23, 2009 the Company closed the private placement financing through the issuance of 60,000,000 units of the Company at a price of $0.25 per unit for total gross proceeds of $15,000,000. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company at a purchase price of $0.30 until July 23, 2011. The grant date fair value of the warrants of $2,667,746 was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 98%, risk-free interest rate of 1.28% and an expected life of two years. Net proceeds from the private placement were used to pay outstanding indebtedness, including $5,000,000 to its mining contractor (a subsidiary of Pala), and for capital development and general working capital purposes. As part of this private placement, Pala was permitted to place two representatives on the Board of Directors of the Company. As a result of this transaction, Pala and its subsidiary, Dumas Contracting Limited ("Dumas"), became related parties of the Company effective July 7, 2009.

On April 30, 2009, the Company closed a brokered private placement financing through the issuance of 46,000,000 units of the Company at a price of $0.17 per unit for total gross proceeds of $7,820,000. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of $0.20 until April 30, 2011. An additional 2,760,000 broker compensation options were issued related to the private placement. Each compensation option will entitle the broker to acquire one unit of the Company at a price of $0.17 per unit until April 30, 2011. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of $0.20 for a period of two years. The grant date fair value of the warrants of $1,292,237, net of a portion of share issue costs of $87,763, and the broker options of $301,612 was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 96%, risk-free interest rate of 1.12% and 1.00%, respectively, and an expected life of two years.

As well, on April 17, 2009, the Company entered into an agreement with Dumas, its contract mining company at the Bucko Deposit. Under the agreement, Dumas agreed to purchase, on a non-brokered private placement basis, 29,411,765 units of the Company at a price of $0.17 per unit for gross proceeds of $5,000,000. These units were issued on April 30, 2009. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share of the Company at a price of $0.21 for a period of two years from the date of grant. The grant date fair value of the warrants of $882,353 was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 98%, risk-free interest rate of 1.20% and an expected life of two years. The net proceeds were used to settle current trade payables owed to Dumas for underground mining activities carried out by Dumas at the Bucko Lake Mine.

The Company has a Share Compensation Plan, approved by the shareholders of the Company, designed to advance the interest of the Company by rewarding performance without the use of cash resources. The Share Compensation Plan is in addition to the Company's stock option plan, and provides that shares issued under the Plan since inception together with the number of options outstanding under the stock option plan at that time do not exceed 10% of the Company's issued and outstanding shares. The common shares issued under the Plan cannot be sold for a period of twelve months from the date of issue.

The Company has authorized and reserved 2,500,000 common shares to be issued through the Share Compensation Plan in twelve equal instalments at quarterly intervals over a period of three years. During the year ended December 31, 2009, 562,464 common shares were issued under the plan at values of $0.20, $0.21 and $0.165 per share or $113,130, being the fair market value on the dates of grant. Of this value, $66,955 was charged to professional, consulting and management fees, $14,250 was charged to exploration and development costs and the balance of $31,925 was charged to cost of sales.

11. CAPITAL STOCK (continued)

a) Common shares issued (continued)

The Company completed a private placement financing on April 30, 2008 through the issuance of 8,000,000 flow-through common shares at a price of $0.75 per share and 8,065,000 non flow-through common shares at a price of $0.62 per share for total gross proceeds of $11,000,300. The offering was completed by a syndicate of underwriters who received a commission of 6% of the total gross proceeds, as well as 963,900 compensation options, each of which entitles the holder to purchase one common share of the Company at a price of $0.62 per share until April 30, 2010. The fair value of these compensation options of $244,831 was estimated using the Black-Scholes option pricing model with the following assumptions: estimated dividend yield – 0%; estimated volatility – 73%; risk-free interest rate – 2.7%; and estimated life – 2 years.

In December 2008, the Company completed a private placement financing through the issuance of 23,615,000 flow through common shares at a price of $0.18 per share for total gross proceeds of $4,250,700. The offering was completed by a syndicate of underwriters who received a cash commission of 6% of the gross proceeds raised, as well as 1,416,900 compensation options, each of which entitles the holder to purchase one common share of the Company at a price of $0.18 per share until December 17, 2010. The fair value of these compensation options of $130,355 was estimated using the Black-Scholes option pricing model with the following assumptions: estimated dividend yield – 0%; estimated volatility – 96.41%; risk-free interest rate – 1.3%; and estimated life – 2 years.

b) Warrants

	December 31, 2009		December 31, 2008	
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Balance, beginning of year	**19,705,586**	**0.61**	11,248,650	1.03
Granted, private placements	**67,705,882**	**0.11**	-	-
Granted, broker options	**2,760,000**	**0.17**	2,380,800	0.36
Granted, facility loan	**21,000,000**	**0.30**	17,324,786	0.64
Exercised	**-**	**-**	(1,115,836)	0.40
Expired	**(17,324,786)**	**0.64**	(10,132,814)	1.10
Balance, end of year	**93,846,682**	**0.24**	19,705,586	0.61

The weighted average grant date fair value of warrants issued during the year ended December 31, 2009 was $0.073 (2008 - $0.208).

11. CAPITAL STOCK (continued)

b) Warrants

As at December 31, 2009, the following warrants were outstanding:

Estimated Grant Date Fair Value ($)	Number of Warrants	Exercise Price ($)	Expiry Date
244,831	963,900	0.62	April 30, 2010
130,355	1,416,900	0.18	December 17, 2010
4,569,188	20,000,000	0.21	January 16, 2012
1,292,237	23,000,000	0.20	April 30, 2011
882,353	14,705,882	0.21	April 30, 2011
301,612	2,760,000 *	0.17	April 30, 2011
107,597	1,000,000	0.21	May 25, 2011
2,667,746	30,000,000	0.30	July 23, 2011
10,195,919	93,846,682		

*These warrants are exercisable into units (see Note 11 (a)).

c) Stock Options

The following are the stock option transactions during the period:

	December 31, 2009			December 31, 2008		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Balance, beginning of year	**19,644,375**	**$**	**0.55**	21,510,000	$	0.54
Granted	**24,645,000**	**$**	**0.22**	4,340,000	$	0.63
Exercised	**(245,000)**	**$**	**0.20**	(2,530,000)	$	0.23
Expired	**(7,126,875)**	**$**	**0.52**	(150,000)	$	0.61
Forfeited	**(3,387,500)**	**$**	**0.23**	(3,525,625)	$	0.84
Balance, end of year	**33,530,000**	**$**	**0.34**	19,644,375	$	0.55

11. CAPITAL STOCK (continued)

c) Stock Options (continued)

As of December 31, 2009, the following stock options were outstanding:

Estimated Grant Date Fair Value	Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
19,600	100,000	100,000	$ 0.300	January 10, 2010
39,800	200,000	200,000	$ 0.280	February 14, 2010
19,800	100,000	100,000	$ 0.290	February 21, 2010
7,100	50,000	50,000	$ 0.200	July 14, 2010
300,303	1,510,000	1,510,000	$ 0.225	March 13, 2011
84,740	350,000	350,000	$ 0.280	July 5, 2011
3,446	15,000	15,000	$ 0.300	August 9, 2011
31,394	100,000	100,000	$ 0.365	August 15, 2011
44,295	150,000	150,000	$ 0.350	September 28, 2011
607,030	1,785,000	1,785,000	$ 0.405	January 10, 2012
6,423	56,250	56,250	$ 0.500	February 20, 2012
138,600	200,000	200,000	$ 1.020	April 9, 2012
1,197,330	1,865,000	1,865,000	$ 0.940	June 28, 2012
612,000	1,500,000	1,500,000	$ 0.600	September 17, 2012
71,550	150,000	150,000	$ 0.710	November 21, 2012
101,760	240,000	240,000	$ 0.630	November 22, 2012
36,540	105,000	105,000	$ 0.520	February 1, 2013
64,620	180,000	180,000	$ 0.540	March 31, 2013
46,164	100,000	87,500	$ 0.680	April 30, 2013
1,358,859	3,002,500	2,627,188	$ 0.690	May 26, 2013
20,411	65,000	56,875	$ 0.480	June 30, 2013
15,399	75,000	56,250	$ 0.320	July 31, 2013
2,285	25,000	15,625	$ 0.150	October 31, 2013
8,855	75,000	46,875	$ 0.190	November 30, 2013
9,534	80,000	40,000	$ 0.200	January 31, 2014
25,287	230,000	115,000	$ 0.185	February 28, 2014
237,632	2,097,500	1,048,750	$ 0.200	March 20, 2014
39,055	315,000	118,125	$ 0.240	May 6, 2014
3,491	35,000	13,125	$ 0.200	May 31, 2014
17,396	180,000	67,500	$ 0.200	June 30, 2014
178,081	1,880,000	470,000	$ 0.210	August 19, 2014
1,240,358	16,713,750	2,089,219	$ 0.220	October 14,2014
$ 6,589,138	33,530,000	15,508,282		

The weighted average exercise price of stock options that are exercisable as at December 31, 2009 is $0.48.

11. CAPITAL STOCK (continued)

c) Stock Options (continued)

The Company has a stock option plan designed to advance the interest of the Company by encouraging officers, directors, employees and consultants of the Company to have equity participation in the Company through the acquisition of common shares. The Company may issue options to purchase common shares equal to 10% of the issued and outstanding common shares of the Company. Options are non-transferable, non-assignable and may be granted for a term not exceeding five years. The exercise price of the options and vesting provisions, if any, are fixed by the Board of Directors of the Company at the time of grant at a price not below the market price of the common shares at the time of grant, subject to all applicable regulatory requirements.

During the year ended December 31, 2009, 24,645,000 stock options (2008 – 4,340,000) were granted to directors, officers, employees and consultants of the Company. These options vest one eighth every quarter from the date of grant over a two-year term. An amount of $2,231,441 (2008 - $2,364,835) was recorded for all options that vested during the period and is included in professional, consulting and management fees on the statement of operations. The weighted average grant date fair value of options granted during the year ended December 31, 2009 was $0.14 (2008 - $0.43). The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Expected dividend yield	0%	0%
Expected volatility	83%	81%
Risk-free interest rate	2.6%	3.3%
Expected average life (yrs)	5	5

d) Contributed Surplus

	December 31, 2009	December 31, 2008
Balance, beginning of year	**$ 13,485,751**	$ 10,193,512
Stock options granted and/or vested during the period:		
Directors, officers and employees	**2,075,240**	2,140,846
Consultants	**156,201**	223,989
Exercise of stock options, reallocation of valuation	**(18,586)**	(979,566)
Expiry of warrants, reallocation of valuation	**-**	1,906,970
Balance, end of year	**$ 15,698,606**	$ 13,485,751

12. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company shares its premises with other companies that have common directors. The Company reimburses the related companies for their proportionate share of the expenses. At December 31, 2009 an amount of $32,286 (2008 - $nil) is payable in relation to these expenses. During the comparative year, the Company prepaid and was owed $75,753. Amounts payable and prepaid are unsecured, non-interest bearing with no fixed terms of repayment.

12. RELATED PARTY TRANSACTIONS (continued)

On April 30, 2009, directors, officers and companies with common directors subscribed for 11,277,900 (2008 – $nil) units of the Company for gross proceeds of $1,917,243 (2008 - $nil) as part of the private placement described in Note 11 (a).

During the year ended December 31, 2009, $9,156,689 was paid or accrued to Dumas and is included in cost of sales on the statement of operations. Included in accounts payable and accrued liabilities as at December 31, 2009 is $2,599,113 owing to Dumas. These amounts are unsecured, non-interest bearing with no fixed terms of repayment. See Note 11 (a).

During the year ended December 31, 2009, the Company paid $37,295 (2008 - $21,134), and granted 1,695,000 (2008 – 20,000) stock options to individuals for legal and support services. These are included in professional, consulting and management fees on the statement of operations. These same individuals also perform services for a company controlled by a director of the Company.

The Company was charged $60,000 during the year ended December 31, 2009 (2008 - $60,000) by a company controlled by a director of the Company for administration services.

During the year ended December 31, 2009, 18,860,000 stock options were granted to directors and officers of the Company compared to 2,275,000 options for the year ended December 31, 2008.

13. FUTURE INCOME TAX LIABILITY

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 32% (2008 - 33%) are:

	2009	2008
	$	$
Net income/(loss) for the year before income taxes	**(47,984,016)**	52,955,399
Expected income taxes at statutory rates	**(15,355,000)**	17,608,000
Increase (decrease) resulting from:		
Stock-based compensation	**726,000**	786,000
Book to tax	**(178,000)**	-
Mining taxes	**(6,449,000)**	-
Expired losses	**-**	-
Changes and differences in tax rates	**215,871**	(1,707,000)
Debt facility expenses	**-**	1,529,000
Other	**60,000**	(195,000
Change in valuation allowance	**(23,000)**	455,000
Provision for income taxes	**(21,003,129)**	18,476,000

During the year ended December 31, 2009, the Company identified that Property, plant and equipment related to the Bucko deposit and certain Exploration and development property and deferred expenditures were impaired and consequently these items were written down by an after tax value of $18,683,970. The $33,737,770 pre-tax write down generated tax benefits of $15,053,800, giving an after tax write down of $18,683,970.

13. FUTURE INCOME TAX LIABILITY (continued)

b) Future income tax balance

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2009 and 2008 are as follows:

	2009	2008
	$	$
Future income tax assets (liabilities)		
Non-capital losses	**7,155,000**	-
Resource properties	**(19,968,200)**	(22,766,000)
Mining tax asset	**6,449,000**	-
Derivative asset and liability	**-**	(2,594,000)
Finance costs	**796,000**	1,676,000
Valuation allowance	**(432,000)**	(455,000)
	(6,000,200)	(24,139,000)

The Company has approximately $27,000,000 (2008 - $23,000,000) of Canadian exploration and development expenditures as at December 31, 2009 which under certain circumstances may be utilized to reduce the taxable income of future years.

In February 2009, the Company renounced $10,250,700 of Canadian exploration expenditures related to proceeds from flow-through shares with an effective date of December 31, 2008. As a result, based on an estimated statutory tax rate of approximately 29%, an amount of $2,982,000 was debited to common shares, increasing the future income tax liability by this amount.

14. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Company's capital consists of common shares, warrants and contributed surplus. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has entered into production and has begun to generate cash flows to support the ongoing and longer term strategy focused on regional exploration. However, the Company may continue to rely on capital markets to support continued growth. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009 and 2008.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, accounts payable, in-process working capital facility and equipment leases. The Company’s risk management objectives include minimizing risk relating to cash and cash equivalents to preserve capital for strategic investing. The Company does not enter into or trade financial instruments for speculative purposes.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Cash equivalents consist of guaranteed investment certificates and bankers acceptance, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of goods and services tax due from the Federal Government of Canada and receivables from related and unrelated companies. Receivables from operations are from the Company’s sole customer, Xstrata, and the Company is reliant on Xstrata’s credit for continued operations. Management believes that the credit risk with respect to these financial instruments included in amounts receivable is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had a cash and cash equivalents balance of $10,040,475 (2008 - $10,607,543) to settle current liabilities of $9,327,431 (2008 - $15,622,737). Most of the Company's financial liabilities have contractual maturities of between 30 – 60 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash and cash equivalent balances and an in-process working capital facility subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the working capital facility interest rate and balance advanced under the facility. Currently, the Company does not hedge against interest rate risk.

(b) 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 sales transactions being denominated in US dollars. Amounts receivable as at December 31, 2009 include an amount of US$987,330 (2008 - $nil). The Company monetized its derivative currency contracts during the first quarter of fiscal 2009, and currently does not hedge for foreign exchange risk (Note 6).

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices, specifically 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.

There were no significant changes to credit risk, liquidity risk and market risk during the year ended December 31, 2009 compared to the year ended December 31, 2008.

Sensitivity analysis

The Company has designated its cash and cash equivalents as held-for-trading, measured at fair value. Financial instruments included in amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, in-process working capital facility and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Equipment leases are classified as held-to-maturity and measured at amortized cost. Derivative financial instruments are classified as held-for trading.

As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited terms of these instruments. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

> The Company carries a short-term, in-process working capital facility at an interest rate of Libor + 6.75%. At December 31, 2009, the amount owing on the working capital facility was $nil.
>
> The Company holds certain cash equivalents that upon renewal will earn interest at the then market rate for such deposits. A 1% decrease in interest rates based on the cash and cash equivalents balance at December 31, 2009 will generate a decrease in interest income of approximately $100,400.
>
> The Company currently carries receivables in foreign currencies that are exposed to foreign exchange risk. A change of 1% in the Canadian dollar compared to the US dollar based on the US denominated accounts receivable balance at December 31, 2009 will generate an increase or decrease in the receivable of approximately $10,333. As production ramps up and the accounts receivable balance increases, the change could be significant.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments. The fair value of short-term financial instruments approximates their carrying value due to the relatively short period of time to maturity. These include cash and cash equivalents, amounts receivable, accounts payable, in-process working capital facility, accrued liabilities and equipment leases. Fair value amounts represent fair value at a point in time and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and can be a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for fair values recognized on the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices in active markets for identical assets or liabilities. Level two includes inputs that are that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. Cash and cash equivalents of $10,040,475 is considered to be Level one and is the only financial instrument measured at fair value for the Company, in accordance to the amendment to Handbook Section 3862.

16. COMMITMENTS AND CONTINGENCIES

(a) The Company issued 23,615,000 flow-through shares in December 2008 and as a result, the Company was committed to expend $4,250,700 in qualified exploration expenditure by December 31, 2009. As of December 31, 2009, the Company has met its expenditure commitment.

(b) The Company is party to certain management contracts which require that additional payments of up to $2,711,509 be made upon the occurrence of certain events such as events that may result from a change of control. As at July 23, 2009, a change of control occurred (see Note 11(a)). As a result of this change of control, either the Company or the holder of the contract can terminate the contract before July 24, 2010, which would result in the contract holder receiving certain additional payments. As at December 31, 2009 there were no amounts owing relating to any such event having occurred. Minimum termination commitments under these contracts are approximately $540,254, all of which are due within one year.

(c) The Company entered into an agreement on February 28, 2007 with a general contractor for the Bucko Deposit. If the agreement is terminated without cause, the Company must give 90 days notice and is liable for demobilization fees.

(d) Outstanding legal issues relate to a claim for damages made by the Company against Met-Chem Canada Inc. ("Met-Chem"), the engineering firm hired by the Company to design the processing facility. The claim is for corrective measures required to the crushing plant building due to engineering errors by Met-Chem. The cost of expected corrective measures is $230,000.

17. INTEREST IN JOINT VENTURE

The Company's proportionate share of the assets, liabilities and cash flows of its joint venture included in these consolidated financial statements are as follows:

	Pure Nickel JV	
	December 31, 2009	December 31, 2008
Current assets	5,385	18,146
Exploration properties and deferred exploration expenditures	413,043	420,751
Current liabilities	-	-
Revenues	-	1,272
Expenses	-	-
Cash flows from operating activities	(12,761)	116
Cash flows from investing activities	7,708	(420,751)
Cash flows from contributions	-	435,000

18. SUBSEQUENT EVENTS

On January 15, 2010, the Company granted options to purchase up to 2,000,000 common shares of the Company at an exercise price of $0.16 per option, expiring 5 years from the date of grant to consultants of the Company. As well, a further 1,500,000 options to purchase shares in the Company were granted to the same consultants of the Company, at an exercise price to be determined in the context of the market, were granted on the date that is one month following the restart of the mine, subject to regulatory approval. All options will vest one eighth every quarter from the date of grant over a two-year term with the first instalment vesting on the date of grant.

On January 27, 2010, the Company received a non-binding expression of interest from Pala regarding the direct or indirect acquisition of the Bucko Deposit and certain surrounding exploration areas held by the Company in the Thompson Nickel Belt. In consideration for the purchase of the Bucko Assets, Pala has proposed to pay an implied purchase price of $122.3 million before private placement allocated as follows: $101.9 million, representing $0.20 per share and $20.4 million, or $0.04 per share for Exploration properties of the Company. If the acquisition were completed, the Company would cancel 116,079,971 shares held by Pala for $27.9 million, as well as, 50,588,235 warrants for $2.02 million. The expression of interest is non-binding and subject to a number of conditions, including negotiation and execution of a definitive agreement, receipt of board, shareholder and regulatory approvals and Pala being satisfied with its due diligence review of the Bucko Deposit. As Pala held approximately 22.8% of the issued and outstanding common shares of the Company, at the time of the announcement, the proposed transaction would be considered to be a related party transaction. In response to the non-binding expression of interest, the Company has entered into a confidentiality and fee agreement with Pala. This agreement provides that the Company will, in certain circumstances, reimburse any expenses of Pala in connection to its due diligence review to a maximum of $150,000. In addition, the Company has agreed to pay to Pala a termination fee of $3.65 million in certain circumstances, including if at any time prior to August 31, 2010, the Company terminates or otherwise abandons negotiations regarding the proposed transaction and enters into a definitive agreement with respect to (i) an amalgamation agreement, merger, take-over bid or other similar business combination which will result, if successfully completed, in the shareholders of the Company holding less that 50% of the voting securities of the resulting corporation or other entity; or (ii) sale of all or substantially all of the assets of the Company, in each case at a price that reflects a purchase price of no greater than $0.25 per issued and outstanding share of the Company as of the date hereof.

18. SUBSEQUENT EVENTS (continued)

On February 19, 2010, the Company announced it had closed a private placement financing by issuing an aggregate of 72,200,000 common shares of the Company at a price of $0.16 per share for gross proceeds of $11,552,000. Pala purchased 21,356,250 of the 72,200,000 common shares giving it approximately 6.01% of the issued and outstanding shares of the Company.

On February 24, 2010, the Company announced that production mining activities had resumed at the Bucko Deposit. Milling operations and shipments of concentrate resumed in March 2010.

On March 19, 2010, the Company granted options to purchase up to 3,700,000 common shares of the Company at an exercise price of $0.16 per option, expiring 5 years from the date of grant to employees and consultants of the Company. All options will vest one eighth every quarter from the date of grant over a two-year term with the first instalment vesting on the date of grant.

Subsequent to December 31, 2009, 400,000 options exercisable at $0.28 to $0.30 with expiry dates of January 10, 2010 to February 21, 2010, expired unexercised.

crowflight minerals inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended December 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the year ended December 31, 2009

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Crowflight Minerals Inc. ("we", "our", "us", "Crowflight", or the "Company") for the year ended December 31, 2009 and should be read in conjunction with our annual audited consolidated financial statements and notes for the year ended December 31, 2009. The financial statements and related notes of Crowflight have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information, including our press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under our profile at www.sedar.com.

The scientific and technical information contained in this report has been prepared under the supervision of, and reviewed by, Greg Collins, P.Geo., and Steve Davies, P.Eng. both of whom are officers of the Company and "Qualified Persons" within the meaning of National Instrument 43-101.

This MD&A reports our activities through December 31, 2009 unless otherwise indicated. All figures are in Canadian dollars unless otherwise indicated.

References to the first, second third and fourth quarters of 2009 or Q1-2009, Q2-2009, Q3-2009 and Q4-2009 and the first, second, third and fourth quarters of 2008 or Q1-2008, Q2-2008, Q3-2008 and Q4-2008 mean the three months ended March 31, June 30, September 30, and December 31, 2009 and 2008 respectively.

NON-GAAP MEASURES

This MD&A refers to net working capital and cash cost per pound which are not recognized measures under Canadian GAAP. These non-GAAP performance measures do not have any standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to a similar measures presented by other issuers. Management uses these measures internally. The use of these measures enables management to better assess performance trends. Management understands that a number of investors and others who follow the Company's performance assess performance in this way. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP.

HIGHLIGHTS

2009 IN REVIEW - HIGHLIGHTS FOR THE YEAR

- The Bucko Lake Nickel Mine ("Bucko") located in the Thompson Nickel Belt near Wabowden, Manitoba shipped its first nickel concentrate in February 2009. The commencement of nickel concentrate shipments marked a major milestone for the Company as it transitioned from an exploration and development company to a nickel producer.

- In February 2009, the Company was able to monetize all remaining nickel forward sales and foreign exchange contracts for net proceeds of $10.1 million. Of this, $7.6 million was used to pay off the outstanding balance of the $55 debt facility used to build the Bucko Mine. As a result of this transaction, Crowflight was free of any long-term debt used to build the mine.

- An updated National Instrument (NI) 43-101 compliant Minerals Reserve and Resource estimate in March 2009 resulted in increased Proven & Probable reserves at Bucko by 22% from the 2007 Bankable Feasibility Study.

- The Company raised a total of $47.8 million through private placements throughout the year. This included two strategic investments in Crowflight made by Pala Investments Holdings Limited ("Pala") and Kingplace Enterprises Limited ("Kingplace"). These strategic investments provided Crowflight with strong financial partners committed to maximizing the potential of the Bucko Mine.

- In June 2009, commercial production was declared at the Bucko Lake Nickel Mine (commercial production being defined as throughput greater than 60% of mill nameplate capacity).

- In November 2009, Crowflight temporarily suspended all production mining and milling operations at the Bucko Mine for three months in order to complete ramp development, review the mining method (subsequently redesigned the mine method, please see press release dated February 1st, 2010), accelerate mine development, continue with diamond drilling underground and upgrade the backfill plant. The Bucko Mine subsequently resumed milling operations and shipments of nickel concentrate in March 2010.

- For the year 2009, the Company produced approximately 1,382,000 pounds of nickel and sold 1,152,000 pounds of payable nickel.

- During 2009, 7,126,875 options expired unexercised, while 3,387,500 were forfeited.

HIGHLIGHTS FOR THE FOURTH QUARTER OF 2009

- For the quarter ended December 31, 2009, 183,000 pounds of nickel were produced, and 287,000 pounds of commercial production nickel sold as compared to nil in the fourth quarter of 2008 as the mine was not yet in production.

- Total metal revenue for the quarter ended December 31, 2009 was $2.4 million compared to nil for the fourth quarter last year.

- Operating cash flow for the quarter ended December 31, 2009 was negative $4.2 million compared to operating cash flow of $61.8 million in the fourth quarter last year (see "Cash Flows" section).

- Loss for the quarter ended December 31, 2009 was $22.3 million or ($0.04) per share compared to income of $28.9 million or $0.11 per share in the fourth quarter last year (due to a gain on derivative instruments in 2008.) The loss for Q4-2009 included a $33.7 million write down to property, plant and equipment and certain exploration assets which generated a tax benefit of $15 million, giving an after tax write down of $18.7 million.

- Commercial nickel sales settled during the quarter ended December 31, 2009 were realized at an average price of US$7.35 per pound.

- Net working capital (non-GAAP measure, see "Non-GAAP Measures" section above) as at December 31, 2009 was $3.2 million (including cash and cash equivalents of $10.0 million) compared to $7.7 million as at December 31, 2008.

- On October 14, 2009, Crowflight closed the second tranche of its private placement financing with Kingplace Enterprises Limited for gross proceeds of approximately $8.8 million. Pursuant to the second tranche, Crowflight issued 35,266,779 common shares of the Company at a price of $0.25 per share. The primary intended use for the proceeds from the financing was the continued development of the Bucko Lake Project and the balance for general corporate purposes. The first tranche of the financing for $11.2 million closed during the third quarter of this year.

- In addition to the temporary three-month suspension of all production mining and milling operations at the Bucko Mine mentioned above in the "2009 in Review – Highlights for the Year" section, the Company also announced on November 16, 2009 that Paul Keller stepped down as Crowflight's Vice President Operations and Chief Operating Officer, effective November 16, 2009.

- Crowflight completed an exploration drill program around its M11A deposit located 5 kilometres from the Bucko mine site during the fourth quarter of 2009. The work was designed to infill and explore for extensions to mineralization identified at the M11A North deposit while meeting the Company's ongoing commitment to fund exploration under its option agreement with Xstrata. Expenditures made during this program will allow Crowflight to vest its initial 35% interest in the combined land package in the Thompson Nickel Belt held under option from Xstrata.

2009 Quarterly Bucko Mine Operations Production and Financial Data

	Q1-2009	Q2-2009		Q3-2009	Q4-2009	Total-2009
	Pre-production	Pre-production	Production	Production	Production	
Operating Statistics:						
Tonnes ore mined	31,091	42,224	18,377	27,634	16,605	135,931
Average Nickel head grade (%Ni)	0.95%	1.25%	0.93%	1.05%	0.69%	1.00%
Tonnes ore milled	29,303	35,490	18,390	23,493	18,294	124,970
Average Recovery	31.97%	61.40%	62.62%	69.70%	64.88%	55.52%
Nickel pounds:						
Produced	138,956	441,200	234,920	384,327	183,203	1,382,606
Payable sold[1]	65,498	268,636	254,139	276,918	287,506	1,152,697
Pre-production Metal Sales Revenue:						
Average Ni price (US$/lb)	$ 4.46	$ 5.73				
CAD/US exchange rate	1.26	1.15				
Nickel revenue[1]	$ 368,318	$ 1,939,400				
Other metals revenue[2]	$ 5,935	86,700				
Total metal revenue	$ 374,253	$ 2,026,100				
Commercial Production Metal Sales Revenue:						
Average Ni price (US$/lb)			$ 6.79	$ 7.41	$ 7.35	7.19
CAD/US exchange rate			1.16	1.09	1.07	1.10
Nickel revenue			2,007,450	2,231,683	2,254,773	6,493,906
Pricing adjustments[3]			-	52,810	184,171	236,981
Total metal revenue			2,007,450	2,284,493	2,438,944	6,730,887
Cost of sales			2,445,213	2,546,116	4,391,982	9,383,311
Accretion			-	-	-	-
Temporary shutdown costs			-	2,381,083	2,561,917	4,943,000
Depreciation, depletion, and amortization			336,093	605,141	357,940	1,299,174
Gross profit			(773,856)	(3,247,847)	(4,872,895)	(8,894,598)
Net earnings (loss) before tax[5]			(3,193,607)	(5,214,837)	(40,832,756)	(47,984,016)
Basic and diluted earnings (loss per share)			$ (0.01)	$ (0.01)	$ (0.04)	$ (0.07)
Cash flow from operating activities[6]			1,509,159	389,211	(4,180,453)	6,209,391
USD Cash Cost of sales per pound sold[1,4]			$ 8.28	$ 8.45	$ 14.31	$ 10.38

1. Includes settlement of prior quarter sales
2. Other metal revenue is recorded as an offset to cost of sales in the Company's financial statements
3. Pricing adjustments reflect final pricing/volume adjustments on lots sold in prior quarters
4. Non-GAAP Measure - see "Non-GAAP Measures" section
5. Total net earnings (loss) before tax total for 2009 includes pre-production net earings (loss)
6. Cash flow from operating activities total for 2009 includes pre-production cash flow

DESCRIPTION OF BUSINESS

Crowflight is engaged in nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. Crowflight's mineral exploration and development properties are in Canada and the Company is focusing its resources on the continued development and ramping up to full production at the Bucko Lake Nickel Mine and the exploration of the Thompson Nickel Belt ("TNB"), both in the province of Manitoba. Prior to June 1, 2009, the Company was a development stage company in accordance with Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

The profitability and operating cash flow of Crowflight are affected by various factors, including the amount of nickel produced, the market prices of nickel, operating costs, interest rates, regulatory and environmental compliance, the level of exploration and capital expenditures, general and administrative costs, and other discretionary costs. Crowflight is also exposed to fluctuations in currency exchange rates, interest rates, varying levels of taxation that can impact profitability and cash flow. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control.

OUTLOOK

The forward-looking information contained in this section is subject to the risk factors and assumptions contained in the Cautionary Statement on Forward-Looking Information included at the end of this MD&A.

As announced February 24, 2010, Crowflight's production targets for 2010 from Bucko are approximately 8.6 million pounds of payable nickel based on projections of 342,000 tonnes at a 1.63% nickel grade and assuming a 78% recovery. The average operating cash costs (non-GAAP measure, see "Non-GAAP Measures" section) for the entire year are projected to be between US$5.70 - $5.90 per pound of payable nickel (using a US: CAD exchange rate of 0.94) as a result of lower tonnages in the first half of 2010 as the mine resumes production. The average operating cash cost projected for the second half of the year is expected to average US$5.15 - $5.35 per pound of payable nickel when the mine is expected to be in full production.

Crowflight currently estimates capital requirements for 2010 to be approximately CAD$14 million for continued mine development, upgrading of the backfill plant and increasing the tailings pond capacity.

Further to the Bucko operational updates that Crowflight provided in the press releases dated February 1 and 24, 2010, the ramp connecting surface to the 1,000' Level has been completed. The ramp connection has been designed to develop access to new areas for mining and allow for the use of large 40-tonne class trucks to haul ore directly from the stoping levels to surface. The trucking via ramp is important to allow for efficient mining cycle time as well as the continuous transport of ore to surface from a number of operating mining levels.

Production mining, milling and nickel concentrate shipments resumed at Bucko in March, 2010 and the mine is ramping up to achieve the second quarter target of 1,000 tonnes per day (tpd) of ore which is planned to increase to 1200 tpd in the second half of 2010.

Further information is available on the Company's web site at www.crowflight.com.

MINERAL PROPERTIES

THOMPSON NICKEL BELT PROPERTIES ("TNB") – MANITOBA

The Company owns or holds under option claims and leases totalling 720.7 square kilometers in the Province of Manitoba. These properties are situated in the TNB and Crowflight has interpreted the claims to host extensions of geology known to host, or capable of hosting, nickel sulphide deposits.

The TNB hosts nickel mineralization along a well-established geological trend that extends for over 250 kilometers. An estimated 4.5 billion pounds of nickel has been previously produced from the TNB. Crowflight's Joint Venture partner, Xstrata, through predecessor companies, has been an active participant in the TNB since the early 1960s and has produced an extensive technical database for this section of the TNB.

CROWFLIGHT - XSTRATA AGREEMENTS

Bucko Mining Lease, Offtake, and TNB Exploration Option Agreements

On January 31, 2007, Crowflight entered into an amended Agreement with Xstrata Nickel that provided Crowflight the right to: (1) earn a 100% interest in mining lease ML-031 which contains the Bucko Lake Nickel Deposit and a 5.5 kilometer area surrounding the Bucko Deposit; and (2) earn a 100% interest in all of the advanced-stage exploration ground previously the subject of the separate TNB South and TNB North Agreements. At the end of this reporting period, property maintained by Crowflight and covered by these Agreements remained 586.4 square kilometers.

Right to Earn a 100% Interest in the Bucko Lake Nickel Deposit – Bucko Lease Transfer Agreement

Under the terms of the jointly signed Bucko Lake Deposit Lease Transfer Agreement, in Q2-2007, Crowflight earned a 100% interest in the Bucko Lake Nickel Deposit Mining Lease ML-031, subject to a 2.5% Net Smelter Return royalty ("NSR"), after having completed its expenditure commitments and having completed a Bankable Feasibility Study of a technical standard acceptable to a bank in the context of financing such a project's development. On the exercise of its rights, Crowflight issued 2,000,000 shares to Xstrata Nickel. The issuance of these shares was a condition dating back to the original and amended versions of the Agreement governing the Bucko Deposit and Mining Lease.

Crowflight's 100% interest in ML-031 is subject to a Back-in Right whereby should Crowflight outline a Threshold Deposit - a new Deposit (outside of the currently known Bucko Resources) exceeding 200,000,000 pounds of nickel in Measured and Indicated Resources - Xstrata Nickel has the right to Back-in for a 50% interest and to become the operator of the new Threshold Deposit by paying to Crowflight an amount equal to the aggregate of all direct expenditures which were incurred by Crowflight in carrying out Mining Operations on the Bucko Lake Lease outside of the Bucko Resource Block prior to the date of exercise of the Back-in Right. On June 10, 2009, Crowflight declared commercial production (commercial production being defined as throughput greater than 60% of mill nameplate capacity). As per the terms of the Bucko Lease transfer agreement, a royalty payment of $500,000 to Xstrata is payable.

Right to Earn a 100% Interest in the TNB Exploration Properties – Exploration Option Agreement

Under the terms of a jointly signed Exploration Agreement, Crowflight has the right to earn a 100% interest in Xstrata's TNB Properties (formerly referred to as the TNB North and TNB South Exploration Properties), which includes approximately 580 square kilometers of advanced-stage exploration ground. Crowflight will earn an initial 35% interest upon its expenditure of $7.2 million in exploration activities on the combined TNB Exploration Properties (TNB North and/or TNB South at Crowflight's discretion) no later than December 31, 2009. At the end of Q4-2009, Crowflight has incurred gross exploration expenditures, which includes a 10% administration charge, of approximately $7.35 million of the required $7.2 million expenditure commitment. The Company will earn a 100% interest upon its expenditure of a further $5.85 million in exploration activities on the combined TNB Exploration Properties no later than December 31, 2013.

Crowflight's 100% interest in the Exploration Properties is subject to a Back-in Right whereby should Crowflight outline a Threshold Deposit or Deposits, each of which exceed 500,000,000 pounds of nickel in Measured and Indicated Resources, Xstrata Nickel 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 Crowflight in carrying out mining operations on the property prior to the Back-in, provided that if Xstrata Nickel 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.

Definitive Offtake Agreement

Crowflight has entered into a life of mine contract with Xstrata Nickel for the purchase of 100 percent of the nickel concentrates at commercially competitive terms. These agreements replace former agreements with Falconbridge Ltd. (Xstrata Nickel) dated June 2004 and January 2005.

MANIBRIDGE JOINT VENTURE – MANITOBA

The Company holds an interest in 55 claims totalling approximately 145.3 square kilometers centered around the past-producing Manibridge Nickel Mine, located approximately 20 kilometers south of Wabowden, Manitoba. The property covers extensions of prospective geology interpreted to be associated with the Manibridge mine horizon and hosts several known occurrences of nickel sulphide mineralization. In August 2007, the Company acquired a 100% interest in the Owl Claim from Ferreira Ltd., subject to a 2% Net Smelter Return royalty ("NSR").

In November 2007, the Company entered into two separate but related transactions:

Firstly, Crowflight entered into an option agreement with Hudson Bay Exploration and Development Ltd. (HBED) to acquire a 100% interest in two claims located close to the Manibridge mine. Under the terms of this option agreement, the Company will be required to make payments of $250,000 and fund a total of $750,000 in exploration expenditure by 2011 to earn a 100% interest in the property, subject to a back-in clause, right of offer for off-take and a 2% NSR.

Secondly, Crowflight entered into a 50-50 Joint Venture agreement with Pure Nickel Inc. ("Pure Nickel") to explore and develop nickel deposits on properties controlled by both parties near the past producing Manibridge Nickel Mine (the "Pure Nickel Agreement"). Under the terms of the Pure Nickel Agreement, both parties have agreed to contribute property to the Joint Venture and make an aggregate contribution of $6 million over a three year period to fund preliminary exploration activities within the joint venture area. Pure Nickel contributed two claims containing the Manibridge Deposit. Crowflight contributed 62 claims it owned, including claims held under option from HBED.

In November 2008, the terms of the Pure Nickel Agreement were amended to allow Pure Nickel the option to earn a 50% interest in an expanded area surrounding the Manibridge deposit by incurring additional exploration expenditures by 2012. In addition, the period for funding preliminary exploration activities in the joint venture area was extended until 2011.

In August 2009, the Company allowed five claims totalling 1,100 Ha to expire as no work was planned on the properties in the upcoming season and the prospective potential of these five claims was not high enough to warrant their continued maintenance.

SUDBURY PROPERTIES – ONTARIO

In the Sudbury Basin, Crowflight maintains an interest in approximately 75.4 square kilometers of mining property which includes: (1) the AER Kidd Project adjacent to Inco Limited's Totten Deposit (10.1 million tonnes grading 1.5% nickel, 2.0% copper and 4.8 g/t PGMs); and (2) the Peter's Roost Property.

AER Kidd Property

There is currently no activity on this property. Crowflight maintains a 100% interest in the mining patents associated with this property. In 2008, the Company wrote down its value of $5,244,395. In 2009, the Company recorded an additional amount of $50,000 to the statement of operations for payment made to maintain the property in good standing. The Company is actively seeing a partner to advance this project.

Peter's Roost Property

In 2006, the Company reached an agreement with Wallbridge Mining Company Limited ("Wallbridge") to earn an initial and conditional 50% interest in the Company's interests in the Peter's Roost group of properties. For any new properties Wallbridge acquires within the joint venture area, the Company will have the right to acquire a 25% participating interest, at such time as an indicated resource is established, by reimbursing Wallbridge 50% of its exploration costs to that point.

Wallbridge was required to incur $700,000 in exploration expenditures on the properties by December 31, 2007 in order to earn an initial 50% interest. In January 2008, Wallbridge earned an initial 50% interest in the property and submitted proposals for additional work in 2009. Under the terms of the Agreement, Wallbridge retains an option right to increase its ownership to a 70% vested interest in any or all of the four separate project areas by funding a further $1 million in exploration expenditures in each project area in which it selects to vest by December 31, 2010. Failure to vest in a specific project area will result in ownership reverting back to the Company. In April 2009, Crowflight granted Wallbridge an extension to the period required to complete minimum exploration expenditures for 2009. Wallbridge has committed to funding additional work on the property in 2010.

EXPLORATION ACTIVITIES

Thompson Nickel Belt Properties

In Q4 2009, the Company completed a program of exploration drilling to explore and infill nickel mineralization associated with the M11A North deposit. The M11A North deposit is located 4 kilometers north of the Bucko Lake mine and mill operation located near the town of Wabowden, Manitoba. The deposit was discovered by Crowflight and its partner Xstrata Nickel in 2006 and was followed up by subsequent drilling programs in 2007 and 2008 (refer to press releases dated July 11, 2006, May 8, 2007, April 21, 2008, and May 20, 2008). In 2008, a National Instrument (NI) 43-101 compliant inferred resource estimate for the deposit was calculated at 903,000 tonnes grading 1.55% nickel (refer to press release dated March 12, 2009).

Drilling completed in late 2009 was designed to infill mineralization outlined in 2006 and 2007 and follow-up on the new zone of mineralization identified by drilling in 2008. In total 6,894 metres in 18 holes were completed during the 2009 program. Assay results from program were pending at the end of 2009, but were subsequently announced on February 4, 2010 and on March 4, 2010.

At the close of Q4 2009, the Company had incurred exploration expenditures under the terms of the Xstrata Exploration Agreement totalling approximately $7.5 million, thus fulfilling its minimum spending requirements of $7.2 million by December 31, 2009. The Company intends to provide notice to Xstrata in 2010 of its achieving an initial vested interest of 35% in the project.

Bucko Lake Nickel Mine

At Bucko, programs of infill and exploration drilling were conducted on the 450', 500' and 900' levels of the deposit. At the end of the fourth quarter of 2009, 143 holes for a total of 21,967 metres of underground drilling had been completed. Results from drilling in 2009 have been used to confirm mining reserves for 2010 and 2011 and to explore for additional mineral resources.

Sudbury Properties

In 2009, Wallbridge continued its efforts on Area 4 of the joint venture (close to McGrindle Lake in Botha and Roberts Townships). Work completed in between 2006 and 2008 includes the completion of a high resolution airborne geophysical survey, mapping and the diamond drilling of six short holes. Several of the holes intersected semi-massive sulphides containing anomalous nickel copper sulphide mineralization.

Geophysical modelling completed by Wallbridge in 2009 highlighted some additional target potential at depth at Area 4. Wallbridge has proposed a program of additional work for the area and was granted an extended timeline for completion by Crowflight. The work proposed by Wallbridge includes diamond drilling to evaluate identified targets on the property. It is expected that results from this program will be made available by the end of Q1 2010.

OPERATIONAL AND DEVELOPMENT ACTIVITIES

Bucko Lake Nickel Mine

In November 2009, Crowflight temporarily suspended all production mining and milling operations at the Bucko Mine for three months in order to complete ramp development, review the mining method (subsequently redesigned the mine method, please see press release dated February 1st, 2010), accelerate mine development, continue with diamond drilling underground and upgrade the backfill plant.

Crowflight re-started production mining activities at Bucko at the end of February 2010. Milling operations and shipments of concentrate resumed the week of March 15, 2010.

Since the temporary suspension of production mining and milling operations was announced in November 2009, Crowflight has been focused on the following initiatives:

- completing development of the surface ramp to connect from surface to the 1,000' Level;
- lateral level development;
- infill diamond drilling underground on the 500, 600 and 900 Levels;
- upgrading and commissioning the backfill plant; and
- mine method re-design

Development of the surface ramp decline has been ongoing and broke through to the 1,000' Level ramp in February 2010. The ramp connection has been designed to develop access to new areas for mining and allow for the use of large 40-tonne class trucks to haul ore directly from the stoping levels to surface.

Lateral level development commenced in January and is scheduled to continue through the first and second quarters. Crowflight is targeting to have three working levels of lateral development complete by the start of the second quarter of 2010 utilizing an overhand cut and fill mining method. The transition to cut and fill mining has been implemented with a view to allow for a consistent ore stream to the mill. The cut and fill method will allow for a more selective mining operation which in turn will reduce dilution and allow an increase in mine head grades. Mining has been designed to be conducted on multiple levels allowing for a consistent number of workplaces at any one time to meet the 1,000 tpd target in Q2-2010.

Scheduled infill diamond drilling on the 500', 600' and 900' Levels was completed in December 2009, the results of which are now being incorporated into the mine model. Currently, two underground drills are on site working to infill resources in preparation for mining later in 2010.

An improved backfill plant capable of placing hydraulic backfill at a greater capacity commenced commissioning in February. This new hydraulic backfill plant is required to provide the quantity of fill needed to efficiently cycle the stoping lifts to minimize the filling cycle in cut and fill mining. The new plant is designed to work with the existing infrastructure and expand the backfill capabilities.

RESULTS OF OPERATIONS

The Company declared on June 10, 2009 that commercial production commenced effective as of June 1, 2009. Consequently the results of operations for the three months and year ended December 31, 2009 are not comparable to the same periods last year during which the Bucko mine was not in production.

Fourth quarter 2009 vs. Fourth quarter 2008

The Company reported a net loss of $22,332,697 ($0.04 per share – basic and diluted) for the quarter ended December 31, 2009 compared to income of $28,958,231 (income of $0.11 per share – basic and diluted) for the quarter ended December 31, 2008.

Operations

During the three months ended December 31, 2009, a total of 16,605 tonnes of ore were extracted from the Bucko underground.

During the three months ended December 31, 2009, the mill processed 18,294 tonnes of ore at an average grade of 0.69% nickel producing 183,203 pounds of nickel with an average recovery of 64.88%. The Company sold 287,506 pounds of payable nickel during the quarter including minor sales settlements from prior quarters. During the same period last year, there was no production.

Revenue

Revenue is affected by sales volumes, commodity prices and currency exchange rates. Approximately 75% of nickel concentrate sales are recognized in revenue at prevailing spot prices when concentrate is delivered to Xstrata for smelting and refining treatment, per the In-Process Working Capital Facility with Auramet (See Note 8 of the annual audited consolidated financial statements for the year ended December 31, 2009). Final pricing and quantities are settled three months following delivery. At the end of each quarter, all outstanding sales contracts for the quarter are valued based on the three month forward price and offset against nickel sales. Final pricing results in additional revenues in a rising commodity price environment and reductions to revenue in a declining commodity price environment. Similarly, a weakening in the Canadian dollar relative to the US dollar will result in additional revenues and a strengthening in the Canadian dollar will result in reduced revenues. Sales of other metals are offset in cost of goods sold.

For the three months ended December 31, 2009, nickel revenue was $2,254,773 compared to $nil in the same period last year, reflecting no production at the Bucko mine last year. The average realized price was US$7.35/lb at an average US/CAD exchange rate of $1.07. Pricing adjustments realized in the quarter were $184,171.

Operating Costs

The Company recorded cost of sales of $4,391,982 during the quarter ended December 31, 2009, compared to $nil in the same quarter last year. The USD operating cash cost per payable pound was $14.31/ (non-GAAP measure, see "non-GAAP measures" section) for the quarter ended December 31, 2009. The higher cash cost reflects higher production cost per tonne from development ore, higher than expected mill input costs as well as lower than expected production due to the temporary mine and mill shut-down announced in November.

The Company recorded non-cash amortization of $357,940 for Bucko related assets depreciated on a unit of production in Q4-2009, compared to $nil in the same period last year.

Temporary Shutdown Costs

The Company suspended production mining and milling operations on November 16, 2009 which remained suspended for the remainder of Q4-2009 and into the first quarter of 2010. Expenses incurred during temporary shutdowns that related to maintenance or support were recorded as temporary shutdown costs and totalled $2,561,917 for the quarter ended December 31, 2009. Temporary shutdown costs for the same period in 2008 were $nil as the Company was not in production.

Other Items

The Company recorded a net gain of $128,051 on cash settlements of forward sales contracts. During the comparative quarter in the prior year the Company realized gains of $62,580,000 as a result of the monetization of 89% of the forward nickel contracts entered into in July 2008. The Company also recorded a non-cash loss of $10,223,811 related to the change in value of these forward sales contracts. These contracts provided for the sale of 20.5 million pounds of nickel over a period of four years at a price of US$8.49/pound.

General and administrative expenses increased by approximately $1,552,290 from the comparative quarter as a result of several variances. These include stock-based compensation expense, which increased by $953,941 and increases in foreign exchange losses, legal fees, rent and building maintenance and interest expenses (not including interest on long term debt as discussed separately below). The Company paid $210,000 for severance owed to a former officer of the Company during the quarter for which no charge was recorded during the comparative period. The Company also paid or accrued start up and retention incentive payments of $317,792 during the quarter for which there was no charge recorded during the comparative period.

The Company also incurred a non-cash accretion reversal on the asset retirement obligation of $nil for the quarter ended December 31, 2009. During the comparative quarter, the Company recorded a reversal of $761,180.

Interest income earned during the current quarter totalled $18,909 compared to $54,322 during the quarter ended December 31, 2008. The Company did not hold large balances in investments during the quarter. The Company incurred $nil in interest expense on long term debt during Q4-2009 compared to $1,416,215 incurred during Q4-2008 as a result of balances owed on the long-term debt facility. During the fourth quarter of 2008 the Company incurred $3,449,087 in debt facility transaction costs for which there was no equivalent in Q4-2009.

During the quarter ended December 31, 2009, the Company identified that the Property, plant and equipment related to the Bucko deposit and certain of its Exploration and development properties and deferred expenditures were impaired and consequently these items were written down by $33,737,770. The $33,737,700 pre-tax write down generated tax benefits of $15,053,800, giving an after tax write down of $18,683,970. During the comparative quarter in the prior year, the Company wrote down $5,244,395 in exploration and deferred expenditures.

During the quarter ended December 31, 2009, the Company recognized a future income tax recovery of $18,500,059 (including tax benefits generated by the write down noted above) compared to an expense of $13,287,000 during the quarter ended December 31, 2008.

<u>Year end 2009 vs. Year end 2008</u>

The Company reported a net loss of $26,980,887 (($0.07) per share – basic & diluted) for the year ended December 31, 2009 compared to a net gain of $34,479,399 ($0.13 per share) for the year ended December 31, 2008. In 2008, the Company realized gains of $62,580,000 as a result of the monetization of their forward nickel contracts as well as recording a non-cash gain of $8,044,169 as a result of changes in the estimated fair value of outstanding forward nickel contracts and forward currency contracts at December 31, 2008.

Operations

During the year ended December 31, 2009, a total of 73,315 tonnes of pre-production and 62,616 tonnes of production ore were extracted from the Bucko underground. During the same period last year, no ore was extracted.

During the year ended December 31, 2009, the mill processed 64,793 tonnes of pre-production ore producing a total of 334,134 pounds of pre-production payable sold nickel at an average nickel head grade of 1.10% per tonne of nickel with an average recovery of 44.91%. The Company also processed 60,177 tonnes of production ore producing a total of 818,563 pounds of payable sold nickel at an average nickel head grade of 0.91% per tonne of nickel with an average recovery of 66.12%. The total production for the year was 1,382,606 pounds resulting in 1,152,697 pounds of payable nickel sold. During the same period last year, there was no production.

Revenue

For the year ended December 31, 2009, nickel revenue was $6,730,887 million compared to $nil in the year ended December 31, 2008 reflecting no production at the Bucko mine last year. The average realized price was US$7.19/lb at an average US/CAD exchange rate of $1.10.

Operating Costs

The Company recorded cost of sales of $9,383,311 during the year ended December 31, 2009, compared to $nil in the same period last year. The USD operating cash cost per pound sold was $10.38/lb (non-GAAP measure, see non-GAAP measures section above) for the year ended December 31, 2009. The higher cash cost reflects higher production cost per tonne from pre-production ore, higher than expected mill input costs as well as lower than expected production in the third and fourth quarter of 2009.

The Company recorded non-cash amortization of $1,299,174 for Bucko related assets depreciated on a unit of production during the year ended December 31, 2009, compared to $nil in the same period last year.

Temporary Shutdown Costs

The Company suspended mill operations in July 2009. The Company also suspended production mining and milling operations on November 16, 2009 to the end of 2009. Expenses incurred during temporary shutdowns that related to maintenance or support were recorded as temporary shutdown costs and totalled $4,943,000 for the year ended December 31, 2009. Temporary shutdown costs for 2008 were $nil as the Company was not in production.

Other Items

The Company realized net gains of $2,090,556 in Q1-2009, as a result of the monetization of their forward nickel and currency contracts as discussed above. The nickel contracts increased in value as a result of declining nickel prices since entering into the contracts, while the currency contracts decreased in value as a result of a weaker Canadian dollar. The Company recorded a net loss of $560,405 on new forward sales contract, entered into in the current year, bringing the total net gain for the year ended December 31, 2009 to $1,530,151.

General and administrative expenses increased by approximately $2,287,953 from the comparative year primarily due to increases in consulting and professional fees and general and office expenses. Increases in consulting fees resulted from increased headcount as the mine moved into production, severance payments for former officers and start-up and retention incentive payments. General and office expenses increased primarily as a result of foreign exchange losses from sales denominated in US dollars; there were no sales in the prior year. The Company also paid and accrued for capital taxes during the year for which no charge was recorded during the comparative period. Interest expenses (not including interest on long term debt as discussed separately below) also increased from the prior year as the Company accrued for flow-through interest penalties during 2009 on unspent flow-through expenditures subject to the look-back rule. The Company had met all flow-through expenditure commitments during the comparative period in 2008 and no such accrual was necessary. In addition, the Company paid and accrued interest on its in-process working capital facility and Retail Sales Tax payable to the Government of Manitoba for which it did not have an equivalent in the prior year.

Interest income earned during the year ended December 31, 2009 totalled $45,581 compared to $253,448 during the year ended December 31, 2008. The Company incurred $48,673 in interest expense on long term debt compared to $2,317,355 incurred during the comparative period for 2008 as a result of balances owed on the long-term debt facility. The cost of debt was lower during the year ended December 31, 2009 as result of lower interest rates and the long-term debt was retired during the first quarter of 2009. The Company incurred costs of $383,464 to secure an In-Process Working Capital Facility in 2009 compared with $5,993,883 incurred in the year ended December 31, 2008 for a long-term debt facility.

During the year ended December 31, 2009, the Company wrote down certain of its Property, plant and equipment and Exploration and development properties and deferred expenditures by $33,737,770 as discussed in the quarterly results section. During the prior year, the Company wrote down $5,244,395 in exploration and deferred expenditures.

During the year ended December 31, 2009, the Company recognized a future income tax recovery of $21,003,129 (Please see Note 13 of the Company's 2009 Audited Annual Financial Statements) compared to an expense of $18,476,000 during the year ended December 31, 2008. The Company had net income of $34,479,399 in 2008 arising from realized and unrealized gains on forward nickel contracts (as discussed above and in the quarterly information section) resulting in the variance in future income taxes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A detailed summary of the Company's significant accounting policies is included in Note 2 of the Company's Annual Audited Financial Statements for the year ended December 31, 2009. The following is a list of the accounting policies that the Company believes are critical, as they are subject to estimates and key judgments about future events, many of which are beyond management's control.

- Carrying value of exploration and development properties and deferred expenditures
- Asset retirement obligations
- Income taxes
- Revenue recognition
- Inventory

Carrying value of exploration and development properties and deferred expenditures

Crowflight reviews and evaluates the carrying value of its exploration and development properties for impairment whenever events or circumstances indicate that the carrying amounts of these assets might not be recoverable. If the carrying amount exceeds the undiscounted cash flow, an impairment loss is measured and recorded. Future cash flows are based on estimated recoverable production as determined from Proven and Probable Reserves and Measured, Indicated and Inferred Resources. Assumptions underlying the cash flow estimates include, but are not limited to, forecasted prices for nickel, the CAD/US foreign exchange rate, production levels, and operating, capital and reclamation costs. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. It is therefore possible that any change in estimates with respect to the Company's mine plans could occur and could affect the expected recoverability of Crowflight's investments in the carrying value of the assets. Management's assessment of the exploration property's estimated current value is based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Asset retirement obligations

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are subject to change and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. The Company records the estimated present value of reclamation liabilities in the period in which they are incurred. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration and development properties and deferred. This liability can also be adjusted for changes in the estimate of the amount, timing and cost of the work to be carried out. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each property. Actual costs incurred may differ from those amounts estimated and any future changes to environmental laws and regulations could increase the extent of reclamation work required to be performed by the Company.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities. See Note 2 of the Company's Annual Audited Financial Statements for the year ended December 31, 2009. Assessing the recoverability of future income tax assets requires management to make significant estimates of future taxable income as estimates of future taxable income are subject to changes as discussed above in ''Carrying value of exploration and development properties and deferred expenditures''. Should future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the balance sheet date could be impacted. In addition, future changes in tax laws could affect the Company's ability to obtain tax deductions in future periods.

Revenue recognition

Revenue is affected by production volumes, commodity prices and exchange rates. Sales of metals in concentrate are recognized in revenue when they are delivered to a third party smelter based on provisional assays and volumes. Final pricing and assays are not determined until the final metal is settled which can be up to three months later. Accordingly, revenue in the year is based on the US denominated three month forward nickel price at the time of delivery for sales occurring in the year, plus on-going pricing adjustments from prior sales that are still subject to final pricing, assays, and volumes.

Inventory

Materials and supplies expected to be used in production are valued at the lower of cost and net realizable value. Nickel in process inventory is valued at the lower of current month production cost and net realizable value. Ore stockpile inventory is valued at the lower of current month mining cost and net realizable value. Mining cost includes the cost of direct labour, supplies consumed and equipment costs. Ore stockpile tonnage is estimated based on storage bin levels and average metallurgical recovery rates for the preceding periods. Finished goods inventory which consists of nickel concentrate and inventory in transit to the third party smelter are valued at the lower of the current month production cost and net realizable value. Production costs include the cost of raw materials, supplies consumed, direct labour, mine site overhead expenses, amortization of operating property and equipment and depletion of mineral property costs. Net realizable value is the estimated future nickel price, based on the US denominated average nickel price for the month, less estimated costs to complete production into a saleable form.

RECENT ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2 of the Company's Annual Audited Financial Statements for the year ended December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2009, the Company had a working capital (non-GAAP measure, see Non-GAAP Measures section above) of $3,171,755 compared to working capital of $7,667,069 as at December 31, 2008. The cash balance as at December 31, 2009 was $10,040,475 (2008 – $10,607,543) and the restricted cash balance was $nil (2008 – $2,999,998).

In October 2008, the Company restructured its $55 million debt facility agreement with FirstRand Ireland Plc. As at December 31, 2008, the balance owing on this facility was $7,600,000, and the Company carried forward nickel and currency contracts as required by the terms of the agreement. In January 2009, the Company entered into additional forward nickel and currency contracts for the first and second quarters of 2009. In February 2009, the Company monetized its total hedge position of 2.97 million pounds of nickel, allowing Crowflight to repay its remaining $7,600,000 debt plus accrued interest. The restriction was released from the debt reserve account as a result.

Related to the debt facility agreement, a total of 17,324,786 warrants had been issued to RMB with an exercise price of $0.64 per share during 2008. With the restructuring of the debt facility, these warrants were cancelled in January 2009, and were replaced with 20,000,000 warrants at an exercise price of $0.21 expiring three years from the date of issuance.

On April 30, 2009, the Company closed two private placement financings. The Company raised $7,820,000 through the issuance of 46,000,000 units of the Company. Each Unit consisted of one common share of Crowflight (a "Unit Share") and one-half of one common share purchase warrant (each full warrant, a "Warrant"), each full Warrant being exercisable to acquire one common share of Crowflight at a purchase price of $0.20 for a period of 24 months. As well, the Company issued 29,411,765 units for gross proceeds of $5,000,000. Each Unit consisted of one common share of Crowflight (a "Unit Share") and one-half of one common share purchase warrant (each full warrant, a "Warrant"), each full Warrant being exercisable to acquire one common share of Crowflight at a purchase price of $0.21 for a period of 24 months.

On July 7 2009, the Company raised $15,000,000 through the issuance of 60,000,000 units of the Company through a private placement with Pala Investments Holdings Limited. Each Unit consisted of one common share of the Company and one-half of one common share purchase warrant (each full warrant, a "Warrant"), each whole Warrant being exercisable to acquire one common share of the Company at a price of $0.30 until July 23, 2011.

On September 21, 2009, the Company announced it had entered into an agreement with Kingplace Enterprises Limited (“Kingplace”) for a $20,000,000 private placement financing, pursuant to which Kingplace agreed to purchase an aggregate of 80,000,000 common shares of the Company at a price of $0.25 per share. The financing was expected to close in two tranches. The first tranche closed on September 29, 2009, through the issuance of 44,733,221 common shares of the Company at a price of $0.25 per share for gross proceeds of $11,183,305. The second tranche closed on October 14, 2009.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, accounts payable, in-process working capital facility and equipment leases. The Company’s risk management objectives include minimizing risk relating to cash and cash equivalents to preserve capital for strategic investing. The Company does not enter into or trade financial instruments for speculative purposes.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Cash equivalents consist of guaranteed investment certificates and bankers acceptance, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of goods and services tax due from the Federal Government of Canada and receivables from related and unrelated companies. Receivables from operations are from the Company’s sole customer, Xstrata, and the Company is reliant on Xstrata’s credit for continued operations. Management believes that the credit risk with respect to these financial instruments included in amounts receivable is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had a cash and cash equivalents balance of $10,040,475 (2008 - $10,607,543) to settle current liabilities of $9,327,431 (2008 - $15,622,737). Most of the Company's financial liabilities have contractual maturities of between 30 – 60 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash and cash equivalent balances and an in-process working capital facility subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the working capital facility interest rate and balance advanced under the facility. Currently, the Company does not hedge against interest rate risk.

(b) 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 sales transactions being denominated in US dollars. Amounts receivable as at December 31, 2009 include an amount of US$987,330 (2008 - $nil). The Company monetized its derivative currency contracts during the first quarter of fiscal 2009, and currently does not hedge for foreign exchange risk.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices, specifically 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.

There were no significant changes to credit risk, liquidity risk and market risk during the year ended December 31, 2009 compared to the year ended December 31, 2008.

Sensitivity analysis

The Company has designated its cash and cash equivalents as held-for-trading, measured at fair value. Financial instruments included in amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, in-process working capital facility and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Equipment leases are classified as held-to-maturity and measured at amortized cost. Derivative financial instruments are classified as held-for trading.

As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited terms of these instruments. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

> The Company carries a short-term, in-process working capital facility at an interest rate of Libor + 6.75%. At December 31, 2009, the amount owing on the working capital facility was $nil.
>
> The Company holds certain cash equivalents that upon renewal will earn interest at the then market rate for such deposits. A 1% decrease in interest rates based on the cash and cash equivalents balance at December 31, 2009 will generate a decrease in interest income of approximately $100,400.
>
> The Company currently carries receivables in foreign currencies that are exposed to foreign exchange risk. A change of 1% in the Canadian dollar compared to the US dollar based on the US denominated accounts receivable balance at December 31, 2009 will generate an increase or decrease in the receivable of approximately $10,333. As production ramps up and the accounts receivable balance increases, the change could be significant.

Fair Value

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments. The fair value of short-term financial instruments approximates their carrying value due to the relatively short period of time to maturity. These include cash and cash equivalents, amounts receivable, accounts payable, in-process working capital facility, accrued liabilities and equipment leases. Fair value amounts represent fair value at a point in time and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and can be a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for fair values recognized on the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices in active markets for identical assets or liabilities. Level two includes inputs that are that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. Cash and cash equivalents of $10,040,475 is considered to be Level one and is the only financial instrument measured at fair value for the Company, in accordance to the amendment to Handbook Section 3862.

QUARTERLY INFORMATION

The quarterly results have been as follows:

Summary Financial Information for the Eight Quarters Ended December 31, 2009

Tabular amounts in $000 except for per share amounts.

Period	Revenues	Total Assets	Net Income (Loss)	Net Income (Loss) per Share basic and diluted	Long Term Financial Liabilities
4th Quarter 2009	2,439	166,307	(22,333)	(0.04)	980
3rd Quarter 2009	2,285	208,606	(2,905)	(0.01)	992
2nd Quarter 2009	2,007	181,862	(3,266)	(0.01)	1,010
1st Quarter 2009	Nil	169,885	1,523	0.01	1,010
4th Quarter 2008	Nil	177,875	28,958	0.11	8,066
3rd Quarter 2008	Nil	170,826	9,891	0.04	39,901
2nd Quarter 2008	Nil	121,927	(1,530)	(0.01)	7,140
1st Quarter 2008	Nil	106,508	(2,840)	(0.01)	6,795

The Company had operating revenue for the year ending December 31, 2009 of $6,730,887.

The Company has invested in capital assets for the development of the Bucko Lake Nickel Mine, which accounts for the continued increases in total assets during 2008 and the first three quarters of 2009. Total assets also increased during Q3-2009 as a result of the closing of private placements on July 23 and September 29, 2009 (see Liquidity and Capital Resources section for additional details). Total assets decreased during Q4-2009 due to an impairment provision recorded by the Company (see Results of Operations section above).

The net losses in Q2 & Q3 2009 resulted primarily from higher costs of nickel production and temporary shutdown costs. Other costs included Manitoba corporate taxes and corporate overheads, including stock-based compensation, severance and incentive payments and losses resulting from foreign exchange transactions. The net loss in Q4 2009 resulted primarily from an impairment provision on certain of the Company's Property, plant and equipment and Exploration and development property and deferred expenditures as discussed above and in the Results of Operations section. Net income earned during Q1-2009 and Q4-2008 resulted from realized net gains on the monetization of forward nickel and currency contracts, net of future income taxes. Net income in Q4-2008, included the remaining value of warrants that was expensed at the time of settlement for that portion of the debt facility, and was a result of the restructuring of the debt facility. As well, an incremental value on the warrants was determined and $849,709 was charged during Q4-2008. During Q3-2008, income resulted from the unrealized gain recognizing the increase in fair value of forward nickel contracts entered into by the Company. During the second and third quarters of 2008, the Company incurred a non-cash accretion charge of $475,485 and $292,696 respectively as a result of the accretion of the value of warrants charged against the debt facility. The net losses in Q1-2008 and Q2-2008 result primarily from corporate overheads, including stock-based compensation. During the first quarter of 2008, the Company also expensed $2,040,905 in debt facility costs.

In Q1-2008, the Company entered into a long term loan facility agreement, and drew down funds against this facility accounting for the rise in long term debt over the next few quarters of 2008. The Company drew down the majority of the Final Tranche of the debt facility during Q3-2008. During Q4-2008, the Company restructured its debt facility and settled the majority of this debt. In Q1-2009, the Company paid the remaining debt in its entirety.

ANNUAL INFORMATION

The annual results have been as follows:
Tabular amounts in '000's except for per share amounts

	2009 $	2008 $	2007 $
Net income (loss)	(26,981)	34,479	(4,465)
Income (loss) per share, basic and diluted	(0.07)	0.13	(0.02)
Total assets	166,307	177,875	88,214
Total long term financial liabilities	980	8,066	331

CASH FLOWS

During the second quarter of 2009, the total expenditures to date on the Bucko mine were moved from "Exploration and development property and deferred expenditures" to "Property, plant and equipment" as a result of the Company declaring full commercial production.

For the three months ended December 31, 2009

Cash used by Operating Activities was $4,180,455 during the quarter ended December 31, 2009, compared to providing cash of $61,817,358 during the same period in 2008. The change in non-cash working capital provided was $1,494,023 during the quarter ended December 31, 2009 compared to providing $537,539 in non-cash working capital during the quarter ended December 31, 2008.

Cash provided from Financing Activities was $8,854,829 during the quarter ended December 31, 2009 compared to using $38,600,829 for Q4-2008. During the comparative quarter in 2008, the Company used $42,461,699 to repay its debt and related transaction costs. During the Q4-2009, the Company received $49,000 from the exercise of warrants and options compared with $nil in the same period in the prior year. The Company raised $8,816,695 net of issue costs through a private placement in October 2009 compared with $3,867,659 in the same period in the prior year. The Company made lease payments of $10,866 during Q4-2009 compared to $6,788 during Q4-2008.

Cash used in Investing Activities during the quarter ended December 31, 2009 was $8,309,734 compared to $25,648,985 during the quarter ended December 31, 2008. Cash spending on exploration and development of its properties in the TNB as well as the acquisition of capital assets related to the Bucko mining operations for the current quarter was $6,561,584, net of government assistance, compared to $21,562,440 during Q4-2008. Specifically, the Company used $5,450,619 in cash in the continued development of the Bucko Mine (Q4-2008 -- $21,466,672). The Company received $nil in government assistance (Q4-2008 -- $137,074) related to the TNB Joint Venture and used $1,107,902 in cash during the quarter (Q4-2008 –$235,195). The Company incurred expenses related to the Pure Nickel Joint Venture of $3,063 in expenditures compared to a recovery of $2,353 during the same period in the prior year. Accounts payable related to exploration and development expenditures decreased by $1,748,151 during the current quarter compared to a decrease of $1,086,547 during the comparative quarter.

For the twelve months ended December 31, 2009

Cash provided by Operating Activities was $6,209,391 during the year ended December 31, 2009, compared to providing $59,232,026 during the same period in 2008. Cash of $1,530,151 was generated from the monetization of the Company's forward nickel and currency contracts compared with cash provided by monetization of forward contracts in 2008 of $62,580,000. The change in non-cash working capital was $8,730,235 during the year ended December 31, 2009 compared to the use of $498,933 in non-cash working capital during the year ended December 31, 2008.

Cash provided by Financing Activities was $29,642,898 during the year ended December 31, 2009 compared to providing $20,205,845 for 2008. As described in the Liquidity and Capital Resources section above, the Company retired the remaining debt facility of $7,600,000 in 2009. During the year ended December 31, 2008, the Company drew down $47,612,059 net of transaction costs from its debt facility and retired $42,400,000 of the debt. The Company raised $37,242,661 net of issue costs through private placements, in April, July, September and October 2009 compared with $14,052,365 in the prior year. Also during 2008, the Company received $1,015,866 from the exercise of warrants and options compared with $49,000 in the current year. The Company made lease payments of $48,763 during 2009 compared to $74,444 during 2008.

Cash used in Investing Activities during the year ended December 31, 2009 was $36,419,357 compared to $77,835,116 during the year ended December 31, 2008. Cash spending on exploration and development of its properties in the TNB as well as the acquisition of capital assets related to mining operations for 2009 was $33,631,896, net of government assistance, compared to $82,559,511 during 2008. Specifically, the Company used $32,548,406 in cash in the development of the Bucko Mine (2008 - $79,190,499). The Company received $nil in government assistance (2008 -- $228,063) related to the TNB Joint Venture and incurred expenditures during the year of $1,092,099 net of recovery of cash payments made in lieu of expenditures (2008 -- $2,910,113). The Company received $17,158 in government assistance (2008 -- $nil) related to the Pure Nickel Joint Venture and incurred $8,549 in expenditures (2008 – $380,048). The Company used $nil in cash for its Sudbury properties during 2009 compared with $230 last year. Accounts payable related to exploration and development expenditures decreased by $5,787,459 during 2009 compared to increase of $7,405,839 during the comparative period. Prepaid exploration expenditures decreased by $nil during 2009 compared with a decrease of $318,554 during the prior year. The Company set aside $2,999,998 in a debt reserve account during the prior year that was released in 2009.

COMMITMENTS AND CONTINGENCIES

The Company issued 23,615,000 flow-through shares in December 2008 and as a result, the Company is committed to expend $4,250,700 in qualified exploration expenditure by December 31, 2009. As of December 31, 2009, the Company has met its expenditure commitment.

The Company is party to certain management contracts which require that additional payments of up to $2,711,509 be made upon the occurrence of certain events such as events that may result from a change of control. As at July 23, 2009 a change of control occurred. As a result of this change of control, either the Company or the holder of the contract can terminate the contract before July 24, 2010, which would result in the contract holder receiving certain additional payments. As at December 31, 2009 there were no amounts owing relating to any such event having occurred. Minimum termination commitments under these contracts are approximately $540,254, all of which are due within one year.

The Company entered into an agreement on February 28, 2007 with a general contractor for the Bucko Deposit. If the agreement is terminated without cause, the Company must give 90 days notice and is liable for demobilization fees.

Outstanding legal issues relate to a claim for damages made by the Company against Met-Chem Canada Inc. ("Met-Chem"), the engineering firm hired by the Company to design the processing facility. The claim is for corrective measures required to the crushing plant building due to engineering errors by Met-Chem. The cost of expected corrective measures is $230,000.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company shares its premises with other companies that have common directors. The Company reimburses the related companies for their proportionate share of the expenses. At December 31, 2009 an amount of $32,286 (2008 - $nil) is payable in relation to these expenses. During the comparative year, the Company prepaid and was owed $75,753. Amounts payable and prepaid are unsecured, non-interest bearing with no fixed terms of repayment.

On April 30, 2009, directors, officers and companies with common directors subscribed for 11,277,900 (2008 – nil) units of the Company for gross proceeds of $1,917,243 (2008 - $nil)

During the year ended December 31, 2009 $9,156,689 was paid or accrued to Dumas Contracting Limited ("Dumas") a subsidiary of Pala, a company who placed two directors on the Company's Board of Directors as part of the private placement described in the highlights section, and is included in cost of sales on the statement of operations. Included in accounts payable and accrued liabilities as at December 31, 2009 is $2,599,113 owing to Dumas. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

During the year ended December 31, 2009, the Company paid $37,295 (2008 - $21,134), and granted 1,695,000 (2008 – 20,000) stock options to individuals for legal and support services. These are included in professional, consulting and management fees on the statement of operations. These same individuals also perform services for a company controlled by a director of the Company.

The Company was charged $60,000 during the year ended December 31, 2009 (2008- $60,000) by a company controlled by a director of the Company for administration services.

During the year ended December 31, 2009, 18,860,000 stock options were granted to directors and officers of the Company compared to 2,275,000 options for the year ended December 31, 2008.

OUTSTANDING SHARE DATA

As at March 26, 2010, 581,723,552 common shares of the Company were outstanding. Of the options to purchase common shares issued to service providers under the share option plan of the Company, 38,080,000 remain outstanding with exercise prices ranging from $0.15 to $1.02, with expiry dates ranging between July 14, 2010 and March 19, 2015. If exercised, 38,080,000 common shares would be issued for proceeds of $12,196,300.

As at March 26, 2010, 93,846,682 share purchase warrants and broker options were outstanding with an exercise prices ranging from $0.17 to $0.62 expiring between April 30, 2010 and January 16, 2012. If all warrants were exercised, 93,846,682 common shares would be issued for proceeds of $22,465,795.

SUBSEQUENT EVENTS

On January 15, 2010, the Company granted options to purchase up to 2,000,000 common shares of the Company at an exercise price of $0.16 per option, expiring 5 years from the date of grant to consultants of the Company. As well, a further 1,500,000 options to purchase shares in the Company were granted to the same consultants of the Company, at an exercise price to be determined in the context of the market, were granted on the date that is one month following the restart of the mine, subject to regulatory approval. All options will vest one eighth every quarter from the date of grant over a two-year term with the first installment vesting on the date of grant.

On January 27, 2010, the Company received a non-binding expression of interest from Pala regarding the direct or indirect acquisition of the Bucko Deposit and certain surrounding exploration areas held by the Company in the Thompson Nickel Belt, including the M11A and Apex deposits, collectively the “Bucko Assets”. In consideration for the purchase of the Bucko Assets, Pala has proposed to pay an implied purchase price of $122.3 million before private placement allocated as follows: $101.9 million, representing $0.20 per share and $20.4 million, or $0.04 per share for Exploration properties of the Company. If the acquisition were completed, the Company would cancel 116,079,971 shares held by Pala for $27.9 million, as well as, 50,588,235 warrants for $2.02 million. The expression of interest is non-binding and subject to a number of conditions, including negotiation and execution of a definitive agreement, receipt of board, shareholder and regulatory approvals and Pala being satisfied with its due diligence review of the Bucko Deposit. As Pala holds approximately 22.8% of the issued and outstanding common shares of the Company, at the time of the announcement, the proposed transaction would be considered to be a related party transaction. In response to the non-binding expression of interest, the Company has entered into a confidentiality and fee agreement with Pala. This agreement provides that the Company will, in certain circumstances, reimburse any expenses of Pala in connection to its due diligence review to a maximum of $150,000. In addition, the Company has agreed to pay to Pala a termination fee of $3.65 million in certain circumstances, including if at any time prior to August 31, 2010, the Company terminates or otherwise abandons negotiations regarding the proposed transaction and enters into a definitive agreement with respect to (i) an amalgamation agreement, merger, take-over bid or other similar business combination which will result, if successfully completed, in the shareholders of the Company holding less that 50% of the voting securities of the resulting corporation or other entity; or (ii) sale of all or substantially all of the assets of the Company, in each case at a price that reflects a purchase price of no greater than $0.25 per issued and outstanding share of the Company as of the date hereof.

On February 19, 2010, the Company announced it had closed a private placement financing by issuing an aggregate of 72,200,000 common shares of the Company at a price of $0.16 per share for gross proceeds of $11,552,000. Pala purchased 21,356,250 of the 72,200,000 common shares giving it approximately 6.01% of the issued and outstanding shares of the Company.

On February 24, 2010, the Company announced that production mining activities had resumed at the Bucko Deposit. Milling operations and shipments of concentrate resumed in March 2010.

On March 19, 2010, the Company granted options to purchase up to 3,700,000 common shares of the Company at an exercise price of $0.16 per option, expiring 5 years from the date of grant to employees and consultants of the Company. All options will vest one eighth every quarter from the date of grant over a two-year term with the first installment vesting on the date of grant.

On March 23, 2010, the Company announced the appointment of Steve Davies, P.Eng. as Chief Operating Officer of Company.

Subsequent to December 31, 2009, 400,000 options exercisable at $0.28 to $0.30 with expiry dates of January 10, 2010 to February 21, 2010, expired unexercised.

RISKS AND UNCERTAINTIES

The exploration for, development and mining of mineral deposits involve significant risks, that even a combination of careful evaluation, experience and knowledge may not eliminate. Certain risk factors listed below are related to the mining industry in general, while others are specific to Crowflight.

Nature of Mining, Mineral Exploration and Development Projects

Mining operations generally involve a high degree of risk. Our operations are subject to the hazards and risks normally encountered in the exploration, development and production of nickel, including environmental hazards, explosions, unusual or unexpected geological formations or pressures and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

Development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of nickel to be mined and processed, ground conditions, the configuration of the deposit, expected recovery rates of minerals, estimated operating costs, anticipated climatic conditions and other factors. As a result, actual production, cash operating costs and economic returns could differ significantly from those estimated. It is not unusual for new mining operations to experience problems during the start-up phase and delays in the commencement of production often can occur.

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable mineral reserves through drilling. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that the expenditures made towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of nickel.

Liquidity Concerns and Future Financings

While it is anticipated that the Company will have sufficient funds to complete the development of its Bucko Lake Mine there is no assurance that the Company will be successful in ramping up production and producing positive cash flow when planned. Volatile markets may make it difficult or impossible for the Company to further finance the continued development of the Bucko Lake Mine. Failure to obtain additional financing on a timely basis may cause the Company to postpone or slow down its development plans, put the mine on care and maintenance, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.

Nickel Prices

Our principal business is the exploration and future production of nickel. Crowflight's future profitability is largely dependent on movements in the price of nickel. Nickel prices have historically been volatile and are primarily affected by the demand for and price of nickel alloys and stainless steel in addition to the supply/demand balance. Given the historical volatility of nickel prices, there are no assurances that the nickel price will remain at economically attractive levels. An increase in nickel supply without a corresponding increase in nickel demand would be expected to result in a decrease in the price of nickel. A decline in nickel prices would adversely impact the business of Crowflight.

Nickel prices are also affected by numerous other factors beyond our control, including the relative exchange rate of the United States dollar with other major currencies, global and regional demand, political and economic conditions, production levels and costs and transportation costs in major nickel producing regions.

The mining sector has continued to exhibit slowing global demand, illiquid markets and tight credit conditions. Although nickel prices have recovered, if they were to decline such that cash operation costs were to significantly exceed metal revenues, the feasibility of continuing operations would be evaluated and, if warranted, discontinued.

Foreign Exchange

Nickel is sold in US dollars thus Crowflight is subject to foreign exchange risks relating to the relative value of the Canadian dollar as compared to the US dollar. To the extent that we generate revenue on producing properties, it will be subject to foreign exchange risks as revenues will be received in US dollars while operating and capital costs will be incurred primarily in Canadian dollars. A continuing decline in the US dollar would result in a decrease in the real value of Crowflight's revenues and adversely impact our financial performance.

Mineral Resource and Mineral Reserve Estimates

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond our control. Such estimates are a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of nickel from such deposits may be different. Differences between management’s assumptions, including economic assumptions such as metal prices and market conditions, could have a material adverse effect on our financial position and results of operations.

Differences between management’s assumptions, including economic assumptions such as metal prices and market conditions, and actual events could have a material adverse effect on our mineral reserve estimates.

Licenses and Permits, Laws and Regulations

Our exploration and development activities, including mine, mill and roads, require permits and approvals from various government authorities, and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. In addition, we may be required to compensate those suffering loss or damage by reason of its activities. We are required to obtain additional licenses and permits from various governmental authorities to continue and expand its exploration and development activities. There can be no guarantee that we will be able to maintain or obtain all necessary licenses, permits and approvals that may be required to explore and develop its properties, continue construction or operation of mining facilities.

Environmental

Our activities are subject to extensive federal, provincial and local laws and regulations governing environmental protection and employee health and safety. Environmental legislation is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non-compliance are more stringent. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Further, any failure to comply fully with all applicable laws and regulations could have significant adverse effects on Crowflight, including the suspension or cessation of operations.

Title to Properties

The acquisition of title to resource properties is a very detailed and time-consuming process. We hold an interest in the Thompson Nickel Belt properties through mining claims and leases. Title to, and the area of, the mining claims may be disputed. There is no guarantee that such title will not be challenged or impaired. There may be challenges to the title of the properties in which we may have an interest, which, if successful, could result in the loss or reduction of our interest in the properties.

Uninsured Risks

We maintain insurance to cover normal business risks. In the course of exploration and development of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including explosions, rock bursts, cave-ins, fire and earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of our common shares.

Competition

We compete with many other mining companies that have substantially greater resources than we have. Such competition may result in us being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund our operations and develop our properties. Our inability to compete with other mining companies for these resources would have a material adverse effect on our results of operations and business.

Reduced Global Demand for Steel or Interruptions in Steel Production

The global steel manufacturing industry has historically been subject to fluctuations based on a variety of factors, including general economic conditions and interest rates. Fluctuations in the demand for steel can lead to similar fluctuations in nickel demand. A decrease in economic growth rates could lead to a reduction in demand for nickel. Any decrease in economic growth or steel consumption could have an adverse effect on the demand for nickel.

Availability of Reasonably Priced Raw Materials and Mining Equipment

We will require a variety of raw materials in our business as well as a wide variety of mining equipment. To the extent these materials or equipment are unavailable or available only at significantly increased prices, our production and financial performance could be adversely impacted.

Failure to Meet Production Target and Cost Estimates

We prepare future production and capital cost estimates. Actual production and costs may vary from the estimates for a variety of reasons such as estimates of grade, tonnage, dilution and metallurgical and other characteristics of the nickel varying in the actual nickel mined, revisions to mine plans, risks and hazards associated with mining, adverse weather conditions, unexpected labour shortages or strikes, equipment failures and other interruptions in production capabilities. Production costs may also be affected by increased mine development costs, increases in level of nickel impurities, labour costs, raw material costs, inflation and fluctuations in currency exchange rates. Failure to achieve production targets or cost estimates could have a material adverse impact on our sales, profitability, cash flow and overall financial performance.

Share Price Fluctuations

The market price of securities of many companies experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Crowflight's share price will not occur.

Conflicts of Interest

Certain of our directors and officers serve or may agree to serve as directors or officers of other companies and, to the extent that such other companies may participate in ventures in which we may participate, the directors of Crowflight may have a conflict of interest in negotiating and concluding terms respecting such participation.

OFF BALANCE SHEET ITEMS

There are no off balance sheet items.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures (“Disclosure Controls”) are procedures designed to provide reasonable assurance that all relevant information required to be disclosed in documents filed with the relevant securities regulatory authorities is recorded, analyzed, summarized and reported on a timely basis and is communicated to the Company’s management, including the participation of the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”).

Management, including the CEO and the CFO, does not expect that the Company’s Disclosure Controls will prevent or detect all errors and fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not guaranteed assurance that all material issues, instances of fraud or error, if any, within the Company have been detected.

Pursuant to Multilateral Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, issued by the Canadian Securities Administrators (“MI 52-109”), CEOs and CFOs are required to certify that they are responsible for determining and maintaining Disclosure Controls for the issuer, that Disclosure Controls have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer’s Disclosure Controls, and that their conclusions about the effectiveness of those Disclosure Controls at the end of the period covered by the relevant annual filings have been disclosed.

Crowflight’s CEO and the CFO have evaluated the effectiveness of the Company’s Disclosure Controls as at December 31, 2009 and concluded that, subject to the inherent limitations noted above, that they provide reasonable assurance that they were effective.

Internal Controls over Financial Reporting

MI 52-109 also requires the CEO and CFO to certify that they are responsible for establishing and maintaining internal controls over financial reporting (“ICFR”), as defined by the CSA, for the Company, that the ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP, and that the Company has disclosed any changes in its ICFR during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its financial reporting.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected. Therefore, no matter how well-designed, ICFR has limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

As of the end of the period covered by this MD&A and accompanying audited financial statements, Crowflight’s management evaluated the effectiveness of its disclosure controls. Based on that evaluation, the CEO and the CFO have concluded that Crowflight’s disclosure controls and procedures and internal controls over financial reporting, provide reasonable assurance that they were effective.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the date that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises. As a result, Crowflight will report under IFRS for interim and annual periods beginning January 1, 2011, with comparative information for 2010 restated for IFRS. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices that could materially impact the reported financial position and results of operations. Our goal is to make policy changes that are compliant with IFRS but also provide the most meaningful information to our shareholders.

The Company has developed a changeover plan which includes the following three phases and sets out activities to be performed in each phase over the life of the project.

- Assessment phase: in this phase, the Company formed a working group, developed an initial project plan, and identified high level differences between Canadian GAAP and IFRS that may impact the Company. This phase was completed in Q4-2009 in conjunction with external consulting resources.
- Design phase: This phase involves the completion of analyses of the differences between Crowflight accounting policies and IFRS to provide a basis for accounting policy recommendations. The working group in this phase will be comprised of the CFO, the corporate and site finance team, external consultants with regular updates to the audit committee. As Crowflight is a small company with a single information system, impacts and/or modifications to the information system process are not expected to be material at this time.
- Implementation phase: this phase involves the implementation of the necessary changes to our information systems and business processes as identified through the assessment and design phases of the changeover plan. The implementation of our 2010 dual reporting systems strategy, the amendment and testing of internal controls over financial reporting and disclosure controls and procedures impacted by accounting policy changes are key tasks that will allow for the preparation of a January 1, 2010 opening balance sheet and 2010 comparative data under IFRS, with reconciliations from Canadian GAAP. The final phase will result in the preparation of our financial reporting under IFRS beginning in 2011.

Updates regarding the progress of the IFRS changeover plan are provided to the Company's Audit Committee on a quarterly basis.

The Company has identified the areas noted below as those expected to have the most significant impact on our financial statements. The items listed below do not represent a complete list of areas impacted. As we progress further into the design and implementation phases, as decision are made regarding accounting policies and as changes to Canadian GAAP and IFRS standards may occur prior to our changeover date, the areas impacted and the effect may be subject to change. We will continue to disclose impacts on or financial reporting, including expected quantitative impacts, systems and processes and other areas of our business in future MD&As as they are determined.

- IFRS 1 - First time adoption
- IAS 23 - Borrowing costs
- IAS 36 – Impairment of assets
- IFRS 2 – Share based payments
- IFRS 6 – Exploration and evaluation
- IAS – Property, plant and equipment
- IAS 12 – Income taxes

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for statements of historical fact relating to Crowflight, certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Company's properties; the future price of nickel and other minerals; foreign exchange rates; the estimation of mineral reserves and mineral resources; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as ''plans'', ''expects'' or ''does not expect'', ''is expected'', ''budget'', ''scheduled'', ''estimates'', ''forecasts'', ''intends'', ''anticipates'' or ''does not anticipate'', or ''believes'', or variations of such words and phrases or statements that certain actions, events or results ''may'', ''could'', ''would'', ''might'' or ''will be taken'', ''occur'' or ''be achieved''. Forward - looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the anticipated timing, amount and cost of mining at the Company's projects are based on assumptions underlying mineral reserve and mineral resource estimates and the realization of such estimates are set out herein. Capital and operating cost estimates are based on extensive research of the Company, purchase orders placed by the Company to date, recent estimates of construction and mining costs and other factors that are set out herein. Production estimates are based on mine plans and production schedules, which have been developed by the Company's personnel and independent consultants. These estimates are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Crowflight to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of nickel and other minerals; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

All information in the Company's continuous disclosure documents, including the consolidated financial statements and management's discussion and analysis of the consolidated financial position and results of operation ("MD&A"), is the responsibility of the management of the Company and has been approved by its Audit Committee and Board of Directors. The consolidated financial statements and MD&A were prepared by management in accordance with accounting principles and disclosure requirements generally accepted in Canada.

The preparation of financial statements and MD&A requires the selection of appropriate generally accepted accounting principles and the use of estimates and judgment by management to present fairly and consistently the consolidated financial position and the results of operations of the Company. Estimates are required when transactions affecting the current accounting period cannot be finalized with certainty until future periods. In management's opinion, such estimates have been properly reflected in the consolidated financial statements and MD&A. Systems of internal accounting controls are established and maintained by management in order to provide reasonable assurance, on a cost effective basis, of the reliability of this financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board carries out this responsibility principally through its Audit Committee composed of three independent directors. The committee meets periodically with management and the Company's independent auditors to discuss internal controls over the financial reporting process; auditing matters and financial reporting issues; to review and approve the consolidated financial statements and MD&A; and to review and the independent auditors' report to the shareholders. The Committee reports its findings to the Board for consideration when approving the annual consolidated financial statements and MD&A for issuance to shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the Company's independent auditors.

The consolidated financial statements have been audited the Company's independent auditors, McGovern, Hurley Cunningham LLP, in accordance with Canadian generally accepted auditing standards.

Mark Trevisiol
President and Chief Executive Officer.

Anna M. Ladd
Vice-President and Chief Financial Officer

March 31, 2010