CaNickel Mining Limited

formerly Crowflight Minerals Inc.

www.canickel.com

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
CaNickel Mining Limited (formerly Crowflight Minerals Inc.)

We have audited the accompanying consolidated financial statements of **CaNickel Mining Limited (formerly Crowflight Minerals Inc.)** [the "Company"], which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **CaNickel Mining Limited (formerly Crowflight Minerals Inc.)** as at December 31, 2011 and 2010 and January 1, 2010, and its financial performance and cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3 in the consolidated financial statements which indicates that the Company incurred a net loss of $98,037,155 during the year ended December 31, 2011 and, as of that date, the Company's current liabilities exceeded its current assets by $26,290,463. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young LLP

Vancouver, Canada,
March 28, 2012.

Chartered Accountants

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian Dollars, except share data)

	Notes	**2011**	2010
			(Note 4)
Revenue		**$ 11,468,937**	$ 22,966,206
Cost of goods sold			
Cash cost		**18,924,002**	38,324,959
Non - cash cost		**5,002,062**	5,689,324
		(12,457,127)	(21,048,077)
Temporary shutdown costs	5	**(8,462,759)**	(12,370,759)
Loss from mine operations		**(20,919,886)**	(33,418,836)
Finance costs	19	**(2,842,543)**	(1,082,698)
General and administration		**(689,961)**	(704,155)
Impairment of mineral property, plant and equipment	9	**(72,143,079)**	(44,053,661)
Legal and professional fees		**(245,709)**	(492,922)
Loss on disposal of equipment	9	**(112,289)**	(445,000)
Net gain (loss) on derivative instruments	12	**275,377**	(91,750)
Other income and expenses		**305,599**	(151,771)
Salaries, consulting and management fees		**(1,508,680)**	(5,864,250)
Shareholder communications and investor relations		**(155,984)**	(341,379)
Loss before income taxes		**(98,037,155)**	(86,646,422)
Income tax recovery	16	**-**	6,000,200
Net loss and Comprehensive loss for the year		**(98,037,155)**	(80,646,222)
Loss per share - basic & diluted		**$ (0.07)**	$ (0.14)
Weighted average number of shares - basic & diluted		**1,332,953,817**	574,074,855

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

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	Notes	**December 31, 2011**	December 31, 2010 (Note 4)	January 1, 2010 (Note 4)
ASSETS				
Current				
Cash and cash equivalents	6	**$ 1,376,942**	$ 4,068,019	$ 10,040,475
Receivables and prepaid expenses	7	**3,538,057**	2,143,277	1,426,977
Inventory	8	**3,418,428**	1,464,839	1,031,734
		8,333,427	7,676,135	12,499,186
Non-Current				
Mineral property, plant and equipment	9	**56,281,967**	109,385,763	153,091,031
Other non-current assets	10	**985,523**	1,659,890	534,709
		$ 65,600,917	$ 118,721,788	$ 166,124,926
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**$ 8,963,455**	$ 10,466,215	$ 9,282,060
Convertible debentures	11	**-**	20,554,989	-
Loans payable	13	**24,307,374**	**-**	**-**
Current portion of obligations under capital leases	14	**1,353,061**	294,336	45,371
Derivative liabilities	12	**-**	956,063	-
		34,623,890	32,271,603	9,327,431
Non-Current				
Obligations under capital leases	14	**1,727,651**	18,915	61,281
Site closure and reclamation provisions	15	**2,272,249**	823,575	736,014
Deferred income tax liability	16	-	-	6,000,200
		38,623,790	33,114,093	16,124,926
SHAREHOLDERS' EQUITY				
Share capital	17	**186,952,654**	153,253,255	138,758,903
Contributed surplus		**33,312,165**	27,604,977	25,845,412
Accumulated deficit		**(193,287,692)**	(95,250,537)	(14,604,315)
		26,977,127	85,607,695	150,000,000
		$ 65,600,917	$ 118,721,788	$ 166,124,926

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

Nature of Operation (Note 1)
Going Concern (Note 3)
Contingencies (Note 22)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Michael Hibbitts" , Director

"Dianmin Chen" , Director

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars, except share data)

	Common Shares				
	Share issued	**Amount**	**Contributed Surplus**	**Accumulated Deficit**	**Total Equity**
	No.	**$**	**$**	**$**	**$**
As at January 1, 2011	**641,988,262**	**153,253,255**	**27,604,977**	**(95,250,537)**	**85,607,695**
Private placement (Note 17(b))	**600,000,000**	**30,000,000**	**-**	**-**	**30,000,000**
Share issue costs	**-**	**(2,552,665)**	**(571,205)**	**-**	**(3,123,870)**
Conversion of convertible debentures (Notes 11, 17(b))	**258,819,703**	**11,736,026**	**-**	**-**	**11,736,026**
Share based compensation - shares (Note 17(c))	**18,747**	**1,593**	**-**	**-**	**1,593**
Share based compensation - options (Note 17(e))	**-**	**-**	**792,838**	**-**	**792,838**
Fair value of warrants issued (Note 17(d))	**-**	**(5,485,555)**	**5,485,555**	**-**	**-**
Loss for the year	**-**	**-**	**-**	**(98,037,155)**	**(98,037,155)**
As at December 31, 2011	**1,500,826,712**	**$ 186,952,654**	**$ 33,312,165**	**$ (193,287,692)**	**$ 26,977,127**

	Common Shares				
	Share issued	Amount	Contributed Surplus	Accumulated Deficit	Total Equity
	No.	$	$	$	$
As at January 1, 2010	509,523,552	138,758,903	25,845,412	(14,604,315)	150,000,000
Private placement (Note 17(b))	72,200,000	11,552,000	-	-	11,552,000
Share issue costs	-	(125,000)	-	-	(125,000)
Conversion of convertible debentures (Notes 11, 17(b))	58,356,471	2,617,288	-	-	2,617,288
Share based compensation - shares (Note 17(c))	319,980	48,353	-	-	48,353
Share based compensation - options (Note 17(e))	-	-	1,854,860	-	1,854,860
Exercise of warrants (Note 17(d))	1,588,259	317,652	-	-	317,652
Fair value of warrants exercised (Note 17(d))	-	95,295	(95,295)	-	-
Tax effect of cost of issue	-	(11,236)	-	-	(11,236)
Loss for the year	-	-	-	(80,646,222)	(80,646,222)
As at December 31, 2010	641,988,262	$ 153,253,255	$ 27,604,977	$ (95,250,537)	$ 85,607,695

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

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Consolidated Statements of Cash Flow

(Expressed in Canadian Dollars)

	Notes		2011		2010
OPERATING ACTIVITIES:					
Net loss for the year		$	(98,037,155)	$	(80,646,222)
Items not affecting cash:					
Accretion of site closure and reclamation provisions	15		39,077		87,561
Depreciation, depletion and amortization			6,020,398		8,595,372
Interest accretion on convertible debentures			-		937,206
Interest income accrual on reclamation closure bond	10		(35,874)		-
Impairment on mineral properties, plant and equipment	9		72,143,079		44,053,661
Loss on disposal of assets	9		112,289		445,000
(Gain) loss on derivative instruments	12		(275,377)		91,750
Gain on settlement of accounts payable	22		(199,679)		-
Stock-based compensation expense	17		777,682		1,903,213
Unrealized foreign exchange loss			857,749		-
Income tax recovery	16		-		(6,000,200)
Settlement of derivative instrument			(350,916)		49,384
Net change in non-cash working capital	23		(5,344,085)		(440,486)
			(24,292,812)		(30,923,761)
FINANCING ACTIVITIES:					
Private placement					
Common shares issued			30,000,000		11,552,000
Issue costs			(3,123,870)		(125,000)
Proceeds from debt financing			22,548,600		-
Proceeds from convertible debentures			-		23,050,000
Shares issued from exercise of warrants			-		317,652
Repayment of convertible debentures financing			(10,000,000)		-
Payment and discharge of capital leases			(1,064,009)		(464,439)
			38,360,721		34,330,213
INVESTING ACTIVITIES:					
Payment to acquire mineral properties, plant and equipment			(16,701,486)		(9,378,908)
Purchase of long-term investments	10		(57,500)		-
			(16,758,986)		(9,378,908)
CHANGE IN CASH AND CASH EQUIVALENTS			(2,691,077)		(5,972,456)
CASH AND CASH EQUIVALENTS, beginning of year			4,068,019		10,040,475
CASH AND CASH EQUIVALENTS, end of year		$	1,376,942	$	4,068,019
Cash and cash equivalents consist of:					
Cash			1,319,442		3,993,228
Cash equivalents (short-term investments)			57,500		74,791
		$	1,376,942	$	4,068,019
SUPPLEMENTAL INFORMATION					
Interest paid		$	-	$	207,198
Income taxes paid			-		-

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

1. NATURE OF OPERATIONS

CaNickel Mining Limited ("CaNickel" or "the Company"), formerly Crowflight Minerals Inc., is a Canadian mining company focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. The Company changed its name from Crowflight Minerals Inc. to CaNickel Mining Limited and continued to the Province of British Columbia from the Province of Ontario on June 23, 2011. Commencing on the same date, the Company is traded on the Toronto Stock Exchange under the new name and the trading symbol remains as "CML". The trading symbol on the Frankfurt Stock Exchange was changed to "CMIC" from "CMI". The current registered office of the Company is located at 1500 Royal Centre, 1055 West Georgia Street, Vancouver British Columbia, and the corporate head office is located at Suite 1655, 999 West Hastings Street, Vancouver, British Columbia, Canada.

CaNickel currently has one nickel mine operation, Bucko Lake Mine near Wabowden, Manitoba, and holds nickel, copper and platinum group minerals projects in the Thompson Nickel Belts, Manitoba. Bucko Lake Mine was declared commercial production in June 2009, but its operation was suspended in October 2009 and 2010. Mining operation at Bucko Lake Mine resumed in April 2011 by using the Company's own mining equipment and mining crew.

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. In the event that Company is not able to ramp up its production in timely manner to generate positive cash flows from its operation and is unable to secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classification used.

2. BASIS OF PRESENTATION

Statement of Compliance

These Consolidated Financial Statements ("Financial Statements") represent the Company's first International Financial Reporting Standards ("IFRS") annual consolidated financial statements and have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB"). IFRS comprises IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") and the former Standing Interpretations Committee ("SICs"). The Company adopted IFRS in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") with a transition date of January 1, 2010 and these Financial Statements have been prepared in accordance with IFRS standards and interpretations effective as of December 31, 2011, with significant accounting policies as described in note 3.The Board of Directors approved these Financial Statements on March 28, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these audited Condensed consolidated financial statements are as follows:

(a) Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for derivative financial instruments, and financial instruments which are measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information. All financial information in these Financial Statements is presented in Canadian dollars, except as otherwise stated.

(b) Basis of consolidation

The Company's accounting policy is to include the accounts of the Company and its proportionate share of the accounts of the joint venture in which the Company has an interest.

(c) Critical Judgements in applying accounting polices

The critical judgements that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimation uncertainties (*note 3(d)*), that have the most significant effect on the amounts recognized in the Company's Financial Statements are as follows:

Going concern

Management has determined that the Company will be able to continue as a going concern for the foreseeable future and realize its assets and discharge its liabilities and commitments in the normal course of business, and therefore, these Financial Statements have been prepared on a going concern basis and do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

The Company has incurred significant losses and negative cash flow from operations in recent years. In April 2011, mining operations at the Company's Bucko Lake Mine was resumed, but the restart and ramping up process were affected by issues left over from prior years' operations, late delivery of mining equipment, and unfavourable nickel prices. Loss incurred for the year ended December 31, 2011 amounted to $98.0 million and the cumulative deficit was $193.3 million as at December 31, 2011. Whether and when the Company can attain profitability and positive cash flow is uncertain and depends on the Company reaching its planned production level, controlling the cost of production which is subject to great variation due to a number of factors, such as ore grade, metallurgy, and cost of supplies and services etc., and the market price of nickel, which fluctuates widely and is affected by numerous factors beyond the Company's control. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

As at December 31, 2011, the Company has approximately $1.4 million cash and cash equivalent on hand but a negative working capital of approximately $26.3 million. The Company will need to raise additional capital in order to fund its operations and capital expenditures.

To address its financing requirements, the Company entered into amending agreement with Luckyup Investment Limited ("Luckyup") to increase its debt facility from US$15 million to US$25 million. Subsequent to the year ended December 31, 2011, the Company entered into amending agreements with Hebei Wenfeng

Industrial Group Limited ("Hebei Wenfeng") and Luckyup, respectively, to extend their loan facilities from one year term to three year terms. The maturity dates of the loans from Heibei Wenfeng and Luckyup have been extended to May 28, 2014 and July 22, 2014, respectively.

In September 2011, the Company entered into an equity financing agreement with Haverstock Master Fund, Ltd. ("Haverstock"), a fund managed by Haverstock Manager, LLC., to secure access to funds on an as-needed basis for up to $20 million through a Committed Equity Facility ("CEF"), which enables the Company, at its sole discretion, over a period of 36 months after the activation of the CEF, to receive proceeds for the amount not to exceed to the greater of $500,000 and the average daily trading dollar volume for the five days preceding to a draw down notice for each drawn down, subject to the amount remaining on the CEF. The distribution of any common shares of the Company under the CEF must be qualified by a prospectus, and the activation of the CEF is subject to the filing of a final shelf base short form prospectus and a prospectus supplement.

On February 6, 2012, the Company filed a preliminary shelf base short form prospectus with related regulatory authorities with the intention to activate the CEF. However, the actual outcome of the related regulatory authorities' review on the preliminary prospectus and the actual timing of the filing of a final shelf base short form prospectus are uncertain. In the event that shelf base short form prospectus was not accepted by the related regulatory authorities, the Company may have to terminate the CEF and seek alternatives, such as through flow-through equity financing and rights offering to existing shareholders, to secure additional funds to meet the needs of operation and capital expenditures. The outcome of these matters cannot be predicted at this time.

In order to increase productivity and reduce production costs, the Company started to implement long hole stoping mining method at its Bucko Lake Mine. The preliminary results indicated that the improved ore quality from the long hole stopes also helped the processing plant achieve better recovery rate. With the continued effort on the mining production efficiency and improvements of its mill production performance, the Company expects that positive cash flows can be generated from the operations at its Bucko Lake mine for the coming year ending December 31, 2012 assuming that nickel price will not decrease further.

Determination of a cash generating unit ("CGU")

Bucko Lake Mine is the only operation mine of the Company and all assets used in the operations of Bucko Lake Mine has been treated as a single CGU, which is the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Economic recoverability and probability of future economic benefits of exploration and evaluation assets

Management has determined that there is no fact and circumstance to suggest that the carrying amount of the exploration and evaluation costs incurred at the Company's Thompson Nickel Belt projects may exceed its recoverable amount. Management uses several criteria to assess and determine if there are any impairment indicators to Company's exploration and evaluation assets, including the right to explore, the plan to explore, geologic information, and results arising from the exploration activities.

(d) Estimation uncertainty

The preparation of the Financial Statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is

inherently uncertain. Actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the Company's Financial Statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's asset and liabilities are as follows:

Depreciation, depletion and amortization of mineral properties, plant and equipment - Mineral properties, plant and equipment comprise a large component of the Company's assets and as such, the depreciation, depletion and amortization of these assets have a significant effect on the Company's Financial Statements. Upon commencement of commercial production, the Company amortizes the mineral properties over the life of the mine based on the depletion of the mine's proven and probable reserves. Plant and equipment are amortized to their estimated residual value on a straight line basis over the shorter of their estimated useful lives and economic lives.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

Impairment of mineral properties, plant, and equipment - The Company considers both external and internal sources of information in assessing whether there are any indications that mineral properties, plant, and equipment are impaired. External sources of information the Company considers included changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of the mineral properties, plant, and equipment. Internal sources of information the Company considers include the manner in which mineral properties, plant, and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's mineral properties, plant and equipment, the Company's management makes estimates of the discounted cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reduction in metal price forecasts, increase in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amount of the Company's mineral properties, plant and equipment.

Income taxes - Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases and tax losses carried forward. The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax payable requires management to exercise judgment and make certain assumptions about the future

performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior tax losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Share-based compensation - The Company grants stock options to employees of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. Assumption details are discussed in the notes to these Financial Statements.

Site closure and reclamation provisions - The Company has obligations for site restoration and decommissioning related to its Bucko Lake Mine. The future obligations for mine closure activities are estimated by the Company using mine closure plan or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and governmental regulations, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions.

The Company's policy for recording site closure and reclamation provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to operating costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements, and those differences may be material.

(e) Interest in joint venture

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

(f) Foreign currency translation

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

(g) Revenue recognition

Revenue from the sale of nickel concentrates is recognized when the significant risks and rewards of ownership have passed to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the sale price can be measured reliably, the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably. In circumstances where title is retained to protect the financial security interests of the Company, revenue is recognized when the significant risks and rewards of ownership have passed to the buyer. The value of nickel contained in concentrates is recorded in revenue, while the value of other metals contained in concentrates are treated as by-products and recorded as credits to the cost of goods sold.

Revenues from metal concentrate sales are subject to adjustment upon final settlement of metal prices, weights, and assays as of a date that is typically a few months after the shipment date. The Company records its revenue at the estimated fair value of the consideration that is expected to be ultimately received based on quoted forward prices. Adjustments for weights and assays are recorded when results are determinable or on final settlement. At each reporting date, all outstanding receivables originating from provisionally priced sales are marked to market based on a forecast of reference prices at that time. The adjustments are recorded as adjustment to revenue.

(h) Loss per share

Basic earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period.

Diluted earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period adjusted for the effects of all dilutive potential common shares, which comprise options granted to employees and warrants. The dilutive effect of options and warrants is determined using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings or loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. The basic and diluted loss per share are the same because the exercise of options and warrants would have an anti-dilutive effect.

(i) Cash and cash equivalents

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

(j) Inventory

Concentrate, concentrate in transit, and ore stockpile inventory are valued at the lower of cost and net realizable value. The cost of stockpile ore includes direct labour, material and contractors expenses related to mining activities, allocation of mine site overhead cost and amortization of mineral properties, plant, and equipment. The cost of concentrate includes the costs of stockpile ore milled, direct labour, material and contractors expenses related to milling process, allocation of mine site overhead cost and amortization of mineral property, plant, and equipment. The cost of concentrate in transit includes the costs of concentrate shipped and the freight charges. Net realizable value is the estimated selling price for inventories less costs of completion,

transportation cost from the mill to smelter, refining and treatment charges, other selling costs. The cost of inventories is determined using the average cost method. Write-downs of inventory to net realizable value are recorded as a cost of goods sold in the consolidated statements of comprehensive loss. If there is a subsequent increase in the value of inventories, the previous write-downs to net realizable value may be reversed up to the amount previously written down.

Materials and supplies are valued at the lower of purchase cost and net realizable value and recorded as a current asset. Replacement costs of supplies are generally used as the best measure of net realizable value.

(k) Mineral properties, plant and equipment

Mineral properties, plant and equipment are recorded at cost less accumulated depreciation, depletion and amortization, and accumulated impairment losses.

Recognition and measurement

Mineral property acquisition and development costs, including the fair value of consideration given to acquire the mineral property at the time of acquisition, exploration and evaluation assets transferred, mine construction cost and development cost that will enable the physical access to ore underground, are capitalized. Development costs are net of proceeds from the sale of metal extracted during the development phase prior to the date mining assets are operating in the way intended by management. When the Company incurs debt directly related to the construction of a new operation or major expansion, the related financing costs are capitalized during the construction period.

Plant and equipment costs include the fair value of the consideration given to acquire assets at the time of acquisition or construction and include expenditures that are directly attributable to bringing the asset to the location and condition necessary for their intended use. The cost of replacing a part of an item of plant and equipment is recorded in the carrying amount of the item provided that there are future economic benefits, and the costs can be measured. The carrying amount of the part being replaced is then derecognized. The costs of day-to-day servicing of plant and equipment are recognized in the consolidated statements of comprehensive loss.

Exploration and evaluation costs include the costs to acquire exploration and evaluation assets, payments to maintain the assets in good standing, costs of conducting geological surveys, exploratory drilling, and sampling, and administrative and other general overhead costs associated with finding specific mineral resources. Exploration and evaluation costs are capitalized provided that there is an expectation that the costs will be recoverable in exploitation or sale. Expenditures incurred prior to the Company obtaining legal rights to explore an area are recognized as an expense in the period. Upon completion of a technical feasibility study and when commercial viability is demonstrated, capitalized exploration and evaluation costs are transferred to and classified as mineral property acquisition and development costs.

Also, mineral property, plant and equipment costs include an initial estimate of the costs of dismantling and removing the assets and restoring the site on which they are located, and for qualifying assets, borrowing costs.

When parts of an item of mineral property, plant and equipment have different useful lives, they are accounted for separately as major components. Mineral property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected. Gains and losses on disposal are determined by comparing the

proceeds from disposal with the carrying amount of the item and are recognized in the consolidated statements of comprehensive loss.

Depreciation, depletion and amortization

Mineral property acquisition and development costs, which provide an economic benefit over the entire mine life, are depleted on a unit of production basis over the proven and probable reserves of the entire mine. Capital development costs incurred to enable access to specific ore blocks or areas of the mine, and which only provide an economic benefit over the period of mining that ore block or area, are depreciated on a unit of production basis over the proven and probable reserves of that block or area.

Plant and equipment are amortized to their estimated residual value on a straight line basis over the shorter of their estimated useful lives and economic lives, generally three to twenty years. Upon adoption of IFRS as at January 1, 2010, the Company changed the amortization method on plant and equipment used at its Bucko Lake Mine to a straight line basis from the unit of production according to IAS 16, and the change was considered a change in estimates and accounted prospectively and the impact of the change was further disclosed in Note 4.

Exploration and evaluation costs are not depreciated, but subject to impairment review when there are indicators of impairment, and at least annually.

Depreciation, depletion and amortization related to production activities is initially recorded in inventory and then recognized in cost of goods sold in the consolidated statements of comprehensive loss in the same period as the revenue from the sale of the inventory.

The Company's management conducts an annual assessment of the estimated residual values, useful lives, and depreciation methods used for mineral property, plant and equipment. Any material changes in estimates are applied prospectively.

(l) Impairment of mineral properties, plant, and equipment

The carrying value of mineral properties, plant, and equipment is reviewed regularly for events or changes in circumstances which indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized if the carrying value of an asset exceeds the estimated recoverable amount. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Fair value less cost to sell is the amount obtainable from the sale of the asset or cash generating unit in an arm's length transaction between knowledgeable and willing parties less the cost of disposal. Value in use is the estimated future cash flows expected to be received through continued use and subsequent disposal of the asset discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in the consolidated statements of comprehensive loss based on the amount by which the carrying amount of the asset exceeds the recoverable amount.

Estimated future cash flows are based on estimates of future metal prices, proven and probable reserves, estimated value beyond proven and probable reserves, and future operating cost assumptions.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. This generally results in the Company evaluating its non-financial assets on a mine-specific basis. For

the purposes of impairment testing, exploration and evaluation assets are allocated to the CGU to which the exploration activities relate.

Impairment losses for other assets or CGU recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If so, an impairment loss is reversed only to the extent that the related asset or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and other income tax deductions. Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The extent to which deductible temporary differences, unused tax losses and other income tax deductions are expected to be realized is reassessed at the end of each reporting period.

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the related assets are realized or the liabilities are settled. The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover and settle the carrying amounts of its assets and liabilities, respectively. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period in which the change is substantively enacted.

Current and deferred income tax expense or recovery are recognized in net loss except when they arise as a result of items recognized in other comprehensive income or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or equity, respectively.

(n) Provisions

Provisions are liabilities that are uncertain in timing or amount. The Company records a provision when and only when:

(i) The Company has a present obligation (legal or constructive) as a result of a past event;
(ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and,
(iii) A reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

(i) By an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and,

(ii) As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in the consolidated statements of comprehensive loss.

Site closure and reclamation provisions

The Company records a provision for the estimated future costs of reclamation and closure of its Bucko Lake Mine, which are discounted to net present value using the risk free interest rate applicable to the future cash outflows. Estimates of future costs represent management's best estimate which incorporate assumptions on the effects of inflation, movements in foreign exchange rates and the effects of country and other specific risks associated with the related liabilities. The provision for the Company's reclamation and closure cost obligations is accreted over time to reflect the unwinding of the discount with the accretion expense included in finance costs in the consolidated statements of comprehensive loss.

The provision for reclamation and closure cost obligations is re-measured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Reclamation and closure cost obligations relating to operating mines and development projects are initially recorded with a corresponding increase to the carrying amounts of related mining properties. Changes to the obligations are also accounted for as changes in the carrying amounts of related mining properties, except where a reduction in the obligation is greater than the capitalized reclamation and closure costs, in which case, the capitalized reclamation and closure costs is reduced to nil and the remaining adjustment is included in production costs in the consolidated statements of comprehensive loss. Reclamation and closure cost obligations related to inactive mines are included in production costs in the consolidated statements of comprehensive loss on initial recognition and subsequently when re-measured.

(o) Financial instruments

Financial instruments are recognized on the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods is dependent upon the classification of the financial instrument as fair value through profit or loss ("FVTPL"), available-for-sale ("AFS"), loans and receivable, held-to-maturity, or other financial liabilities.

Classified as fair value through profit or loss

Financial assets and liabilities classified as FVTPL are measured at fair value with changes in fair value recognized in profit or loss. Financial assets and liabilities are classified as FVTPL when they have been acquired principally for the purpose of selling it in the near term or they are derivatives that are not designated

and effective as hedging instruments. A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if the financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis by management.

The Company has designated derivatives which do not qualify for hedge accounting as FVTPL. Transaction costs for FVTPL assets are expensed.

Classified as loans and receivables

Financial assets designated as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are comprised of cash and cash equivalents and accounts receivables, and are initially measured at fair value and subsequently at amortized cost using effective interest rate method less any impairment. When these assets are impaired, the carrying amount of the financial asset is reduced by the impairment loss directly, except for receivables. The carrying amount of receivables is reduced through the use of an allowance account and changes to the carrying amount of this account are recognized in the consolidated statements of comprehensive loss.

Classified as Available-for-sale financial assets

Financial assets are classified as available-for-sale when (i) they are not classified as loans and receivables, held-to-maturity investments or FVTPL; (ii) they are designated as available-for-sale on initial recognition. Available-for-sale financial assets are measured at fair value with mark-to-market gains and losses recognized in other comprehensive income, unless such assets are determined to be impaired in which case the impairment loss is reclassified out of other comprehensive income and recognized in the consolidated statements of comprehensive loss for the period. The reversal of previously recognized impairment losses are recognized directly in equity and not reversed through the consolidated statements of comprehensive loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company classifies accounts payable and accrued liabilities, convertible debentures, loans payable, and obligation on capital lease as other financial liabilities.

Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that financial assets are impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows of the financial assets that can be reliably estimated.

Compound instruments

The Company recognizes separately the components of a financial instrument that (a) creates a financial liability of the Company and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the Company (provided the conversion option meets the definition of equity). An option to convert into an equity instrument is classified as a financial liability when either the holder or the issuer of the

option has a choice over how it is settled or the conversion option does not meet the definition of equity. Transaction costs of a compound instrument are allocated to the components of the instrument in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to the debt component are deducted from the carrying amount of the debt and included in the determination of the effective interest rate used to record interest expense during the period to maturity of the debt. Transaction costs allocated to the derivative liability component are expensed on initial recognition as with all other financial assets and liabilities classified as FVTPL. Transaction costs allocated to the equity component are deducted from equity as share issue costs.

(p) Share-based compensation

The Company grants stock options to employees of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the life of options, volatility, and forfeiture rates. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

(q) Leases

Leases are classified as finance or operating depending on the terms and conditions of the lease agreements. Payments under operating leases are expensed in the period in which they are incurred. Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of an asset related to a finance lease, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Leased assets are amortized on a straight line basis over the period of expected use. Obligations under finance lease are reduced by lease payments, net of computed interest.

(r) Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares are concluded.

(s) Borrowing costs

Interest and financing costs on debt or other liabilities that are directly attributed to the acquisition, construction, and development of a qualifying asset are capitalized to the asset. All other borrowing costs are expensed as incurred.

(t) New accounting pronouncements

<u>Financial instruments disclosure</u>

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Consolidation

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements*, which supersedes SIC 12 - *Consolidation - Special Purpose Entities* and the requirements relating to consolidated financial statements in IAS 27 - *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

In addition, the IASB issued IFRS 12 - *Disclosure of Interests in Other Entities* which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 - *Investments in Associates* were revised and reissued as IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* to align with the new consolidation guidance.

The Company does not anticipate the application of IFRS 10 to have a material impact on its consolidated financial statements.

Joint ventures

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements*, which supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

The Company does not anticipate the application of IFRS 11 to have a material impact on its consolidated financial statements.

Fair value measurement

In May 2011, as a result of the convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 - *Fair Value Measurement*. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

The Company does not anticipate the application of IFRS 13 to have a material impact on its consolidated financial statements.

Financial statement presentation

In June 2011, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

Financial instruments

The IASB intends to replace IAS 39 - *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9 - *Financial Instruments* in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013 to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9.

The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

4. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

First-time adoption of IFRS

The Company's Financial Statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "CGAAP"). The basis of preparation of these Financial Statements is different to that of the Company's prior year Financial Statements prepared in accordance with Canadian GAAP due to the Company's transition to IFRS. IFRS 1 required disclosures to demonstrate the impact of the transition to IFRS with a transition date as of January 1, 2010 on the financial position and financial performance of the Company. The Company is required to disclose a reconciliation of the Company's consolidated statements of financial position and consolidated statements of comprehensive loss for comparative periods prepared in accordance with Canadian GAAP and as previously reported or revised, to those prepared and reported in these Financial Statements in accordance with IFRS.

IFRS 1 in general requires accounting policies under IFRS to be applied retrospectively to determine the opening balance sheet of the Company as of the transition date of January 1, 2010, and allows certain exemptions which the Company has elected to apply. Elections made by the Company were to:

(a) use the written-down carrying amount ("Fair Value") of the Company's Bucko Lake Mine, which included the acquisition costs and development costs of Bucko Lake Mine and plant and equipment used at Bucko Lake Mine as measured under Canadian GAAP at December 31, 2009, as the deemed cost of Bucko Lake Mine on January 1, 2010;

(b) apply the principles of IAS 23 – Borrowing Costs for the capitalization of borrowing costs incurred prospectively from January 1, 2010;

(c) not apply the recognition and measurement principles of IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1") for changes in such liabilities that occurred before January 1, 2010; and instead elect to measure the Company's reclamation and closure cost obligations in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets at January 1, 2010, and to estimate the amounts that would have been included in the costs of the related mining properties by discounting the obligation back to inception of the obligation using the best estimates of the historical discount rates and to recalculate the accumulated depreciation and depletion for such assets at January 1, 2010;

(d) not apply the recognition and measurement requirements of IFRS 2 – Share-based Payments to equity instruments granted after November 7, 2002 and vested prior to January 1, 2010, the transition date to IFRS. This election allows all vested options prior to the transition date to be accounted for under CGAAP. IFRS 2 has been applied to unvested options from the transition date onwards.

The Company is required to use the following mandatory exemption:

- Estimates cannot be created or revised using hindsight. The estimates previously made by the Company under CGAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

These Financial Statements were prepared as described in Note 2, including the application of IFRS 1. In compliance with IFRS 1, the Company has prepared reconciliations for 2010 on the impact of the transition to

IFRS from CGAAP. There was no material impact on the statements of cash flow at the transition date, or December 31, 2010.

Consolidated Reconciliations from Canadian GAAP to IFRS
Statement of Financial Position

		At January 1, 2010			
	Notes	CGAAP	Effect of Transition to IFRS	Reclassification 4(f)	IFRS
ASSETS					
Current					
Cash and cash equivalents		$ 10,040,475	$ -	$ -	$ 10,040,475
Receivables and prepaid expenses		-	-	1,426,977	1,426,977
Amounts receivable		1,291,687	-	(1,291,687)	-
Inventory		1,031,734	-	-	1,031,734
Prepaid expenses and deposits		135,290	-	(135,290)	-
		12,499,186	-	-	12,499,186
Non-Current					
Mineral property, plant and equipment		-	-	153,091,031	153,091,031
Property, plant and equipment	4(a)	138,568,967	(182,373)	(138,386,594)	-
Exploration and development property and deferred expenditures		14,704,437	-	(14,704,437)	-
Other non-current assets		534,709	-	-	534,709
		$ 166,307,299	$ (182,373)	$ -	$ 166,124,926
LIABILITIES					
Current					
Accounts payable and accrued liabilities		$ 9,282,060	$ -	$ -	$ 9,282,060
Current portion of obligations under capital leases		45,371	-	-	45,371
		9,327,431	-	-	9,327,431
Non-Current					
Obligations under capital leases		61,281	-	-	61,281
Site closure and reclamation provisions	4(a)	918,387	(182,373)	-	736,014
Deferred income tax liability		6,000,200	-	-	6,000,200
		16,307,299	(182,373)	-	16,124,926
SHAREHOLDERS' EQUITY					
Share capital		138,758,903	-	-	138,758,903
Contributed surplus	4(b)	25,894,525	(49,113)	-	25,845,412
Accumulated deficit	4(b)	(14,653,428)	49,113	-	(14,604,315)
		150,000,000	-	-	150,000,000
		$ 166,307,299	$ (182,373)	$ -	$ 166,124,926

Consolidated Reconciliations from Canadian GAAP to IFRS
Statement of Financial Position

	Notes	At December 31, 2010				
		CGAAP	**Effect of Transition to IFRS**	**Accounting Changes 4(e)**	**Reclassification 4(f)**	**IFRS**
ASSETS						
Current						
Cash and cash equivalents		$ 4,068,019	$ -	$ -	$ -	$ 4,068,019
Receivables and prepaid expenses		-	-	-	2,143,277	2,143,277
Amounts receivable		1,716,424	-	-	(1,716,424)	-
Inventory		1,464,839	-	-	-	1,464,839
Prepaid expenses and deposits		426,853	-	-	(426,853)	-
		7,676,135	-	-	-	7,676,135
Non-Current						
Mineral property, plant and equipment		-	-	-	109,385,763	109,385,763
Property, plant and equipment	4 (a),(c),(e)	143,534,339	(44,236,034)	(5,389,668)	(93,908,637)	-
Exploration and development property and deferred expenditures		15,477,126	-	-	(15,477,126)	-
Other non-current assets		1,659,890	-	-	-	1,659,890
		$ 168,347,490	$ (44,236,034)	$ (5,389,668)	$ -	$ 118,721,788
LIABILITIES						
Current						
Accounts payable and accrued liabilities		$ 10,466,215	$ -	$ -	$ -	$ 10,466,215
Convertible debentures	4(d)	20,705,694	(150,705)	-	-	20,554,989
Current portion of obligations under capital leases		294,336	-	-	-	294,336
Derivative liabilities	4(d)	373,190	582,873	-	-	956,063
		31,839,435	432,168	-	-	32,271,603
Non-Current						
Obligations under capital leases		18,915	-	-	-	18,915
Site closure and reclamation provisions	4(a)	997,690	(174,115)	-	-	823,575
Future income tax liability	4(c),(e)	3,062,081	(1,617,650)	(1,444,431)	-	-
		35,918,121	(1,359,597)	(1,444,431)	-	33,114,093
SHAREHOLDERS' EQUITY						
Share capital	4(d)	153,308,546	(55,291)	-	-	153,253,255
Contributed surplus	4(d)	28,000,121	(395,144)	-	-	27,604,977
Accumulated deficit		(48,879,298)	(42,426,002)	(3,945,237)	-	(95,250,537)
		132,429,369	(42,876,437)	$ (3,945,237)	-	85,607,695
		$ 168,347,490	$ (44,236,034)	$ (5,389,668)	$ -	$ 118,721,788

Consolidated Reconciliations from Canadian GAAP to IFRS
Statements of Comprehensive Loss

		Year ended December 31, 2010				
	Notes	CGAAP	Effect of Transition to IFRS	Accounting Changes 4(e)	Reclassification 4(f)	IFRS
Revenue		$ 22,966,206	$ -	$ -	$ -	$ 22,966,206
Cost of goods sold						
Cash cost		38,324,959	-	-	-	38,324,959
Non-cash cost		3,568,633	-	2,120,691	-	5,689,324
		(18,927,386)	-	(2,120,691)	-	(21,048,077)
Temporary shutdown costs		(9,101,782)	-	(3,268,977)	-	(12,370,759)
Loss from mine operations		(28,029,168)	-	(5,389,668)	-	(33,418,836)
Accretion	4(a)	(79,303)	(8,258)	-	87,561	-
Amortization		(603)	-	-	603	-
Finance costs		-	-	-	(1,082,698)	(1,082,698)
Gain (loss) on derivative instrument	4(d)	(323,806)	232,056	-	-	(91,750)
General and administration		(501,391)	-	-	(202,764)	(704,155)
Impairment charges of long live assets	4(c)	-	(44,053,661)	-	-	(44,053,661)
Interest expenses and bank charges	4(d)	(894,234)	(213,789)	-	1,108,023	-
Interest income		9,253	-	-	(9,253)	-
Legal and professional fees		-	-	-	(492,922)	(492,922)
Loss on disposal of property, plant and equipment		(445,000)	-	-		(445,000)
Other expenses		(151,771)	-	-	-	(151,771)
Professional, consulting and management fees	4(b)	(6,308,059)	(49,113)	-	6,357,172	-
Salaries, consulting and management fees		-	-	-	(5,864,250)	(5,864,250)
Shareholder communications and investor relations		(341,379)	-	-	-	(341,379)
Travel		(98,528)	-	-	98,528	-
Loss before income taxes		(37,163,989)	(44,092,765)	(5,389,668)	-	(86,646,422)
Income tax recovery	4(c),(e)	2,938,119	1,617,650	1,444,431	-	6,000,200
Net loss and Comprehensive loss for the year		(34,225,870)	(42,475,115)	(3,945,237)	-	(80,646,222)

Consolidated Reconciliations from Canadian GAAP to IFRS
Statements of Changes in Equity

	Notes	December 31, 2010	January 1, 2010
Total equity - CGAAP		$ 132,429,369	$ 150,000,000
Transitional adjustments			
Share Capital	(d)	(55,291)	-
Contributed surplus	(b), (d)	(395,144)	(49,113)
Accumulated deficit		(46,371,239)	49,113
Total equity - IFRS		$ 85,607,695	$ 150,000,000

(a) Site closure and reclamation provisions

Significant changes from the CGAAP method of accounting for site closure and reclamation provisions in comparison to IAS 37 include the periodic re-assessment of discount rates and inflation rates in the measurement of decommissioning and site restoration. In addition, the layer approach under CGAAP is no longer applied. The effect of these changes on the transition date is a reduction of $182,373 to both of the site closure and reclamation provisions and the value of mineral property, plant and equipment. The increase in accretion expense recorded based on the restated mineral property associated with the adjustments to the site closure and reclamation provisions was $8,258 for the year ended December 31, 2010.

(b) Stock based compensation

In accordance with IFRS 2, the Company now recognizes a forfeiture rate in its initial recognition of the stock option grant. Applied retroactively the effect of this change reduced the amount of contributed surplus by $49,113 as at the date of transition. The impact of this change resulted in an increase of $49,113 on comprehensive loss for the year ended December 31, 2010.

(c) Impairment of mineral properties, plant and equipment

Under Canadian GAAP, impairment of a non-current asset is initially assessed on an undiscounted cash flow basis. If the carrying value exceeds the aggregate undiscounted cash flows, an impairment loss is measured as the amount by which the carrying value exceeds fair value. Under IFRS, impairment testing and loss recognition is based on discounted cash flows. Impairment losses are recognized when the carrying value exceeds the recoverable amount.

The Company elected, under IFRS 1, to use the written-down carrying amount (“Fair Value”) of the Company’s Bucko Lake Mine, which including the acquisition costs and development costs of Bucko Lake Mine and plant and equipment used at Bucko Lake Mine as measured under Canadian GAAP at December 31, 2009 as the deemed cost of Bucko Lake Mine on January 1, 2010. During the year ended December 31, 2010, the Company temporarily suspended the operation at Bucko Lake Mine in order to facilitate the introduction of its own mining equipment and mining crew and make adjustments to address certain operation issues. Accordingly, the Company performed an impairment assessment as at December 31, 2010 in accordance with IFRS and as a result an impairment charge of $44,053,661 was recognized for the year ended December 31, 2010. The impairment charge was determined by discounting estimated future cash flows using a discount rate of 10%. The tax effect of this impairment was a creation of a tax asset of approximately $11.8 million, but only $1.6 million of the tax asset was recognized to bring the deferred tax liabilities to zero. An allowance for the remaining amount of $10.2 million was recorded, thus the deferred tax asset on the consolidated statement of financial position is $nil.

(d) Convertible Debenture

Under IFRS, the conversion feature of convertible financial instrument is presumed to be classified as financial liabilities unless it meets all the criteria to recognize as equity instrument under IAS 32, and the conversion feature must be separately accounted for at fair value on initial recognition. The carrying amount of the debt component, on initial recognition, is recalculated as the difference between the proceeds of the convertible debentures as a whole and the fair value of the conversion feature. Transaction costs are allocated to the debt and derivative components in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to the derivative component are expensed, while cost allocated to the debt component are offset

against the carrying amount of the liability and included in the determination of the effective interest rate. Subsequent to initial recognition, the derivative component is re-measured at fair value at the end of each reporting period while the debt component is accreted to the face value of the debt using the effective interest method.

In 2010, the Company issued three convertible debenture notes, which had conversion features to allow the holder of the debentures to convert the debentures into common shares of the Company based on five-business-day-volume-weighted-average price prior to the election of conversion less 25% discount. Given the conversion price is not fixed on the inception date and the number of shares the Company may deliver vary depending on the trading prices around the date of conversion, the conversion feature does not meet the criteria to be recognized as equity instrument, and accordingly, the Company recorded adjustments to

i) Reclassify the conversion feature of the notes from equity to derivative liabilities;
ii) Re-measure the proceeds allocated to the debt and derivative components on initial recognition;
iii) Expense the transaction costs allocated to the derivative component;
iv) Capitalize the transaction costs allocated to the debt component against the carrying amount of the liabilities; and,
v) Re-measure the derivative component at fair value at each reporting dates.

The impacts of the adjustments as at December 31, 2010 were to increase derivative liabilities by $582,873, decrease convertible debentures by $150,705, decrease share capital by $55,291, decrease contributed surplus by $395,144, increase interest expense by $213,789 and decrease loss on derivative instruments by $232,056.

(e) Accounting Changes

Upon conversion to IFRS, the Company reviewed the amortization method of the mineral property, plant and equipment in accordance with IAS 16 and decided to change the amortization method of the plant and equipment used at the Bucko Lake Mine to straight line method from unit of production method effective January 1, 2010. The change was accounted for as a change in estimate and applied prospectively in accordance with IAS 8. The impact of this change in amortization method was that additional $5,389,668 amortization expenses were recorded for the year ended December 31, 2010. The tax effect of this adjustment was that tax recoveries of $1,444,431 were recorded for the year ended December 31, 2010.

(f) Reclassification

Certain accounts and figures presented under CGAAP have been regrouped and reclassified to conform to the current presentation under IFRS.

5. TEMPORARY SUSPENSION OF BUCKO LAKE MINE OPERATION

On October 1, 2010, the Company announced the temporary suspension of ore mining operation at Bucko Lake Mine to facilitate the introduction of its own underground mining equipment and team and to make adjustments to address certain operational issues. In April 2011, mining operation resumed.

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 consolidated statement of comprehensive loss. For the year ended December 31, 2011, temporary shutdown costs were $8.5 million (2010 - $12.4 million).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

		December 31, 2011		December 31, 2010		January 1, 2010
Cash	**$**	**1,319,442**	$	3,993,228	$	2,259,673
Short term investments		**57,500**		74,791		7,780,802
	$	**1,376,942**	$	4,068,019	$	10,040,475

7. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised of the following:

		December 31, 2011		December 31, 2010		January 1, 2010
Trade receivable*	**$**	**3,040,075**	$	1,544,690	$	1,172,430
Taxes receivable		**218,744**		395,826		119,257
Prepaid expenses		**279,238**		202,761		135,290
	$	**3,538,057**	$	2,143,277	$	1,426,977

* Included in trade receivable was $2,558,529 representing 715,997 pounds of nickel concentrate sales that were remained open as to price.

8. INVENTORY

Inventory comprised of the following:

		December 31, 2011		December 31, 2010		January 1, 2010
Materials and supplies	**$**	**1,824,673**	$	1,464,839	$	666,037
Ore stockpile		**365,568**		-		-
Nickel concentrate		**283,343**		-		41,336
Nickel concentrate in transit		**944,844**		-		324,361
	$	**3,418,428**	$	1,464,839	$	1,031,734

For the year ended December 31, 2011, the cost of goods sold on the consolidated statements of comprehensive loss included $4.0 million (2010 - $3.5 million) write down on the ore stockpile, nickel concentrate, and nickel concentrate in transit to reflect their realizable value as at the balance sheet date due to weakened nickel prices and high production cost. As at December 31, 2011, stock compensation expense and depreciation, depletion and amortization of $1,137,828 for mineral properties, plant and equipment (December 31, 2010 - $nil; January 1, 2010 - $nil) was included in the inventory as non-cash cost.

9. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Cost	Exploration and evaluation expenditure (a)	Mineral property acquisition and development (b)	Plant, building and equipment (b)	Equipment under capital lease (b)	Total
As at January 1, 2010	$ 14,704,437	$ 79,019,660	$ 60,698,408	$ 125,817	$ 154,548,322
Additions	848,894	7,002,242	1,105,212	523,538	9,479,886
Disposal and other	(76,205)	-	-	(457,500)	(533,705)
As at January 1, 2011	$ 15,477,126	$ 86,021,902	$ 61,803,620	$ 191,855	$ 163,494,503
Additions	2,163,884	8,593,291	8,657,575	7,322,448	26,737,198
Disposal	-	-	(585,683)	-	(585,683)
As at December 31, 2011	**$ 17,641,010**	**$ 94,615,193**	**$ 69,875,512**	**$ 7,514,303**	**$ 189,646,018**

Accumulated depreciation, depletion and amortization	Exploration and evaluation expenditure	Mineral property acquisition and development	Plant, building and equipment	Equipment under capital lease	Total
As at January 1, 2010	$ -	$ 591,027	$ 866,264	$ -	$ 1,457,291
Depreciation, depletion and amortization	-	1,796,275	6,763,142	38,371	8,597,788
Impairment	-	26,775,695	17,277,966	-	44,053,661
As at January 1, 2011	$ -	$ 29,162,997	$ 24,907,372	$ 38,371	$ 54,108,740
Depreciation, depletion and amortization	-	2,140,573	4,574,072	443,581	7,158,226
Disposal	-	-	(45,994)	-	(45,994)
Impairment / Write-down	1,160,482	40,802,597	25,709,000	4,471,000	72,143,079
As at December 31, 2011	**$ 1,160,482**	**$ 72,106,167**	**$ 55,144,450**	**$ 4,952,952**	**$ 133,364,051**

Net book value	Exploration and evaluation expenditure	Mineral property acquisition and development	Plant, building and equipment	Equipment under capital lease	Total
As at January 1, 2010	$ 14,704,437	$ 78,428,633	$ 59,832,144	$ 125,817	$ 153,091,031
As at December 31, 2010	$ 15,477,126	$ 56,858,905	$ 36,896,248	$ 153,484	$ 109,385,763
As at December 31, 2011	**$ 16,480,528**	**$ 22,509,026**	**$ 14,731,062**	**$ 2,561,351**	**$ 56,281,967**

(a) Exploration and evaluation expenditures

A summary by project of the carrying amount of exploration and evaluation expenditures is as follows:

Cost	Thompson Nickel Belt	Pure Nickel Joint Venture	Peter's Roost Property	Total
As at January 1, 2010	$ 13,543,955	$ 504,498	$ 655,984	$ 14,704,437
Additions	848,894	-	-	848,894
Government assistance	(76,205)	-	-	(76,205)
As at January 1, 2011	$ 14,316,644	$ 504,498	$ 655,984	$ 15,477,126
Additions	2,163,884	-	-	2,163,884
Write-down	-	(504,498)	(655,984)	(1,160,482)
As at December 31, 2011	**$ 16,480,528**	**$ -**	**$ -**	**$ 16,480,528**

Thompson Nickel Belt ("TNB")

Under the terms of an Exploration Option Agreement (“Agreement”) and Exploration Amending Agreement ("Amending Agreement") with Xstrata Nickel Inc. ("Xstrata"), the Company has the right to earn a 100% interest in Xstrata's TNB properties (formerly referred to as the TNB North and TNB South Exploration Properties), which includes approximately 580 square kilometres of exploration ground in Manitoba, Canada by incurring $12.7 million option expenditures by December 31, 2013 as follows:

- An initial amount of not less than $2.5 million during 2007 (incurred);
- Cumulative option expenditures of not less than $5.0 million by on or before December 2008 (incurred);

- Cumulative option expenditures of not less than $7.5 million by on or before December 2009 (incurred);
- Cumulative option expenditures of not less than $9.7 million by December 31, 2011 (incurred);
- Cumulative option expenditures of $11.2 million by December 31, 2012; and,
- Cumulative option expenditures of $12.7 million by December 31, 2013.

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

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

Pure Nickel Joint Venture

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

Each party contributed property to the joint venture and agreed to make an initial aggregate contribution of $6,000,000 by the end of 2011 to fund preliminary exploration activities within the joint venture area. In November 2008, the terms of the Pure Nickel Agreement were amended to allow Pure Nickel the option to earn a 50% interest in an expanded area surrounding the Manibridge deposit by incurring increased exploration expenditures totalling $3,000,000 by 2012.

Pursuant to an option agreement with Hudson Bay Exploration and Development Company Limited ("HBED"), the Company could acquire a 100% interest in two claims within the area of interest of the Pure Nickel joint venture by making payments of $250,000 and funding a total of $750,000 in exploration expenditures by 2011, subject to a back-in clause, right of offer for off-take and a 2% NSR payable to Pure Nickel. There was no activity at HBED property in 2011, and the option agreement was terminated in 2011.

In June 2011, the Company and Pure Nickel had mutually agreed to dissolve the joint venture partnership between the two companies. All mineral claims Pure Nickel put into the joint venture were returned to Pure Nickel, and the Company retains the mineral claims the Company put into the joint venture ("Joint Venture Claims"). The Joint Venture Claims are considered non-core assets of the Company and the Company has no plan to conduct any exploration activities on those mineral claims in the next two or three years. As a result, upon dissolution of the joint venture partnership, the Company wrote off the carrying value of the Joint Venture Claims and the proportion shares of the carrying value of the joint venture, and a total of $504,498 (2010 - $nil) write-down charges were recorded on the consolidated statements of comprehensive loss for year ended December 31, 2011.

AER Kidd Property

The Company wrote off the value of the property as at December 31, 2008. During the year ended December 31, 2011, an amount of $101,614 (2010 - $151,771) was paid to maintain the property in good standing and expensed as general exploration on the consolidated statement of comprehensive loss.

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 and September 2010, the Company granted Wallbridge the extension of the period required to complete minimum exploration expenditures for 2010. Wallbridge did not fulfill the $1,000,000 exploration expenditures commitment and during the year ended December 31, 2011, the Company and Wallbridge had mutually agreed to terminate the option agreement. All mineral claims were returned to the Company. As a result, upon termination of the option agreement, the Company wrote off the carrying value of exploration property and a total of $655,984 (2010 - $nil) write-down charges were recorded on the consolidated statements of comprehensive loss for year ended December 31, 2011.

(b) Bucko Lake Mine

Bucko Lake Mine is considered as the smallest cash generating unit. All long-lived assets used for the operations at the Bucko Lake Mine are grouped together and subject to impairment test in each reporting period.

During the year ended December 31, 2011, the Company traded in two pieces of equipment with a net book value of $539,689 for two new pieces of equipment measured at fair value of $602,400. As a result, a loss of $112,289 (2010 - $445,000) was recorded in the consolidated statement of comprehensive loss. The difference was paid by cash and included in the payment on mineral properties, plant and equipment on the consolidated statements of cash flow.

Based on the nickel price forecast as at December 31, 2011, discount rate of 8% and approximately 10% production growth for next three years, the Company determined that the fair value less cost to sell of Bucko Lake Mine, calculated by discounting future cash flows over the remaining mine life of 10 years, is lower than its carrying value. A total of $70,982,597 (2010 - $44,053,661) impairments charges to the assets used at Bucko Lake Mine was recorded for the year ended December 31, 2011, of which $40,802,597 (2010 - $26,775,695) were allocated to mineral property acquisition and development, $25,709,000 (2010 - $17,277,966) were allocated to plant, building and equipment, and $4,471,000 (2010 – $nil) were allocated to equipment under capital lease.

The Company's interest in the Bucko Lake mining lease is subject to a back-in right held by Xstrata. In the event that the Company identifies a new deposit (in addition to the Bucko Lake Mine) with estimated measured and indicated resources in excess of 200,000,000 pounds of Nickel, Xstrata has the right to purchase a 50% interest in the property and to become the operator of the new deposit in consideration for a payment to the Company of an amount equal to the aggregate of all direct expenditures that were incurred by the Company in carrying out mining operations on the Bucko Lake Lease outside of the Bucko resource block prior to the date of exercise of the back-in

right. Accordingly, the potential benefit to the Company of any discovery of a significantly increased deposit will be limited to a 50% interest in the project.

10. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Reclamation closure bond	**$ 537,374**	$ 501,500	$ 501,500
Deposit on mineral properties, plant and equipment	**390,649**	1,158,390	33,209
Guaranteed investment certificate	**57,500**	-	-
	$ 985,523	$ 1,659,890	$ 534,709

11. CONVERTIBLE DEBENTURES

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

i) On August 26, 2010, the Company issued convertible debentures to King Place in the principal amount of $10,050,000 with maturity date on February 28, 2011;

ii) On September 23, 2010, the Company issued convertible debentures to King Place in the principal amount of $3,000,000 with maturity date on March 23, 2011; and,

iii) On December 2, 2010, the Company issued convertible debentures to King Place in the principal amount of $10,000,000 with maturity date on May 2, 2011.

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

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

During the year ended December 31, 2011, the Company repaid $10,000,000 convertible debentures. In April 2011, the Company received disinterested shareholder approval and TSX approval to allow King Place to convert all outstanding convertible debentures and its associated interest into 258,819,703 common shares of the Company, at a conversion price of $0.0437. Upon conversion of the debentures, a total of $11,406,256, the carrying value of the convertible debentures was credited to the share capital.

As at December 31, 2011, the Company has no convertible debentures outstanding.

12. DERIVATIVE INSTRUMENTS

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

During the year ended December 31, 2011, the Company recorded a loss of $26,325 on the forward sales contract position of 105,822 pounds of nickel and a gain of $253,103 arising from the change of the fair value of the conversion feature of the Company's convertible debentures.

Upon conversion of the debentures into common shares of the Company in April 2011, a total of $329,770, the value of the conversion features of the convertible debentures, was transferred to share capital from derivative liabilities.

During the year ended December 31, 2011, the Company sold a call option to sell 200,000 pounds of nickel at US$13.00 per pound for a premium of US$50,400, which expired unexercised, and the Company recorded a gain of $48,599 arising from this call option.

No forward sales contract and call option remained outstanding as at December 31, 2011.

13. LOANS PAYABLE

In 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 "IPWCF") for the nickel concentrate produced by the Company from the Bucko Lake Mine whereby the Company can draw up to 75% of the prevailing spot price of the estimated quantity of nickel contained in each shipment. The IPWCF is renewable every year based on mutual agreement and bears an interest rate of Libor + 6.75% and a fee of 2.5% in any funds drown down under the IPWCF. No funds were withdrawn from the IPWCF during the year ended December 31, 2011 and the outstanding balance being drawn down from the IPWCF was $nil as at December 31, 2011 (December 31, 2010 - $nil; January 1, 2010 - $nil).

In May 2011, the Company arranged a one year term unsecured debt facility of up to US$5,000,000 (the "Loan") with Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), an affiliated company of King Place. The Loan may be drawn down at the option of the Company and bears interest rate at 10% per annum. The Company will also pay 2% of any funds drawn down under the Loan as a structuring fee to Hebei Wenfeng. Principal, interest and structure fees are payable upon maturity. As at December 31, 2011, the outstanding balance being drawn down from the Loan was $5,325,975 (US$5,000,000). Subsequent to December 31, 2011, the Company entered into an amending agreement with Hebei Wenfeng to extend the maturity date of the loan for additional three years to May 28, 2014.

The Company entered into an unsecured debt facility of up to US$15 million in July 2011 and increased to US$25 million in December 2011 with Luckyup, an arm's-length party based in Hong Kong. This debt facility may be drawn down at the option of the Company and bears interest rate of 12% per annum. Principal and interest are payable upon maturity. As at December 31, 2011, the outstanding balance being drawn down from this facility was $18,981,399 (US$18,000,000). Subsequent to December 31, 2011, the Company withdrew an additional

US$5,000,000 from this debt facility and entered into an amending agreement with Luckyup to extend the maturity date of the debt facility for additional three years to July 22, 2014.

During the year ended December 31, 2011, the Company incurred borrowing costs of $1,010,143 (2010 - $nil) on loans payable, of which a total of $189,021 (2010 - $nil) was capitalized in the mineral properties, plant and equipment. The capitalized amount represented 19% of total borrowing cost for the year ended December 31, 2011.

14. CAPITAL LEASE OBLIGATIONS

The Company has financed purchases of certain mining equipment through capital leases. The leases mature at various dates through September 30, 2014 and bear interest rates ranging from 6.00% to 9.40%. The following table summarizes the changes to the capital lease obligations.

		December 31, 2011		December 31, 2010		January 1, 2010
Balance, beginning of year	**$**	**313,251**	$	106,652	$	155,415
Additions		**3,831,470**		629,038		-
Interest accrual		**130,839**		42,000		1,909
Discharge		**(1,194,848)**		(464,439)		(50,672)
Balance, ending of year	**$**	**3,080,712**	$	313,251	$	106,652
Less: Current portion of lease obligations		**(1,353,061)**		(294,336)		(45,371)
Long term portion of lease obligations	**$**	**1,727,651**	$	18,915	$	61,281

Minimum lease payments for the next five years as at December 31, 2011:

2012		1,521,073
2013		1,260,252
2014		560,585
Total		3,341,910
Less: Interest portion		(261,198)
	$	3,080,712

15. SITE CLOSURE AND RECLAMATION PROVISIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the site closure and reclamation provisions associated with the retirement of the Company's mineral property, plant and equipment at its Bucko Lake Mine:

		December 31, 2011		December 31, 2010		January 1, 2010
Balance, beginning of year	**$**	**823,575**	$	736,014	$	359,000
Additions		**-**		-		616,803
Accretion		**39,077**		79,303		(57,416)
Change in estimates		**1,409,597**		8,258		(182,373)
Balance, end of year	**$**	**2,272,249**	$	823,575	$	736,014

The closure cost estimates are subject to change based on amendments to laws and regulations, and the total provision for the site closure and reclamation at December 31, 2011 was $2,272,249 (December 31, 2010 - $823,575; January 1, 2010 - $736,014). The undiscounted value of these obligations was $2,753,608 as at December 31, 2011 (December 31, 2010 - $2,598,758; January 1, 2010 - $2,413,365), calculated using inflation rate of 2.60% (December 31, 2010, - 2.30 %; January 1, 2010 - 2.35%). Accretion expense of $39,077 was charged to earnings for the year ended December 31, 2011 (2010 - $87,561) to reflect an increase in the carrying amount of the site closure and reclamation obligations which has been determined using a discount rate of 1.94%. The expected timing of payment for settlement of the obligations will be in 2021.

16. INCOME TAXES

The major components of income tax recovery for the year ended December 31, 2011 and 2010 is:

		2011		2010
Deferred income tax recovery	**$**	**-**	$	6,000,200

Income tax recovery (expense) differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before taxes. These differences result from the following items:

		2011		2010
Accounting loss before income taxes		**(98,037,155)**		(86,646,422)
Canadian federal and provincial income tax rates		**28.42%**		30.1%
		(27,862,159)		(26,071,908)
Non-temporary differences		**234,831**		577,592
Temporary income tax differences not recognized		**(156,273)**		-
Adjustments in respect of prior year		**(539,144)**		-
Rate differences related to origination and reversal of temporary differences		**1,422,120**		1,915,768
Mining tax impact on impairment		**(5,153,299)**		-
Change in estimate and others		**(345,301)**		(18,846)
Change in unrecognized deferred tax assets		**32,399,225**		17,597,194
	$	**-**	$	(6,000,200)

Effective January 1, 2011, the Canadian Federal corporate tax rate decreased from 18% to 16.5% and the British Columbia provincial tax decreased from 10.5% to 10%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 30.09% to 28.42%.

The significant components of deferred income tax liabilities are as follows:

		December 31, 2011		December 31, 2010		January 1, 2010
Deferred income tax asset						
Unused non-capital losses	**$**	**21,904,670**	$	15,514,444	$	7,154,400
Resource properties		**14,216,793**		-		-
Mining tax asset		**12,103,376**		6,403,767		6,449,000
Finance cost		**855,132**		420,607		795,716
Federal Pre-production mining Income Tax Credit		**1,222,301**		1,066,028		-
Changes in estimate and others		**611,689**		311,347		-
	$	**50,913,961**		23,716,193		14,399,116
Deferred income tax liability						
Resource properties		**-**		(5,635,983)		(19,967,316)
		50,913,961		18,080,210		(5,568,200)
Unrecognized deferred tax asset		**(50,913,961)**		(18,080,210)		(432,000)
	$	**-**	$	-	$	(6,000,200)

The Company has approximately $81.4 million (2010 - $57.9 million) non-capital losses and $42.3 million (2010 - $33.2 million) of Canadian exploration and development expenditures as at December 31, 2011 which under certain circumstances may be utilized to reduce the taxable income of future years.

Based on the Mining Tax Act (Manitoba, Canada), the Company has a mining tax asset of $12,103,376 for which there is a full valuation allowance for the year ended December 31, 2011.

17. SHARE CAPITAL

(a) Authorized

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

(b) Equity Financing

On 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.

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

On February 22, 2011, King Place transferred 103,500,000 common shares to Hebei Wenfeng, an affiliated company of King Place.

On March 7, 2011, the Company completed a private placement financing by issuing an aggregate of 600 million units at a price of $0.05 for gross proceeds of $30 million. Each unit consists of one common share and one half of one share purchase warrant and each whole warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.10.

On April 4, 2011, the Company issued 258,819,703 common shares to King Place to retire the remaining convertible debentures and accrued interest for a total of $11,406,256 at conversion price of $0.0437 per share.

(c) Share Compensation Plan

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

The Company has authorized and reserved 2,500,000 common shares to be issued through the Share Compensation Plan in twelve equal instalments at quarterly intervals over a period of three years. During the year ended December 31, 2011, a total of 18,747 (2010 - 319,908) common shares were issued to three (2010 - fourteen) employees.

(d) Warrants

The continuity of warrants issued and outstanding is as follows:

	December 31, 2011		December 31, 2010	
	Number of Warrants	**Weighted Average Price ($)**	Number of Warrants	Weighted Average Price ($)
Balance, beginning of year	**89,877,623**	**0.24**	93,846,682	0.24
Granted, private placements	**300,000,000**	**0.10**	-	-
Exercised	**-**	**-**	(1,588,259)	0.20
Expired	**(69,877,623)**	**0.24**	(2,380,800)	0.36
Balance, end of year	**320,000,000**	**0.11**	89,877,623	0.24

Warrants remained outstanding as at December 31, 2011 are summarized as follows:

Estimated Grant Date Fair Value ($)	Number of Warrants	Exercise Price ($)	Expiry Date
$ 4,569,188	20,000,000	0.21	January 16, 2012
5,485,555	300,000,000	0.10	March 4, 2013
$ 10,054,743	320,000,000		

The fair value of warrants is measured using the Black-Scholes pricing model and recognized as an adjustment to share capital. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the expected life of warrants and volatility. Changes in the assumptions used to estimate fair value could result in materially different results. During the year ended December 31, 2011, the Company recorded $5,485,555 (2010 - $nil) for the 300,000,000 (2010 - nil) units of warrants issued in March 2011. The fair value of warrants issued was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	**2.76%**
Expected life of warrants	**2 years**
Volatility	**99.96%**
Dividend	**nil**

Subsequent to December 31, 2011, 20,000,000 warrants were expired.

(e) Stock Options

The Company has a stock option plan designed to encourage directors, officers, 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 a price not below the market price of the common shares at the time of grant, subject to all applicable regulatory requirements. There are no cash settlement alternatives.

On January 10, 2011, a total of 10,925,000 stock option exercisable at $0.065 per share over a period of five years were granted to directors, officers, and employees of the Company. These options vest semi-annually in four equal instalments over a two-year period with the first instalment vesting six months after the date of grant.

On June 22, 2011, a total of 3,500,000 options exercisable at $0.075 per share over a period of five years were granted to employees. These options vest semi-annually in four equal instalments over a two-year period with the first instalment vesting six months after the date of grant.

On September 13, 2011, a total of 40,000,000 stock options exercisable at $0.08 per share over a period of five years were granted to a director and officer of the Company. These options are vesting annually in two instalments over a two-year period.

Subsequent to December 31, 2011, 402,500 stock options were forfeited and 732,500 stock options were expired.

The continuity of stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Price ($)
Outstanding, January 1, 2010	33,530,000	0.34
Granted	6,525,000	0.16
Expired	(2,383,750)	0.22
Forfeited	(2,375,000)	0.40
Outstanding, December 31, 2010	35,296,250	0.32
Granted	54,425,000	0.08
Expired	(34,502,500)	0.31
Forfeited	(4,328,750)	0.07
Outstanding, December 31, 2011	**50,890,000**	**0.09**

The Company uses the fair value method of accounting for all stock-based payments to employees, directors and officers. Under this method, the Company recorded a stock compensation expense of $792,839 for the year ended December 31, 2011 (2010 - $1,854,860) with a corresponding credit to contributed surplus. The weighted average grant date fair value of options granted during the year ended December 31, 2011 was $0.08 (2010 - $0.16). 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:

	2011	2010
Weighted average risk-free interest rate	**1.82%**	2.50%
Weighted average expected life of options	**4 years**	5 years
Weighted average volatility	**103%**	77%
Weighted average estimated forfeiture rate	**8.6%**	10.9%
Dividend	**nil**	nil

The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the Toronto Stock Exchange. The risk-free interest rate assumption is based on yield curves on Canadian government benchmark bonds with a remaining term equal to the stock options' expected life.

As of December 31, 2011, the following stock options were outstanding:

Estimated Grant Date Fair Value	Number of Options	Number of Options Exercisable	Exercise Price		Expiry Date
80,250	125,000	125,000	$	0.940	June 28, 2012
31,005	65,000	65,000	$	0.710	November 21, 2012
12,180	35,000	35,000	$	0.520	February 1, 2013
52,555	115,000	115,000	$	0.690	May 26, 2013
2,450	25,000	25,000	$	0.150	October 31, 2013
2,055	15,000	15,000	$	0.200	January 31, 2014
18,495	135,000	135,000	$	0.200	March 20, 2014
10,418	65,000	65,000	$	0.240	May 6, 2014
2,051	15,000	15,000	$	0.200	June 30, 2014
53,134	350,000	350,000	$	0.210	August 19, 2014
59,047	600,000	600,000	$	0.160	March 15, 2015
21,767	150,000	150,000	$	0.215	April 12, 2015
258,320	6,395,000	1,598,750	$	0.065	January 10, 2016
126,814	2,800,000	700,000	$	0.075	June 22, 2016
1,896,332	40,000,000	-	$	0.080	September 13, 2016
$ 2,626,872	**50,890,000**	**3,993,750**			

The weighted average exercise price of stock options that are exercisable as at December 31, 2011 is $0.17 with weighted average contractual life of 4.54 years.

18. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Related party transaction with King Place, the largest shareholder of the Company, and its affiliated company, Hebei Wenfeng, are disclosed in note 11, 13, and 17(b) above. Related party transactions not disclosed elsewhere include the following:

(a) Transactions with Dumas

Dumas Contracting Ltd. ("Dumas"), was a related party of the Company as Dumas is a subsidiary of Pala Investments Holdings Limited ("Pala"), who was a major shareholder and had two representatives on the Board of Directors of the Company. In June 2010, Pala disposed all its interest in the Company to King Place and Dumas ceased to be a related party of the Company. During the period from January 2010 to June 2010, the Company paid $8,716,086 to Dumas for its mining contracting work provided to the Company. During the year ended December 31, 2010, the Company had transactions with Dumas amounted to $21,036,249. In December 2010, Dumas commenced legal action against the Company for the amount outstanding and in question, and on March 16, 2011, the Company reached a settlement agreement with Dumas to settle the claims and the legal action and the lien were discharged during the period ended March 31, 2011. No other transaction with Dumas was conducted during the year ended December 31, 2011. Included in accounts payable as at December 31, 2011 is $nil (December 31, 2010 - $5,250,000; January 1, 2010 - $2,541,828) owed to Dumas.

(b) Transactions with LJ Resources Limited

LJ Resources Limited ("LJ"), a private entity associated with a director of the Company, provides office space, office equipment, and administration services to the Company for a fee of $15,000 per month. During the year ended December 31, 2011, the Company paid $180,000 (2010 - $15,000) to LJ Resources Limited for their services provided. Included in accounts payable as at December 31, 2011 is $33,600 (December 31, 2010 - $nil; January 1, 2010 - $nil) owed to LJ. The balance with LJ is unsecured, interest-free and repayable on demand.

(c) Transactions with key management

The Company has indentified its directors and certain senior officers as its key management personnel. The compensation cost for key management personnel is as follows:

	2011	2010
Salaries and fees	**$ 643,006**	$ 4,491,839
Stock based compensation	**531,691**	716,662
	$ 1,174,697	$ 5,208,501

19. FINANCE COSTS

Finance costs comprise the following:

	2011	2010
Accretion for site closure and reclamation provisions	**$ 39,077**	$ 87,561
Foreign exchange (gain) loss	**981,274**	(103,633)
Interest expenses and bank charges	**1,856,955**	1,108,023
Interest income	**(34,763)**	(9,253)
	$ 2,842,543	$ 1,082,698

20. MANAGEMENT OF CAPITAL

The Company's objective when managing its capital is to safeguard its ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Shareholders' Equity	**$ 26,977,127**	$ 85,607,695	$ 150,000,000
Current debt	**24,307,374**	20,554,989	-
	51,284,501	106,162,684	150,000,000
Less: cash and cash equivalents	**(1,376,942)**	(4,068,019)	(10,040,475)
	$ 49,907,559	$ 102,094,665	$ 139,959,525

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company’s assets. To effectively manage its requirements, the Company prepares

annual expenditure budgets that are updated as necessary depending on various factors to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

Pursuant to an option agreement related to the Company's TNB, in order to earn 100% interest in TNB, the Company is required to spend approximately $1.5 million option expenditures for each of calendar year 2012 and 2013.

21. FINANCIAL INSTRUMENTS

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

a) Fair value

The carrying value of cash and cash equivalent is at fair value, while accounts receivable, accounts payable, and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instrument. Convertible debentures, loans payable, and obligation on capital leases are initially measured at fair value, net of transactions costs, and subsequently measured at amortized cost using the effective interest method.

The conversion features of the Company's convertible debentures, under IFRS, are classified as financial liabilities and measured at their fair value with changes in fair value reported in the consolidated statements of comprehensive loss as gain/loss on derivative instruments. The changes in the valuation of these conversion features create a permanent difference for tax purposes and may result in significant volatility on the effective tax rate.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The categories of fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and,
Level 3 - inputs for the asset or liability that are not based on observable market data.

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Level 1	**Level 2**	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	**$ 1,376,942**	**$ -**	$ 4,068,019	$ -	$ 10,040,475	$ -
Derivative liabilities	**-**	**-**	-	(956,063)	-	-

At December 31, 2011, there were no financial assets or liabilities measured and recognized on the consolidated statements of financial position at fair value that would be categorized as level 3 in the fair value hierarchy above (December 31, 2010 – $nil; January 1, 2010 – $nil).

There were no transfers between level 1 and level 2 during the years ended December 31, 2011 and 2010.

b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations, and arises principally from the Company's trade receivables. The carrying value of financial assets represents the maximum credit exposure.

The Company has an off-take agreement with Xstrata over the mine life of the Company's Bucko Lake Mine to sell all concentrates produced from Bucko Lake Mine to Xstrata, who currently is the sole customer of the Company. Management believes that the credit risk with respect to these financial instruments included in accounts receivable is remote.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2011, the Company has limited funds to meet its short term financial liabilities, and the working capital was in a deficit position of $26.3 million. Accordingly, additional financing is required for the Company to continue as a going concern. The Company's contractual obligations as at December 31, 2011 are summarized as follows:

	Payment Due by Period				
Contractual Obligations	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Loans payable	$ 24,307,374	$ -	$ -	$ -	$ 24,307,374
Finance lease obligations	1,353,061	1,727,651	-	-	3,080,712
Exploration option obligations	1,500,000	1,500,000	-	-	3,000,000
Site closure and reclamation obligations	-	-	-	2,753,608	2,753,608
Accounts payable and accrued liabilities	8,963,455	-	-	-	8,963,455
Total Contractual Obligations	**$ 36,123,890**	**$ 3,227,651**	**$ -**	**$ 2,753,608**	**$ 42,105,149**

d) Interest rate risk

The Company has cash and cash equivalent subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposit issued by financial institutions. As at December 31, 2011, the Company had $24.3 million loans payable bearing fixed coupon rates of 10% to 12% per annum, therefore change of interest rate has no effect on the Company's comprehensive loss. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the debt facility interest rates and balance advanced under the facilities. Currently, the Company does not hedge against interest rate risk.

e) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions and financing activities being denominated in US dollars. As at December 31, 2011, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents		As at December 31, 2011
Financial assets denominated in US dollars		
Cash and cash equivalent	$	59,388
Accounts receivables		3,040,075
		3,099,463
Financial liabilities denominated in US dollars		
Loans payable		(24,307,374)

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2011, every 1% strengthening in Canadian dollars would decrease net loss by $212,079. The Company currently has not entered into any agreement to hedge the foreign exchange risk.

f) Commodity price risk

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

As at December 31, 2011, the Company did not have any forward sales contracts or call options outstanding to manage the Company’s commodity price risk.

22. CONTINGENCIES

a) Met-Chem Canada Inc. (“Met-Chem”) has made a claim against the Company for amount of $260,000, plus interest at the Royal Bank of Canada Prime Rate + 2% from March 2009 to date of payment. Subsequent to the year end, the Company reached an agreement to settle Met-Chem's claim by making instalments in the aggregate amount of $57,691 to Met-Chem. As a result, a total of $199,679 gain on settlement of accounts payable was recorded on the consolidated statements of comprehensive loss for year ended December 31, 2011.

b) During the year ended December 31, 2011, the Company commenced a legal action against Total Equipment Services (“Total Equipment”) and Total Electric System Inc for their breach of contract and claimed a refund of $0.3 million prepayment and a loss of damage of $1.2 million. Total Equipment made a counterclaim in the amount of $0.4 million. The outcome and ultimate value of settlement are not determinable as at December 31, 2011.

23. SUPPLEMENTAL CASH FLOW INFORMATION

		2011		2010
Net change in non-cash working capital				
Increase in receivables and prepaid expenses	$	**(1,406,084)**	$	(680,300)
Increase in inventory		**(815,761)**		(433,105)
(Decrease) increase in accounts payable and accrued liabilities		**(3,122,240)**		672,919
	$	**(5,344,085)**	$	(440,486)

As at December 31, 2011, $3,393,737 (2010 - $500,000) was included in account payable and accrued liabilities to acquire mineral properties, plant and equipment.

24. SEGMENTED INFORMATION

The Company currently operates in a single reportable segment and is focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. All assets of the Company are located in Canada. The Company has only one customer, which accounted for all the Company's revenue.

CaNickel Mining Limited

formerly Crowflight Minerals Inc.

www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the year ended December 31, 2011

The Management's Discussion and Analysis ("MD&A") focuses on significant factors that affected the performance of CaNickel Mining Limited, formerly Crowflight Minerals Inc., ("we", "our", "us", "CaNickel", or the "Company") and such factors may also affect future performance. The MD&A for the year ended December 31, 2011 should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2011 and 2010 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A is prepared as at March 28, 2012 and all figures are in Canadian dollars unless otherwise indicated. Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained therein.

HIGHLIGHTS

- Net loss for the year ended December 31, 2011 was $98.0 million, including impairment charges of $72.1 million, or ($0.07) per share compared to net loss of $80.6 million, including impairment charges of $44.1 million, or ($0.14) per share in 2010;
- Mining operation at Bucko Lake Mine resumed in April 2011 and milling operation resumed in June 2011 after the operation suspended in October 2010. In 2011, the Company mined 107,451 tonnes of ores and milled 102,069 tonnes of ore to produce 1,631,916 pounds of nickel compared to a total of 131,884 tonnes of ore mined and a total of 131,884 tonnes of ore milled to produce a total of 2,476,116 pounds of nickel in 2010;
- Arranged additional US$30.0 million debt facility in 2011. As of December 31, 2011, a total of US$23.0 million debts were advanced;
- Substantially completed the civil contracture and major equipment installation for the paste back fill plant;
- Granted by the Manitoba government a revised Environment Act Licence to construct and operate a land based tailing management area which could store all tailings from the Company's Bucko Lake Mine over its existing mine life; and,
- Working capital was in a deficit position of $26.3 million with cash and cash equivalent of $1.4 million on hand as at December 31, 2011 compared to working capital of deficit of $24.6 million with cash and cash equivalent of $4.1 million on hand as at December 31, 2010.

DESCRIPTION OF BUSINESS

CaNickel is a Canadian mining company focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. CaNickel currently has one operational nickel mine, Bucko Lake Mine near Wabowden, Manitoba, and holds nickel, copper and platinum group mineral projects in the Thompson Nickel Belts, Manitoba and the Sudbury Basin, Ontario.

Mining operation at Bucko Lake Mine resumed in April 2011 after the operation suspended in October 2010.

In April 2011, the Company proposed to its shareholders to change its name to "Canada Nickel Mining Corp" or

other names that is approved by directors and the applicable regulatory authorities, continuance from the Province of Ontario to the Province of British Columbia, and a consolidation of its issued and outstanding common shares on the basis of either one post-consolidated shares for thirty pre-consolidation shares or one post-consolidation share for forty pre-consolidation shares.

All proposals were approved by the shareholders of Company during the annual general and special meeting on May 16, 2011. In June 2011, the Company completed all necessary application process and obtained regulatory approval to change its name to "CaNickel Mining Limited" from "Crowflight Minerals Inc." and to continue to the Province of British Columbia from the Province of Ontario. The Company's shares commenced trading on the Toronto Stock Exchange under the new name on June 23, 2011. The trading symbol of the Company remains as "CML".

As to the Company's share consolidation proposal ("Consolidation"), the Consolidation was approved by the shareholders of the Company at the annual general and special meeting on May 16, 2011, and the Directors of the Company are hereby authorized and empowered, without further approval or authorization of the shareholders of the Company, to determine the timing and ratio of the Consolidation or to revoke the Consolidation at its sole discretion at any time to their being acted upon. The Directors of the Company have been reviewing the nickel and equity market condition as well as the operation at Bucko Lake Mine to determine the timing for the Consolidation for the best interest of the Company and shareholders, but no decision has been made as of date of this report.

OUTLOOK

The first phase tailing facility construction has been completed in March 2012, and the Company expects the commission of the paste backfill plant will be in the second quarter of 2012.

In order to increase productivity and reduce production costs, the Company started to implement long hole stoping mining method at its Bucko Lake Mine in January 2012. The preliminary results indicated that the improved ore quality from the long hole stopes also helped the processing plant achieve better recovery rate. The Company will continue to carry out more studies to optimize the mining method at its Bucko Lake Mine to further increase production efficiency. With the continued effort on the mining production efficiency and improvements of its mill production performance, the Company expects to mine and mill approximately 320,000 tonnes of ores and aims to turn around to achieve positive cash flow from operations at Bucko Lake Mine in 2012.

OPERATION REVIEW

Bucko Lake Mine, currently the only operational mine of the Company, was temporarily suspended in October 2010. Since the change of board of directors and management in December 2010, the Company has been devoting substantial efforts and financial resources to address the operational issues at Bucko Lake Mine. During the year ended December 31, 2011 the Company raised gross proceeds of $30.0 million through equity financing to discharge liens on Bucko Lake Mine, acquire approximately $10.2 million in mining equipment, and hire its mining crew in order to bring the Bucko Lake Mine into efficient and viable operations, and arranged US$30.0 million debt facilities to fund the operations at Bucko Lake Mine.

Mining operations at Bucko Lake Mine was resumed in April 2011. However, the resume of production was affected by mining equipment delivery delays and issues left over from previous operations on backfill. The performance at Bucko Lake Mine in 2011 was below the Company's expectation. In 2011, the Company mined 107,451 tonnes of ore (2010 - 131,884) and milled 102,069 tonnes of ores (2010 - 131,884) with an average head grade of 1.18% (2010 - 1.23%) and an average recovery rate of 61.0% (2010 - 69.0%) to produce approximately 1.6 million pounds of nickel (2010- 2.5 million pounds).

During the year ended December 31, 2011, a total of 1,363,534 pounds of payable nickel sold at a cash cost of

$13.91 per pound and a total cost of $17.50 per pound compared to a total of 2,125,202 pounds of payable nickel sold in last year at a cash cost of $18.03 per pound and a total cost of $19.71 per pound. By using our own mining crew and mining equipment, the Company was able to lower the operations costs but unit costs per pound of nickel sold was affected by the size of the operations. In addition, a write-down of $4.0 million was provided on inventory balance as at December 31, 2011 as a result of the decrease in net realizable value below carrying value which is contributed by the decrease in nickel price.

In order to increase productivity and reduce production costs, the Company conducted a trial of long hole open stoping mining method and achieved a record mine production of 25,102 tonnes of ore in January 2012. The preliminary results indicated that the improved ore quality from the long hole stopes also helped the processing plant achieve better recovery rate. The Company will continue to carry out more studies to optimize the mining method at its Bucko Lake Mine to further increase production efficiency. With the continued effort on the mining production efficiency and improvements of its mill production performance, the Company expects to mine and mill approximately 320,000 tonnes of ores at Bucko Lake Mine in 2012.

The following is a summary of the operation results at Bucko Lake Mine for year ended at December 31, 2011 and 2010.

		Year ended December 31,		
		2011		2010
Production data				
Ore mined (tonne) [1]		**107,451**		131,884
Ore milled (tonne) [1]		**102,069**		131,884
Nickel produced (pound)		**1,631,916**		2,476,116
Head grade		**1.18%**		1.23%
Metallurgical recovery		**61.0%**		69.0%
Cost per pound of payable nickel sold				
On site cash cost ($/pound)	**$**	**11.88**	$	16.78
Off site cash cost, net of by-product credit ($/pound)	**$**	**1.96**	$	1.25
Cash cost	**$**	**13.83**	$	18.03
Non cash cost ($/pound)	**$**	**3.56**	$	1.68
Total cost [2]	**$**	**17.40**	$	19.71
Sales Data				
Payable Nickel Sold (pound)		**1,363,534**		2,125,202
Revenue ($) [3]	**$**	**11,468,937**	$	22,966,206
Average selling price ($/pound)	**$**	**8.41**	$	10.81

1. The tonnage of ore mined and milled refers to wet metric ton

2. Including inventory write down of $4.0 million or $2.95 per pound of payable nickel sold

3. Including pricing/volume adjustments on concentrate sold in prior periods

DEVELOPMENT AND EXPLORATION

BACKFILL PASTE PLANT

To reduce the backfill costs and to increase the quality of backfill, the Company is underway to construct a paste backfill plant at its Bucko Lake Mine. Although the construction was affected by several design issue and late delivery of equipment, civil contracture and major equipment installation was completed in 2011, and the commission of the paste backfill plant is now scheduled to be in the second quarter of 2012.

As of December 31, 2011, a total of $4.2 million expenditures were incurred in the construction of the paste backfill plant.

TAILING MANAGEMENT AREA ("TMA")

In September 2011, the Company was granted by the Manitoba government a revised Environment Act License to construct and operate a land based tailing management area at its Bucko Lake Mine. The TMA is an expansion of the existing Interim Tailing Storage Facility and has a foot print of approximately 65.5 hectares to store all tailing from Bucko Lake Mine for the remainder of its existing mine life. Environmental studies indicated that the TMA would have a net benefit in relation to the environmental impact, eliminating the need for sub-aqueous deposition of the tailing into Bucko Lake. The construction of the TMA will be carried in two phases and the phase I construction was completed in March 2012.

As of December 31, 2011, a total of $2.7 million expenditures were incurred in the construction of the TMA.

THOMPSON NICKEL BELT EXPLORATION PROPERITES (“TNB”) - MANITOBA

Under the terms of an Exploration Option Agreement (“Agreement”) and Exploration Amending Agreement ("Amending Agreement") with Xstrata Nickel Inc. ("Xstrata"), the Company has the right to earn a 100% interest in Xstrata's TNB properties (formerly referred to as the TNB North and TNB South Exploration Properties), which includes approximately 580 square kilometres of exploration ground in Manitoba, Canada by incurring $12.7 million option expenditures by December 31, 2013 as follows:

- An initial amount of not less than $2.5 million during 2007 (incurred);
- Cumulative option expenditures of not less than $5.0 million by on or before December 2008 (incurred);
- Cumulative option expenditures of not less than $7.5 million by on or before December 2009 (incurred);
- Cumulative option expenditures of not less than $9.7 million by December 31, 2011 (incurred);
- Cumulative option expenditures of $11.2 million by December 31, 2012; and,
- Cumulative option expenditures of $12.7 million by December 31, 2013.

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

In January 2011, the Company carried out a winter drilling program at two deposits, M11A North Deposits and Gonlin Deposits, of the TNB, to explore further potential in satellite deposits surrounding the Bucko Lake Mine. A

total of 13 holes were completed, and a total of 5,889 meters was drilled throughout the program with 1,548 samples taken. There was no significant result from the hole drilled at Gonlin Deposits, and a total of 5,202 meters in 12 diamond drill holes were completed at M11A North Deposits, of which 11 holes reached their planned depth with 1,548 samples assayed while one hole was abandoned. This successful winter drilling program demonstrates that the M11A North Deposit can be extended at depth, to the northeast and southwest tying the deposit to mineralization intersected in drill hole M09-17 with several intervals of potentially mineable widths and grades. Hole M11-08 with 14.25 metres grading 1.60% nickel and hole M11-07 with 14.85 metres grading 1.19% nickel and another intersection of 6.40 metres grading 1.80% nickel had extended the deposit to the northeast. The previously discovered high grade mineralization in hole M08-03 and hole M09-12 had been extended further at depth by hole M11-01 with an intersection of 9.98 metres grading 2.35% nickel. For detailed and complete drilling results of the winter drilling program at the M11A Deposits, please refer to the press release dated June 29, 2011.

In the fourth quarter of 2011, the Company carried out another winter drilling program at M11A North Deposits. A total of 1,973 meters were completed and sampled and assayed in the 3 diamond drill holes of this 12 hole drilling programs. The assay results of these three holes were published on the press release dated March 5, 2012.

The Company plans to review results from the drilling program and update resource calculations at M11A in 2012. The Company is advancing the M11A North Deposit with the expectation that it could eventually provide a source of supplemental ore feed for Bucko Lake Mine.

During the year ended December 31, 2011, the Company incurred exploration expenditures of $2.2 million at TNB. As of December 31, 2011, the cumulative exploration expenditures incurred at TNB was approximately $16.5 million.

PURE NICKEL JOINT VENTURE – MANITOBA

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 would also have the right to permit, operate and close the historic tailings facility in the joint venture.

Each party contributed property to the joint venture and agreed to make an initial aggregate contribution of $6,000,000 by the end of 2011 to fund preliminary exploration activities within the joint venture area. In November 2008, the terms of the Pure Nickel Agreement were amended to allow Pure Nickel the option to earn a 50% interest in an expanded area surrounding the Manibridge deposit by incurring increased exploration expenditures totalling $3,000,000 by 2012.

Pursuant to an option agreement with Hudson Bay Exploration and Development Company Limited ("HBED"), the Company could 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% net smelter return payable to Pure Nickel. There was no activity at HBED property in 2011, and the option agreement was terminated in 2011.

In June 2011, the Company and Pure Nickel had mutually agreed to dissolve the joint venture partnership between the two companies. All mineral claims Pure Nickel put into the joint venture were returned to Pure Nickel, and the Company retains the mineral claims the Company put into the joint venture (“Joint Venture Claims”). The Joint Venture Claims are considered non-core assets of the Company and the Company has no plan to conduct any exploration activities on those mineral claims in the next two or three years. As a result, upon dissolution of the joint venture partnership, the Company wrote off the carrying value of the Joint Venture Claims and the proportion shares of the carrying value of the joint venture, and a total of $504,498 write-down charges were recorded on the consolidated statements of comprehensive loss for year ended December 31, 2011.

SUDBURY PROPERTIES – ONTARIO

AER Kidd Property

The Company wrote off the value of the property as at December 31, 2008. During the year ended December 31, 2011, an amount of $101,614 (2010 - $151,771) was paid to maintain the property in good standing and expensed as other income and expenses on the consolidated statement of comprehensive loss.

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 and September 2010, the Company granted Wallbridge the extension of the period required to complete minimum exploration expenditures for 2010. Wallbridge did not fulfill the $1,000,000 exploration expenditures commitment and during the year ended December 31, 2011, the Company and Wallbridge had mutually agreed to terminate the option agreement. All mineral claims were returned to the Company. As a result, upon termination of the option agreement, the Company wrote off the carrying value of the property and a total of $655,984 (2010 - $nil) write-down charges were recorded on the consolidated statements of comprehensive loss for year ended December 31, 2011.

RESULTS OF OPERATIONS

Year ended December 31, 2011 vs. Year ended December 31, 2010

Net loss for the year ended December 31, 2011 was $98.0 million, an increase of $17.4 million compared to 2010. It was primarily due to the increase of $28.1 million in impairment of mineral property, plant and equipment offset by a decrease of $12.5 million loss from mine operation.

Revenue for the year ended December 31, 2011 was $11.5 million, a decrease of $11.5 million, compared to the revenue of $23.0 million in 2010. Less revenue recognized for the year ended December 31, 2011 was mainly due to less nickel produced and sold and lower nickel price. For the year ended December 31, 2011, a total of 1,363,534 pounds of nickel were sold at an average price of $8.41 while a total of 2,125,202 pounds of nickel were sold at an average price of $10.81 for 2010.

Cost of sales for the year ended December 31, 2011 was $23.9 million, compared to the cost of sales of $44.0 million recorded for 2010. Cost of sales included cash cost of $18.9 million (2010 - $38.3 million) and non cash cost of $5.0 million (2010 - $5.7 million). Non cash cost included amortization, depletion, and depreciation of mineral property, plant and equipment as well as stock based compensation expenses. The decrease in cash cost was contributed to cost reduction achieved by using our own mining crew and mining equipment in the current period while a mining contractor was used in 2010. The cost of goods sold also included an inventory write-down of $4.0 million (2010 - $3.5 million) as a result of the carrying value of the inventory exceeded their estimated net realizable value based on the nickel price at the end of reporting periods.

Temporary shutdown costs for the year ended December 31, 2011 were $8.5 million, a decrease of $3.9 million, compared to the temporary shutdown costs of $12.4 million for 2010, and the decrease was mainly due to two more months of shutdown periods in 2010.

Finance costs for the year ended December 31, 2011 were $2.8 million, an increase of $1.7 million, compared to the finance costs of $1.1 million for 2010. The increase was mainly due to the increase in foreign exchange loss on the loans payable denominated in US dollars as a result of strengthened Canadian dollars and interest expenses on the convertible debenture, debt facilities, and the capital lease obligations. Finance costs primarily included foreign exchange loss of $1.0 million (2010 - gain of $0.1 million), interest and bank charges of $1.9 million (2010 - $1.1 million), and accretion of site closure and reclamation provisions of $0.04 million (2010 - $0.09 million).

General and administration for the year ended December 31, 2011 was $0.7 million, which is consistent with the general and administration cost of $0.7 million in 2010.

Impairment of mineral property, plant, and equipment for the year ended December 31, 2011 were $72.1 million, increased by $28.1 million compared to the impairment charge for 2010. Based on the nickel price forecast as at December 31, 2011, discount rate of 8% and approximately 10% production growth for next three years, the Company determined that the fair value less cost to sell of Bucko Lake Mine, estimated by discounting future cash flows over its remaining mine life of 10 years, is lower than the carrying value of those assets. As a results, a total of $71 million impairment charges (2010 - $44.1 million) was charged to the long lived assets used at Bucko Lake Mine. The impairment of mineral property, plant, and equipment also included $0.5 million (2010 - nil) write-down charge to Pure Nickel Joint Venture as a result of the dissolution of the joint venture partnership and $0.6 million (2010 - nil) write-down charge to Peter's Roost Property as a result of the termination of the option agreement with Wallbridge.

Legal and professional fees for the year ended December 31, 2011 were $0.2 million, a decrease of $0.3 million, compared to the legal and professional fees of $0.5 million for 2010. The decrease was mainly due to fewer legal affairs in the current year.

Gain (loss) on derivative instrument for the year ended December 31, 2011 was $0.3 million comparing to a net loss of $0.1 million for 2010. The gain for the current year was mainly related to the change of the fair value of the conversion feature of the Company's convertible debentures and a call option unexercised while the loss for last year was mainly related to the change of the fair value of the forward nickel sales contracts.

Salaries, consulting and management fees for the year ended December 31, 2011 were $1.5 million, a decrease of $4.4 million compared to the salaries, consulting and management fees of $5.9 million for 2010. The decrease was mainly because the Company incurred a significant change of control payout in 2010, whereas in 2011 the Company eliminated some management positions and reduced the compensation to senior management and directors.

Shareholder communication and investor relations for the year ended December 31, 2011 were $0.2 million, a decrease of $0.1 million, compared to $0.3 million for 2010 as less investor relation activities were conducted in the current year.

Income tax recovery for the year ended December 31, 2011 was $nil as full allowances to the tax benefits was recorded, while a total of income tax recovery of $6.0 million was recorded in 2010.

Fourth quarter 2011 ("Q4 2011") vs. Fourth quarter 2010 ("Q4 2010")

Net loss in Q4 2011 was $79.4 million, an increase of $26.4 million, compared to the net loss of $53.0 in Q4 2010. It was primarily due to the significant increases in impairment of mineral property, plant and equipment of $27.6 million offset by a decrease of $1.9 million in salaries, consulting and management fees in the current quarter.

Revenue in Q4 2011 was $5.7 million compared to revenue of $3.6 million in Q4 2010. The increase of $2.1 million was mainly due to more nickel produced and sold in Q4 2011 compared to Q4 2010.

Cost of sales in Q4 2011 was $12.7 million, which comprised of $10.0 million cash cost and 2.7 million non cash

cost, an increase of $7.4 million, compared to the cost of sales of $3.3 million in Q4 2010, which consisted of $2.8 million cash cost and $0.5 million non cash cost. The increase of cost of sales in Q4 2011 was mainly due to the increase of sales and an inventory write down of $2.5 million (Q4 - 2010 $0.04 million), which was the result of the carrying value of the inventory exceeded their estimated net realizable value based on the nickel price at the end of the reporting periods.

Finance costs in Q4 2011 were $0.1 million, a decrease of $0.5 million, compared to the finance costs of $0.6 million in Q4 2010. The decrease was mainly due to the increase of $0.4 million in foreign exchange gain on the loans payable denominated in US dollars as a result of weakened US dollars in Q4 2011. Finance costs primarily included interest and bank charges of $0.6 million (Q4 2010 - $0.6 million), and foreign exchange gain of $0.5 million (Q4 2010 - $0.05 million).

Legal and professional fees in Q4 2011 were $0.01 million, a decrease of $0.14 million, compared to the legal and professional fees of $0.15 million in Q4 2010. The decrease was mainly due to fewer legal affairs in the current quarter.

Salaries, consulting and management fees in Q4 2011 were $0.5 million, a decrease of $1.9 million, compared to the salaries, consulting and management fees of $2.4 million in Q4 2010. The decrease was mainly because the Company incurred a significant change of control payout in Q4 2010.

Use of proceeds from financing

During the year ended December 31, 2011, the Company raised gross proceeds of $30.0 million through an equity financing with intention to use the proceeds to partially retire the convertible debenture of the Company, acquire mining equipment, and fund the operations at Bucko Lake Mine as well as for general working capital purpose. The Company spent approximately $1.0 million more on the acquisition of mining equipment for Bucko Lake Mine and approximately $1.0 million less on the operations funding for the Bucko Lake Mine. The variance of use of proceeds did not have significant impact on the ability of the Company to achieve its business milestones and objectives.

During the year ended December 31, 2011, the Company arranged US$30.0 million debt facilities and drawn down US$23.0 million from the debt facilities with the intention to use the proceeds to fund the operations and development at Bucko Lake Mine. All proceeds were used as they were planned.

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Revenue	$ 5,743,254	$ 5,488,101	$ -	$ 237,582
Cost of goods sold	(12,718,989)	(11,207,075)	-	-
	(6,975,735)	(5,718,974)	-	237,582
Temporary shutdown costs	-	-	(3,562,910)	(4,899,849)
Other items	(72,394,153)	(1,902,172)	(1,528,152)	(1,292,792)
Loss before taxes	(79,369,888)	(7,621,146)	(5,091,062)	(5,955,059)
Income tax recovery	-	-	-	-
Net loss	$ (79,369,888)	$ (7,621,146)	$ (5,091,062)	$ (5,955,059)
Loss per share - basis and diluted	$ (0.05)	$ (0.01)	$ (0.00)	$ (0.01)

	Quarters ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Revenue	$ 3,595,898	$ 8,496,918	$ 9,675,368	$ 1,198,022
Cost of goods sold	(3,309,046)	(21,909,428)	(14,891,555)	(3,904,254)
	286,852	(13,412,510)	(5,216,187)	(2,706,232)
Temporary shutdown costs	(6,542,451)	-	-	(5,828,308)
Other items	(47,931,291)	(2,571,058)	(988,107)	(1,737,130)
Loss before taxes	(54,186,890)	(15,983,568)	(6,204,294)	(10,271,670)
Income tax recovery	1,236,275	1,378,539	307,704	3,077,682
Net loss	$ (52,950,615)	$ (14,605,029)	$ (5,896,590)	$ (7,193,988)
Loss per share - basis and diluted	$ (0.09)	$ (0.03)	$ (0.01)	$ (0.01)

The net loss for Q4 2011 was due to impairment charges of $71.6 million were charge to mineral properties, plant and equipment.

The net loss for quarters ended March 31 and June 30, 2011 was mainly a result of costs incurred during the temporary shutdown at Bucko Lake Mine. Mining operation at Bucko Lake Mine resumed in April 2011 and mill operation resumed in June 2011.

The net loss for Q4 2010 was mainly due to a temporary shutdown cost of $6.5 million as a result of the operation suspension at Bucko Lake Mine, $2.4 million change of control payout, and impairment charges of $44.1 million to the mineral property, plant and equipment at Bucko Lake Mine in Q4 2010.

ANNUAL INFORMATION

	Years ended December 31		
	2011	2010	2009**
Total assets	**$ 65,600,917**	$ 118,721,788	$ 166,307,299
Shareholders' equity	**26,977,127**	85,607,695	150,000,000
Dividend declared	**-**	-	-
Revenue	**11,468,937**	22,966,206	6,730,887
Gross margin	**(12,457,127)**	(21,048,077)	(3,951,598)
Temporary shutdown costs	**(8,462,759)**	(12,370,759)	(4,943,000)
Other items	**(77,117,269)**	(53,227,586)	(39,089,418)
Income tax recovery	**-**	6,000,200	21,003,129
Net loss	**(98,037,155)**	(80,646,222)	(26,980,887)
Loss per share - basis & diluted	**$ (0.07)**	$ (0.14)	$ (0.07)

** 2009 annual results were recorded in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "CGAAP").

In June 2009, the commercial production at Bucko Lake Mine was declared, but the operation was suspended in October 2009 and incurred a loss of $27.0 million from its operation. The loss in 2009 also included an impairment charge of $30.6 million to the mineral property, plant and equipment.

In April 2010, operations at Bucko Lake Mine resumed, but were suspended again in October 2010 due to the high cost of the operations. The loss of 2010 also included an impairment charge of $44.1 million to the mineral property, plant, and equipment related to Bucko Lake Mine.

Operations at Bucko Lake Mine was re-commenced in April 2011. The loss of 2011 included impairment charges of $72.1 million to the mineral property, plant and equipment.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2011, the Company had cash and cash equivalents of $1.4 million, decreased by $2.7 million compared to cash and cash equivalents balance as at December 31, 2010. The decrease of cash and cash equivalents on hand was mainly as a result of $38.4 million raised from financing activities offset by $24.3 million used in operation activities and $16.8 million used in investing activities.

Cash used in operating activities for the year ended December 31, 2011 was $24.3 million compared to a total of $30.9 million used in 2010. Less cash used in operation was because the Company was able to control and reduce the operation costs at Bucko Lake Mine through the use of the Company's own mining crew and equipment instead of hiring and paying to a mining contractor. However, the Company has not yet achieved positive operating cash flow as the production at Bucko Lake Mine has not been ramped up to the projected production level since it was restarted in April 2011.

In Q4 2011, cash used in operating activities was $1.0 million (Q4 2010 - $0.7 million). The increase of cash used in operating activities was mainly due to less operating activities during the shutdown period in Q4 2010.

Cash provided from financing activities for the year ended December 31, 2011 was $38.4 million compared to a total of $34.3 million cash generated from financing activities in 2010. During the year ended December 31, 2011,

the Company raised $26.9 million (2010- $11.4 million) through equity financing and $22.5 million (2010- $23.1 million) through debt financing. The Company also used $10.0 million (2010- $nil) to retire convertible debentures and $1.1 million (2010- $0.5 million) to make payments on capital leases.

In Q4 2011, cash provided by financing activities was $6.1 million (Q4 2010 - $10.1 million) through debt financing. The Company also used $0.3 million (same period last year - $0.4 million) for payments on capital leases.

Cash used in investing activities for the year ended December 31, 2011 was $16.8 million compared to a total of $9.4 million cash used in investing activities in the 2010. The increase of cash used in investing activities was mainly due to the acquisition of mining equipment and the increase of mine development and exploration activities during 2011.

In Q4 2011, a total of $5.4 million (Q4 2010 - $6.5 million) cash was used in investing activities. Less cash used in investing activities was mainly due to more cash deposit made to acquire mining equipment in Q4 2010.

Working capital as at December 31, 2011 was negative $26.3 million compared to the negative working capital of $24.6 million as at December 31, 2010. The decrease of working capital was primarily due to the increase of short term debt arranged in 2011.

Shareholder's equity as at December 31, 2011 was $27.0 million, a decrease of $58.6 million from $85.6 million at December 31, 2010, primarily as a result of $26.9 million net proceeds from a private equity financing and $11.7 million debt converted into common shares of the Company offset by a net loss of $98.0 million during the year. As at December 31, 2011, the Company had approximately 1,500.8 million common shares outstanding for a share capital of $186.9 million.

The Company's contractual obligations including payments due for each of the next five years and thereafter as at December 31, 2011 are summarized as follows:

	Payment Due by Period				
Contractual Obligations	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Loans payable	$ 24,307,374	$ -	$ -	$ -	$ 24,307,374
Finance lease obligations	1,353,061	1,727,651	-	-	3,080,712
Exploration option obligations	1,500,000	1,500,000	-	-	3,000,000
Site closure and reclamation obligations	-	-	-	2,753,608	2,753,608
Accounts payable and accrued liabilities	8,963,455	-	-	-	8,963,455
Total Contractual Obligations	**$ 36,123,890**	**$ 3,227,651**	**$ -**	**$ 2,753,608**	**$ 42,105,149**

To fulfill the obligation under the option agreement with Xstrata to earn in 100% interest in TNB, the Company is required to incur approximately $1.5 million option expenditures in 2012 and another $1.5 million in 2013.

The Company has incurred significant losses and negative cash flow from operations in recent years. In April 2011, mining operations at the Company's Bucko Lake Mine was resumed, but the restart and ramping up process were affected by issues left over from prior years' operations, late delivery of mining equipment, and unfavourable nickel prices. Loss incurred for the year ended December 31, 2011 amounted to $98.0 million and the cumulative deficit was $193.3 million as at December 31, 2011. Whether and when the Company can attain profitability and positive cash flow is uncertain and depends on the Company reaching its planned production level, controlling the cost of production which is subject to great variation due to a number of factors, such as ore grade, metallurgy, and cost of supplies and services etc., and the market price of nickel, which fluctuates widely and is affected by numerous factors beyond the Company's control. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

To address its financing requirements, the Company entered into amending agreement with Luckyup Investment Limited ("Luckyup") to increase its debt facility from US$15 million to US$25 million. Subsequent to the year ended December 31, 2011, the Company entered into amending agreements with Hebei Wenfeng Industrial Group Limited ("Hebei Wenfeng") and Luckyup, respectively, to extend their loan facilities from one year term to three year terms. The maturity dates of the loan from Heibei Wenfeng and Luckyup have been extended to May 28, 2014 and July 22, 2014, respectively.

In September 2011, the Company entered into an equity financing agreement with Haverstock Master Fund, Ltd. ("Haverstock"), a fund managed by Haverstock Manager, LLC., to secure access to funds on an as-needed basis for up to $20 million through a Committed Equity Facility ("CEF"), which enables the Company, at its sole discretion, over a period of 36 months after the activation of the CEF, to receive proceeds for the amount not to exceed to the greater of $500,000 and the average daily trading dollar volume for the five days preceding to a draw down notice for each drawn down, subject to the amount remaining on the CEF. The distribution of any common shares of the Company under the CEF must be qualified by a prospectus, and the activation of the CEF is subject to the filing of a final shelf base short form prospectus and a prospectus supplement.

On February 6, 2012, the Company filed a preliminary shelf base short form prospectus with related regulatory authorities with the intention to activate the CEF. However, the actual outcome of the related regulatory authorities' review on the preliminary prospectus and the actual timing of the filing of a final shelf base short form prospectus are uncertain. In the event that shelf base short form prospectus was not accepted by the related regulatory authorities, the Company may have to terminate the CEF and seek alternatives, such as through flow-through equity financing and rights offering to existing shareholders, to secure additional funds to meet the needs of operation and capital expenditures. The outcome of these matters cannot be predicted at this time.

In order to increase productivity and reduce production costs, the Company started to implement long hole stoping mining method at its Bucko Lake Mine. The preliminary results indicated that the improved ore quality from the long hole stopes also helped the processing plant achieve better recovery rate. With the continued effort on the mining production efficiency and improvements of its mill production performance, the Company expects that positive cash flows can be generated from the operations at its Bucko Lake mine for the coming year ending December 31, 2012 assuming that nickel price will not decrease further.

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company’s assets. To effectively manage its requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

Based on the financing arrangements in place and the current operation conditions at Bucko Lake Mine, the Company expects that its capital resources and projected future cash flows from the exiting loan facility arrangements and committed equity line and continuing operations could support its normal operating requirements on an ongoing basis and planned development and exploration of its mineral properties. However, there is no assurance that the CEF will be approved by related regulators. If the CEF is not able to be activated, the Company may have to look for other alternative financings. Without further financings, the Company may be forced to delay, limit, or eliminate all or part of capital developments, which, in return, will have adverse impact on the operation. Furthermore if the market price of nickel continues to drop to the level that the Company would have no way to generate positive cash flow from its operations, the Company may be forced to put the mine in care and maintenance.

FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents are at fair value, while accounts receivable, accounts payable, and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial

instrument. Convertible debentures, loans payable, and obligation on capital leases are initially measured at fair value, net of transactions costs, and subsequently measured at amortized cost using the effective interest method.

The conversion features of the Company's convertible debentures, under IFRS, are classified as financial liabilities and measured at their fair value with changes in fair value reported in the consolidated statements of comprehensive loss as gain/loss on derivative instruments. The changes in the valuation of these conversion features create a permanent difference for tax purposes and may result in significant volatility of the effective tax rate.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates.

Management constantly monitors and assesses the fluctuation of nickel price and US dollars, but has not hedged the nickel price and foreign exchange rate related to its concentrate sales in 2011. The Company only has one customer and the credit risk of this customer is considered minimum. The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on its financial condition or results of operations, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of these Consolidated Financial Statements ("Financial Statements") requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the Company's Financial Statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's asset and liabilities are as follows:

Depreciation, depletion and amortization of mineral properties, plant and equipment - Mineral properties, plant and equipment comprise a large component of the Company’s assets and as such, the depreciation, depletion and amortization of these assets have a significant effect on the Company’s Financial Statements. Upon commencement of commercial production, the Company amortizes the mineral properties over the life of the mine based on the depletion of the mine’s proven and probable reserves. Plant and equipment are amortized to their estimated residual value on a straight line basis over the shorter of their estimated useful lives and economic lives.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

Impairment of mineral properties, plant, and equipment - The Company considers both external and internal sources of information in assessing whether there are any indications that mineral properties, plant, and equipment are impaired. External sources of information the Company considers included changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of the mineral properties, plant, and equipment. Internal sources of information the Company considers include the manner in which mineral properties, plant, and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's mineral properties, plant and equipment, the Company's management makes estimates of the discounted cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reduction in metal price forecasts, increase in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amount of the Company's mineral properties, plant and equipment.

Income taxes - Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases and tax losses carried forward. The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax payable requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is “probable” that the Company will benefit from these prior tax losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Share-based compensation - The Company grants stock options to employees of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. Assumption details are discussed in the notes to these Financial Statements.

Site closure and reclamation provisions - The Company has obligations for site restoration and decommissioning related to its Bucko Lake Mine. The future obligations for mine closure activities are estimated by the Company using mine closure plan or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and governmental regulations, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions.

The Company’s policy for recording site closure and reclamation provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to operating costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements, and those differences may be material.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

The International Accounting Standards Board ("IASB") adopted IFRS for publicly accountable enterprises for fiscal beginning on or after January 1, 2011. As such, the Company is reporting its annual consolidated financial statements in accordance with IFRS, for the year ended December 31, 2011, with comparative figures for 2010. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010.

Our IFRS conversion team identified three phases to our conversion: scoping and diagnostics, analysis and development, implementation and review. All three phases have now been completed. The adoption of IFRS did not have a significant impact on our information systems for the convergence periods.

We assessed the changes necessitated to maintain the integrity of internal control over financial reporting and disclosure controls and procedures. The extent of the impact on these controls was immaterial. We applied our existing control framework to the IFRS changeover process. All accounting policy changes and financial statement impacts were reviewed by senior management and the Audit Committee of the Board of Directors.

We have assessed the impact of the adoption of IFRS on our key performance indicators. The transition to IFRS did not have a significant impact on our key performance indicators, which include gross profit margin, cash flow from operations, and cash costs. All analysis and conclusions are based on the IFRSs effective for annual periods beginning on or after January 1, 2011. As the IASB currently has various projects on its work plan that might affect our decisions for the financial year 2011, we continue to monitor and assess the impact of these changes.

The Company’s IFRS accounting policies are disclosed in Note 3 to the consolidated financial statements for the year ended December 31, 2011, and Note 4 provides further details on our Canadian GAAP to IFRS differences. The impacts of IFRS on the comparatives as at and for the year ended December 31, 2010 are summarized as follows:

Consolidated Reconciliations from Canadian GAAP to IFRS
Statement of Financial Position

	Notes	CGAAP	Effect of Transition to IFRS	Reclassification (f)	IFRS
		At January 1, 2010			
ASSETS					
Current					
Cash and cash equivalents		$ 10,040,475	$ -	$ -	$ 10,040,475
Receivables and prepaid expenses		-	-	1,426,977	1,426,977
Amounts receivable		1,291,687	-	(1,291,687)	-
Inventory		1,031,734	-	-	1,031,734
Prepaid expenses and deposits		135,290	-	(135,290)	-
		12,499,186	-	-	12,499,186
Non-Current					
Mineral property, plant and equipment		-	-	153,091,031	153,091,031
Property, plant and equipment	(a)	138,568,967	(182,373)	(138,386,594)	-
Exploration and development property and deferred expenditures		14,704,437	-	(14,704,437)	-
Other non-current assets		534,709	-	-	534,709
		$ 166,307,299	$ (182,373)	$ -	$ 166,124,926
LIABILITIES					
Current					
Accounts payable and accrued liabilities		$ 9,282,060	$ -	$ -	$ 9,282,060
Current portion of obligations under capital leases		45,371	-	-	45,371
		9,327,431	-	-	9,327,431
Non-Current					
Obligations under capital leases		61,281	-	-	61,281
Site closure and reclamation provisions	(a)	918,387	(182,373)	-	736,014
Deferred income tax liability		6,000,200	-	-	6,000,200
		16,307,299	(182,373)	-	16,124,926
SHAREHOLDERS' EQUITY					
Share capital		138,758,903	-	-	138,758,903
Contributed surplus	(b)	25,894,525	(49,113)	-	25,845,412
Accumulated deficit	(b)	(14,653,428)	49,113	-	(14,604,315)
		150,000,000	-	-	150,000,000
		$ 166,307,299	$ (182,373)	$ -	$ 166,124,926

Consolidated Reconciliations from Canadian GAAP to IFRS
Statement of Financial Position

	Notes	At December 31, 2010 CGAAP	Effect of Transition to IFRS	Accounting Changes (e)	Reclassification (f)	IFRS
ASSETS						
Current						
Cash and cash equivalents		$ 4,068,019	$ -	$ -	$ -	$ 4,068,019
Receivables and prepaid expenses		-	-	-	2,143,277	2,143,277
Amounts receivable		1,716,424	-	-	(1,716,424)	-
Inventory		1,464,839	-	-	-	1,464,839
Prepaid expenses and deposits		426,853	-	-	(426,853)	-
		7,676,135	-	-	-	7,676,135
Non-Current						
Mineral property, plant and equipment		-	-	-	109,385,763	109,385,763
Property, plant and equipment	(a),(c),(e)	143,534,339	(44,236,034)	(5,389,668)	(93,908,637)	-
Exploration and development property and deferred expenditures		15,477,126	-	-	(15,477,126)	-
Other non-current assets		1,659,890	-	-	-	1,659,890
		$ 168,347,490	$ (44,236,034)	$ (5,389,668)	$ -	$ 118,721,788
LIABILITIES						
Current						
Accounts payable and accrued liabilities		$ 10,466,215	$ -	$ -	$ -	$ 10,466,215
Convertible debentures	(d)	20,705,694	(150,705)	-	-	20,554,989
Current portion of obligations under capital leases		294,336	-	-	-	294,336
Derivative liabilities	(d)	373,190	582,873	-	-	956,063
		31,839,435	432,168	-	-	32,271,603
Non-Current						
Obligations under capital leases		18,915	-	-	-	18,915
Site closure and reclamation provisions	(a)	997,690	(174,115)	-	-	823,575
Future income tax liability	(c),(e)	3,062,081	(1,617,650)	(1,444,431)	-	-
		35,918,121	(1,359,597)	(1,444,431)	-	33,114,093
SHAREHOLDERS' EQUITY						
Share capital	(d)	153,308,546	(55,291)	-	-	153,253,255
Contributed surplus	(d)	28,000,121	(395,144)	-	-	27,604,977
Accumulated deficit		(48,879,298)	(42,426,002)	(3,945,237)	-	(95,250,537)
		132,429,369	(42,876,437)	$ (3,945,237)	-	85,607,695
		$ 168,347,490	$ (44,236,034)	$ (5,389,668)	$ -	$ 118,721,788

Consolidated Reconciliations from Canadian GAAP to IFRS
Statements of Comprehensive Loss

		Year ended December 31, 2010				
	Notes	CGAAP	Effect of Transition to IFRS	Accounting Changes (e)	Reclassification (f)	IFRS
Revenue		$ 22,966,206	$ -	$ -	$ -	$ 22,966,206
Cost of goods sold						
Cash cost		38,324,959	-	-	-	38,324,959
Non-cash cost		3,568,633	-	2,120,691	-	5,689,324
		(18,927,386)	-	(2,120,691)	-	(21,048,077)
Temporary shutdown costs		(9,101,782)	-	(3,268,977)	-	(12,370,759)
Loss from mine operations		(28,029,168)	-	(5,389,668)	-	(33,418,836)
Accretion	(a)	(79,303)	(8,258)	-	87,561	-
Amortization		(603)	-	-	603	-
Finance costs		-	-	-	(1,082,698)	(1,082,698)
Gain (loss) on derivative instrument	(d)	(323,806)	232,056	-	-	(91,750)
General and administration		(501,391)	-	-	(202,764)	(704,155)
Impairment charges of long live assets	(c)	-	(44,053,661)	-	-	(44,053,661)
Interest expenses and bank charges	(d)	(894,234)	(213,789)	-	1,108,023	-
Interest income		9,253	-	-	(9,253)	-
Legal and professional fees		-	-	-	(492,922)	(492,922)
Loss on disposal of property, plant and equipment		(445,000)	-	-		(445,000)
Other expenses		(151,771)	-	-	-	(151,771)
Professional, consulting and management fees	(b)	(6,308,059)	(49,113)	-	6,357,172	-
Salaries, consulting and management fees		-	-	-	(5,864,250)	(5,864,250)
Shareholder communications and investor relations		(341,379)	-	-	-	(341,379)
Travel		(98,528)	-	-	98,528	-
Loss before income taxes		(37,163,989)	(44,092,765)	(5,389,668)	-	(86,646,422)
Income tax recovery	(c),(e)	2,938,119	1,617,650	1,444,431	-	6,000,200
Net loss and Comprehensive loss for the year		(34,225,870)	(42,475,115)	(3,945,237)	-	(80,646,222)

Consolidated Reconciliations from Canadian GAAP to IFRS
Statements of Changes in Equity

	Notes	December 31, 2010	January 1, 2010
Total equity - CGAAP		$ 132,429,369	$ 150,000,000
Transitional adjustments			
Share Capital	(d)	(55,291)	-
Contributed surplus	(b), (d)	(395,144)	(49,113)
Accumulated deficit		(46,371,239)	49,113
Total equity - IFRS		$ 85,607,695	$ 150,000,000

(a) Site closure and reclamation provisions

Significant changes from the CGAAP method of accounting for site closure and reclamation provisions in comparison to IAS 37 include the periodic re-assessment of discount rates and inflation rates in the measurement of decommissioning and site restoration. In addition, the layer approach under CGAAP is no longer applied. The effect of these changes on the transition date is a reduction of $182,373 to both of the site closure and reclamation provisions and the value of mineral property, plant and equipment. The increase in accretion expense recorded based on the restated mineral property associated with the adjustments to the site closure and reclamation provisions was $8,258 for the year ended December 31, 2010.

(b) Stock based compensation

In accordance with IFRS 2, the Company now recognizes a forfeiture rate in its initial recognition of the stock option grant. Applied retroactively the effect of this change reduced the amount of contributed surplus by $49,113 as at the date of transition. The impact of this change resulted in an increase of $49,113 on comprehensive loss for the year ended December 31, 2010.

(c) Impairment of mineral properties, plant and equipment

Under Canadian GAAP, impairment of a non-current asset is initially assessed on an undiscounted cash flow basis. If the carrying value exceeds the aggregate undiscounted cash flows, an impairment loss is measured as the amount by which the carrying value exceeds fair value. Under IFRS, impairment testing and loss recognition is based on discounted cash flows. Impairment losses are recognized when the carrying value exceeds the recoverable amount.

The Company elected, under IFRS 1, to use the written-down carrying amount ("Fair Value") of the Company's Bucko Lake Mine, which including the acquisition costs and development costs of Bucko Lake Mine and plant and equipment used at Bucko Lake Mine as measured under Canadian GAAP at December 31, 2009 as the deemed cost of Bucko Lake Mine on January 1, 2010. During the year ended December 31, 2010, the Company temporarily suspended the operation at Bucko Lake Mine in order to facilitate the introduction of its own mining equipment and mining crew and make adjustments to address certain operation issues. Accordingly, the Company performed an impairment assessment as at December 31, 2010 in accordance with IFRS and as a result an impairment charge of $44,053,661 was recognized for the year ended December 31, 2010. The impairment charge was determined by discounting estimated future cash flows using a discount rate of 10%. The tax effect of this impairment was a creation of a tax asset of approximately $11.8 million, but only $1.6 million of the tax asset was recognized to bring the deferred tax liabilities to zero. An allowance for the remaining amount of $10.2 million was recorded, thus the deferred tax asset on the consolidated statement of financial position is $nil.

(d) Convertible Debenture

Under IFRS, the conversion feature of convertible financial instrument is presumed to be classified as financial liabilities unless it meets all the criteria to recognize as equity instrument under IAS 32, and the conversion feature must be separately accounted for at fair value on initial recognition. The carrying amount of the debt component, on initial recognition, is recalculated as the difference between the proceeds of the convertible debentures as a whole and the fair value of the conversion feature. Transaction costs are allocated to the debt and derivative components in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to the derivative component are expensed, while cost allocated to the debt component are offset against the carrying amount of the liability and included in the determination of the effective interest rate. Subsequent to initial recognition, the derivative component is re-measured at fair value at the end of each reporting period while the debt component is accreted to the face value of the debt using the effective interest method.

In 2010, the Company issued three convertible debenture notes, which had conversion features to allow the holder of the debentures to convert the debentures into common shares of the Company based on five-business-day-volume-weighted-average price prior to the election of conversion less 25% discount. Given the conversion price is not fixed on the inception date and the number of shares the Company may deliver vary depending on the trading prices around the date of conversion, the conversion feature does not meet the criteria to be recognized as equity instrument, and accordingly, the Company recorded adjustments to

i) Reclassify the conversion feature of the notes from equity to derivative liabilities;
ii) Re-measure the proceeds allocated to the debt and derivative components on initial recognition;
iii) Expense the transaction costs allocated to the derivative component;
iv) Capitalize the transaction costs allocated to the debt component against the carrying amount of the liabilities; and,
v) Re-measure the derivative component at fair value at each reporting dates.

The impacts of the adjustments as at December 31, 2010 were to increase derivative liabilities by $582,873, decrease convertible debentures by $150,705, decrease share capital by $55,291, decrease contributed surplus by $395,144, increase interest expense by $213,789 and decrease loss on derivative instruments by $232,056.

(e) Accounting Changes

Upon conversion to IFRS, the Company reviewed the amortization method of the mineral property, plant and equipment in accordance with IAS 16 and decided to change the amortization method of the plant and equipment used at the Bucko Lake Mine to straight line method from unit of production method effective January 1, 2010. The change was accounted for as a change in estimate and applied prospectively in accordance with IAS 8. The impact of this change in amortization method was that additional $5,389,668 amortization expenses were recorded for the year ended December 31, 2010. The tax effect of this adjustment was that tax recoveries of $1,444,431 were recorded for the year ended December 31, 2010.

(f) Reclassification

Certain accounts and figures presented under CGAAP have been regrouped and reclassified to conform to the current presentation under IFRS.

NEW ACCOUNTING PRONOUNCEMENTS

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Consolidation

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements*, which supersedes SIC 12 - *Consolidation - Special Purpose Entities* and the requirements relating to consolidated financial statements in IAS 27 - *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its

power over the investee.

In addition, the IASB issued IFRS 12 - *Disclosure of Interests in Other Entities* which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 - *Investments in Associates* were revised and reissued as IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* to align with the new consolidation guidance.

The Company does not anticipate the application of IFRS 10 to have a material impact on its consolidated financial statements.

Joint ventures

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements*, which supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

The Company does not anticipate the application of IFRS 11 to have a material impact on its consolidated financial statements.

Fair value measurement

In May 2011, as a result of the convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 - *Fair Value Measurement* ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

The Company does not anticipate the application of IFRS 13 to have a material impact on its consolidated financial statements.

Financial statement presentation

In June 2011, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to

IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

Financial instruments

The IASB intends to replace IAS 39 - *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9 - *Financial Instruments* in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013 to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9.

The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

RISK MANAGEMENT

The Company manages its exposure to financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and price risk, in accordance with its Risk Management Policy. The Company's Board of Directors oversees management's risk management practices by setting trading parameters and reporting requirements. The Risk Management Policy provides a framework for the Company to manage the risks it is exposed to in various markets and to protect itself against adverse price movements. All transactions undertaken are to support the Company's ongoing business. The Company does not acquire or issue derivative financial instruments for trading or speculative purposes.

The following describes the types of risks that the Company is exposed to and its objectives and policies for managing those risk exposures.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations, and arises principally from the Company's trade receivables. The carrying value of financial assets represents the maximum credit exposure.

The Company has an off-take agreement with Xstrata over the mine life of the Company's Bucko Lake Mine to sell all concentrates produced from Bucko Lake Mine to Xstrata, who currently is the sole customer of the Company. Management believes that the credit risk with respect to these financial instruments included in accounts receivable is remote.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2011, the Company has limited funds to meet its short term financial liabilities, and the working capital was in a deficit position of $26.3 million. Accordingly, additional financing is required to maintain the Company to continue as a going concern. The Company's contractual obligations as at December 31, 2011 are summarized as follows:

	Payment Due by Period				
Contractual Obligations	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Loans payable	$ 24,307,374	$ -	$ -	$ -	$ 24,307,374
Finance lease obligations	1,353,061	1,727,651	-	-	3,080,712
Exploration option obligations	1,500,000	1,500,000	-	-	3,000,000
Site closure and reclamation obligations	-	-	-	2,753,608	2,753,608
Accounts payable and accrued liabilities	8,963,455	-	-	-	8,963,455
Total Contractual Obligations	**$ 36,123,890**	**$ 3,227,651**	**$ -**	**$ 2,753,608**	**$ 42,105,149**

c) Interest rate risk

The Company has cash and cash equivalent subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposit issued by financial institutions. As at December 31, 2011, the Company had $24.3 million loans payable bearing fixed coupon rates of 10% to 12% per annum, therefore change of interest rate has no effect on the Company's comprehensive loss. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the debt facility interest rates and balance advanced under the facilities. Currently, the Company does not hedge against interest rate risk.

d) 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 and financing activities being denominated in US dollars. As at December 31, 2011, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	As at December 31, 2011
Financial assets denominated in US dollars	
Cash and cash equivalent	$ 59,388
Accounts receivables	3,040,075
	3,099,463
Financial liabilities denominated in US dollars	
Loans payable	(24,307,374)
	$ (21,207,911)

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2011, every 1% strengthening in Canadian dollars would decrease net loss by $212,079. The Company currently has not entered into any agreement to hedge the foreign exchange risk.

e) 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.

As at December 31, 2011, the Company did not have any forward sales contracts or call options outstanding to manage the Company's commodity price risk.

f) Environmental risk

The operations of the Company are subject to various reclamation-related conditions imposed under federal or provincial rules and permits. The Company believes that the primary environmental management issues, related with the Bucko Mine are associated with the treatment and disposal of mill tailings and related effluent. The Company has a progressive environmental management plan for the prevention of adverse environmental impacts during the life of the mine, including further exploration, mining and milling operation and closure.

Challenges with the federal permitting process to allow disposal of tailings in Bucko Lake and the unlikelihood that Environment Canada will recommend authorization caused the Company to consider alternative solution for tailings disposal. A Notice of Alteration (NOA) to its original Environmental Act Licence Proposal in December 2007 to include the provision for an interim (land-based) tailings storage facility (ITSF) was submitted and approved. The Company has received its Environment Act License from the Province of Manitoba to permit the Company to commence production at the Bucko Lake Nickel Mine in Manitoba. In September 2011, the Company was granted by the Manitoba government a revised Environment Act License (the "Licence") to construct and operate a land based tailing management area (the "TMA") at its Bucko Lake Mine, Wabowden, Manitoba. The TMA is an expansion of the existing ITSF and has a footprint of approximately 68.5 hectares to store all tailing from Bucko Lake Mine for the remainder of its existing mine life. Environmental studies indicated that the TMA would have a net benefit in relation to environmental impact, eliminating the need for sub-aqueous deposition of the tailing into Bucko Lake Mine. The construction of the TMA will be carried in two phases and the phase I construction was completed in March 2012.

RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Related party transactions not disclosed elsewhere include the following:

(a) Transactions with King Place and Hebei Wenfeng

King Place Enterprises Ltd. ("King Place") is currently one of the major shareholders of the Company, and Hebei Wenfeng Industrial Group Limited ("Hebei Wenfeng") is affiliated party of King Place. During 2010, the Company completed three convertible debt financing with King Place in the aggregated amount of $23.1 million which carrying a coupon rate of 10% and entitled King Place to convert any amounts owing including accrued interest into common shares of the Company at a price equal to five-day volume weighted average price at the time of conversion less the maximum discount allowed under the regulation of Toronto Stock Exchange (the "TSX"). However, King Place may not convert any portion of the amounts outstanding hereunder in excess of the amount that would result in the obligation to issue an aggregate number of shares exceeding 58,356,471 common shares

without prior approval of disinterested shareholders and TSX.

During the quarter ended March 31, 2011, the Company repaid $10.0 million convertible debentures. In April 2011, the Company received approvals from disinterested shareholders of the Company as well as from TSX and issued 258,819,703 common shares to King Place to retire the remaining convertible debentures and accrued interest with a total amount of $11.4 million at conversion price of $0.0437 per share, which was the price equal to 75% of the volume weighted average price of the Company shares on five trading days (from March 15 to March 21, 2011) pursuant to the terms of the convertible debentures notes. As at December 31, 2011, the outstanding balance of the convertible debentures was $nil (December 31, 2010 - $20.6 million).

In May 2011, the Company arranged one year term debt facility of up to US$5.0 million (the "Loan") with Hebei Wenfeng. The Loan may be drawn down in the option of the Company and bears interest rate at 10% per annum. The Company will also pay 2% of any funds drawn down under the Loan as structuring fee to Hebei Wenfeng. As at December 31, 2011, the outstanding balance being drawn down from the Loan was US$5.0 million (December 31, 2010 - $nil).

(b) Transactions with Dumas

Dumas Contracting Ltd. ("Dumas"), was a related party of the Company as Dumas is a subsidiary of Pala Investments Holdings Limited ("Pala"), who was a major shareholder and had two representatives on the Board of Directors of the Company. In June 2010, Pala disposed all its interest in the Company to King Place and Dumas ceased to be a related party of the Company. During the period from January 2010 to June 2010, the Company paid $8.7 million to Dumas for its mining contracting work provided to the Company. During the year ended December 31, 2010, the Company had transactions with Dumas amounted to $21.0 million. In December 2010, Dumas commenced legal action against the Company for the amount outstanding and in question, and on March 16, 2011, the Company reached a settlement agreement with Dumas to settle the claims from Dumas and the legal action and the lien were discharged during the period ended March 31, 2011. No other transaction with Dumas was conducted during the year ended December 31, 2011. Included in accounts payable as at December 31, 2011 is $nil (December 31, 2010 - $5,250,000; January 1, 2010 - $2,541,828) owed to Dumas.

(c) Transactions with LJ Resources Limited

LJ Resources Limited ("LJ"), a private entity associated to a director of the Company, provides office space, office equipment, and administration services to the Company for a fee of $15,000 per month. During the year ended December 31, 2011, the Company paid $180,000 (2010 - $15,000) to LJ Resources Limited for their services provided. Included in accounts payable as at December 31, 2011 is $33,600 (December 31, 2010 - $nil; January 1, 2010 - $nil) owed to LJ. The balance with LJ is unsecured, interest-free and repayable on demand.

(d) Transactions with key management

The Company has indentified its directors and certain senior officers as its key management personnel. The Compensation cost for key management personnel is as follows:

		2011		2010
Salaries and fees	**$**	**643,006**	$	4,491,839
Stock based compensation		**531,691**		716,662
	$	**1,174,697**	$	5,208,501

CONTINGENCIES

a) Met-Chem Canada Inc. ("Met-Chem") has made a claim against the Company for amount of $260,000, plus interest at the Royal Bank of Canada Prime Rate + 2% from March 2009 to date of payment. Subsequent to the year end, the Company reached an agreement to settle Met-Chem's claim by making instalments in the aggregate amount of $57,691 to Met-Chem. As a result, a total of $199,679 gain on settlement of accounts payable was recorded on the consolidated statements of comprehensive loss for year ended December 31, 2011.

b) During the year ended December 31, 2011, the Company commenced a legal action against Total Equipment Services ("Total Equipment") and Total Electric System Inc for their breach of contract and claimed a refund of $0.3 million prepayment and a loss of damage of $1.2 million. Total Equipment made a counterclaim in the amount of $0.4 million. The outcome and ultimate value of settlement are not determinable as at December 31, 2011.

OUTSTANDING SHARE DATA

As at the date of this report, a total of 1,500,826,712 common shares of the Company were issued and outstanding. Of the options to purchase common shares issued to directors, officers, employees, and consultants of the Company under the share option plan, 49,755,000 remain outstanding with exercise prices ranging from $0.065 to $0.94, with expiry dates ranging between June 28, 2012 and September 13, 2016.

As at the date of this report, a total of 300,000,000 share purchase warrants were outstanding with an exercise price of $0.10 expiring March 4, 2013.

OFF BALANCE SHEET ITEMS

There are no off balance sheet items.

PROPOSED TRANSACTIONS

There are no proposed assets or business acquisition or disposition.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management's Report on Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of Chief Executive Officer and Chief Financial Officer, the Company's internal control over financial

reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that the Company's receipts and expenditures are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

The Company's management team, including the Chief Executive Officer and Chief Financial Officer, reviewed and evaluated the internal control procedures in place and determined that the financial reporting changes that resulted from the application of IFRS accounting policies which were implemented during the year ended December 31, 2011 have not materially affected, or are not reasonably likely to materially affect, the Company's internal control over financial reporting, and the internal control over financial reporting was effective as at December 31, 2011 to provide a reasonable assurance of the reliability of our financial reporting and preparation of the financial statements.

Limitations of Controls and Procedures

The Company's management, including Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for statements of historical fact relating to CaNickel, certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to the commissioning of the paste backfill plant; the completion of the first phase tailing facility; production rate and positive cash flow from operations at Bucko Lake Mine in 2012; the future price of nickel and other minerals; the activation of the committed equity line; foreign exchange rates; 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 CaNickel to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of nickel and other minerals; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.