



***crowflight minerals inc.***

**ANNUAL**  
**CONSOLIDATED FINANCIAL STATEMENTS**

*for the years ended  
December 31, 2010 and 2009*

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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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 by the Company's independent auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards.

Kevin Zhu  
Director and Interim Chief Executive Officer

Derek Liu  
Chief Financial Officer and Corporate Secretary

March 25, 2011

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**Crowflight Minerals Inc.**

We have audited the accompanying consolidated financial statements of **Crowflight Minerals Inc.** [the "Company"], which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditors' responsibility**

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

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

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

**Opinion**

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

**Other matter**

The consolidated financial statements of **Crowflight Minerals Inc.** for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 26, 2010, except for note 18 which was dated as of March 19, 2010.

Vancouver, Canada,  
March 25, 2011.

*Ernst + Young LLP*

Chartered Accountants

**Consolidated Balance Sheets**

(Expressed in Canadian Dollars)

	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 4,068,019	\$ 10,040,475
Amounts receivable	1,716,424	1,291,687
Inventory (Notes 4)	1,464,839	1,031,734
Prepaid expenses and deposits	426,853	135,290
	<b>7,676,135</b>	<b>12,499,186</b>
Deposits and advances (Note 5)	1,659,890	534,709
Property, plant and equipment (Note 6)	143,534,339	138,568,967
Exploration and development property and deferred expenditures (Note 8)	15,477,126	14,704,437
	<b>\$ 168,347,490</b>	<b>\$ 166,307,299</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 13)	\$ 10,466,215	\$ 9,282,060
Convertible debentures (Note 11)	20,705,694	-
Capital leases liabilities (Note 18)	294,336	45,371
Derivative liabilities (Note 7)	373,190	-
	<b>31,839,435</b>	<b>9,327,431</b>
Capital lease liabilities (Note 18)	18,915	61,281
Asset retirement obligations (Note 10)	997,690	918,387
Future income tax liability (Note 14)	3,062,081	6,000,200
	<b>35,918,121</b>	<b>16,307,299</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares (Note 12)	153,308,546	138,758,903
Contributed surplus	28,000,121	25,894,525
Deficit	(48,879,298)	(14,653,428)
	<b>132,429,369</b>	<b>150,000,000</b>
	<b>\$ 168,347,490</b>	<b>\$ 166,307,299</b>

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

Commitments and contingencies (Notes 6, 8, and 19)

**APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:**

"Michal Hibbitts", Director

"Kevin Zhu", Director

## Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31,

(Expressed in Canadian Dollars, except for share data)

	2010	2009
Revenue		
Nickel sales	\$ 22,096,755	\$ 6,493,906
Pricing adjustments	869,451	236,981
Revenue - after pricing adjustments	22,966,206	6,730,887
Cost of sales - cash cost	38,324,959	9,383,311
Cost of sales - non-cash cost	3,568,633	1,299,174
Gross margin - mining operations	(18,927,386)	(3,951,598)
Temporary shutdown costs (Note 3)	9,101,782	4,943,000
Loss from mine operations	(28,029,168)	(8,894,598)
Other expenses		
Professional, consulting and management fees (Notes 13(c))	6,308,059	4,439,524
Interest expenses and bank charges	894,234	140,930
General and office	501,391	1,359,469
Shareholder communications and investor relations	341,379	375,500
Travel	98,528	202,637
Amortization	603	1,557
	8,144,194	6,519,617
Loss before the undernoted	(36,173,362)	(15,414,215)
Interest income	9,253	34,363
Asset retirement obligation accretion (Note 10)	(79,303)	57,416
Write down of exploration property and deferred expenditures (Note 8)	-	(3,135,941)
Net gain (loss) on derivative instrument (Note 7)	(323,806)	1,541,369
Loss on disposal of property, plant and equipment (Note 6)	(445,000)	-
Write down of property, plant and equipment (Note 6)	-	(30,601,829)
Interest on long term debt	-	(48,673)
General exploration	(151,771)	(100,000)
Debt facility transaction costs	-	(383,464)
Recovery of expenditures	-	66,958
Loss before income taxes	(37,163,989)	(47,984,016)
Future income tax recoveries (Note 14)	2,938,119	21,003,129
<b>Net loss and Comprehensive loss for the year</b>	<b>(34,225,870)</b>	<b>(26,980,887)</b>
Loss per share - basic & diluted	\$ (0.06)	\$ (0.07)
Weighted average number of shares - basic & diluted	574,074,855	390,323,874

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

**Consolidated Statements of Shareholders' Equity**

(Expressed in Canadian Dollars, except for share data)

	Common Shares		Contributed Surplus	Retained Earnings/ (Accumulated Deficit)	Shareholders' Equity
	Number of shares	Amount			
Balance, December 31, 2008	293,304,323	\$ 99,289,864	\$ 18,430,125	\$ 12,327,459	\$ 130,047,448
Private placement (Note 12(b))	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 12 (c))	562,464	113,130	-	-	113,130
Stock based compensation - options (Note 12 (e))	-	-	2,231,441	-	2,231,441
Flow through share tax effect	-	(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 year	-	-	-	(26,980,887)	(26,980,887)
Balance, December 31, 2009	509,523,552	138,758,903	25,894,525	(14,653,428)	150,000,000
Private placement (Note 12(b))	72,200,000	11,552,000	-	-	11,552,000
Stock based compensation - shares (Note 12 (c))	319,980	48,353	-	-	48,353
Stock based compensation - options (Note 12 (e))	-	-	1,805,747	-	1,805,747
Share issue costs	-	(125,000)	-	-	(125,000)
Exercise of warrants (Note 12(d))	1,588,259	317,652	-	-	317,652
Valuation allocation on exercise of warrants	-	95,295	(95,295)	-	-
Flow through share tax effect	-	(11,236)	-	-	(11,236)
Conversion of convertible debentures (Note 11)	58,356,471	2,672,579	(55,291)	-	2,617,288
Equity component of convertible debentures (Note 11)	-	-	450,435	-	450,435
Loss for the year	-	-	-	(34,225,870)	(34,225,870)
<b>Balance, December 31, 2010</b>	<b>641,988,262</b>	<b>\$ 153,308,546</b>	<b>\$ 28,000,121</b>	<b>\$ (48,879,298)</b>	<b>\$ 132,429,369</b>

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

## Consolidated Statements of Cash Flow

For the years ended December 31,  
(Expressed in Canadian Dollars)

	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Net loss for the year	\$ (34,225,870)	\$ (26,980,887)
Items not affecting cash:		
Depreciation, depletion and amortization	3,205,704	1,300,731
Stock-based compensation expense	1,854,100	2,330,321
Warrants issued on In-process working capital facility	-	107,597
Asset retirement obligation accretion	79,303	(57,416)
Net (gain) loss on derivative instrument	323,806	(1,541,369)
Interest accretion on convertible debentures	723,417	-
Loss on disposal / write down of property, plant and equipment	445,000	30,601,829
Write down of exploration property and deferred expenditures	-	3,135,941
Future income recovery	(2,938,119)	(21,003,129)
Net change in non-cash working capital (Note 20)	59,514	8,730,235
	<b>(30,473,145)</b>	<b>(3,376,147)</b>
<b>FINANCING ACTIVITIES:</b>		
Debt facility, net of transaction costs	-	(7,600,000)
Private placements		
Common shares issued	11,552,000	37,766,061
Issue costs	(125,000)	(523,400)
Shares issued from exercise of warrants and options	317,652	49,000
Proceeds from convertible debentures financing	23,050,000	-
Proceeds from disposal of financial instrument	49,384	9,585,538
Payment on capital leases	(464,439)	(48,763)
	<b>34,379,597</b>	<b>39,228,436</b>
<b>INVESTING ACTIVITIES:</b>		
Exploration and development property, plant and equipment, and deferred expenditures	(8,717,727)	(33,631,896)
Deposit payment for acquisition of property, plant and equipment	(1,161,181)	-
Decrease in accounts payable attributable to property development and exploration	-	(5,787,459)
Change in restricted cash	-	2,999,998
	<b>(9,878,908)</b>	<b>(36,419,357)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(5,972,456)</b>	<b>(567,068)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>10,040,475</b>	<b>10,607,543</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 4,068,019</b>	<b>\$ 10,040,475</b>
Cash and cash equivalents consist of:		
Cash	3,993,228	2,259,673
Cash equivalents	74,791	7,780,802
	<b>\$ 4,068,019</b>	<b>\$ 10,040,475</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Income taxes paid	-	-
Interest paid	207,198	83,807

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Crowflight is focused on 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 on 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 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.

As at December 31, 2010, the Company had cash and cash equivalents of \$4,068,019 and negative working capital of \$24,163,300. Management recognizes the needs of additional working capital, and the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. In March 2011, the Company raised gross proceeds of \$30 million through an equity financing and finalized a profitable mining plan for the Bucko Lake Mine by using its own underground mining equipment and mining crew. As a result, management concludes that the Company is able to continue as a going concern. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumptions were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

## 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.

CROWFLIGHT MINERALS INC.

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For the years ended December 31, 2010 and 2009

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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 allowance for doubtful accounts, valuations of exploration and development properties, inventories, depreciation, depletion and amortization, impairment assessment on property, plant and equipment and exploration and development properties, 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 units-of-production basis based on proven and probable reserves. Other equipment is recorded at cost less accumulated amortization and is amortized on a straight-line basis over their estimated useful lives of 2 years to 5 years.

The carrying value of property, plant and equipment is reviewed regularly and whenever events or changes in circumstances indicate that the carrying value of an asset group may not be recoverable. An impairment loss is recognized if the carrying value of an asset group exceeds the total undiscounted cash flows expected from its use and disposal. Undiscounted cash flows for producing properties are based on estimates of future metal prices, proven and probable reserves, estimated value beyond proven and probable reserves, and future operating, capital and reclamation cost assumptions. Impairments test for non-operating asset group may also consider exchange price in actual transactions of similar projects. An impairment loss would be recorded in the statement of operations based on the amount by which the carrying amount of the asset or asset group exceeds its fair value.

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 units-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 fair 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 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.

## CROWFLIGHT MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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The Company reviews capitalized costs on its exploration and development properties regularly and whenever events or changes in circumstances indicate that the carrying of those capitalized costs may not be recoverable, the Company 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 fair 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.

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 expense in the statement of operations on the discounted liability. At inception, the asset retirement obligation is recorded as an increase to exploration and development properties and deferred expenditures, once the properties are transferred to property, plant and equipment, the asset retirement obligation is amortized over the useful life of the properties.

h) Income taxes

The Company follows the 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.

## CROWFLIGHT MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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#### j) Stock-based compensation

The Company accounts for stock-based compensation using the fair value method. Under this method, compensation expenses for stock options granted to employees, officers, and directors are measured at fair value at the date of grant using Black-Scholes valuation method, for stock options granted to non-employees are measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if the equipment instruments are fully vested and non-forfeitable on the grant date.

Upon the exercise of the stock option, consideration received and related amount transferred from contributed surplus are recorded as share capital.

#### k) Financial instruments and derivatives

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable, convertible debentures, capital leases and derivative instruments. Cash and cash equivalents 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, convertible debentures 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 value with any unrealized gains or losses being recognized in the statement of operations. Transaction costs related to acquisition or issuance of held-for-trading financial instruments are expensed as incurred.

The Company measures its financial instruments at fair value at the following three hierarchy levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs, other than quoted prices in active market, that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

In determining the fair value of financial assets and financial liabilities, including derivative instruments, the Company takes into account its own credit risk and the credit risk of the counterparty.

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value are recorded in income at each reporting period. The Company does not enter into derivative financial agreement for trading or speculative purposes.

#### l) Loss per share

Loss per share is computed by dividing the net loss to the holders of the common shares of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potential dilutive securities were exercised or converted to common shares. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and effect of convertible securities by the "if converted" method. For fiscal 2009 and 2010, the impact of potentially dilutive securities has been excluded as they were anti-dilutive.

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m) 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 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.

n) Inventory

Materials and supplies expected to be used in production are valued at the lower of cost and replacement cost. Nickel in process inventory is valued at the lower of production cost and net realizable value. Ore stockpile inventory is valued at the lower of mining cost and net realizable value. Mining cost includes the cost of direct labour, supplies consumed and depreciation of 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 production cost and net realizable value. Production costs include the cost of raw materials, supplies consumed, direct labour, mine site overhead expenses, depreciation of producing property and equipment and depletion of mineral property costs. Net realizable value is estimated using nickel's forward price as quoted in the London Metals Exchange less the estimated costs of completion and the estimated costs necessary to make the sale.

o) Comprehensive income (loss)

Comprehensive income (loss) is composed of net income (loss) and other comprehensive income (loss). Other comprehensive income includes unrealized gains and losses on available-for-sale securities and changes in the fair 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 loss. Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income.

p) 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.

q) Convertible debt instruments

The Company's convertible debt instruments are segregated into their debt and equity components at the date of issue, based on the relative fair values of these components in accordance with the substance of the contractual agreements. The debt component of the instruments is classified as a liability, and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument. The carrying value of the debt component is accreted to the original face value of the instruments, over the term of the convertible debt instrument, using the effective interest method. The value of the conversion option makes up the equity component of the instruments. The conversion option is recorded using the residual value approach. Upon conversion, any gain or loss arising from extinguishment of the debt is recorded in statement of operations.

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r) Lease

Leases are classified as capital or operating depending on the term and conditions of the lease agreement. Payments under operating leases are expensed in the period in which they are incurred. Asset values recorded under capital leases are amortized on a straight line basis over the period of their expected use. Obligations under capital lease are reduced by payments, net of computed interest.

s) Comparative figures

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

**Future Accounting Pronouncements**

International Financial Reporting Standards ("IFRS")

On February 13, 2008 the Accounting Standards Board 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 on or after January 1, 2011 with comparative information for 2010 restated under IFRS. Adoption of IFRS will require the Company to make certain accounting policy choices and could materially impact the reported financial position and results of operations.

**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 to complete ramp development, accelerate mine development and upgrade the backfill plant. Mill operations resumed in the first quarter of 2010.

On October 1, 2010, the Company announced that it would be temporarily suspending ore mining operations at Bucko to facilitate the introduction of its own underground mining equipment and team and to make adjustments to address certain operational issues.

Expenses incurred during the temporary shutdown 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. For the year ended December 31, 2010, temporary shutdown costs were \$9.1 million (2009 - \$4.9 million).

**4. INVENTORY**

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

	<b>2010</b>	2009
Materials and supplies	<b>\$ 1,464,839</b>	\$ 666,037
Nickel concentrate	-	41,336
Nickel in transit	-	324,361
	<b>\$ 1,464,839</b>	<b>\$ 1,031,734</b>

During the year ended December 31, 2010, a total of \$3.5 million (same period last year - \$nil) of nickel stockpile ore and concentrate were written down and included in cost of sales.

CROWFLIGHT MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

**5. DEPOSITS AND ADVANCES**

Deposits and advances of \$1,659,890 (December 31, 2009 - \$534,709) comprised of reclamation deposit of \$498,709 (December 31, 2009 - \$498,709), deposit payments of \$1,161,181 (December 31, 2009 - \$nil) to vendors for acquisition of equipments, and advances of \$nil (2009 - \$36,000) to a former employee.

**6. PROPERTY, PLANT AND EQUIPMENT**

	2010			2009		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computers	\$ 590,940	\$ (384,288)	\$ 206,652	\$ 527,661	\$ (189,583)	\$ 338,078
Furniture	50,962	(21,352)	29,610	50,962	(12,107)	38,855
Field equipment	104,760	(86,186)	18,574	104,760	(69,463)	35,297
Vehicles	175,482	(70,812)	104,670	131,897	(27,925)	103,972
	<u>\$ 922,144</u>	<u>\$ (562,638)</u>	<u>\$ 359,506</u>	<u>\$ 815,280</u>	<u>\$ (299,078)</u>	<u>\$ 516,202</u>
Producing properties						
Buildings & equipment	\$ 528,245	\$ (14,715)	\$ 513,530	\$ 194,279	\$ (1,616)	\$ 192,663
Plant & equipment	68,708,821	(1,914,050)	66,794,771	67,978,401	(565,570)	67,412,831
Mine development, exploration, and acquisition costs	78,040,540	(2,174,008)	75,866,532	71,038,298	(591,027)	70,447,271
	<u>\$ 147,277,606</u>	<u>\$ (4,102,773)</u>	<u>\$ 143,174,833</u>	<u>\$ 139,210,978</u>	<u>\$ (1,158,213)</u>	<u>\$ 138,052,765</u>
	<u>\$ 148,199,750</u>	<u>\$ (4,665,411)</u>	<u>\$ 143,534,339</u>	<u>\$ 140,026,258</u>	<u>\$ (1,457,291)</u>	<u>\$ 138,568,967</u>

During the year ended December 31, 2009, the Company declared commercial production (also 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.

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

During the year ended December 31, 2010, the Company disposed an equipment with net book value of \$445,000 and a loss of \$445,000 was recorded in the statement of operations.

As at December 31, 2010, four vendors of the Company had placed liens on Bucko against the Company. Subsequent to December 31, 2010, the Company settled the claims with these four vendors and the four vendors have discharged or are in the process to discharge the registration of the liens.

The Company's interest in the Bucko Lake mining lease is subject to a back-in right held by Xstrata Nickel Inc. In the event that Crowflight identifies a new deposit (in addition to the Bucko Lake Mine) with estimated measured and indicated resources in excess of 200,000,000 pounds of Nickel, Xstrata has the right to purchase a 50% interest in the property and to become the operator of the new deposit in consideration for a payment to Crowflight of an amount equal to the aggregate of all direct expenditures that 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. Accordingly, the potential benefit to Crowflight of any discovery of a significantly increased deposit will be limited to a 50% interest in the project.

CROWFLIGHT MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

**7. 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 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 and hedge 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 was used to repay the \$7,600,000 debt facility plus interest. In November 2009, the Company closed all outstanding forward sales contracts. During the year ended December 31, 2009, the Company recorded a net gain of \$1,541,369 on those derivative instruments. As at December 31, 2009, no forward or hedge contracts remained outstanding.

In 2010, the Company entered into forward sales contracts to protect approximately 2.0 million pounds of nickel between US\$8.50/lb and US\$12.20/lb, which resulted in a loss of \$323,806 being recognized in the statement of operations. As at December 31, 2010, a total of 105,822 pounds of nickel forward sales contract remained outstanding. Management estimated that a liability of \$373,190, being fair value of the contract, would be realized if the contract was terminated on December 31, 2010.

**8. EXPLORATION AND DEVELOPMENT PROPERTY AND DEFERRED EXPENDITURES**

	MANITOBA			ONTARIO	TOTAL
	BUCKO DEPOSIT	THOMPSON NICKEL BELT	PURE NICKEL JV	SUDBURY	
Balance, January 1, 2009	\$ 137,185,242	\$ 15,440,513	\$ 513,107	\$ 800,853	\$ 153,939,715
<i>Acquisition or property maintenance costs</i>	5,849	(102,345)	-	-	(96,496)
<i>Project capital costs</i>	2,275,691	-	-	-	2,275,691
<i>Project development costs</i>	16,598,754	-	-	-	16,598,754
<i>Exploration costs</i>	1,615,067	1,196,859	8,549	-	2,820,475
<i>Asset retirement obligations</i>	612,442	-	-	-	612,442
<i>Less: preproduction revenue</i>	(3,167,192)	-	-	-	(3,167,192)
<i>Less: government assistance</i>	-	-	(17,158)	-	(17,158)
<i>Less: transferred to producing property*</i>	(155,125,853)	-	-	-	(155,125,853)
<i>Less: write down **</i>	-	(2,991,072)	-	(144,869)	(3,135,941)
Balance, December 31, 2009	-	13,543,955	504,498	655,984	14,704,437
<i>Acquisition or property maintenance costs</i>	-	681,236	-	-	681,236
<i>Exploration costs</i>	-	167,658	-	-	167,658
<i>Less: government assistance</i>	-	(76,205)	-	-	(76,205)
Balance, December 31, 2010	\$ -	\$ 14,316,644	\$ 504,498	\$ 655,984	\$ 15,477,126

\* During the year ended December 31, 2009, the Company announced commercial production at the Bucko property and re-classed the project costs to "Property, plant and equipment".

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.

## **MANITOBA**

### **Thompson Nickel Belt**

Under the terms of a jointly signed Exploration Option Agreement ("Agreement") dated July 11, 2007, the Company has the right to earn a 100% interest in Xstrata Nickel's ("Xstrata") TNB properties (formerly referred to as the TNB North and TNB South Exploration Properties), which includes approximately 580 square kilometres of advanced-stage exploration ground by incurring \$13.2 million by December 31, 2013. In 2010, the Company was not able to fulfill the exploration expenditures requirements and entered into an Exploration Option Amending Agreement ("Amending Agreement") with Xstrata. Pursuant to the Amending Agreement, the Company paid Xstrata the amount of \$500,000 in 2010 and is required to incur \$12.7 million option expenditures before December 31, 2013 as follows:

- An initial amount of not less than \$2.5 million during 2007 (incurred);
- An additional amount of not less than \$2.5 million (representing cumulative option expenditures of not less than \$5.0 million) by on or before December 2008 (incurred);
- An additional amount of not less than \$2.5 million (representing cumulative option expenditures of not less than \$7.5 million) by on or before December 2009 (incurred);
- An additional amount of not less than \$2.5 million (representing cumulative option expenditures of not less than \$9.7 million) by December 31, 2011 (a total of \$0.4 million was incurred in 2010, and the cumulative option expenditures incurred as of December 31, 2010 was \$7.7 million);
- Additional amount of not less than \$1.5 million (representing cumulative option expenditures of \$11.2 million) by December 31, 2012; and,
- Additional amount of not less than \$1.5 million (representing cumulative option expenditures of \$12.7 million) by December 31, 2013.

The Company's 100% interest in the TNB properties is subject to a back-in right whereby should the Company outline a threshold deposit or deposits, each of which exceed 500,000,000 pounds of nickel in measured and indicated resources, Xstrata has the right to back-in for a 50% interest and become the operator of the threshold deposit or deposits by incurring expenditures on the property in an amount equal to two times the aggregate of all expenditures which were incurred by the Company in carrying out mining operations on the property prior to the back-in, provided that if Xstrata exercises more than one back-in right, then in calculating the required back-in expenditures for each subsequent back-in right expenditures relating to any previously exercised back-in right are excluded from such expenditure calculation.

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

### **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. 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 increased exploration expenditures totalling \$3,000,000 by 2012.

## CROWFLIGHT MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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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 payable to Pure Nickel. There was no activity at HBED property in 2010, and the Company is in negotiation with HBED to amend the option agreement.

The Company received \$nil (2009 - \$17,158) in government assistance related to its exploration expenditures on the Pure Nickel JV properties during the year ended December 31, 2010.

#### **SUDBURY**

##### **AER Kidd Property**

The Company wrote off the value of the property as at December 31, 2008. During the year ended December 31, 2010, an amount of \$151,771 (2009 - \$50,000) was paid to maintain the property in good standing and expensed as general exploration on the statement of operations.

##### **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 interest 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 2010. Wallbridge did not fulfill the \$1,000,000 exploration expenditures commitment as of December, 31, 2010 and is in negotiation with the Company to amend the option agreement.

#### **9. IN-PROCESS WORKING CAPITAL FACILITY**

On April 29, 2009, subsequently amended in 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 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 12(d)). 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.

As at December 31, 2010, the outstanding balance being drawn down from the Facility was \$nil (December 31, 2009 - \$nil).

# CROWFLIGHT MINERALS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

### 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:

	2010		2009	
Balance, beginning of year	\$	918,387	\$	359,000
Increase in asset retirement obligation	\$	-	\$	616,803
Accretion expense	\$	79,303	\$	(57,416)
Balance, end of year	\$	997,690	\$	918,387

The estimated undiscounted cash flows required to settle the ARO were \$1,714,080 at December 31, 2010. The net present value of the asset retirement obligations as at January 1, 2009 was \$359,000 estimated using the credit adjusted risk-free discount rate of 8.4%. In 2009, the Company revised the reclamation liabilities using the credit adjusted risk-free discount rate of 8.75% as a result of increased reserves and a longer mine life. In 2010, the asset retirement obligations were not revised as the Company determined there are no changes to the scope and cost of the reclamation. At December 31, 2010, the expected timing of payment for settlement of the obligations will be in 2020.

### 11. CONVERTIBLE DEBENTURES

During the year ended December 31, 2010, the Company completed three debt financing transactions with King Place Enterprises Limited. ("King Place"), a related party and the largest shareholder of the Company, by issuing a total of \$23,050,000 convertible promissory notes ("convertible debentures") as follows: :

- i) On August 26, 2010, the Company issued convertible debentures to King Place in the principal amount of \$10,050,000 with maturity date on February 28, 2011;
- ii) On September 23, 2010, the Company issued convertible debentures to King Place in the principal amount of \$3,000,000 with maturity date on March 23, 2011; and,
- iii) On December 2, 2010, the Company issued convertible debentures to King Place in the principal amount of \$10,000,000 with maturity date on May 2, 2011.

All debentures bear coupon rates of 10% per annum and entitle King Place to convert any amounts owing, including accrued interest, under the convertible debentures into common shares of the Company at a price equal to the five-day volume weighted average price at the time of conversion less the maximum discount allowed under the regulation of Toronto Stock Exchange (the "TSX"). However, King Place may not convert any portion of the amounts outstanding hereunder in excess of the amount that would result in the obligation to issue an aggregate number of shares exceeding 58,356,471 common shares without prior approval of disinterested shareholders and TSX.

On December 29, 2010, King Place elected to convert \$2,617,288 of its outstanding convertible debentures issued on August 26, 2010 into 58,356,471 common shares of the Company, which represent the maximum conversion shares allowed before obtaining the approval of disinterested shareholders of the Company, at a price of \$0.04485 per share.

# CROWFLIGHT MINERALS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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The convertible debentures were segregated into their debt and equity components at the date of issue. The aggregate fair value of the debt component of the debentures estimated using an effective interest rate of 15.06% at the dates of issuance were \$22,599,565, and the remaining \$450,435 were recorded as contributed surplus, a component of shareholders equity. As at December 31, 2010, the carrying value of the liability component of the convertible debentures was \$20,705,694 (2009 - \$nil).

Subsequent to December 31, 2010, the Company repaid \$10,000,000 convertible debentures. On March 22, 2011, the Company also received a Conversion Notice that King Place elected to convert all outstanding convertible debentures plus accrued interest to date in the amount of \$11,310,421 into 258,819,703 common shares of the Company at conversion price of \$0.0437 per share, which is the price equal to 75% of the volume weighted average price of the Company shares on five trading days (from March 15 to March 21, 2011) pursuant to the terms of the convertible debentures notes. The conversion is subject to the approval of Toronto Stock Exchange and majority disinterested shareholders of the Company.

### 12. CAPITAL STOCK

#### a) 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

#### b) Equity Financing

On September 21, 2009, the Company announced it had entered into an agreement with King Place for a \$20,000,000 private placement financing, pursuant to which King Place 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.

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.

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

## CROWFLIGHT MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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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.

On April 17, 2009, the Company entered into an agreement with Dumas Contracting Limited ("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.

On February 19, 2010, the Company 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, through a wholly owned subsidiary, purchased 21,356,250 of the 72,200,000 common shares.

On June 7, 2010, Pala sold all of their 152,311,221 common shares and 50,588,235 warrants of the Company that it held to King Place. Upon completion of this transaction, King Place held more than 30% of the issued and outstanding common shares and all former directors and officers resigned during the year. According to the option plan of the Company, the change of all directors of the Company triggered a change in control and accordingly, all stock options became immediately vested. In addition, \$2,986,508 was paid to former directors and officers as a result of the change in control (see Note 13). As at December 31, 2010, King Place held 305,386,442 common shares or 47.6% of the Company's 641,988,262 issued and outstanding shares.

Subsequent to December 31, 2010, King Place transferred 103,500,000 common shares to Hebei Wenfeng Industrial Group Limited, an affiliated company of King Place.

Subsequent to December 31, 2010, the Company completed a private placement financing by issuing an aggregate of 600 million units at a price of \$0.05 to raise gross proceeds of \$30 million. Each unit consists of one common share and one half of one share purchase warrant and each whole warrant entitles the holder to acquire one additional common share for a period of two years at a price of \$0.10.

#### c) Share Compensation Plan

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, 2010, a total of 319,980 (2009 - 562,464) common shares were issued under the plan for an aggregate value of \$48,353 (2009 - \$113,130) being the fair values on the dates of grant. Of this value, \$42,189 (2009 - \$66,955) was charged to professional, consulting and management fees, \$nil (2009 - \$14,250) was charged to exploration and development costs and \$6,164 (2009 - \$31,925) was charged to cost of sales.

CROWFLIGHT MINERALS INC.

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d) Warrants

	2010		2009	
	Number of Warrants	Weighted Average Price (\$)	Number of Warrants	Weighted Average Price (\$)
Balance, beginning of year	<b>93,846,682</b>	<b>0.24</b>	19,705,586	0.61
Granted, private placements	-	-	67,705,882	0.11
Granted, broker options	-	-	2,760,000	0.17
Granted, facility loan	-	-	21,000,000	0.30
Exercised	<b>(1,588,259)</b>	<b>0.20</b>	-	-
Expired	<b>(2,380,800)</b>	<b>0.36</b>	(17,324,786)	0.60
Balance, end of year	<b>89,877,623</b>	<b>0.24</b>	93,846,682	0.24

As at December 31, 2010, the following warrants were outstanding:

Estimated Grant Date Fair Value (\$)	Number of Warrants	Exercise Price (\$)	Expiry Date
4,569,188	20,000,000	0.21	January 16, 2012
1,196,941	21,411,741	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
<b>9,725,437</b>	<b>89,877,623</b>		

\*These warrants are exercisable into a unit. Each unit consists 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 from original date of exercise.

CROWFLIGHT MINERALS INC.

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e) Stock Options

The Company has a stock option plan designed to encourage 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, 2010, a total of 6,525,000 stock options (2009 – 24,645,000) 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. Options transactions during the year ended December 2010 and 2009 are summarized as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	33,530,000	\$ 0.34	19,644,375	\$ 0.55
Granted	6,525,000	\$ 0.16	24,645,000	\$ 0.22
Exercised	-	\$ -	(245,000)	\$ 0.20
Expired	(2,375,000)	\$ 0.40	(7,126,875)	\$ 0.52
Forfeited	(2,383,750)	\$ 0.22	(3,387,500)	\$ 0.23
Balance, end of year	35,296,250	\$ 0.32	33,530,000	\$ 0.34

Due to a change in control of the Company in 2010 and pursuant to the option plan of the Company, all outstanding and unvested stock options were immediately vested in full on the date of change in control. An amount of \$1,805,747 (2009 - \$2,231,441) stock-based compensation expenses were recorded during the year ended December 31, 2010. The weighted average grant date fair value of options granted during the year ended December 31, 2010 was \$0.16 (2009 - \$0.14). 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:

	Year ended December 31	
	2010	2009
Weighted average risk-free interest rate	2.5%	2.6%
Weighted average expected life of options	5 years	5 years
Weighted average volatility	77%	83%
Dividend	nil	nil

CROWFLIGHT MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

As of December 31, 2010, the following stock options were outstanding:

	Estimated Grant Date	Number of Options	Number of Options		Exercise Price	Expiry Date
	Fair Value		Exercisable			
\$	240,640	1,210,000	1,210,000	\$	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
	471,001	1,385,000	1,385,000	\$	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
	1,004,730	1,565,000	1,565,000	\$	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
	59,235	165,000	165,000	\$	0.540	March 31, 2013
	1,268,175	2,775,000	2,775,000	\$	0.690	May 26, 2013
	20,735	65,000	65,000	\$	0.480	June 30, 2013
	2,450	25,000	25,000	\$	0.150	October 31, 2013
	10,960	80,000	80,000	\$	0.200	January 31, 2014
	1,500	15,000	15,000	\$	0.185	February 28, 2014
	246,343	1,798,125	1,798,125	\$	0.200	March 20, 2014
	45,681	285,000	285,000	\$	0.240	May 6, 2014
	4,687	35,000	35,000	\$	0.200	May 31, 2014
	18,462	135,000	135,000	\$	0.200	June 30, 2014
	204,944	1,350,000	1,350,000	\$	0.210	August 19, 2014
	2,211,350	15,548,125	15,548,125	\$	0.220	October 14, 2014
	212,021	2,000,000	2,000,000	\$	0.160	January 15, 2015
	306,919	3,118,750	3,118,750	\$	0.160	March 15, 2015
	65,300	450,000	450,000	\$	0.215	April 12, 2015
	20,200	200,000	200,000	\$	0.160	June 10, 2015
	11,400	150,000	150,000	\$	0.140	August 26, 2015
	3,188	75,000	75,000	\$	0.100	October 15, 2015
<b>\$</b>	<b>7,560,669</b>	<b>35,296,250</b>	<b>35,296,250</b>			

The weighted average exercise price of stock options that are exercisable as at December 31, 2010 is \$0.32 with weighted average contractual life is 3.16 years.

Subsequent to December 31, 2010, the Company granted 10,925,000 stock options to certain directors, officers, employees and consultants at an exercise price of \$0.065 per share for a term of 5 years. These options vest semi-annually in four equal instalments over a two-year period with the first instalment vesting six months after the date of grant.

**13. 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 by the related parties. Related party transactions not disclosed elsewhere include the following:

a) Transactions with Dumas

Dumas, was a related party of the Company as Dumas is a subsidiary of Pala, who was a major shareholder and had two representatives on the Board of Directors of the Company. In June 2010, Pala disposed all its interest in the Company to King Place and Dumas ceased to be a related party of the Company. During the period from January 2010 to June 2010, the Company paid \$8,716,086 to Dumas for its mining contracting work provided to the Company. During the year ended December 31, 2010, the Company had transactions with Dumas amounted to \$21,036,249 (2009 - \$15,551,799). In December 2010, Dumas commenced legal action against the Company for the amount outstanding and in question, and subsequent to December 31, 2010, the Company reached a settlement agreement with Dumas to settle the claims from Dumas. Dumas is taking steps to discharge the lien and legal actions against the Company.

b) Transactions with LJ Resources Ltd.

During the year ended December 31, 2010, the Company entered into a bridge loan of \$350,000 with LJ Resources Ltd., a private company controlled by a director of the Company. In December 2010, the Company repaid the loan in full without incurring any interest to LJ Resources Ltd.

c) Transactions with Directors and Officers of the Company

The Company entered into consulting or management service agreements with certain directors or officers or companies controlled by/associated with directors or officers. Pursuant to the terms of those agreements, the Company is required to pay to those directors or officers an additional amount equal to their base fees from 24 months up to 36 months plus all bonus awarded for the past two or three years if a change of control occurred and the service agreement is terminated by either party. During 2010, the Company paid \$2,986,508 to directors and officers who were entitled to the change in control payouts. The transactions with directors and officers are summarized as follows:

- i) During the year ended December 31, 2010, the Company paid \$60,000 (2009 - \$35,000) to Forbes & Manhattan Inc., a private company closely associated with a former director of the Company and \$66,875 (2009 - \$65,625) to 2051580 Ontario Inc., a private company controlled by the same former director for management services provided to the Company. The Company also paid \$692,500 to 2051580 Ontario Inc. as a result of the change of control in 2010.
- ii) During the year ended December 31, 2010, the Company \$50,500 (2009 - \$13,500) to a former officer for his legal and corporate secretary services provided to the Company. Change of control payout of \$79,000 and a special bonus of \$100,000 was awarded to this former officer as a result of the change of control in 2010.

## CROWFLIGHT MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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- iii) During the year ended December 31, 2010, the Company paid \$60,000 (2009 - \$100,000) to a former director for his consulting services provided to the Company. A change of control payout of \$250,000 was also paid to him in 2010.
- iv) During the year ended December 31, 2010, the Company paid \$275,004 (2009 - \$nil) to 1039593 Ontario Ltd., a private company controlled by a former officer of the Company for his consulting services in the capacity of a chief executive officer. The Company also paid \$500,008 to 1039593 Ontario Ltd. due to the change of control in 2010.
- v) During the year ended December 31, 2010, the Company paid \$229,585 (2009 - \$10,997) to Dr. Engineering Mining Consultants, a private company controlled by a former officer of the Company for his consulting services in the capacity of chief operating officer to the Company. The Company also awarded a special bonus of \$180,000 and a change of control payout of \$360,000 to this company in 2010.
- vi) During the year ended December 31, 2010, the Company paid \$105,000 (2009 - \$nil) to Ladd Mining Incorporated, a private company controlled by a former officer of the Company, and \$55,000 (2009 - \$202,973) to the same officer for her services provided to the Company. Change of control payout in the amount of \$495,000 was also paid to Ladd Mining Incorporated in 2010.
- vii) During the year ended December 31, 2010, the Company paid \$nil (2009 - \$489,167) to a former officer for his consulting services provided to the Company. In 2010, a change of control payout of \$235,000 was awarded to this former officer.
- viii) During the year ended December 31, 2010, the Company paid \$152,500 (2009 - \$nil) to G. Collins Geoscience Inc., a private company controlled by a former officer of the Company for his consulting services provided to the Company. A change of control payout in the amount of \$275,000 was paid to this former officer in 2010.
- ix) During the year ended December 31, 2010, the Company paid \$79,617 (2009 - \$nil) to 2203835 Ontario Inc., a private company controlled by a former officer of the Company for his consulting services provided to the Company. In connection of the change of control, the Company also paid special bonus of \$50,000 and severance payment of \$82,500 to 2203835 Ontario Inc. in 2010.
- x) During the year ended December 31, 2010, the Company paid \$45,000 (2009 - \$nil) to CMS Consulting Ltd., a private company controlled by a director and officer of the Company for his consulting services provided to the Company.
- xi) During the year ended December 31, 2010, the Company paid \$13,750 (2009 - \$nil) to an officer of the Company for his services provided to the Company.

CROWFLIGHT MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

**14. FUTURE INCOME TAX LIABILITY**

a) Provision for income taxes

The major items causing the Company's income tax expenses to differ from the Canadian combined federal and provincial statutory rate of 30% (2009 – 32%)

	2010	2009
Loss before income taxes	\$ (37,163,989)	\$ (47,984,016)
Expected income tax recovery	11,182,644	15,354,885
Increase (decrease) resulting from:		
Stock-based compensation	(557,899)	(745,703)
Mining taxes	-	6,449,000
Changes and differences in tax rates	(3,908,063)	(76,118)
Other - permanent differences	(4,915)	(1,935)
Change in valuation allowance	(3,773,648)	23,000
Income taxes recovery	\$ 2,938,119	\$ 21,003,129

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 ore-tax write down generated tax benefits of \$15,053,800.

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, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets (liabilities)		
Non-capital losses	\$ 15,514,444	\$ 7,154,400
Resource properties	(18,935,671)	(19,967,316)
Mining tax asset	3,785,745	6,449,000
Finance costs	420,607	795,716
Other	358,010	-
Valuation allowance	(4,205,216)	(432,000)
	\$ (3,062,081)	\$ (6,000,200)

The Company has approximately \$57.9 million (2009 - \$24.9 million) non capital loss and \$33.2 million (2009 - \$27 million) of Canadian exploration and development expenditures as at December 31, 2010 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. In 2010, the Company received an assessment on the renouncement on the flow-through shares from Canada Revenue Agency and an additional \$11,236 was debited to common shares.

Based on the Mining Tax Act (Manitoba, Canada), the Company has a mining tax asset of \$3,785,735 for which there is a full valuation allowance for the year ended December 31, 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

**15. 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 and contributed surplus. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertises of the Company's management to sustain future development of business.

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

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of three months or less when acquired, selected with regards to the expected timing of expenditures from continuing operations.

As at December 31, 2010, the Company had cash and cash equivalent of \$4,068,019 and negative working capital of \$24,163,300. In order to improve the financial conditions of the Company, management is focussing its strategy on the reduction of debt through issuance of equity instruments.

As at December 31, 2010, the Company is not subject to any financial covenants.

**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company manages its exposure to financial risk, including liquidity risk, foreign exchange rate risk, interest rate risk, and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

## a) Fair value

The fair value of financial instruments represents the amount that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments as at December 31, 2010 approximates their fair value of the short maturities or normal trade term of these instruments.

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. Those financial assets and liabilities are reclassified in their entirety based on the level of input that is significant to the fair value measurement.

	Fair value as at December 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 4,068,019	\$ -	\$ -	\$ 4,068,019
<b>Financial liabilities</b>				
Derivative liabilities	\$ -	\$ 373,190	\$ -	\$ 373,190

# CROWFLIGHT MINERALS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

### b) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, amounts receivable and derivative liabilities. Cash equivalents consist of guaranteed investment certificates, 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 harmonized sales tax due from the Federal Government of Canada and receivables 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.

### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2010, the Company has limited funds to meet its short term financial liabilities, and the working capital is in a deficit position of \$24.2 million. Accordingly, additional financing is required to maintain the Company to continue as a going concern. The Company's financial obligations as at December 31, 2010 are summarized as follows:

	Within one year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Total
Accounts payable and accrued liabilities	\$ 10,466,215	\$ -	\$ -	\$ -	\$ -	\$ 10,466,215
Convertible debentures	20,705,694	-	-	-	-	20,705,694
Derivative liabilities	373,190	-	-	-	-	373,190
Capital lease	294,336	9,836	9,079	-	-	313,251
	\$ 31,839,435	\$ 9,836	\$ 9,079	\$ -	\$ -	\$ 31,858,350

### d) Interest rate risk

The Company has cash and cash equivalent balances subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposit issued by its banking institutions. As at December 31, 2010, the Company also has \$20.7 million convertible debentures bearing a coupon rate of 10% per annum. 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.

### e) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions being denominated in US dollars. Amounts receivable as at December 31, 2010 include receivable denominated in US dollar of US\$1,516,646 (2009 - US\$987,330).

### f) 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.

In 2010, the Company entered into forward sales contracts to manage the Company's commodity price risk (Note 7).

# CROWFLIGHT MINERALS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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### 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 and accrued liabilities, convertible debentures and capital leases 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, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the short term maturity of these instruments. The following is a sensitivity analysis of the financial instruments of the Company:

- i) 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, 2010 will generate a decrease in interest income of approximately \$40,680.
- ii) 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, 2010 will generate an increase or decrease in the receivable of approximately \$14,892. As production ramps up and the accounts receivable balance increases, the change could be significant.
- iii) The Company currently has derivative liabilities that are exposed to nickel price. A change of 1% in nickel price based on the derivative liabilities balance at December 31, 2010 will generate an increase or decrease in the derivative liabilities of approximately \$29,540.

### 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	
	2010	2009
Current assets	2,310	5,385
Exploration properties and deferred exploration expenditures	413,043	413,043
Current liabilities	-	-
Revenues	-	-
Expenses	-	-
Cash flows from operating activities	(12)	(12,761)
Cash flows from investing activities	-	7,708
Cash flows from contributions	-	-

CROWFLIGHT MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

**18. CAPITAL LEASE LIABILITIES**

The Company has financed the purchase of certain mining equipment through capital leases. The leases mature at various dates through fiscal 2013 and bear interest rates from 7% to 9.4%. The balance of the Company's capital lease liabilities was as follows:

	<b>Decmeber 31, 2010</b>	December 31, 2009
Obligations under capital leases	<b>\$ 313,251</b>	\$ 106,652
Less: current portion	<b>294,336</b>	45,371
Long term portion of capital leases	<b>\$ 18,915</b>	\$ 61,281

**19. CONTINGENCIES**

- a) Outstanding legal issue related to a claim by Met-Chem Canada Inc. ("Met-Chem") against the Company for the amount of \$260,000, plus interest at the Royal Bank of Canada Prime Rate + 2% from March 2009 to date of payment. No formal action commenced by Met-Chem to enforce claim for payment. The Company claims for damages and/or set-off to Met-Chem debt currently under review by counsel.
- b) Outstanding legal issue related to a claim by a former employee, who left the Company in 2009, against the Company for damages for alleged wrongful dismissal and alleged payment of a bonus of \$30,000. The Company has responded with a statement of defence. The parties have not yet set dates for examination for discovery. As at December 31, 2010, in the legal process the likelihood of successfully defending the claim and ultimate value of the claim are not determinable.

**20. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>2010</b>	2009
<b>Net change in non-cash working capital</b>		
Increase in amounts receivables	<b>\$ (388,737)</b>	\$ (682,562)
Increase in inventory	<b>(433,105)</b>	(763,449)
Decrease (increase) in prepaid expenses	<b>(291,563)</b>	3,173
Increase in accounts payable and accrued liabilities	<b>1,172,919</b>	10,173,073
	<b>\$ 59,514</b>	\$ 8,730,235

**21. SEGMENTED INFORMATION**

The Company currently operates in a single reportable segment focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. All assets of the Company are located in Canada.



***crowflight minerals inc.***

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*for the year ended December 31, 2010*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

*for the year ended December 31, 2010*

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, 2010 and should be read in conjunction with our annual audited consolidated financial statements and notes for the year ended December 31, 2010. 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](http://www.sedar.com).

This MD&A reports our activities through December 31, 2010 unless otherwise indicated. All figures are in Canadian dollars unless otherwise indicated.

References to the first, second, third and fourth quarters of 2010 or Q1 2010, Q2 2010, Q3 2010 and Q4 2010 and the first, second, third and fourth quarters of 2009 or Q1 2009, Q2 2009, Q3 2009 and Q4 2009 mean the three months ended March 31, June 30, September 30, and December 31, 2010 and 2009 respectively.

## NON-GAAP MEASURES

This MD&A refers to cash cost per pound and non 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

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### 2010 IN REVIEW - HIGHLIGHTS FOR THE YEAR

- Net loss for the year was \$34.2 million or (\$0.06) per share compared to loss of \$27.0 million or (\$0.07) per share in 2009;
- A total of 2,125,202 pounds of payable nickel was sold and realize revenue of \$23.0 million for the year compared to 818,563 pounds of payable nickel sold to realize revenue of \$6.7 million in 2009;
- Cash and cash equivalent as at December 31, 2010 was \$4.1 million (December 31, 2009 - \$10.0 million) and working capital as at December 31, 2010 was deficit of \$24.2 million (December 31, 2009 – positive working capital of \$3.2 million);
- Mine operation at Bucko Lake Mine resumed in April 2010, but was temporally suspended in October 2010 in order to facilitate the introduction of its own underground mining equipment and team and to make readjustments to address certain operational issues.
- In June, 2010, Pala Investment Ltd transferred all its interests in the Company to King Place Enterprises Ltd. and a change of control was triggered; and
- In December 2010, the Board of Directors were restructured and the management team was replaced in order to facilitate the re-start up of the mining operation activities at Bucko Lake Mine issues.

## DESCRIPTION OF BUSINESS

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Crowflight is focused on 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 on the Bucko Lake Nickel Mine and the exploration of the Thompson Nickel Belt ("TNB"), both in the Province of Manitoba.

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, 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

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On October 1, 2010, the Company announced that it was temporarily suspending operations at the Bucko Lake Mine in order to facilitate the introduction of its own underground mining equipment and team and make readjustments address certain operation issues.

The Company will resume the mine operation at Bucko Lake Mine in April 2011 and expects to mine 220,000 tonnes of ore in 2011 to produce approximately five million pounds of payable nickel. At the current nickel price of \$12 per pound, the Company expects a total of \$20 million cash generated from the operation at Bucko Lake Mine in 2011.

Capital expenditures at Bucko Lake Mine are budgeted at \$15 million, of which \$6 million is for the acquisition of mining equipment, and the remaining \$9 million for mine development and the upgrade of backfill plant and tailing pond.

The Company also budgeted \$3.0 million exploration expenditures, including carrying out extensive drilling program at the Thompson Nickel Belt Exploration Properties with intention to upgrade the mineral resources and assess the economic potential of the M11A zone.

## BUSINESS REVIEW

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### BUCKO LAKE MINE - MANITOBA

The Company's 100% interest in Bucko Lake Mine was acquired from Xstrata Nickel ("Xstrata") in 2007. Pursuant to the transfer agreement, sales agreements and subsequent amendments to those agreements,

- Xstrata retains a Back-in Right to back in 50% interest in and to become the operator of Bucko Lake Mine by paying to the Company an amount equal to the aggregate of all direct expenditures which were incurred by the Company in carrying out the mining operation at Bucko Lake Mine prior to the date of exercise of the Back-in Right;
- Xstrata is entitled to a 2.5% net smelter royalties ("NSR");
- Upon commercial production (declared in June 2009), a royalty payment of \$500,000 is payable to Xstrata;
- Xstrata will purchase 100 percent of the nickel concentrates at commercially competitive terms over the life of Bucko Lake Mine.

The Company's interest in the Bucko Lake mining lease is subject to a back-in right held by Xstrata. In the event that Crowflight identifies a new deposit (in addition to the Bucko Lake Mine) with estimated measured and indicated

resources in excess of 200,000,000 pounds of Nickel, Xstrata has the right to purchase a 50% interest in the property and to become the operator of the new deposit in consideration for a payment to Crowflight of an amount equal to the aggregate of all direct expenditures that 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. Accordingly, the potential benefit to Crowflight of any discovery of a significantly increased deposit will be limited to a 50% interest in the project.

In 2010, a total of 131,884 (2009 – 135,931) tonnes of ore were mined and a total of 131,884 (2009 – 124,970) tonnes of ore milled to produce a total of 2,125,202 (2009 – 1,152,697) pounds of payable nickel. In June, 2009, the Company declared commercial production at Bucko Lake Mine. A total of 334,134 pounds of payable nickel sold for an amount of \$2.4 million prior to the commercial production was recorded as a credit against the development expenditures at Bucko Lake Mine. The following tables summarized the operation results at Bucko Lake Mine for the year ended December 31, 2010 and 2009.

	Years ended December 31,			
	2010	Total in 2009	2009	
			Post commercial production	Pre - commercial production
<b>Production data</b>				
Ore mined (tonne)	131,884	135,931	62,616	73,315
Ore milled (tonne)	131,884	124,970	60,177	64,793
Nickel produced (pound)	2,476,116	802,450	802,450	
Head grade	1.23%	1.00%	0.92%	1.12%
Maturlurgical recovery	69.00%	55.52%	66.64%	50.84%
<b>Cost per pound of payable nickel sold</b>				
On site cash cost (\$/pound)	\$ 16.78	\$ 9.65	\$ 9.65	
Offsite cash cost, net of by-product credit (\$/pound)	\$ 1.25	\$ 1.81	\$ 1.81	
Cash cost per pound	\$ 18.03	\$ 11.46	\$ 11.46	
Non cash cost (\$/pound)	\$ 1.68	\$ 1.59	\$ 1.59	
	\$ 19.71	\$ 13.05	\$ 13.05	
<b>Sales Data</b>				
Payable Nickel Sold (pound)	2,125,202	1,152,697	818,563	334,134
Pre-production revenue to offset development cost	\$ -	\$ 2,400,353	\$ -	\$ 2,400,353
Revenue (including pricing adjustments)	\$ 22,966,206	\$ 6,730,887	\$ 6,730,887	\$ -
Average selling price (\$/pound)	\$ 10.81	\$ 7.92	\$ 8.22	\$ 7.18

In 2011, the Company plans to mine 220,000 tonnes of ore to produce approximately five million pounds of payable nickel.

**RECONCILIATION OF NON GAAP MEASUREMENTS**

	Year ended December 31,	
	2010	3009
Cost of sales - cash cost	\$ 38,324,959	\$ 9,383,311
Payable nickel sold (pounds)	2,125,202	818,563
Cash cost fo payable nickel sold (\$/pound)	\$ 18.03	\$ 11.46
Cost of sales - non cash cost	\$ 3,568,633	\$ 1,299,174
Payable nickel sold (pounds)	2,125,202	818,563
Non cash cost of payable nickel sole (\$/pound)	\$ 1.68	\$ 1.59

**THOMPSON NICKEL BELT EXPLORATION PROPERITES (THE "TNB") - MANITOBA**

Under the terms of a jointly signed Exploration Agreement ("Agreement") dated July 11, 2007, the Company 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 by incurring \$13.2 million by December 31, 2013. In 2010, the Company was not able to fulfill the exploration expenditures requirements and entered into an Exploration Option Amending Agreement ("Amending Agreement") with Xstrata. Pursuant to the Amending Agreement, the Company paid Xstrata the amount of \$500,000 in 2010 and is required to incur \$12.7 million option expenditures before December 31, 2013 as follows:

- An initial amount of not less than \$2.5 million during 2007 (incurred);
- An additional amount of not less than \$2.5 million (representing cumulative option expenditures of not less than \$5.0 million) by on or before December 2008 (incurred);
- An additional amount of not less than \$2.5 million (representing cumulative option expenditures of not less than \$7.5 million) by on or before December 2009 (incurred);
- An additional amount of not less than \$2.5 million (representing cumulative option expenditures of not less than \$9.7 million) by December 31, 2011 (a total of \$0.4 million was incurred in 2010, and the cumulative option expenditures incurred as of December 31, 2010 was \$7.7 million);
- Additional amount of not less than \$1.5 million (representing cumulative option expenditures of \$11.2 million) by December 31, 2012; and,
- Additional amount of not less than \$1.5 million (representing cumulative option expenditures of \$12.7 million) by December 31, 2013.

The Company's 100% interest in the TNB 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 has the right to back-in for a 50% interest and become the operator of the threshold deposit or deposits by incurring expenditures on the property in an amount equal to two times the aggregate of all expenditures which were incurred by the Company in carrying out mining operations on the property prior to the back-in, provided that if Xstrata 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.

During the year ended December 31, 2010, the Company incurred exploration expenditures of \$167,658 at TNB and paid \$681,237 to maintain all mineral claims and the option are in good standing. As of December 31, 2010, the Company has incurred a total of approximately \$17.3 million at TNB, and an impairment charge of \$3.0 million was taken at TNB.

## **PURE NICKEL 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, 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 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 2 claims containing the Manibridge deposit. Crowflight contributed 62 claims it owned, including claims held under option from Hudson Bay Exploration and Development Ltd. (“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 9 claims totalling 1,100 to expire as no work was planned on the properties in the upcoming season and the prospective potential of these 9 claims was not high enough to warrant their continued maintenance.

There was no activity carried by both joint venture parties in 2010, and the parties are in negotiation to amend the joint venture agreement. As of December 31, 2010, a total of \$504,498 expenditures were allocated to the Company.

Secondly, the Company entered into an option agreement with HBED to acquire a 100% interest in 2 claims (“HBED property”) 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. There was no activity at HBED property in 2010, and the Company is in negotiation with HBED to amend the option agreement.

## **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. The Company maintains a 100% interest in the mining patents associated with this property, but the value of the property was written off in 2008. During the year ended 2010, an amount of \$151,771 (2009 - \$100,000) was paid to maintain the property in good standing and was recorded on the statements of operations. The Company is planning to seek a partner to advance this project in fiscal 2011.

### ***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 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. In April 2009, Crowflight granted Wallbridge an extension to the period required to complete minimum exploration expenditures for 2009 and Wallbridge committed to fund additional work on the property in 2010. 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 \$1,000,000 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 reverting back to the Company. Wallbridge did not fulfill the \$1,000,000 exploration expenditures commitment as of December 31, 2010 and is in negotiation with the Company to amend the option agreement.

## **RESULTS OF OPERATIONS**

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### **Fourth quarter 2010 ("Q4 2010") vs. Fourth quarter 2009 ("Q4 2009")**

**Net loss** in Q4 2010 was \$8.9 million, a decrease of \$13.4million, compared to the net loss of \$22.3 million in Q4 2009. The decrease was mainly due to no impairment charge recorded in Q4 2010 while a write down of \$33.7 million offset by income tax recovery of \$18.5 million recorded in Q4 2009.

**Revenue** in Q4 2010 was \$3.6 million, an increase of \$1.2 million, compared to revenue of \$2.4 million in Q4 2009, and the increase was mainly due to the improvement of nickel price.

**Cost of sales** in Q4 2010 was \$3.3 million, a decrease of \$1.4 million, compared to the cost of sales of \$4.7 million in Q4 2009. The decrease was mainly because the inventory sold in Q4 2010 was written down to estimated net realizable value as at September 30, 2010 and no further mining production in Q4, 2010 while the mine operation in Q4 2009 was continuing until November 2009. Included in cost of sales were cash cost of sales of \$2.8 million (Q4 2009 - \$4.4 million) and non-cash cost of sales of \$0.5 million (Q4 2009 - \$0.4 million).

**Temporary shutdown costs** in Q4 2010 were \$4.6 million, an increase of \$2.0 million, compared to the temporary shutdown costs of \$2.6 million in Q4 2009. The temporary shutdown costs in Q4 2010 represented three month maintenance expenditures while the temporary shutdown costs in Q4 2009 only represented one and a half month maintenance expenditures at Bucko Lake Mine.

**Other expenses** in Q4 2010 were \$3.0 million, an increase of \$0.6 million, compared to the other expenses of \$2.4 million in Q4 2009. The increase was because approximately \$2.4 million change of control payout, which included in professional, consulting, and management fee, were incurred in Q4 2010 while no change of control payment incurred in Q4 2009. If excluding the change of control payout, other expenses were decreased by \$1.4 million as less activity in Q4 2010 when compared to Q4 2009 due to the suspension of mine operation at Bucko Lake Mine. Other expenses mainly included professional, consulting, and management of \$2.5 million (Q4 2009 - \$2.1 million), of which \$0.1 million (2009 - \$1.3 million) was for stock compensation expenses, \$0.2 million (2009 - \$0.07 million) was for professional fees and \$2.2 million (2009 - \$0.7 million) was for consulting and management fees, interest expenses and bank charges of \$0.5 million (Q4 2009 - \$0.01 million).

**Impairment charge** in Q4 2010 was \$nil while a total of \$3.2 million of exploration property and deferred expenditures and \$30.6 million of property, plant and equipment was written down due to the unsuccessful mine operation and economic down turn in Q4 2009. As per the revised mine plan, the Company determined that the property, plant, and equipment as well as the exploration property and deferred expenditures were not impaired as at December 31, 2010.

**Loss on derivative instrument** in Q4 2010 was \$0.2 million while a gain of \$0.1 million was recorded in Q4 2009. Gain or loss on derivative instrument will fluctuate with the nickel price and settlement dates. As at December 31, 2010, a total of 105,822 pounds of nickel forward sales contract remained outstanding.

**Income tax expense** in Q4 2010 was \$0.9 million while a total of income tax recovery of \$18.5 million, was recorded in Q4 2009. The income tax recovery in Q4 2009 was mainly due to reversal of future income tax liability as a result of the write down of \$33.7 million to property, plant, and equipment as well as the exploration property and deferred expenditures.

### **Year end 2010 vs. Year end 2009**

**Net loss** in 2010 was \$34.2 million, an increase of \$7.2 million, compared to the net loss of \$27.0 million, in 2009. The increase was mainly as results of: i) Loss of mine operations of \$28.0 million (2009 - \$8.9 million); ii) \$nil impairment charges (2009 - \$33.7 million); and, iii) income tax recovery of \$2.9 million (2009 - \$21.0 million).

**Revenue** in 2010 was \$23.0 million, an increase of \$16.3 million, compared to revenue of \$6.7 million in 2009, and the increase was mainly due to improvement of nickel price as well as the increasing production achieved in 2010. In 2010, a total of 2,125,202 pounds (2009 - 818,563 pounds) of nickel was sold at selling price of \$10.81 (2009 - \$8.22) per pound of nickel.

**Cost of sales** in 2010 was \$41.9 million, an increase of \$31.2 million, or 292%, compared to the cost of sales of \$10.7 million in 2009, as a result of higher production and higher overhead cost as the operation at Bucko Lake Mine was not able to achieve its planned capacity in 2010. Included in cost of sales were cash cost of sales of \$38.3 million (2009 - \$9.4 million) and non-cash cost of sales of \$3.6 million (2009 - \$1.3 million).

**Temporary shutdown costs** in 2010 were \$9.1 million, an increase of \$4.2 million, compared to the temporary shutdown costs of \$4.9 million in 2009. Mine operation at Bucko Lake Mine was suspended in November 2009 and then resumed in April 2010. In October, 2010, the Company temporary suspended the mine operation at Bucko Lake Mine in order to introduce its own mining equipment and mining crew. As a result, the temporary shutdown cost in 2010 included seven months' maintenance expenditures while 2009 temporary shutdown costs included two month's maintenance costs at Bucko Lake Mine.

**Other expenses** in 2010 were \$8.1 million, an increase of \$1.6 million, compared to the other expenses of \$6.5 million in 2009. The increase was mainly as a result of the \$3.0 million change of control payout, which included in professional, consulting, and management fee, in 2010. Other expenses mainly included professional, consulting, and management of \$6.3 million (2009 - \$4.4 million) of which \$1.5 million (2009 - \$2.3 million) was for stock compensation expenses, \$0.5 million (2009 - \$0.4 million) was for professional fees and \$4.3 million (2009 - \$1.7 million) was for consulting and management fees, interest expenses and bank charges of \$0.9 million (2009 - \$0.1 million), general and office of \$0.5 million (2009 - \$1.4 million), and shareholder communication and investor relations of \$0.3 million (2009 - \$0.4 million).

**Impairment charge** in 2010 was \$nil while a total of \$3.2 million of exploration property and deferred expenditures and \$30.6 million of property, plant and equipment was written down due to the unsuccessful mine operation and economic down turn in 2009. As per the revised mine plan, the Company determined that the property, plant, and equipment as well as the exploration property and deferred expenditures were not impaired as at December 31, 2010.

**Loss on derivative instrument** in 2010 was \$0.3 million while a gain of \$1.5 million was recorded in 2009. Gain or loss on derivative instrument will fluctuate with the nickel price and settlement dates. As at December 31, 2010, a total of 105,822 pounds of nickel forward sales contract remained outstanding.

**Income tax recovery** in 2010 was \$2.9 million while a total of income tax recovery of \$21.0 million, was recorded in 2009. The income tax recovery in 2009 was mainly due to reversal of future income tax liability as a result of the write down of \$33.7 million to property, plant, and equipment as well as the exploration property and deferred expenditures.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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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, 2010. 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 based on the difference between the carrying amount and the fair value, which is determined based on discounted future cash flows. 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 fair 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 ("ARO")***

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, 2010. 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 production cost and net realizable value. Ore stockpile inventory is valued at the lower of mining cost and net realizable value. Mining cost includes the cost of direct labour, supplies consumed and depreciation of 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 production cost and net realizable value. Production costs include the cost of raw materials, supplies consumed, direct labour, mine site overhead expenses, depreciation of producing property and equipment and depletion of mineral property costs. Net realizable value is based on the US denominated forward nickel price as quoted in the London Metals Exchange, less estimated costs of completion and the estimated costs necessary to make the sale.

## **CHANGES IN ACCOUNTING POLICIES**

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### **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

Canadian publicly listed companies will be required to prepare financial statements in accordance with IFRS for interim and annual periods beginning on or after January 1, 2011. The Company's first mandatory filing under IFRS, which will be the first quarter of 2011, will include IFRS-compliant financial statements on a comparative basis, as well as reconciliations for that quarter and as at the January 1, 2010 transition date. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

The Company's IFRS conversion plan consists of three phases which are design and planning, assess and quantify, and implementation. During 2010, the IFRS conversion plan was substantially executed.

The Company's opening IFRS statement of financial position will reflect the impact of the following expected election available to entities adopting IFRS for the first time:

- **Decommissioning liabilities included in the cost of property, plant, and equipment:** In electing this exemption, the Company is able to calculate its ARO asset at the transition date using a simplified method based on the related ARO liability.

- **Share based payment:** In accordance with IFRS 2, Share based payment, the Company will recognize a forfeiture rate on its initial recognition of stock option grants. In applying the IFRS 1 election available, the effect of the forfeiture rates will be applied only to unvested options at the date of transition.

In assessing the impact of its conversion to IFRS, the Company identified the following significant difference in its current accounting policies and those that it expects to apply under IFRS:

- **Property, plant & equipment** – IFRS requires that the Company identify the different components of its fixed assets and record amortization based on the useful lives of each component. The Company has reviewed and analyzed the depreciation of its existing property, plant & equipment on this basis. As such, no adjustment will be required on the opening Balance Sheet as at January 1, 2010. Subsequent additions and amortization to property, plant & equipment from the transition date will be subject to componentization and amortized over their respective useful lives.
- **Asset retirement obligations** – The Company has elected to use an IFRS 1 exemption to take a simplified approach to calculate and recognize the asset related to the asset retirement obligation on the opening IFRS Balance Sheets. The provision for asset retirement obligation is calculated as at the transition date in accordance with IAS 37, Provisions, contingent liabilities and contingent assets. To determine the amount of the corresponding asset, the calculated provision under IAS 37 is discounted back to the date when the provision first arose, at which date the corresponding asset is recognized. This asset is depreciated to its carrying amount as at the transition date. IFRS will require the Company to re-measure its provision for asset retirement obligations on a quarterly basis using a pre-tax risk free rate adjusted for the risks specific to the obligation, which will result in some variability in both carrying value of the liability and corresponding asset, and associated expenses in profit or loss.
- **Impairment** – IAS 36, “Impairment of Assets”, uses a one-step approach to both testing for and measurement of impairment, which asset carrying values compared directly with the higher of fair value less cost to sell and value in use (which uses discounted future cash flows). This may potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. IFRS also has the requirement under IAS 36 to reverse any previous impairment losses up to carrying value had there been no impairment losses where circumstances have changed. Canadian GAAP prohibits reversal of impairment losses.
- **Financial instruments** – All financial assets and liabilities, including derivative are recognized on the Balance Sheet under IFRS. They are re-measured to fair value at each subsequent Balance Sheet date until the financial asset/liabilities are derecognized. Gain or losses arising from changes in fair value are included in the profit and loss of the period in which they occur. Management has considered all material contracts and has reviewed a representative sample of them for applicability and determined that current accounting of these agreements under Canadian GAAP is consistent with the requirements under IFRS; therefore, no adjustment is required at the Transition date.
- **Share based payment** – In accordance with IFRS 2, Share based payments, the Company will recognize a forfeiture rate on its initial recognition of stock option grants. In applying the IFRS 1 election available, the effect of the forfeiture rates will be applied only to unvested options at the date of transition. Also, under IFRS2, for options vesting in tranches, each tranche must be accounted for as a separate arrangement with its own distinct fair value measurement and the compensation cost is recognized over its own distinct vesting period. Canadian GAAP allows entities the option of recognizing options that vest in instalments as separate arrangement or as a single pool with a fair value based on the average life of the instruments.
- **Accounting for income taxes** – under IAS 12, Incomes Taxes, the accounting for deferred taxes for the acquisition of assets that do not constitute a business combination is different from Canadian GAAP. IAS 12 states that a deferred tax asset/liability is not recognized when an asset or liability is acquired in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Also, under IAS 12, all deferred taxes are considered non-

current whereas under Canadian GAAP, deferred taxes are split between current and non-current, based on the classification of the underlying asset or liability on the balance sheet, and for non-balance sheet accounts, such as loss carry forwards, the expected timing of reversal or realization.

The Company is still finalizing the impacts of the IFRS conversion adjustments on its 2010 opening balances and statement of operation. It is expected that all adjustment will be completed within the require timeline for the conversion.

In 2011, the Company will finalize its IFRS quarterly and annual financial statements and related disclosures. It is expected that all items will completed within the require timeline for conversion.

## **LIQUIDITY AND CAPITAL RESOURCES**

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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 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 business.

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

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of three months or less when acquired, selected with regards to the expected timing of expenditures from continuing operations.

During the year ended December 31, 2010, the Company raised a total of \$11.4 million through a private placement by issuance of 72,200,000 common shares of the Company. The Company also raised additional \$23.1 million by issuing convertible debentures.

As at December 31, 2010, the Company had cash and cash equivalents of \$4.1 million (December 31, 2009 - \$10.0 million) and working capital deficit \$24.2 million (December 31, 2009 – positive working capital of \$3.2 million). The Company is also required to spend at least \$2.1 million option expenditures at TBN in 2011 to maintain the option in good standing. Management recognizes the needs of additional working capital, and the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation.

As disclosed in the outlook section above, the Company is expecting to generate \$20 million cash flow from its operation at Bucko Lake Mine and will use the funds generated from operation to funds its continue development and exploration activities. However, the Company's cash position is highly dependent on the price of nickel and when and if we are able to achieve our production target.

The Company does not have unlimited capital resource and has incurred significant loss from its mine operation. As a result, the Company may need to raise additional funds through public or private debt or equity financing. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preference, or privileges senior to those of the holders of the Company's common shares. However, there is also no assurance that additional financing will be available or that, if available, can be obtained on terms favourable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay, limit, or eliminate its mining and exploration activities.

In light of the financial difficulties in 2010, management alerts its management strategy to include the reduction of debt through issuance of equity instruments. In March 2011, the Company completed an equity financing to raise gross proceeds of \$30 million, which enable the Company has sufficient capital to meet its cash needs and to be able to continue as going concern for the next twelve months. On March 22, 2011, the Company also received a Conversion Notice that King Place elected to convert all outstanding convertible debentures plus accrued interest to date in the amount of \$11,310,421 into 258,819,703 common shares of the Company at conversion price of \$0.0437 per share, which is the price equal to 75% of the volume weighted average price of the Company shares on five trading days (from March 15 to March 21, 2011) pursuant to the terms of the convertible debentures notes. The conversion is subject to the approval of Toronto Stock Exchange and majority disinterested shareholders of the Company, and if it is approved and the debentures are converted into common shares of the Company, the Company would become debt free entity.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company manages its exposure to financial risk, including liquidity risk, foreign exchange rate risk, interest rate risk, and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

### a) Fair value

The fair value of financial instruments represents the amount that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments as at December 31, 2010 approximates their fair value of the short maturities or normal trade term of these instruments.

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. Those financial assets and liabilities are reclassified in their entirety based on the level of input that is significant to the fair value measurement.

	Fair value as at December 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 4,068,019	\$ -	\$ -	\$ 4,068,019
<b>Financial liabilities</b>				
Derivative liabilities	\$ -	\$ 373,190	\$ -	\$ 373,190

### b) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, amounts receivable and derivative liabilities. Cash equivalents consist of guaranteed investment certificates, 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 harmonized sales tax due from the Federal Government of Canada and receivables 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.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2010, the Company has limited funds to meet its short term financial liabilities, and the working capital is in a deficit position of \$24.2 million. Accordingly, additional financing is required to maintain the Company to continue as a going concern. The Company's financial obligations as at December 31, 2010 are summarized as follows:

	Within one year	1 - 2 years	2-3 years	3-4 years	4-5 years	Total
Accounts payable and accrued liabilities	\$ 10,466,215	\$ -	\$ -	\$ -	\$ -	\$ 10,466,215
Convertible debentures	20,705,694	-	-	-	-	20,705,694
Derivative liabilities	373,190	-	-	-	-	373,190
Capital lease	294,336	9,836	9,079			313,251
	<u>\$ 31,839,435</u>	<u>\$ 9,836</u>	<u>\$ 9,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,858,350</u>

d) Interest rate risk

The Company has cash and cash equivalent balances subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposit issued by its banking institutions. As at December 31, 2010, the Company also has \$20.7 million convertible debentures bearing a coupon rate of 10% per annum. 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.

e) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions being denominated in US dollars. Amounts receivable as at December 31, 2010 include receivable denominated in US dollar of US\$1,516,646 (2009 - US\$987,330).

f) 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.

In 2010, the Company entered into forward sales contracts to manage the Company's commodity price risk (Note 7).

**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 and accrued liabilities, convertible debentures and capital leases 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, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the short term maturity of these instruments. The following is a sensitivity analysis of the financial instruments of the Company:

- i) 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, 2010 will generate a decrease in interest income of approximately \$40,680.
- ii) 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, 2010 will generate an increase or decrease in the receivable of approximately \$14,892. As production ramps up and the accounts receivable balance increases, the change could be significant.
- iii) The Company currently has derivative liabilities that are exposed to nickel price. A change of 1% in nickel price based on the derivative liabilities balance at December 31, 2010 will generate an increase or decrease in the derivative liabilities of approximately \$29,540.

**QUARTERLY FINANCIAL RESULTS**

	Quarters ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Revenue	\$ 3,595,898	\$ 8,496,918	\$ 9,675,368	\$ 1,198,022
Cost of goods sold	(3,309,046)	(20,849,083)	(13,831,209)	(3,904,254)
	286,852	(12,352,165)	(4,155,841)	(2,706,232)
Temporary shutdown costs	(4,620,891)	-	-	(4,480,891)
Other expenses	(2,977,116)	(1,795,248)	(1,844,931)	(1,575,823)
Other items	(703,318)	(924,544)	858,573	(172,414)
Loss before taxes	(8,014,473)	(15,071,957)	(5,142,199)	(8,935,360)
Income tax recovery (expense)	(897,456)	1,095,000	24,000	2,716,575
Net loss	\$ (8,911,929)	\$ (13,976,957)	\$ (5,118,199)	\$ (6,218,785)
Loss per share - basis and diluted	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)

	Quarters ended			
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenue	\$ 2,438,944	\$ 2,284,493	\$ 2,007,450	\$ -
Cost of goods sold	(4,749,922)	(3,151,257)	(2,781,306)	-
	(2,310,978)	(866,764)	(773,856)	-
Temporary shutdown costs	(2,561,917)	(2,381,083)	-	-
Other expenses	(2,369,051)	(1,630,458)	(1,639,043)	(879,879)
Other items	(33,590,810)	(336,532)	(780,708)	2,137,063
Income (loss) before taxes	(40,832,756)	(5,214,837)	(3,193,607)	1,257,184
Income tax recovery (expense)	18,500,059	2,308,970	(71,900)	266,000
Net income (loss)	\$ (22,332,697)	\$ (2,905,867)	\$ (3,265,507)	\$ 1,523,184
Earning (loss) per share - basis and diluted	\$ (0.06)	\$ (0.01)	\$ (0.01)	\$ 0.01

The net losses in Q2 2009, Q3 2009, Q1 2010, Q2 2010, Q3 2010, and Q4 2010 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.

In Q4 2010, the Company suspended the mine operation at Buck Lake Mine resulted in an additional temporary shutdown costs of \$4.6 million were recorded. In Q4 2010, the Company also incurred a change of control payout of approximately \$2.4 million.

The net loss in Q3 and Q2, 2010 resulted from lower than expected production and higher than expected mining and milling costs.

The net loss in Q1 2010 resulted from lower than expected production and higher than expected restart costs and plant maintenance.

The net loss in Q4 2009 resulted primarily from an impairment provision of \$33.7 million on certain of the Company's property, plant and equipment and exploration and development property and deferred expenditures.

Net income earned in Q1 2009 resulted from realized net gains on the monetization of forward nickel and currency contracts, net of future income taxes.

## ANNUAL INFORMATION

	Years ended December 31		
	2010	2009	2008
Total assets	\$ 168,347,490	\$ 166,307,299	\$ 177,875,471
Shareholders' equity	132,429,369	143,551,000	130,047,448
Dividend declared	-	-	-
Revenue	22,966,206	6,730,887	-
Gross margin	(18,927,386)	(3,951,598)	-
Temporary shutdown costs	(9,101,782)	(4,943,000)	-
Other expenses	(8,144,194)	(6,519,617)	(4,231,664)
Other items	(990,627)	(32,569,801)	57,187,063
Income tax recovery (expense)	2,938,119	21,003,129	(18,476,000)
Net income (loss)	(34,225,870)	(26,980,887)	34,479,399
Earning (loss) per share - basis & diluted	\$ (0.06)	\$ (0.07)	\$ 0.13

In June 2009, the Company declared commercial production at Bucko Lake Mine. The \$34.5 million net income recorded in 2008 was mainly due to a gain on derivative instruments of \$70.6 million recorded in 2008.

## CASH FLOWS

**Cash used in operating activities** in 2010 was \$30.4 million compared to a total of \$3.4 million cash used from operating activities in 2009. Before net change in non-cash working capital, which providing cash of \$0.1 million (2009 - \$8.7 million), cash used in operation was \$30.5 million (2009 - \$12.1 million). The increasing cash used in operation activities was mainly because the mine operation was not able to achieve its planed capacity and excess overhead costs incurred in 2010.

Cash used in operating activities in Q4 2010 was \$0.2 million compared to a total of \$4.1 million cash used in Q4 2009. Before net change in non-cash working capital, which provided cash of \$5.7 million (Q4 2009 - \$1.5 million), cash used in operation was \$5.9 million (Q4 2009 - \$5.6 million).

**Cash provided from financing activities** in 2010 was \$34.4 million compared to a total of \$39.2 cash from financing activities in 2009. In 2010, the Company received net proceeds of \$11.4 million (2009 - \$37.2 million) cash through equity financing and a total of \$23.1 million cash through debt financing (2009 - debt repayment of \$7.6 million).

Cash provided from financing activities in Q4 2010 was \$10.0 million through a debt financing while a total of \$8.8 million cash was generated through issuance of equity securities in Q4 2009.

**Cash used in investing activities** in 2010 was \$9.9 million compared to a total of \$36.4 million in 2010. The decrease of cash used in investing activities was because the commercial production at Buck Lake Mine commenced in June 2009 and less mine development expenditures incurred since July 2009.

Cash used in investing activities in Q4 2010 was \$7.0 million compared to a total of \$8.3 million cash used in investing activities in Q4 2009.

## **COMMITMENTS AND CONTINGENCIES**

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- a) Outstanding legal issue related to a claim by Met-Chem Canada Inc. ("Met-Chem") against the Company for the amount of \$260,000, plus interest at the Royal Bank of Canada Prime Rate + 2% from March 2009 to date of payment. No formal action commenced by Met-Chem to enforce claim for payment. The Company claims for damages and/or set-off to Met-Chem debt currently under review by counsel.
- b) Outstanding legal issue related to a claim by a former employee, who left the Company in 2009, against the Company for damages for alleged wrongful dismissal and alleged payment of a bonus of \$30,000. The Company has responded with a statement of defense. The parties have not yet set dates for examination for discovery. As at December 31, 2010, in the legal process the likelihood of successfully defending the claim and ultimate value of the claim are not determinable.

## **TRANSACTIONS WITH RELATED PARTIES**

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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 by the related parties. Related party transactions not disclosed elsewhere include the followings:

- a) Transactions with Dumas

Dumas, was a related party of the Company as Dumas is a subsidiary of Pala, who was a major shareholder and had two representatives on the Board of Directors of the Company. In June 2010, Pala disposed all its interest in the Company to King Place and Dumas ceased to be a related party of the Company. During the period from January 2010 to June 2010, the Company paid \$8,716,086 to Dumas for its mining contracting work provided to the Company. During the year ended December 31, 2010, the Company had transactions with Dumas amounted to \$21,036,249 (2009 - \$15,551,799). In December 2010, Dumas proceeds legal action against the Company for the amount outstanding and in question, and subsequent to December 31, 2010, the Company reached a settlement agreement with Dumas to settle the claims from Dumas. Dumas is taking steps to discharge the lien and legal actions against the Company.

- b) Transactions with LJ Resources Ltd.

During the year ended December 31, 2010, the Company borrowed a bridge loan of \$350,000 with LJ Resources Ltd., a private company controlled by a director of the Company. In December 2010, the Company repaid the loan in full without incurring any interest to LJ Resources Ltd.

- c) Transactions with Directors and Officers of the Company

The Company entered into consulting or management service agreements with certain directors or officers or companies controlled by/associated with directors or officers. Pursuant to the terms of those agreements, the Company is required to pay to those directors or officers for an additional amount equalling to their base fees from 24 months up to 36 months plus all bonus awarded for the past two or three years if a change of control occurred and the service agreement terminated by either party. During 2010, the Company paid \$2,986,508 to directors and officers who entitled to these change in control payout. The transactions with directors and officers are summarized as follows:

- i) During the year ended December 31, 2010, the Company paid \$60,000 (2009 - \$35,000) to Forbes & Manhattan Inc., a private company closely associated by a former director of the Company and \$66,875 (2009 - \$65,625) to 2051580 Ontario Inc., a private company controlled by the same former director for management services provided to the Company. The Company also paid \$692,500 to 2051580 Ontario Inc. as a result of the change of control in 2010.
- ii) During the year ended December 31, 2010, the Company \$50,500 (2009 - \$13,500) to a former officer for his legal and corporate secretary services provided to the Company. Change of control payout of \$79,000 and a special bonus of \$100,000 was awarded to this former officer as a result of the change of control in 2010.
- iii) During the year ended December 31, 2010, the Company paid \$60,000 (2009 - \$100,000) to a former director for his consulting services provided to the Company. A change of control payout of \$250,000 was also paid to him in 2010.
- iv) During the year ended December 31, 2010, the Company paid \$275,004 (2009 - \$nil) to 1039593 Ontario Ltd., a private company controlled by a former officer of the Company for his consulting services in the capacity of a chief executive officer. The Company also paid \$500,008 to 1039593 Ontario Ltd. due to the change of control in 2010.
- v) During the year ended December 31, 2010, the Company paid \$229,585 (2009 - \$10,997) to Dr. Engineering Mining Consultants, a private company controlled by a former officer of the Company for his consulting services in the capacity of a chief operation officer to the Company. The Company also awarded a special bonus of \$180,000 and a change of control payout of \$360,000 to this company in 2010.
- vi) During the year ended December 31, 2010, the Company paid \$105,000 (2009 - \$nil) to Ladd Mining Incorporated, a private company controlled by a former officer of the Company, and \$55,000 (2009 - \$202,973) to the same officer for her services provided to the Company. Change of control payout in the amount of \$495,000 was also paid to Ladd Mining Incorporated in 2010.
- vii) During the year ended December 31, 2010, the Company paid \$nil (2009 - \$489,167) to a former officer for his consulting services provided to the Company. In 2010, a change of control payout of \$235,000 was awarded to this former officer.
- viii) During the year ended December 31, 2010, the Company paid \$152,500 (2009 - \$nil) to G. Collins Geoscience Inc., a private company controlled by a former officer of the Company for his consulting services provided to the Company. A change of control payout in the amount of \$275,000 was paid to this former officer in 2010.
- ix) During the year ended December 31, 2010, the Company paid \$79,617 (2009 - \$nil) to 2203835 Ontario Inc., a private company controlled by a former officer of the Company for his consulting services provided to the Company. In connection of the change of control, the Company also paid special bonus of \$50,000 and severance payment of \$82,500 to 2203835 Ontario Inc. in 2010.
- x) During the year ended December 31, 2010, the Company paid \$45,000 (2009 - \$nil) to CMS Consulting Ltd., a private company controlled by a director and officer of the Company for his consulting services provided to the Company.
- xi) During the year ended December 31, 2010, the Company paid \$13,750 (2009 - \$nil) to an officer of the Company for his services provided to the Company.

## **OUTSTANDING SHARE DATA**

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As at March 25, 2011, a total of 1,241,988,262 common shares of the Company were issued and outstanding. Of the options to purchase common shares issued to directors, officers, employees, and consultants of the Company under the share option plan, 45,011,250 remain outstanding with exercise prices ranging from \$0.065 to \$1.02, with expiry dates ranging between July 5, 2011 and January 6, 2016.

As at March 25, 2011, a total of 389,877,623 share purchase warrants and broker options were outstanding with an exercise prices ranging from \$0.10 to \$0.30 expiring between April 30, 2011 and March 7, 2013.

## **RISKS AND UNCERTAINTIES**

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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**

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There are no off balance sheet items.

### **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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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"). Internal control is the process established by management to provide reasonable assurance about the achievement of the Company's objectives regarding operation, reporting, and compliance. Internal control is designed to address identify risks that threaten any of these objectives.

The Company's management, including the CEO and the CFO, is responsible for establishing and maintaining adequate system of internal control, including internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. However, any system of internal control over financial reporting, no matter how well designed, has inherent limitation. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management, including the CEO and the CFO, does not expect that the Company's Disclosure Controls will prevent or detect all errors and fraud.

In December 2010, the Company restructured the Board of Directors and replaced the management team. The new management, including the interim CEO and the CFO, reviewed and evaluated the internal control procedures in place and determined that there have been no changes in internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect internal control over financial reporting.

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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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.