crowflight minerals inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and six months ended June 30, 2010

August 13, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the three and six months ended June 30, 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 three and six months ended June 30, 2010 and should be read in conjunction with our unaudited interim consolidated financial statements for the three and six months ended June 30, 2010 in addition to our annual audited consolidated financial statements and notes for the year ended December 31, 2009. The financial statements and related notes of Crowflight have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information, including our press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under our profile at www.sedar.com.

The scientific and technical information contained in this report has been prepared under the supervision of, and reviewed by Steve Davies, P.Eng. who is an officer of the Company and a "Qualified Person" within the meaning of National Instrument 43-101.

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

References to the first and second quarters of 2010 or Q1-2010 and Q2-2010 and the first and second quarters of 2009 or Q1-2009 and Q2-2009 mean the three and six months ended June 30, 2010 and 2009 respectively.

HIGHLIGHTS

- For the quarter ended June 30, 2010, Crowflight produced 1,177,468 pounds of nickel, and sold 917,977 pounds of nickel payable as compared to 234,920 pounds of nickel produced and 254,139 pounds of nickel sold in the second quarter of last year.

- Total metal revenue for the quarter ended June 30, 2010 was $9.7 million compared to $2.0 million for the second quarter last year.

- Operating cash flow for the quarter ended June 30, 2010 was ($8.8 million) compared to operating cash flow of $1.5 million in the second quarter last year.

- Loss for the quarter ended June 30, 2010 was $5.1 million or ($0.01) per share compared to net loss of $3.3 million or ($0.01) per share in the second quarter last year.

- Commercial nickel sales settled during the quarter ended June 30, 2010 were realized at an average price of US$10.25 per pound compared with US$6.79 per pound in the second quarter of 2009.

- Net working capital as at June 30, 2010 was ($4.8 million) (including cash and cash equivalents of $1.8 million) compared to $3.2 million as at December 31, 2009.

2010 Quarterly Bucko Mine Operations Production and Financial Data

	Q1-2010	Q2-2010
Operating Statistics:		
Tonnes ore mined	11,177	67,189
Average Nickel head grade (%Ni)	1.02%	1.31%
Tonnes ore milled	9,431	58,605
Average Recovery	66.94%	69.42%
Nickel pounds:		
Produced	141,970	1,177,468
Payable sold[1]	117,600	917,977
Commercial Production Metal Sales Revenue:		
Average Ni price (US$/lb)	$ 9.77	$ 10.25
CAD/US exchange rate	$ 1.04	$ 1.03
Nickel revenue	893,266	9,594,466
Pricing adjustments[3]	304,756	80,902
Total metal revenue	1,198,022	9,675,368
Cost of sales[2]	3,867,822	12,250,533
Temporary shutdown costs	4,480,891	-
Depreciation, depletion, and amortization	36,432	1,580,676
Gross profit	(7,187,123)	(4,155,841)
Net earnings (loss) before tax	(8,935,360)	(5,142,199)
Basic and diluted earnings (loss per share)	$ (0.01)	$ (0.01)
Cash flow from operating activities	(8,944,040)	(8,769,568)
US cash cost per pound sold[1,4]	$ 37.34	$ 14.43

1. Includes settlement of prior quarter sales
2. Other metal revenue is recorded as an offset to cost of sales in the Company's financial statements
3. Pricing adjustments reflect final pricing/volume adjustments on lots sold in prior quarters
4. Cash cost per pound sold is a Non-GAAP measure. Refer to "Non-GAAP Measures" section for reconciliation to GAAP measure

- On April 6, 2010, the Company received an offer from Jinchuan Group Ltd. ("Jinchuan") to acquire all of the common shares of Crowflight in consideration for an aggregate cash payment of $150,000,000. Based on the number of Crowflight common shares outstanding at the time of the announcement, this Offer equated to approximately $0.26 per common share. The Offer represents a premium of 47.3% to the closing price on the Toronto Stock Exchange for the Company's common shares on April 2, 2010 and a premium of 56.8% to the 20 day volume weighted average trading price. On a partially diluted basis, taking into account the outstanding convertible securities of the Company outstanding on the date of the Offer that have an exercise price of equal to or less than $0.22, the Offer equated to approximately $0.22 per share. On this basis, the Offer represented a premium of 27.0% to the closing price on the Toronto Stock Exchange for the Company's common shares on April 2, 2010 and a premium of 35.1% to the 20 day volume weighted average price. Please see press release dated April 6, 2010.

- On May 6, 2010, the Company announced the resignation of Greg Collins, Vice President of Exploration for Crowflight, effective April 30th.

- The Company entered into a series of financial instruments to price protect nickel sales from July 2010 – June 2011. The Company has hedged approximately 850,000 pounds of nickel at prices ranging from US$9.00 - $11.00 per pound of nickel.

- On May 10, 2010, the Company announced it continues discussions with Jinchuan regarding the offer letter (the "Offer") from Jinchuan to acquire all of the common shares of Crowflight in consideration for an aggregate cash payment of $150,000,000 (for details regarding the Offer, please see the Company's press release of April 6, 2010).

- On June 16, 2009, Michael Barton and Gregory Radke resigned from the Board of Directors of the Company. Messrs. Barton and Radke represented Pala Investments Holdings Limited ("Pala") on the Board. Their resignation occurred in connection with Pala selling all 152,311,221 common shares and 50,588,235 warrants of Crowflight that it held to King Place Enterprises Limited ("King Place") for a total purchase price of CAD$30.75 million. King Place has disclosed that, as a result of this purchase, it holds a total of 247,029,971 Crowflight common shares (representing approximately 42.3% of the outstanding common shares) and 50,588,235 Crowflight share purchase warrants. King Place is a private company which is now affiliated with Hebei Wenfeng Industrial Group, the parent company of Hebei Wenfeng Iron and Steel Co., Ltd., a significant Chinese steel producing company.

- During the quarter, Crowflight provided an update regarding the offer from Jinchuan to acquire all of the common shares of Crowflight in consideration for an aggregate cash payment of $150,000,000. Negotiations continue between representatives of the Company and Jinchuan. Jinchuan has confirmed the continued validity of the Offer, and Crowflight and Jinchuan have agreed that the Offer will remain valid until August 31, 2010. The Offer is premised on Jinchuan obtaining 100% of the offtake from the Bucko Lake Mine and any of the Crowflight exploration properties that are subsequently placed into production.

- Subsequent to the quarter's end, Crowflight announced the appointment of David Hunter, MBA, CA as Chief Financial Officer for the Company, effective June 30, 2010. Mr. Hunter replaces Anna Ladd who previously held the role.

- Subsequent to the quarter's end, the Company announced that it had completed a $5.05 million bridge loan from King Place Enterprises Limited ("King Place") with the potential for a further financing of $5 million to be arranged by King Place on commercially reasonable efforts, private placement basis. The loan will be in the form of a $5,050,000 principal amount promissory note (the "Note") to be issued by Crowflight to King Place. The potential additional $5 million financing would result from the sale, on a private placement basis, of a further 35,714,285 common shares of the Company as arranged by King Place, at a price of $0.14, within 35 days following the date hereof, subject to the receipt of regulatory approval. King Place is a related party to the Company as the Company understands that it holds more than 40% of the outstanding common shares of the Company.

DESCRIPTION OF BUSINESS

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

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

OUTLOOK

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

Crowflight does not expect to meet its 2010 guidance as previously disclosed in February 2010 (please see press release dated February 24, 2010). The Company is currently reviewing its 2010 production plan and costs for the remainder of this year, and expects to give updated guidance later this year once a steady state of production of 1,000 tonnes per day has been achieved.

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

MINERAL PROPERTIES

THOMPSON NICKEL BELT PROPERTIES ("TNB") – MANITOBA

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

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

CROWFLIGHT - XSTRATA AGREEMENTS

Bucko Mining Lease, Offtake, and TNB Exploration Option Agreements

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

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

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

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

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

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

Crowflight's 100% interest in the Exploration Properties is subject to a Back-in Right whereby should Crowflight outline a Threshold Deposit or Deposits, each of which exceed 500,000,000 pounds of nickel in Measured and Indicated Resources, Xstrata Nickel has the right to Back-in for a 50% interest and become the operator of the Threshold Deposit or Deposits by incurring expenditures on the property in an amount equal to two times the aggregate of all expenditures which were incurred by Crowflight in carrying out mining operations on the property prior to the Back-in, provided that if Xstrata Nickel exercises more than one Back-in Right, then in calculating the required Back-in expenditures for each subsequent Back-in Right expenditures relating to any previously exercised Back-in Right are excluded from such expenditure calculation.

Definitive Offtake Agreement

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

MANIBRIDGE JOINT VENTURE – MANITOBA

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

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

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

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

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

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

SUDBURY PROPERTIES – ONTARIO

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

AER Kidd Property

There is currently no activity on this property. Crowflight maintains a 100% interest in the mining patents associated with this property. In 2008, the Company wrote down the value of this property. In Q2-2010, the Company recorded an additional amount of $101,771 (Q2-2009-$50,000) to the statement of operations for payment made to maintain the property in good standing. The Company continues to seek a partner to advance this project.

Peter's Roost Property

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

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

EXPLORATION ACTIVITIES

Thompson Nickel Belt Properties

In the second quarter of 2010, no exploration was conducted on the Thompson Nickel Belt properties.

Bucko Lake Nickel Mine

At the Bucko Lake Mine, infill and exploration drilling programs were conducted on the various levels of the deposit. During the second quarter, a total of 7,687 meters in 71 holes were drilled to define the main zone, explore the hinge zone and as capital drilling for backfill holes. Results from this drilling are expected to be used to confirm mining reserves for 2011 and to explore for additional mineral resources.

Sudbury Properties

In the second quarter of 2010, no exploration was conducted on the Sudbury Properties.

OPERATIONAL AND DEVELOPMENT ACTIVITIES

Bucko Lake Nickel Mine Operational Highlights:

- Since production resumed at the Bucko Mine in March of 2010, the mine and surface production facilities continued to fully develop and capital changes were implemented that are necessary to achieve a steady state production targets of 1,000 tonnes per day.
- Mining operations continued toward sustaining a steady state of production utilizing the cut and fill mining method. This method involves a primary/secondary drift and fill stoping with cemented bulk hydraulic fill being emplaced once the drifts are mined out. During the second quarter, the cut and fill method was carried out over four active mining levels and has shown to be a selective method to maximize recovery and grade from the orebody.
- Though the mine has not yet achieved a steady state of production of 1,000 tonnes per day, all efforts have remained focused on optimizing operations since production resumed in March. Projected daily tonnage for the Bucko mine for the third quarter is to achieve a steady state of 1,000 tonnes per day along with final completion of the main infrastructure of the mine for dewatering and fill distribution system.
- Infrastructure items completed during the second quarter of 2010 included the commissioning of a bulk hydraulic fill plant and associated underground delivery system. In the third quarter work on the mine dewatering system along with completion of the underground water recirculation system is projected for completion. Work is also ongoing as the underground mine communication system is also being completed.
- Work was initiated in the second quarter to complete the next lift of Interim Tailings Storage Facility (ITSF) by increasing the tailings dam height by an additional 3 meters. This work on the ITSF is projected for completion during the third quarter with the additional tailings capacity being utilized by year end

Lateral level development that commenced in the first quarter was ongoing during the second quarter and saw development over four levels, namely the 600, 665, 730 and 800 levels. Currently all four levels are developed and production is occurring from all four.

With the commissioning of the bulk hydraulic fill plant during the second quarter, mined openings can be rapidly filled. This has allowed the primary stopes to be filled and production from the intermediate secondary stopes has commenced which represents fulfillment of the designed mining method. The bulk hydraulic fill system was also used during the second quarter to place fill into the longhole stopes that were only partially filled after mining in 2009 allowing for topping up of these stopes to prevent interference with the projected cut and fill mine design currently being carried out.

Ongoing work in the mill and crushing plant to achieve steady state production and recovery continued throughout the second quarter and will continue going forward to allow for increased recoveries. Continued process control implementation is ongoing and will be expanded to include the bulk hydraulic backfill plant.

RESULTS OF OPERATIONS

Second quarter 2010 vs. Second quarter 2009

The Company reported a net loss of $5,118,199 ($0.01 per share – basic and diluted) for the quarter ended June 30, 2010 compared to net loss of $3,265,507 ($0.01 per share – basic and diluted) for the quarter ended June 30, 2009.

Operations

During the three months ended June 30, 2010, a total of 67,189 tonnes of ore were extracted from the Bucko underground compared with 42,224 and 18,377 tonnes of pre-production commercial production ore, respectively, extracted during the same period in 2009.

During the three months ended June 30, 2010, the mill processed 58,605 tonnes of ore at an average grade of 1.31% nickel producing approximately 1,177,468 pounds of nickel with an average recovery of 69.42%. The Company sold approximately 917,977 pounds of payable nickel during the quarter including sales settlements from prior quarters. During the same period last year, the mill processed 18,377 tonnes of commercial production ore at an average grade of 0.93% nickel producing 254,139 pounds of nickel with an average recovery of 62.62%.

Revenue

Revenue is affected by sales volumes, commodity prices and currency exchange rates. When a draw is made on the In-Process Working Capital, approximately 75% of nickel concentrate sales are recognized in revenue at prevailing spot prices when concentrate is delivered to Xstrata for smelting and refining treatment, per the In-Process Working Capital Facility with Auramet (See Note 8 of the interim consolidated financial statements for the three and six months ended June 30, 2010). Otherwise all sales are recognized at the 3 month forward spot rate for nickel. Final pricing and quantities are settled three months following delivery. At the end of each quarter, if applicable, all outstanding sales contracts for the quarter are valued based on the three month forward price and offset against nickel sales. Final pricing results in additional revenues in a rising commodity price environment and reductions to revenue in a declining commodity price environment. Similarly, a weakening in the Canadian dollar relative to the US dollar will result in additional revenues and a strengthening in the Canadian dollar will result in reduced revenues. Sales of other metals are offset in cost of goods sold.

For the three months ended June 30, 2010, nickel revenue was $9,594,466. Pricing adjustments realized in the quarter were $80,902. The average realized price was US$10.25/lb at an average US/CAD exchange rate of $1.03. During the same period in 2009, nickel revenue was $2.0 million The average realized price was US$6.62/lb at an average US/CAD exchange rate of $1.16.

Operating Costs

The Company recorded cost of sales of $12,250,533 during the quarter ended June 30, 2010, compared to $2,445,213 in the same quarter last year. The USD cash cost per payable pound was $14.43 (non-GAAP measure, see “non-GAAP measures” section) for the quarter ended June 30, 2010. The higher cash cost is predominantly from lower than expected production. In addition, there were higher mining production costs, milling and plant maintenance.

The Company recorded non-cash amortization of $1,580,676 for Bucko related assets depreciated on a unit of production in Q2-2010, compared to $336,093 in the same period last year.

Other Items

Other expenses increased by approximately $205,888 from the comparative quarter as a result of higher expenses in consulting and legal fees, which increased by $741,491 offset by $410,237 decrease in general and office expenses. The increase in consulting and legal fees was as a result of a change of control occurred at June 7, 2010, in which $695,000 was accrued.

The Company recorded an unrealized gain of $686,254 on derivative instruments. During the comparative quarter in the prior year, the Company realized a net loss of $349,085 as a result of the monetization of their forward nickel and currency contracts. The nickel contracts increased in value as a result of declining nickel prices since entering into the contracts, while the currency contracts decreased in value as a result of a weaker Canadian dollar.

During the quarter ended June 30, 2010, the Company recognized a future income tax recovery of $24,000 compared to an expense of $71,900 during the quarter ended June 30, 2009.

Six months ended June 30, 2010 vs. Six months ended June 30, 2009

The Company reported a net loss of $11,336,984 ($0.02 per share – basic and diluted) for the six months ended June 30, 2010 compared to net loss of $1,742,323 ($0.01 per share – basic and diluted) for the six months ended June 30, 2009.

Operations

During the six months ended June 30, 2010, a total of 78,366 tonnes of ore were extracted from the Bucko underground compared with 73,315 and 18,377 tonnes of pre-production commercial production ore, respectively, extracted during the same period in 2009.

During the six months ended June 30, 2010, the mill processed 68,036 tonnes of ore at an average grade of 1.27% nickel producing approximately 1,177,468 pounds of nickel with an average recovery of 69.42%. The Company sold approximately 1,035,577 pounds of payable nickel during the six months ended June 30, 2010 including sales settlements from prior quarters. During the same period last year, the mill processed 18,377 tonnes of commercial production ore at an average grade of 0.93% nickel producing 254,139 pounds of nickel with an average recovery of 62.62%.

Revenue

For the six months ended June 30, 2010, nickel revenue was $10,487,732. Pricing adjustments realized in the quarter were $385,658. The average realized price was US$10.15/lb at an average US/CAD exchange rate of $1.03. During the same period in 2009, nickel revenue was $2.0 million. The average realized price was US$6.62/lb at an average US/CAD exchange rate of $1.16.

Operating Costs

The Company recorded cost of sales of $16,118,355 during the six months ended June 30, 2010, compared to $2,445,213 in the same period last year. The higher cash cost is predominantly from lower than expected production, higher mining production costs, milling, environment, transportation and plant maintenance.

The Company recorded non-cash amortization of $1,617,108 for Bucko related assets depreciated on a unit of production during the six months ended June 30, 2010, compared to $336,093 in the same period last year.

Other Items

Other expenses increased by approximately $900,646 from the comparative period as a result of several variances. These include higher expenses in consulting and legal fees, which increased by $1,337,015 offset by $341,899 decrease in general and office expenses and $75,915 lower travel expense. The increase in consulting and legal fees was as a result of a change of control that occurred at June 7, 2010, in which $695,000 was accrued.

The Company recorded an unrealized gain of $686,254 on derivative instruments compared with gain of $1,741,471 in the same period last year.

During the six months ended June 30, 2010, the Company recognized a future income tax recovery of $2,740,575 compared to a recovery of $194,100 during the six months ended June 30, 2009.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A detailed summary of the Company's significant accounting policies is included in Note 2 of the Company's Annual Audited Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2009; and Note 2 of the Q2-2010 financial statements.

RECENT ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2 of the Company's Annual Audited Financial Statements for the year ended December 31, 2009 and Note 2 of the Q2-2010 financial statements.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2010, the Company had working capital of ($4,790,283) compared to working capital of $3,171,755 as at December 31, 2009. The cash balance as at June 30, 2010 was $1,790,558 (2009 – $10,040,475).

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 Investment Holdings Limited ("Pala"), through a wholly owned subsidiary, purchased 21,356,250 of the 72,200,000 common shares giving it a total of 36,231,250 common shares representing approximately 6.01% of the 603,273,552 issued and outstanding shares of the Company.

On August 9, 2010, the Company amended the previously announced private placement financing (see press release of July 9, 2010) to a $5.05 million bridge loan from King Place with the potential for a further financing of $5 million to be arranged by King Place on a commercially reasonable efforts, private placement basis. The loan will be in the form of a $5,050,000 principal amount promissory note to be issued by Crowflight to King Place. The potential additional $5 million financing would result from the sale on a private placement basis, of a further 35,714,285 common shares of the Company as arranged by King Place, at a price of $0.14, within 35 days following the date hereof, subject to the receipt of regulatory approval. King Place is a related party to the Company as the Company understands that it holds more than 40% of the outstanding common shares of the Company.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Credit risk

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2010, the Company had a cash and cash equivalents balance of $1,790,558 (2009 - $10,040,475) to settle current liabilities of $15,993,522 (2009 - $9,327,431). Most of the Company's financial liabilities have contractual maturities of between 30 – 60 days and are subject to normal trade terms.

To meet the Company's current working capital deficit and ensure that it has sufficient working capital to continue operations, the Company has entered into a bridge loan and private placement financing agreement for up to $10.05 million with King Place Enterprises Limited to raise sufficient capital to meet its working capital needs.

Market risk

(a) Interest rate risk

The Company has cash and cash equivalent balances and an in-process working capital facility subject to fluctuations in interest rates. The Company did not draw down on the in-process working capital facility in Q2-2010. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the working capital facility interest rate and balance advanced under the facility. Currently, the Company does not hedge against interest rate risk.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions being denominated in US dollars. Amounts receivable as at June 30, 2010 include an amount of US$3,909,111 (2009 - $987,330). The Company monetized its derivative currency contracts during the second quarter of fiscal 2010, and currently does not hedge for foreign exchange risk (Note 6 of the Interim Consolidated Financial Statements).

(c) Commodity price risk

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

There were no significant changes to credit risk, liquidity risk and market risk during the three months ended June 30, 2010 compared to the year ended December 31, 2009.

Sensitivity analysis

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

As at June 30, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited terms of these instruments. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

> The Company carries a short-term, in-process working capital facility at an interest rate of Libor + 6.75%. At June 30, 2010, the amount owing on the working capital facility was $nil.
>
> The Company holds certain cash equivalents that upon renewal will earn interest at the then market rate for such deposits. A 1% decrease in interest rates based on the cash and cash equivalents balance at June 30, 2010 will generate a decrease in interest income of approximately $17,905.

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 June 30, 2010 will generate an increase or decrease in the receivable of approximately $41,460. As production ramps up and the accounts receivable balance increases, the change could be significant.

QUARTERLY INFORMATION

The quarterly results have been as follows:

Summary Financial Information for the Eight Quarters Ended June 30, 2010

Tabular amounts in $000 except for per share amounts.

Period	Revenues	Total Assets	Net Income (Loss)	Net Income (Loss) per Share basic and diluted	Long Term Financial Liabilities
2nd Quarter 2010	9,675	171,721	(5,118)	(0.01)	995
1st Quarter 2010	1,198	168,441	(6,219)	(0.01)	987
4th Quarter 2009	2,439	166,307	(22,333)	(0.04)	980
3rd Quarter 2009	2,285	208,606	(2,905)	(0.01)	992
2nd Quarter 2009	2,007	181,862	(3,266)	(0.01)	1,010
1st Quarter 2009	Nil	169,885	1,523	0.01	1,010
4th Quarter 2008	Nil	177,875	28,958	0.11	8,066
3rd Quarter 2008	Nil	170,826	9,891	0.04	39,901

The Company had operating revenue for the three months ending June 30, 2010 of $9,675,368.

The Company has invested in capital assets for the development of the Bucko Lake Nickel Mine, which accounted for the continued increases in total assets during 2008 and the first three quarters of 2009. Total assets also increased during Q3-2009 as a result of the closing of private placements on July 23 and September 29, 2009. Total assets decreased during Q4-2009 due to an impairment provision recorded by the Company.

The net losses in Q2-2009, Q3-2009, Q1-2010 and Q2-2010 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. 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 on certain of the Company's Property, plant and equipment and Exploration and development property and deferred expenditures. Net income earned during Q1-2009 and Q4-2008 resulted from realized net gains on the monetization of forward nickel and currency contracts, net of future income taxes. Net income in Q4-2008, included the remaining value of warrants that was expensed at the time of settlement for that portion of the debt facility, and was a result of the restructuring of the debt facility. As well, an incremental value on the warrants was determined and $849,709 was charged during Q4-2008. During Q3-2008, income resulted from the unrealized gain recognizing the increase in fair value of forward nickel contracts entered into by the Company. During the second and third quarters of 2008, the Company incurred a non-cash accretion charge of $475,485 and $292,696 respectively as a result of the accretion of the value of warrants charged against the debt facility. The net loss in Q2-2008 results primarily from corporate overheads, including stock-based compensation.

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

CASH FLOWS

For the quarter ended June 30, 2010

Cash used by Operating Activities was $8,769,568 during the quarter ended June 30, 2010, compared to providing cash of $1,509,159 during the same period in 2009. The change in non-cash working capital used was $4,935,940 during the quarter ended June 30, 2010 compared to providing of $3,557,416 in non-cash working capital during the quarter ended June 30, 2009.

Cash provided from Financing Activities was $306,283 during the quarter ended June 30, 2010 compared to $7,282,912 for Q2-2009.

Cash provided from Investing Activities during the quarter ended June 30, 2010 was $1,077,070 compared to cash used of $8,744,135 during the quarter ended June 30, 2009. Cash spending on exploration and development of its properties in the TNB as well as the continued mine development and purchase of capital assets related to the Bucko mining operations for the current quarter was $5,648,019, net of government assistance, compared to $9,164,180 during Q2-2009. Accounts payable related to exploration and development expenditures increased by $6,725,089 during the current quarter compared to an increase of $420,045 during the comparative quarter.

For the six months ended June 30, 2010

Cash used by Operating Activities was $17,713,608 during the six months ended June 30, 2010, compared to providing cash of $10,000,633 during the same period in 2009. The change in non-cash working capital used was $5,672,822 during the six months ended June 30, 2010 compared to providing of $2,438,453 in non-cash working capital during the six months ended June 30, 2009.

Cash provided from Financing Activities was $11,722,168 during the six months ended June 30, 2010 compared to using $333,853 for the first half 2009.

Cash used in Investing Activities during the six months ended June 30, 2010 was $2,258,475 compared to cash used of $18,615,578 during the six months ended June 30, 2009. Cash spending on exploration and development of its properties in the TNB as well as the continued mine development and purchase of capital assets related to the Bucko mining operations for the current quarter was $7,990,092, net of government assistance, compared to $20,308,323 during the first half 2009. Accounts payable related to exploration and development expenditures increased by $5,731,617 during the current six months compared to a decrease of $1,307,253 during the comparative period.

COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts which require that additional payments of up to $1,881,508 be made upon the occurrence of certain events such as events that may result from a change of control. As at June 7, 2010, a change of control occurred (please see press release dated June 16, 2010). As a result of this change of control, either the Company or the holder of the contract can terminate the contract before June 8, 2011, which would result in the contract holder receiving certain additional payments. As at June 30, 2010, $695,000 was accrued relating to any such event having occurred. Minimum termination commitments under these contracts are approximately $694,004, all of which are due within one year. Subsequent to the quarter’s end, on July 5, 2010 an officer elected to exercise their change of control option for $495,000.

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

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

TRANSACTIONS WITH RELATED PARTIES

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

The Company shares its premises with other companies that have common directors and officers. The Company reimburses the related companies for their proportionate share of the expenses. At June 30, 2010 an amount of $30,730 (Q2-2009 - $4,048) is payable in relation to these expenses. These amounts payable are unsecured, non-interest bearing with no fixed terms of repayment.

During the six months ended June 30, 2010, $8,676,697 was paid or accrued to Dumas Contracting Limited ("Dumas"), a subsidiary of Pala Investment Holdings ("Pala") a company that placed two directors on the Company's board as a result of a private placement in 2009, but subsequently resigned from the board in June 2010. Included in accounts payable and accrued liabilities as at June 30, 2010 is $5,469,199 owing to Dumas. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

During the six months ended June 30, 2010, the Company paid $16,082 (Q2-2009 - $5,552), and granted 225,000 (Q2-2009 – 25,000) stock options to individuals for legal and support services. These amounts are included in professional, consulting and management fees on the statement of operations. These same individuals also perform services for a company controlled by a director of the Company.

The Company was charged $30,000 during the six months ended June 30, 2010 (Q2-2009 - $30,000) by a company controlled by a director of the Company for administration services.

During the six months ended June, 2010, 2,250,000 stock options were granted to directors and officers of the Company compared to 2,700,000 options for the six months ended June 30, 2009.

OUTSTANDING SHARE DATA

As at June 30, 2010, there were 583,409,720 common shares of the Company outstanding. As at July 31, 2010, 583,564,714 common shares were outstanding. Of the options to purchase common shares issued to service providers under the share option plan of the Company, 37,830,000 remain outstanding with exercise prices ranging from $0.15 to $1.02, with expiry dates ranging between July 14, 2010 and June 15, 2015. If exercised, 37,830,000 common shares would be issued for proceeds of $18,630,000.

As at June 30, 2010, 91,294,523 share purchase warrants and broker options were outstanding with an exercise prices ranging from $0.17 to $0.30 expiring between December 17, 2010 and January 16, 2012. If all warrants were exercised, 91,294,523 common shares would be issued for proceeds of $21,550,525.

SUBSEQUENT EVENTS

On July 9, 2010, Crowflight announced a private placement financing (the "Private Placement") for total gross proceeds of up to CAD$12,000,000. Pursuant to the Private Placement, the Company proposes to issue up to 85,714,285 common shares (the "Common Shares") of the Company at a price of $0.14 (the "Issue Price") per Common Share. The net proceeds of the financing will be used for capital expenditures at the Bucko Lake Mine and general corporate and working capital purposes. The private placement is expected to close in tranches commencing on or about July 22, 2010 and remains subject to the receipt of all regulatory approvals, including approval of the Toronto Stock Exchange.

Subsequent to the quarter's end, the Company announced that it had amended the previously announced private placement financing (see press release of July 9, 2010) to a $5.05 million bridge loan from King Place Enterprises Limited ("King Place") with the potential for a further financing of $5 million to be arranged by King Place on a commercially reasonable efforts, private placement basis. The loan will be in the form of a $5,050,000 principal amount promissory note (the “Note”) to be issued by Crowflight to King Place. The potential additional $5 million financing would result from the sale on a private placement basis, of a further 35,714,285 common shares of the Company as arranged by King Place, at a price of $0.14, within 35 days following the date hereof, subject to the receipt of regulatory approval. King Place is a related party to the Company as the Company understands that it holds more than 40% of the outstanding common shares of the Company.

RISKS AND UNCERTAINTIES

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

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

Nickel Prices

Our principal business is the exploration and future production of nickel. Crowflight’s future profitability is largely dependent on movements in the price of nickel. Nickel prices have historically been volatile and are primarily affected by the demand for and price of nickel alloys and stainless steel in addition to the supply/demand balance.

Given the historical volatility of nickel prices, there are no assurances that the nickel price will remain at economically attractive levels. An increase in nickel supply without a corresponding increase in nickel demand would be expected to result in a decrease in the price of nickel. A decline in nickel prices would adversely impact the business of Crowflight.

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

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

Foreign Exchange

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

Mineral Resource and Mineral Reserve Estimates

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

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

Licenses and Permits, Laws and Regulations

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

Environmental

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

Title to Properties

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

Uninsured Risks

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

Competition

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

Reduced Global Demand for Steel or Interruptions in Steel Production

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

Availability of Reasonably Priced Raw Materials and Mining Equipment

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

Failure to Meet Production Target and Cost Estimates

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

Share Price Fluctuations

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

Conflicts of Interest

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

OFF BALANCE SHEET ITEMS

There are no off balance sheet items.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board (AcSB) and the Canadian Securities Administrators (CSA) have confirmed January 1, 2011 as the date IFRS will replace Canadian Generally Accepted Accounting Principles (Canadian GAAP) for publicly accountable, profit-oriented enterprises. Therefore, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, IFRS will replace the standards and interpretations currently applicable to publicly accountable, profit-oriented enterprises under Canadian GAAP. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices that could materially impact the reported financial position and results of operations. Our goal is to make policy changes that are compliant with IFRS but also provide the most meaningful information to our shareholders.

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

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

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

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

- IFRS 1 - First time adoption
  - The Company's adoption of IFRS will require the application of IFRS 1, First Time Adoption of International Financial Reporting Standards, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity applies all IFRS effective at the end of its first IFRS reporting period retrospectively, with a number of optional exemptions and mandatory exceptions. The Company is in the process of analyzing the impact of taking the optional exemptions, the most significant of which are property, plant and equipment and borrowing costs.

  - Property, plant and equipment

    The Company may elect to report items of property, plant and equipment, including mineral properties, in its opening balance sheet on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis.

    The Company intends to elect not to report any items of property, plant and equipment, including mineral properties, in its opening balance sheet on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS. The Company will instead report the items at cost. Therefore, this optional exemption is expected to have no impact at the transition date and thereafter.

  - Borrowing costs

    Crowflight's current accounting policy is to expense borrowing costs, however IFRS requires borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalized. IFRS 1 permits entities to apply the IFRS requirements for borrowing costs prospectively from the transition date. The Company is currently analyzing whether or not to take this exemption.

- IAS 36 – Impairment of assets
  Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IFRS uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use, which is based on discounted future cash flows. This may potentially result in more impairment losses 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. In addition, under IFRS if the conditions which gave rise to an impairment no longer exist, the previous impairment charge, other than for goodwill, must be reversed, to a maximum of the net carrying value of the property, plant and equipment had the impairment charge not been recorded.

  This is expected not to have an impact at the transition date. Subsequent to the transition date, any potential impact will be dependent upon future circumstances as described above.

- IFRS 2 – Share based payments
  Under IFRS, each installment of share options that vest in installments shall be treated as a separate award with a different fair value. Unlike Canadian GAAP, IFRS does not provide for an election to treat such options as a pool and recognise the expense on a straight line basis. The Company has established that the use of the Black-Scholes model will be an acceptable method to estimate the fair value of the options at the date of grant under IFRS, and this is consistent with the Company's current practice. The aforesaid differences will result in a difference in valuation of the share based awards and timing differences for the recognition of compensation expenses.

- IFRS 6 – Exploration and evaluation
  Exploration for and Evaluation of Mineral Resources, allows an entity to either capitalize or expense exploration and evaluation expenditures. Currently, the Company capitalizes these costs and it expects to continue with this policy under IFRS. As such this is not expected to have a significant impact on transition

- IAS 16 – Property, plant and equipment
  Under IFRS, a historical cost model or a revaluation model can be used to value property, plant and equipment. The Company intends to measure its property, plant and equipment using the historical cost model which is not expected to have a significant impact at the transition date or thereafter.

  Also, under IFRS, parts of items of property, plant and equipment that have a cost that is significant in relation to the cost of the item as a whole and have a different useful life must be depreciated separately from the remainder of the item. The Company is still determining the expected impact on transition date, if any, of this requirement.

NON-GAAP MEASURES

This MD&A refers to cash cost per pound, which is not recognized measure under Canadian GAAP. This non-GAAP performance measure 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 this measure internally. The use of this measure 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.

	Three Months Ended March 31, 2010		Three Months Ended June 30, 2010	
Bucko Lake Mine operating expenses, excluding depreciation, depletion and amortization		4,682,279		14,093,975
Less by-product credit		(111,084)		(475,108)
Cash cost net of by-products		4,571,195		13,618,868
Exchange rate (US$1 to C$)		1.04		1.03
Cash cost net of by-products USD	USD	4,391,604	USD	13,244,020
Nickel payable sold (lb)		117,600		917,977
Cash cost per pound of nickel payable sold, net of by-product credits in USD/lb	USD	37.34	USD	14.43

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for statements of historical fact relating to Crowflight, certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Company's properties; the future price of nickel and other minerals; foreign exchange rates; the estimation of mineral reserves and mineral resources; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as ''plans'', ''expects'' or ''does not expect'', ''is expected'', ''budget'', ''scheduled'', ''estimates'', ''forecasts'', ''intends'', ''anticipates'' or ''does not anticipate'', or ''believes'', or variations of such words and phrases or statements that certain actions, events or results ''may'', ''could'', ''would'', ''might'' or ''will be taken'', ''occur'' or ''be achieved''. Forward - looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the anticipated timing, amount and cost of mining at the Company's projects are based on assumptions underlying mineral reserve and mineral resource estimates and the realization of such estimates are set out herein. Capital and operating cost estimates are based on extensive research of the Company, purchase orders placed by the Company to date, recent estimates of construction and mining costs and other factors that are set out herein. Production estimates are based on mine plans and production schedules, which have been developed by the Company's personnel and independent consultants. These estimates are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Crowflight to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of nickel and other minerals; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry and those other risks of the Company described in its annual information form that is available under its profile on SEDAR at www.sedar.com. 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.

crowflight minerals inc.

INTERIM

CONSOLIDATED FINANCIAL STATEMENTS

for the three and six months ended
June 30, 2010 and 2009

-Unaudited-

INTERIM CONSOLIDATED BALANCE SHEETS

(unaudited)

As at

		June 30, 2010		December 31, 2009
ASSETS				
Current				
Cash and cash equivalents	**$**	**1,790,558**	$	10,040,475
Amounts receivable		**4,521,330**		1,291,687
Inventory (Note 4, Note 12)		**3,511,983**		1,031,734
Prepaid expenses and deposits		**234,457**		135,290
Derivative asset (Note 6)		**1,144,911**		-
		11,203,239		12,499,186
Deposits and advances		**534,709**		534,709
Property, plant and equipment (Note 5)		**145,059,949**		138,568,967
Exploration and development property and deferred expenditures (Note 7)		**14,923,492**		14,704,437
	$	**171,721,389**	$	166,307,299
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 12)	**$**	**15,326,685**	$	9,282,060
Loan (Note 18)		**619,340**		-
Equipment leases		**47,497**		45,371
		15,993,522		9,327,431
Equipment leases		**36,671**		61,281
Asset retirement obligations (Note 10)		**958,038**		918,387
Future income tax liability (Note 13)		**3,222,000**		6,000,200
		20,210,231		16,307,299
SHAREHOLDERS' EQUITY				
Common shares (Note 11(a))		**150,669,787**		138,758,903
Warrants (Note 11(b))		**9,855,793**		10,195,919
Contributed surplus (Note 11(d))		**16,975,990**		15,698,606
Retained Earnings (Deficit)		**(25,990,412)**		(14,653,428)
		151,511,158		150,000,000
	$	**171,721,389**	$	166,307,299

The accompanying notes are an integral part of the financial statements

Commitments and contingencies (Notes 1, 5, 7, and 16)
Subsequent events (Note 19)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

“Stan Bharti”, Director

“Bruce Humphrey”, Director

Interim Consolidated Statements of Shareholders' Equity

(unaudited)

	Common Shares		Warrants	Contributed Surplus	Accumulated Deficit	Shareholders' Equity
	No.	$	$	$	$	$
Balance, December 31, 2008	293,304,323	99,289,864	4,944,374	13,485,751	12,327,459	130,047,448
Private placement	215,411,765	47,820,000	-	-	-	47,820,000
Value of warrants granted	-	(4,842,336)	4,842,336	-	-	-
Value of warrants granted related to debt facility	-	-	107,597	-	-	107,597
Exercise of stock options	245,000	49,000	-	-	-	49,000
Valuation allocation on exercise of stock options	-	18,586	-	(18,586)	-	-
Stock based compensation - shares (Note 11 (a))	562,464	113,130	-	-	-	113,130
Stock based compensation - options (Note 11 (c))	-	-	-	2,231,441	-	2,231,441
Flow through share tax effect (Note 13)	-	(2,982,000)	-	-	-	(2,982,000)
Value of broker warrants	-	(301,612)	301,612	-	-	-
Share issue costs	-	(523,400)		-	-	(523,400)
Tax effect of cost of issue	-	117,671	-	-	-	117,671
Loss for the period	-		-	-	(26,980,887)	(26,980,887)
Balance, December 31, 2009	509,523,552	138,758,903	10,195,919	15,698,606	(14,653,428)	150,000,000
Private placement (Note 11 (a))	72,200,000	11,552,000	-	-	-	11,552,000
Stock based compensation - shares (Note 11 (a))	181,243	33,312	-	-	-	33,312
Stock based compensation - options (Note 11 (c))	-	-	-	1,032,553	-	1,032,553
Share issue costs	-	(125,000)	-	-	-	(125,000)
Exercise of warrants	1,588,259	317,652	-	-	-	317,652
Valuation allocation on exercise of warrants	-	95,295	(95,295)		-	-
Valuation allocation on expiry of warrants	-	-	(244,831)	244,831	-	-
Tax effect of cost of issue	-	37,625	-	-	-	37,625
Loss for the period	-	-	-	-	(11,336,984)	(11,336,984)
Balance, June 30, 2010	**583,493,054**	**150,669,787**	**9,855,793**	**16,975,990**	**(25,990,412)**	**151,511,158**

The accompanying notes are an integral part of the financial statements

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(unaudited)

For the three and six months ended June 30,

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Revenue				
Nickel sales	**$ 9,594,466**	$ 2,007,450	**$ 10,487,732**	$ 2,007,450
Pricing adjustments	**80,902**	-	**385,658**	-
Revenue - after pricing adjustments	**9,675,368**	2,007,450	**10,873,390**	2,007,450
Cost of sales (excludes accretion, depreciation, depletion and amortization)	**12,250,533**	2,445,213	**16,118,355**	2,445,213
Depreciation, depletion and amortization	**1,580,676**	336,093	**1,617,108**	336,093
Gross margin - mining operations	**(4,155,841)**	(773,856)	**(6,862,073)**	(773,856)
Temporary shutdown costs (Note 3)	**-**	-	**4,480,891**	-
Loss from mining operations	**(4,155,841)**	(773,856)	**(11,342,964)**	(773,856)
Other expenses				
Professional, consulting and management fees (Notes 11(a) and (c) and 12)	**1,448,664**	707,173	**2,628,482**	1,291,467
General and office	**292,824**	703,061	**485,628**	827,527
Shareholder communications and investor relations	**67,587**	118,320	**202,506**	204,426
Travel	**10,537**	68,282	**42,771**	118,686
Interest expenses and bank charges	**25,118**	42,006	**60,965**	76,848
Amortization	**201**	201	**402**	1,154
	1,844,931	1,639,043	**3,420,754**	2,520,108
(Loss) before the undernoted	**(6,000,772)**	(2,412,899)	**(14,763,718)**	(3,293,964)
Interest income	**4,145**	2,000	**13,401**	23,511
Interest on long term debt	**-**	(481)	**-**	(48,673)
General exploration	**-**	-	**-**	(50,000)
Debt facility transaction costs	**-**	(383,142)	**-**	(383,142)
Write down of exploration property and deferred expenditures (Note 7)	**(50,000)**	(50,000)	**(101,771)**	(50,000)
Accretion (Note 10)	**(19,825)**	-	**(39,651)**	57,416
Recovery of expenditures	**-**	-	**-**	66,958
Unrealized gain on derivative instruments (Note 6)	**686,254**	(349,085)	**686,254**	1,741,471
Foreign exchange gain	**237,999**	-	**127,926**	-
Income/(loss) before income taxes	**(5,142,199)**	(3,193,607)	**(14,077,559)**	(1,936,423)
Future income taxes (Note 13)	**24,000**	(71,900)	**2,740,575**	194,100
Income/(loss) for the period	**(5,118,199)**	(3,265,507)	**(11,336,984)**	(1,742,323)
RETAINED EARNINGS/(DEFICIT), beginning of period	**(20,872,213)**	13,850,643	**(14,653,428)**	12,327,459
RETAINED EARNINGS/(DEFICIT), end of period	**$ (25,990,412)**	$ 10,585,136	**$ (25,990,412)**	$ 10,585,136
Loss per share - basic & diluted	**$ (0.01)**	$ (0.01)	**$ (0.02)**	$ (0.01)
Weighted average number of shares - basic	**583,243,050**	319,225,711	**563,749,209**	319,225,711

The accompanying notes are an integral part of the financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

unaudited

For the three and six months ended June 30

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
OPERATING ACTIVITIES:				
Net (loss) for the period	**$ (5,118,199)**	$ (3,265,507)	**$ (11,336,984)**	$ (1,742,323)
Charges not affecting cash:				
Depreciation, depletion and amortization	**1,580,877**	336,294	**1,617,510**	337,247
Stock-based compensation expense (Note 11(a) and (c))	**394,123**	352,374	**1,065,865**	717,921
Warrants issued on In-process working capital facility (Note 8)	**-**	107,597	**-**	107,597
Accretion (Note 10)	**19,825**	-	**39,651**	(57,416)
Change in value of derivative instruments	**(686,254)**	349,085	**(686,254)**	8,393,254
Future income tax (recovery)/expense (Note 13)	**(24,000)**	71,900	**(2,740,575)**	(194,100)
Net change in non-cash working capital	**(4,935,940)**	3,557,416	**(5,672,822)**	2,438,453
	(8,769,568)	1,509,159	**(17,713,608)**	10,000,633
FINANCING ACTIVITIES:				
Debt facility, net of transaction costs	**-**	-	**-**	(7,600,000)
Private placements:				
Common shares issued	**-**	7,820,000	**11,552,000**	7,820,000
issue costs	**-**	(526,580)	**(125,000)**	(526,580)
Shares issued from exercise of warrants	**317,652**	-	**317,652**	-
Payments on equipment leases	**(11,369)**	(10,508)	**(22,484)**	(27,273)
	306,283	7,282,912	**11,722,168**	(333,853)
INVESTING ACTIVITIES:				
Exploration and development property, plant and equipment, and deferred expenditures	**(5,648,019)**	(9,164,180)	**(7,990,092)**	(20,308,323)
Increase (decrease) in accounts payable attributable to property development and exploration	**6,725,089**	420,045	**5,731,617**	(1,307,253)
Change in restricted cash (Note 9)	**-**	-	**-**	2,999,998
Foreign exchange gain	**1,077,070**	(8,744,135)	**(2,258,475)**	(18,615,578)
CHANGE IN CASH AND CASH EQUIVALENTS	**(7,386,215)**	47,936	**(8,249,917)**	(8,948,798)
CASH AND CASH EQUIVALENTS, beginning of period	**$ 9,176,773**	$ 1,610,809	**10,040,475**	10,607,543
CASH AND CASH EQUIVALENTS, end of period	**$ 1,790,558**	$ 1,658,745	**$ 1,790,558**	$ 1,658,745
Cash and cash equivalents consist of:				
Cash	**1,716,092**	1,350,858	**1,716,092**	1,350,858
Cash equivalents	**74,466**	307,887	**74,466**	307,887
	$ 1,790,558	$ 1,658,745	**$ 1,790,558**	$ 1,658,745
SUPPLEMENTAL INFORMATION:				
Stock based compensation charged to exploration properties	-	-	-	14,250
Amortization of assets deferred to exploration properties	604	604	1,208	8,833
Interest received	4,145	2,000	13,401	23,511
Interest paid	61,500	9,969	97,347	60,520

The accompanying notes are an integral part of the financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

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

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

Operating results for the three and six months ended June 30, 2010 are not indicative of the results that may be expected for the full year ending December 31, 2010. The consolidated balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for complete financial statements. The disclosure in these interim unaudited consolidated financial statements may not conform in all respects to generally accepted accounting principles in Canada for annual financial statements. For further information see the financial statements including notes for the year ended December 31, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared using the same accounting policies and methods of application as those disclosed in Note 2 to the Company’s annual consolidated financial statements for the year ended December 31, 2009, except as described below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Pronouncements

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

International Financial Reporting Standards ("IFRS")
On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will prepare IFRS financial statements for the interim periods and fiscal year ends beginning on or after January 1, 2011 with comparative information for 2010 restated under IFRS. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices and could materially impact the reported financial position and results of operations. The Company's has identified analysis of the differences between Crowflight accounting policies and IFRS focused on the areas noted below as those expected which could have the most significant impact on our financial statements. The items listed below do not represent a complete list of areas impacted. As we progress further into the design and implementation phases, as decisions are made regarding accounting policies and as changes to Canadian GAAP and IFRS standards may occur prior to our changeover date, the areas impacted and the effect may be subject to change.

- IFRS 1 - First time adoption
- IAS 36 – Impairment of assets
- IFRS 2 – Share based payments
- IFRS 6 – Exploration and evaluation
- IAS 16 – Property, plant and equipment

3. TEMPORARY SUSPENSION OF BUCKO MINE OPERATIONS

On November 16, 2009, the Company announced that it would be temporarily suspending all production mining and milling operations at the Bucko Lake Nickel Mine ("Bucko") located in the Thompson Nickel Belt near Wabowden, Manitoba for three months to complete ramp development, accelerate mine development and upgrade the backfill plant. Mill operations resumed in the first quarter of 2010.

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. Temporary shutdown costs were $4.48 million for the three months ended March 31, 2010. The three months ended June 30, 2010 did not have a shutdown.

4. INVENTORY

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

	June 30, 2010	December 31, 2009
Nickel ore stockpile	**$ 618,500**	$ -
Nickel in process	**11,277**	-
Nickel concentrate	**159,167**	41,336
Nickel in transit	**1,520,113**	324,361
Materials and supplies	**1,202,926**	666,037
	$ 3,511,983	$ 1,031,734

All inventory is valued at the lesser of cost or net realizable value. As at June 30, 2010 and December 31, 2009, nickel ore stockpile, nickel in process, nickel concentrate, and nickel in transit are recorded at net realizable value, while materials and supplies are recorded at cost. A write-down of $1.2 million for nickel inventory as at June 30, 2010 to net realizable value is included in cost of sales. The remaining amount of cost of sales for the six months ended June 30, 2010 represents the amount of inventory expensed in the period.

5. PROPERTY, PLANT AND EQUIPMENT

			June 30, 2010	December 31, 2009
	Cost	Accumulated Amortization	Net	Net
	$	$	$	$
Computers	561,679	(284,722)	276,957	338,078
Furniture	50,962	(16,730)	34,232	38,855
Field equipment	104,760	(77,825)	26,935	35,297
Vehicles	153,613	(46,859)	106,754	103,972
	871,014	(426,136)	444,878	516,202
Producing properties*				
Buildings & equipment	413,372	(7,438)	405,934	235,370
Plant & equipment	83,292,157	(1,498,752)	81,793,405	82,356,073
Deferred mine development costs	81,624,954	(1,468,754)	80,156,200	73,619,002
Asset retirement costs & adjustments	1,650,952	(29,707)	1,621,245	1,639,692
Bucko deferred project costs	9,307,346	(167,476)	9,139,870	9,243,865
Acquisition costs	4,745,185	(85,384)	4,659,801	4,706,182
Less: preproduction net revenue**	(3,167,192)	56,990	(3,110,202)	(3,145,590)
Less: write down to fair value	(30,601,829)	550,647	(30,051,182)	(30,601,829)
	147,264,945	(2,649,874)	144,615,071	138,052,765
	148,135,959	(3,076,010)	145,059,949	138,568,967

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Producing Properties - Bucko Deposit

The Company owns a 100% interest in the Bucko Lake Lease, subject to a 2.5% Net Smelter Royalty ("NSR") payable to Xstrata Nickel ("Xstrata"). The Bucko Deposit is also subject to a $500,000 payment due on commencement of commercial production which has been accrued as at June 30, 2010.

In July 2010, a major supplier to the Bucko site filed a lien against the property for services rendered. The supplier is continuing to provide services to the site and negotiations have been underway to resolve this situation.

6. DERIVATIVE INSTRUMENTS

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

In February 2009, the Company monetized their forward sales contract position of 2.97 million pounds of nickel and corresponding foreign exchange price protection for 2009 for net proceeds of approximately $10,000,000. A portion of the proceeds of this monetization was used to repay the $7,600,000 debt facility plus interest (see Note 9). Included in the net gain on derivative instruments for the six months ended June 30, 2009 is a net gain on this monetization of $1,741,471.

The Company entered into and currently holds derivative instruments and additional forward sales contracts, which protects up to 1.3 million pounds of nickel between US$9.00/lb and US$11.00/lb. The Company recorded an unrealized gain of $686,254 based on the estimated fair market value of these instruments at a nickel price of US$8.96/lb as at June 30, 2010.

7. EXPLORATION AND DEVELOPMENT PROPERTY AND DEFERRED EXPENDITURES

	MANITOBA			ONTARIO	
	BUCKO DEPOSIT	THOMPSON NICKEL BELT	PURE NICKEL JV	SUDBURY	TOTAL
		($)	($)	($)	($)
Balance, January 1, 2010	-	13,543,955	504,498	655,984	14,704,437
Acquisition or property maintenance costs	-	173,589	-	-	173,589
Exploration costs	-	121,671	-	-	121,671
Less: government assistance	-	(76,205)	-	-	(76,205)
Balance, June 30, 2010	-	13,763,010	504,498	655,984	14,923,492

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

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

MANITOBA

Thompson Nickel Belt

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

- $1,500,000 by December 31, 2010 ($469,000 incurred to June 30, 2010);
- $1,500,000 by December 31, 2011;
- $1,500,000 by December 31, 2012; and
- $1,500,000 by December 31, 2013.

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

MANITOBA (Continued)

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

Pure Nickel Joint Venture

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

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

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

The Company received $nil (2009 - $17,158) in government assistance related to its exploration expenditures on the Pure Nickel JV properties during the six months ended June 30, 2010.

SUDBURY

AER Kidd Property

The Company wrote off the value of the property as at December 31, 2008. During the six months ended June 30, 2010, an amount of $101,771 (2009 - $50,000) was paid to maintain the property in good standing and has been recorded to 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 2009. Wallbridge has committed to funding additional work on the property in 2010.

8. IN-PROCESS WORKING CAPITAL FACILITY

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

9. LONG-TERM DEBT

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

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

10. ASSET RETIREMENT OBLIGATIONS

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

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

		June 30, 2010		December 31, 2009
Balance, beginning of period	$	918,387	$	359,000
Increase in asset retirement obligation	$	-	$	616,803
Accretion expense	$	39,651	$	(57,416)
Balance, end of period	$	958,038	$	918,387

The Company has estimated the present value of its total asset retirement obligations to be $958,038 (2009 – $918,387) at June 30, 2010 based on a total future liability estimated to be approximately $2,284,000 (2009 - $2,284,000). The credit adjusted risk-free rates used in estimating the site restoration obligation were 8.75% and 8.4%. Reclamation is expected to take place in 2021. As a result of increased reserves and a longer mine life, the Company revised the assumptions used to discount its asset retirement obligations, such that an adjustment to accretion expense was recorded in Q1-2009.

11. CAPITAL STOCK

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

11. CAPITAL STOCK (continued)

a) Common shares issued

	Shares		Value
Balance, December 31, 2008	293,304,323	$	99,289,864
Private placement, non flow through	215,411,765		47,820,000
Warrant valuation	-		(4,842,336)
Cost of issue	-		(825,012)
Shares issued through share compensation plan	562,464		113,130
Exercise of options	245,000		49,000
Exercise of options - option valuation	-		18,586
Flow-through share tax effect	-		(2,982,000)
Tax effect of cost of issue	-		117,671
Balance, December 31, 2009	509,523,552	$	138,758,903
Private placement, non flow through	72,200,000		11,552,000
Cost of issue	-		(125,000)
Shares issued through share compensation plan	181,243		33,312
Exercise of warrants	1,588,259		317,652
Exercise of warrants - warrant valuation	-		95,295
Tax effect of cost of issue	-		37,625
Balance, June 30, 2010	**583,493,054**	**$**	**150,669,787**

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 Investment Holdings Limited ("Pala"), through a wholly owned subsidiary, purchased 21,356,250 of the 72,200,000 common shares resulting in Pala holding approximately 25.3% of the issued and outstanding shares of the Company, based on public disclosure made by Pala of its security holdings in the Company.

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 six months ended June 30, 2010, 181,243 common shares were issued under the plan, 97,909 at a value of $0.17 per share and 83,334 at a value of $ 0.20 for an aggregate value of $33,311 being the fair market value on the dates of grant. Of this value, $27,150 was charged to professional, consulting and management fees, and $6,161 was charged to cost of sales.

During the year ended December 31, 2009, 562,464 common shares were issued under the plan at values of $0.20, $0.21 and $0.165 per share or $113,130, being the fair market value on the dates of grant. Of this value, $66,955 was charged to professional, consulting and management fees, $14,250 was charged to exploration and development costs and the balance of $31,925 was charged to cost of sales.

11. CAPITAL STOCK (continued)

b) Warrants

	June 30, 2010		December 31, 2009	
	Number of Warrants	**Weighted Average Price ($)**	Number of Warrants	Weighted Average Price ($)
Balance, beginning of period	**93,846,682**	**0.24**	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	**(1,588,259)**	**0.20**	-	-
Expired	**(963,900)**	**0.62**	(17,324,786)	0.60
Balance, end of period	**91,294,523**	**0.24**	93,846,682	0.24

As at June 30, 2010, the following warrants were outstanding:

Estimated Grant Date Fair Value ($)	Number of Warrants		Exercise Price ($)	Expiry Date
130,355	1,416,900		0.18	December 17, 2010
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
301,613	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
9,855,793	91,294,523			

*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.

11. CAPITAL STOCK (continued)

c) Stock Options

The following are the stock option transactions during the period:

	June 30, 2010			December 31, 2009		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Balance, beginning of period	**33,530,000**	**$**	**0.34**	19,644,375	$	0.55
Granted	**6,300,000**	**$**	**0.16**	24,645,000	$	0.22
Exercised	**-**	**$**	**-**	(245,000)	$	0.20
Expired	**(650,000)**	**$**	**0.26**	(7,126,875)	$	0.52
Forfeited	**(1,350,000)**	**$**	**0.21**	(3,387,500)	$	0.23
Balance, end of period	**37,830,000**	**$**	**0.32**	33,530,000	$	0.34

11. CAPITAL STOCK (continued)

c) Stock Options (continued)

As of June 30, 2010, the following stock options were outstanding:

Estimated Grant Date Fair Value	Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
$ 7,100	50,000	50,000	$ 0.200	July 14, 2010
300,303	1,510,000	1,510,000	$ 0.225	March 13, 2011
84,740	350,000	350,000	$ 0.280	July 5, 2011
3,446	15,000	15,000	$ 0.300	August 9, 2011
31,394	100,000	100,000	$ 0.365	August 15, 2011
44,295	150,000	150,000	$ 0.350	September 28, 2011
607,030	1,785,000	1,785,000	$ 0.405	January 10, 2012
6,423	56,250	56,250	$ 0.500	February 20, 2012
138,600	200,000	200,000	$ 1.020	April 9, 2012
1,197,330	1,865,000	1,865,000	$ 0.940	June 28, 2012
612,000	1,500,000	1,500,000	$ 0.600	September 17, 2012
71,550	150,000	150,000	$ 0.710	November 21, 2012
101,760	240,000	240,000	$ 0.630	November 22, 2012
36,540	105,000	105,000	$ 0.520	February 1, 2013
64,620	180,000	180,000	$ 0.540	March 31, 2013
46,400	100,000	100,000	$ 0.680	April 30, 2013
1,372,143	3,002,500	3,002,500	$ 0.690	May 26, 2013
20,735	65,000	65,000	$ 0.480	June 30, 2013
15,825	75,000	75,000	$ 0.320	July 31, 2013
2,437	25,000	21,875	$ 0.150	October 31, 2013
9,573	75,000	65,625	$ 0.190	November 30, 2013
10,665	80,000	60,000	$ 0.200	January 31, 2014
3,755	30,000	22,500	$ 0.185	February 28, 2014
261,624	2,000,625	1,500,469	$ 0.200	March 20, 2014
46,907	315,000	196,875	$ 0.240	May 6, 2014
4,285	35,000	21,875	$ 0.200	May 31, 2014
22,070	180,000	112,500	$ 0.200	June 30, 2014
214,431	1,655,000	827,500	$ 0.210	August 19, 2014
1,794,534	15,766,875	5,912,577	$ 0.220	October 14, 2014
144,514	2,000,000	500,000	$ 0.160	January 15, 2015
198,305	3,518,750	879,688	$ 0.160	March 15, 2015
34,225	450,000	56,250	$ 0.215	April 12, 2015
7,806	200,000	25,000	$ 0.160	June 10, 2015
$ 7,517,365	37,830,000	21,701,484		

The weighted average exercise price of stock options that are exercisable as at June 30, 2010 is $0.41.

11. CAPITAL STOCK (continued)

c) Stock Options (continued)

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

During the six months ended June 30, 2010, 6,300,000 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. An amount of $402,945 (2009 - $2,231,441) was recorded for all options that vested during the six months ended June 30, 2010 and is included in professional, consulting and management fees on the statement of operations. The weighted average grant date fair value of options granted during the period ended June 30, 2010 was $0.17 (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:

	2010	2009
Expected dividend yield	0%	0%
Expected volatility	82%	87%
Risk-free interest rate	2.8%	1.9%
Expected average life (yrs)	5	5

d) Contributed Surplus

		June 30, 2010		December 31, 2009
Balance, beginning of period	**$**	**15,698,606**	$	13,485,751
Stock options granted and/or vested during the period:				
Directors, officers and employees		**815,983**		2,075,240
Consultants		**216,570**		156,201
Exercise of stock options, reallocation of valuation		**-**		(18,586)
Expiry of warrants, reallocation of valuation		**244,831**		-
Balance, end of period	**$**	**16,975,990**	$	15,698,606

12. RELATED PARTY TRANSACTIONS

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

The Company shares its premises with other companies that have common directors. The Company reimburses the related companies for their proportionate share of the expenses. At June 30, 2010 an amount of $30,730 (Q2-2009 - $4,048) is payable in relation to these expenses. These amounts payable are unsecured, non-interest bearing with no fixed terms of repayment.

12. RELATED PARTY TRANSACTIONS (continued)

During the six months ended June 30, 2010, the Company paid $16,082 (Q2-2009 - $5,552), and granted 225,000 (Q2-2009 – 25,000) stock options to individuals for legal and support services. These amounts are included in professional, consulting and management fees on the statement of operations. These same individuals also perform services for a company controlled by a director of the Company.

The Company was charged $30,000 during the six months ended June 30, 2010 (Q2-2009 - $30,000) by a company controlled by a director of the Company for consulting and professional services.

During the six months ended June 2010, 2,250,000 stock options were granted to directors and officers of the Company compared to 2,700,000 options for the six months ended June 30, 2009.

On June 7, 2010, a change of control occurred. Pala sold all of their 152,311,221 common shares and 50,588,235 warrants of Crowflight that it held to King Place. Dumas Contracting Limited ("Dumas"), a subsidiary of Pala who performs general contracting work, is a related party since Pala placed two directors on the Company's board as a result of a private placement in 2009 (see Note 11(a)). Pursuant to the change of control (note 16(a)), the two directors who represented Pala resigned from the Board of Directors of the Company in June 2010. Therefore, as of June 30, 2010 Dumas is no longer a related party. From January 2010 until June 2010, $8,716,086 was paid to Dumas, and included in accounts payable and accrued liabilities as at June 30, 2010, $3,292,872 owing to Dumas from balances pertaining to expenditures made prior to the resignation of the two directors. These amounts are unsecured, non-interest bearing with no fixed terms of repayment. Transactions with Dumas are in the normal course of business.

13. FUTURE INCOME TAX LIABILITY

The Company recorded a future income tax recovery of $2,740,575 (2009 – recovery $194,100) during the six months ended June 30, 2010 based on differences in the tax basis and carrying values of the Company’s assets.

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

14. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company's approach to capital management during the three and six months ended June 30, 2010.

The Company is not subject to externally imposed capital restrictions.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable, in-process working capital facility, equipment leases and derivative assets. The Company's risk management objectives include minimizing risk relating to cash and cash equivalents to preserve capital for strategic investing. The Company does not enter into or trade financial instruments for speculative purposes. There have been no changes in the risks, objectives, policies and procedures from the previous period.

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

Credit risk

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2010, the Company had a cash and cash equivalents balance of $1,790,558 (2009 - $10,040,475) to settle current liabilities of $15,993,522 (2009 - $9,327,431). Most of the Company's financial liabilities have contractual maturities of between 30 – 60 days and are subject to normal trade terms.

To meet the Company's current working capital deficit and ensure that it has sufficient working capital to continue operations, the Company has entered into a private placement financing agreement for up to $10.05 million with King Place Enterprises Limited to raise sufficient capital to meet its working capital needs.

Market risk

(a) Interest rate risk

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions being denominated in US dollars. Amounts receivable as at June 30, 2010 include an amount of US$4,843,224 (December 31, 2009 - US$2,374,188). The Company monetized its derivative currency contracts during the second quarter of fiscal 2010 (Note 6), and currently does not hedge for foreign exchange risk.

(c) Commodity price risk

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

There were no significant changes to credit risk, liquidity risk and market risk during the six months ended June 30, 2010 compared to the year ended December 31, 2009.

Sensitivity analysis

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

As at June 30, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited terms of these instruments. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

> The Company carries a short-term, in-process working capital facility at an interest rate of Libor + 6.75%. At June 30, 2010, the amount owing on the working capital facility was $nil.
>
> The Company holds certain cash equivalents that upon renewal will earn interest at the then market rate for such deposits. A 1% decrease in interest rates based on the cash and cash equivalents balance at June 30, 2010 will generate a decrease in interest income of approximately $17,905.
>
> 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 June 30, 2010 will generate an increase or decrease in the receivable of approximately $41,460. As production ramps up and the accounts receivable balance increases, the change could be significant.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments. The fair value of short-term financial instruments approximates their carrying value due to the relatively short period of time to maturity. These include cash and cash equivalents, amounts receivable, accounts payable, in-process working capital facility, accrued liabilities, the current portion of equipment leases and derivative assets. Fair value amounts represent fair value at a point in time and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and can be a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for fair values recognized on the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices in active markets for identical assets or liabilities. Level two includes inputs that are that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. Cash and cash equivalents of $1,790,558 is considered to be Level one and derivative assets of $ 1,144,911 is considered to be Level two are the only two financial instruments measured at fair value for the Company, in accordance to the amendment to Handbook Section 3862.

16. COMMITMENTS AND CONTINGENCIES

(a) The Company is party to certain management contracts which require that additional payments of up to $1,881,508 be made upon the occurrence of certain events such as events that may result from a change of control. As at June 7, 2010, a change of control occurred (please see press release dated June 16, 2010). As a result of this change of control, either the Company or the holder of the contract can terminate the contract before June 8, 2011, which would result in the contract holder receiving certain additional payments. As at June 30, 2010, $695,000 was accrued relating to any such event having occurred and management exercising their option to do so. Minimum termination commitments under these same contracts are approximately $694,004, all of which are due within one year. Subsequent to the quarter's end, on July 5, 2010 an officer elected to exercise their change of control option for $495,000.

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

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

17. INTEREST IN JOINT VENTURE

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

	Pure Nickel JV	
	June 30, 2010	December 31, 2009
Current assets	2,310	5,385
Exploration properties and deferred exploration expenditures	413,044	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	-	-

18. LOAN

At the end of June 30, 2010 the Company carried $619,340 in debt related to an agreement entered into with Ted Pakulak o/a TLG Transport to acquire a feeder for $174,340 and with Total Equipment Services Inc. to purchase refurbished bolter for $445,000.

19. SUBSEQUENT EVENTS

On July 9, 2010, the Company announced a private placement financing (the "Private Placement") for total gross proceeds of up to $12,000,000. Pursuant to the Private Placement, the Company proposed to issue up to 85,714,285 common shares (the "Common Shares") of the Company at a price of $0.14 (the "Issue Price") per Common Share. The private placement is subject to all regulatory approvals, including approvals of the Toronto Stock Exchange.

On August 9, 2010, the Company amended the previously announced private placement financing (see above) to a $5,050,000 bridge loan from King Place Enterprise Limited ("King Place"), a significant holder of the company, with the potential for a further financing of $5,000,000 to be arranged by King Place on a commercially reasonable efforts, private placement basis. The loan and potential additional financing remain subject to the receipt of all regulatory approvals, including approvals of the Toronto Stock Exchange. King Place is a related party to the Company as the Company understands that it holds more than 40% of the outstanding common shares of the Company.