CaNickel Mining Limited

FINANCIAL STATEMENTS

December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
CaNickel Mining Limited

We have audited the accompanying financial statements of **CaNickel Mining Limited**, which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of **CaNickel Mining Limited** as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3 in the financial statements which indicates that the Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $226.4 million as of December 31, 2012, and, as of that date, the Company's current liabilities exceeded its current assets by $7,859,490. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Ernst & Young LLP

Vancouver, Canada,
March 25, 2013.

Chartered Accountants

Statements of Comprehensive Loss

(Expressed in Canadian Dollars, except share data)

	Notes		Year ended December 31, 2012		2011
Revenue	4(n)	$	**9,615,211**	$	9,443,501
Cost of goods sold	4(n)&17		**(14,135,836)**		(21,900,628)
			(4,520,625)		(12,457,127)
Care and maintenance costs	18		**(4,642,241)**		(8,462,759)
Loss from mine operations			**(9,162,866)**		(20,919,886)
Finance costs	19		**(2,727,790)**		(2,842,543)
General and administration			**(594,605)**		(689,961)
Impairment of mineral property, plant and equipment	8		**(20,732,839)**		(72,143,079)
Legal and professional fees			**(181,636)**		(245,709)
(Loss) gain on disposal of mineral property, plant & equipment	8		**514,378**		(112,289)
Net gain on derivative instruments			**49,668**		275,377
Other income and expenses			**171,255**		305,599
Salaries, consulting and management fees	15(b)		**(225,015)**		(1,508,680)
Shareholder communications and investor relations			**(177,991)**		(155,984)
Net loss and Comprehensive loss for the period			**(33,067,441)**		(98,037,155)
Loss per share - basic & diluted		**$**	**(0.88)**	$	(2.94)
Weighted average number of shares - basic & diluted			**37,520,369**		33,323,845

The accompanying notes form an integral part of these financial statements

Statements of Financial Position

(Expressed in Canadian Dollars)

	Notes		**December 31, 2012**		December 31, 2011
ASSETS					
Current					
Cash and cash equivalents	5	**$**	**251,797**	$	1,376,942
Receivables and prepaid expenses	6		**104,109**		3,538,057
Inventory	7		**1,005,622**		3,418,428
			1,361,528		8,333,427
Non-Current					
Mineral property, plant and equipment	8		**37,618,480**		56,281,967
Other non-current assets	9		**543,165**		985,523
		$	**39,523,173**	$	65,600,917
LIABILITIES					
Current					
Accounts payable and accrued liabilities	10	**$**	**8,055,896**	$	8,963,455
Loans payable	11 & 15		**-**		24,307,374
Current portion of obligations under capital leases	12		**1,165,122**		1,353,061
			9,221,018		34,623,890
Non-Current					
Loans payable	11 & 15		**34,241,621**		-
Obligations under capital leases	12		**547,989**		1,727,651
Site closure and reclamation provisions	13		**2,041,736**		2,272,249
			46,052,364		38,623,790
SHAREHOLDERS' EQUITY					
Share capital	14		**186,952,654**		186,952,654
Contributed surplus			**32,873,288**		33,312,165
Accumulated deficit			**(226,355,133)**		(193,287,692)
			(6,529,191)		26,977,127
		$	**39,523,173**	$	65,600,917

Contingencies and Legal Matters (Note 22)

Subsequent Events (Note 8(a), 12, 14(c))

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Raymond Lai", Director

"Wenfeng Liu", Director

The accompanying notes form an integral part of these financial statements

Statements of Changes in Equity

(Expressed in Canadian Dollars, except share data)

	Common Shares								
	Number of shares issued		**Amount**		**Contributed Surplus**		**Accumulated Deficit**		**Total Equity**
As at January 1, 2012	**37,520,369**	**$**	**186,952,654**	**$**	**33,312,165**	**$**	**(193,287,692)**	**$**	**26,977,127**
Share based compensation - options	**-**		**-**		**(438,877)**		**-**		**(438,877)**
Loss for the period	**-**		**-**		**-**		**(33,067,441)**		**(33,067,441)**
As at December 31, 2012	**37,520,369**	**$**	**186,952,654**	**$**	**32,873,288**	**$**	**(226,355,133)**	**$**	**(6,529,191)**

	Common Shares								
	Number of shares issued		Amount		Contributed Surplus		Accumulated Deficit		Total Equity
As at January 1, 2011	16,049,408		153,253,255		27,604,977		(95,250,537)		85,607,695
Private placement	15,000,000		30,000,000		-		-		30,000,000
Share issue costs	-		(2,552,665)		(571,205)		-		(3,123,870)
Conversion of convertible debentures	6,470,493		11,736,026		-		-		11,736,026
Share based compensation - shares	469		1,593		-		-		1,593
Share based compensation - options	-		-		792,838		-		792,838
Fair value of warrants issued	-		(5,485,555)		5,485,555		-		-
Loss for the period	-		-		-		(98,037,155)		(98,037,155)
As at December 31, 2011	37,520,369	$	186,952,654	$	33,312,165	$	(193,287,692)	$	26,977,127

The accompanying notes form an integral part of these unaudited condensed interim financial statements.

Statements of Cash Flow

(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2012	2011
OPERATING ACTIVITIES:			
Net loss for the period		**$(33,067,441)**	$ (98,037,155)
Items not affecting cash:			
Accretion of site closure and reclamation provisions	13	**44,083**	39,077
Depreciation, depletion and amortization		**3,356,557**	6,020,398
Gain on derivative instruments		**(49,668)**	(275,377)
Stock-based compensation expense		**(438,877)**	777,682
Unrealized foreign exchange (gain) loss		**(625,307)**	857,749
Interest accretion & expenses		**3,149,477**	(35,874)
Impairment on mineral properties, plant and equipment	8	**20,732,839**	72,143,079
Gain/Loss on disposal of assets	8	**(514,378)**	112,289
Settlement of accounts payable		**-**	(199,679)
Settlement of derivative instrument		**-**	(350,916)
Net change in non-cash working capital	23	**3,150,231**	(5,344,085)
		(4,262,484)	(24,292,812)
FINANCING ACTIVITIES:			
Private placement			
Common shares issued		**-**	30,000,000
Issue costs		**-**	(3,123,870)
Proceeds from debt financing	11	**7,045,800**	22,548,600
Advance from related parties	11	**4,791,310**	-
Repayment of convertible debentures financing		**-**	(10,000,000)
Payment and discharge of capital leases	12	**(1,367,602)**	(1,064,009)
		10,469,508	38,360,721
INVESTING ACTIVITIES:			
Payment to acquire mineral properties, plant and equipment	8	**(8,931,267)**	(16,701,486)
Payment to restricted cash		**-**	(57,500)
Proceeds from disposal of mineral properties, plant, and equipment	8	**1,497,680**	-
Proceeds from disposal of derivative instruments		**49,668**	-
Proceeds released from restricted cash		**51,750**	-
		(7,332,169)	(16,758,986)
CHANGE IN CASH AND CASH EQUIVALENTS		**(1,125,145)**	(2,691,077)
CASH AND CASH EQUIVALENTS, beginning of period		**1,376,942**	4,068,019
CASH AND CASH EQUIVALENTS, end of period		**$ 251,797**	$ 1,376,942
SUPPLEMENTAL INFORMATION			
Interest paid		$ 219,213	$ -
Income taxes paid		-	-

The accompanying notes form an integral part of these financial statements

1. CORPORATE INFORMATION

CaNickel Mining Limited ("CaNickel" or "the Company") 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 in June, 2011. The common shares of the Company are traded on the Toronto Stock Exchange under symbol of "CML" and on the Frankfurt Stock Exchange under the symbol of "CMIC". In September 2012, the Company consolidated its share on the basis of one post-consolidation share for forty (40) pre-consolidation shares, and therefore all shares and per share data contained herein have been retroactively restated.

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.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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").

b) 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

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

In particular, the Company has identified the following areas where significant judgement, estimates and assumptions are required. Changes in these assumptions may materially affect the financial position or financial results reported in future periods. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements

a) 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 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.

The Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $226.4 million as at December 31, 2012, and the mining operations at the Company's Bucko Lake Mine have not yet achieved its design capacity and experienced a cycle of start-up and suspension, and then restart-up and suspension in recent years. In July 2012, as a result of unfavourable nickel prices, the Company decided to put Bucko Lake Mine on care and maintenance. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

As at December 31, 2012, the Company only has $251,797 cash and cash equivalent on hand but a negative working capital of approximately $7.9 million. The Company will need to raise additional capital in order to fund its exploration expenditures and the care and maintenance program. In the event that Company is not able 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.

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng Industrial Company Limited, the largest shareholder of the Company, and funds from disposal of some pieces of mining equipment.

In the meantime, the Company is also evaluating if the Company will continue to file a short form prospectus to activate the Committed Equity Facility (“CEF”), which the Company entered into with Haverstock Master Fund Ltd. ("Haverstock") in September 2011. The CEF 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, up to a total of $20 million and subject to certain regulatory limitation. 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.

b) Mineral reserve and resource estimates

Mineral reserves are estimates of the amount of minerals that can be economically and legally extracted from the Company’s mining property. The Company’s mineral reserve and resources were estimated by independent and qualified professionals using standards and assumptions in compliance with the requirements of National Instrument 43-101. The assessment involves geological and geophysical studies and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body.

As the economic assumptions used may change and as additional geological information is produced during the operation of a mine, estimates of reserves may change. Such changes may impact the Company's reported financial position and results which include:

- The carrying value of mineral property, plant, and equipment may be affected due to change in estimated future cash flows

- Depreciation, depletion, and amortization charges in profit or loss may change where such charges are determined using the unit of production method, or where the useful life of the related assets change

- Site closure and reclamation provisions may change where changes to the reserve estimates affect expectation about when such activities will occur and the associated cost of these activities

c) Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. The determination of mineral resources in compliance with the requirements of National Instrument 43-101 is itself an estimation process that involves varying degree of uncertainty depending on how the resources are classified (i.e. measured, indicated or inferred). The estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

d) Depreciation, depletion, and amortization

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 while estimated economically recoverable reserves are used in determining the depreciation of mineral property. This results in a depreciation/amortization charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and present assessment of economically recoverable reserves of the mine property at which the assets is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Changes in estimates are accounted for prospectively.

e) Site closure and reclamation provisions

The Company assesses its site closure and reclamation provisions at each reporting date. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent, cost, and timing of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rate (1.5% (2011 – 1.6%)), and change in discount rates (1.8% (2011 – 1.8%)). These uncertainties may result in future expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future reclamation costs required.

f) Impairment of assets

The Company assesses each asset or cash generating unit ("CGU") each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends, and related factors), discount rates, operating costs, future capital requirement, closure and rehabilitation costs, exploration potential, and reserves (see Note 3(b)). Therefore, there is possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money, and the risks specific to the asset/CGU. When discounted cash flow technique is not practical, recoverable value of each piece of property, plant and equipment is used for the recoverable estimate. Management has assessed its CGUs as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets/CGUs.

g) Share-based compensation

The fair value of stock options is estimated using the Black-Scholes option pricing model, which requires the Company to make certain assumptions and estimates regarding such items as the expected life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. The estimated fair value of stock option is amortized and expensed over the their vesting periods with adjustments to reflect the actual forfeiture rates at each reporting dates, and such adjustments are accounted for prospectively.

h) Recovery of deferred tax assets

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sale volumes, commodity prices, reserves, operating costs, closure and reclamation costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differs significantly form estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting data could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

i) Inventories

Net realizable value test is performed at each reporting date and represent the estimated future sales price of the product the entity expects to realize when the product is processed and sold, less estimated costs to complete

production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained nickel pounds is based on assay date, and the estimated recovery percentage is based on the expected processing method.

Stockpile tonnages are verified by periodic surveys.

j) Fair value hierarchy

If the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, then fair value is determined using valuation techniques such as discounted cash flow methods. The inputs to these models are taken from observable markets where possible, but if this is not feasible, a degree of judgement is required in establishing fair value. The judgements include factors which could affect the reported fair value of financial instruments.

k) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction, and then translated into Canadian dollars at the rates of exchange prevailing at the reporting date. All differences are taken to profit or loss on the statement of comprehensive income. 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.

(b) 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.

Revenues from the sale of nickel concentrates 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 as part of revenue 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.

(c) 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.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of cash at banks and on hand and short term deposits with an original maturity of three months or less, but excludes any restricted cash that is not available for use by the Company and therefore is not considered highly liquid. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalent as defined above, net of outstanding bank overdraft, if any.

(e) 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. When the time value is material, these future prices and costs to complete are discounted. The cost of inventories is determined using the average cost method.

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. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

(f) Mineral properties, plant and equipment

Mineral properties, plant and equipment are recorded at cost less accumulated depreciation, depletion and amortization, and accumulated net 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 tested for impairment and transferred to and classified as mineral property acquisition and development costs. No amortization is charged during the exploration and evaluation phase.

When a farm-out arrangement is entered for a specific mineral project at the exploration and evaluation stage, the Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

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 as follows:

Building	20 year

Equipment: 3 to 10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arsing on derecognition of the asset is included in profit or loss when the asset is derecognized.

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

The residual value, useful lives, and methods of depreciation/amortization of property, plant and equipment are reviewed at each reporting period, and adjusted prospectively if appropriate.

(g) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell ("FVLCS") and its value in use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from the other assets or groups of assets, in which case, the asset is tested as part of a larger CGU. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

In calculating the VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset/CGU. In determining FVLCS, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used, which would generally be determined based on the present value of the estimated future cash flows arising from the continued use and eventual disposal of the asset. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or the other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecasts that are prepared separately for each of CGUs to which the individual assets are allocated, based on the life-of-mine plans. The estimated cash flows are based on expected future production, metal selling prices, operating costs, and forecast capital expenditure, and cash flows beyond five years are based on life-of-mine plans.

VIU does not reflect future cash flows associated with improving or enhancing an asset's performance, whereas anticipated enhancements to assets are included in FMVLS calculation.

Impairment losses of continuing operations, including impairment of inventories, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued when revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed on if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset/CGU does

not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset/CGU in prior years. Such a reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase and is recognized through other comprehensive income.

(h) 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. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects where appropriate, the risk specific to the liability. 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 profit and loss.

Site closure and reclamation provisions

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining and other operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailing dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operations location. When the liability is initially recognized, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are expensed when the inventory item is recognized in cost of goods sold. Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects the current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in profit or loss as part of finance costs. Additional disturbances or changes in reclamation costs are recognized as additions or charges to the corresponding assets and reclamation liability when they occur. Costs related to restoration of site damage (subsequent to start of

commercial production) that is created on an ongoing basis during production are provided for at their present value and recognized in profit or loss as extraction progresses.

Change to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the reclamation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment.

Any reduction in the reclamation liability and therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the reclamation liability and therefore, an addition to the carrying value of the asset, the Company considers whether this is an indication of impairment of the asset as a whole, and if so, test for impairment in accordance with IAS36. If, the estimate for the revised mine assets net of reclamation provisions exceeds the recoverable value, the portion of the increase is charged directly to expense.

(i) Income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where applicable.

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss)

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Such deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction to goodwill or mineral rights (as long as it does not exceed goodwill or mineral rights) if it occurred during the measurement period or recognized in profit or loss.

(j) Financial instruments

i) Financial assets

<u>Initial recognition and measurement</u>

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs.

Purchases or sales of financial assets that require delivery of assets in a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company’s financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, described below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance revenue (positive net changes in fair value) in the statement of comprehensive income.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial assets upon initial recognition as fair value through profit or loss.

The Company evaluates its financial assets as held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify them. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at Amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognized in profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Derecognition

A financial asset (or, when applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
  Or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ”pass-through” arrangement; and either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a Company of financial assets is impaired. A financial asset or a Company of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a Company of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at Amortized cost

For financial assets carried at Amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the

rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance revenue in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognized in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial recognition date and only if the conditions in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortisation process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

Derecognition

A financial liability is derecognized when the associated obligation is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's-length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

v) Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Company expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

vi) Cash and short-term deposits

Cash and cash equivalents are comprised of cash at banks and on hand and short term deposits with an original maturity of three months or less, but excludes any restricted cash that is not available for use by the Company and therefore is not considered highly liquid. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalent as defined above, net of outstanding bank overdraft, if any.

vii) Normal purchase or sale exemption

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the Company's expected purchase, sale or usage requirements fall in the exemption from IAS 32 and IAS 39, which is known as the "normal purchase or sale exemption".

(k) 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 imputed interest.

(l) 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.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short-term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the "probable economic benefits" test and also are rarely debt funded. Any related borrowing costs incurred during this phase are therefore generally recognised in profit or loss in the period they are incurred.

(n) Comparable figures and account reclassification

In September 2012, the Company consolidated its common share on the basis of one (1) post-consolidated common share for forty (40) pre-consolidated common shares. References to common shares, per share data, and other securities, including stock options and warrants, have been retroactively restated.

During the year ended December 31, 2012, the Company reclassified smelter charges and by-product credit from costs of goods sold to net of revenue. Such reclassification has no impact on the loss from mine operation and net

loss and comprehensive loss for the period affected, but resulted in decreases in both revenue and costs of goods sold of $1,870,217 (2011 - $2,025,436).

(o) Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective listed below, are those that the Company reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the presentation of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Company's financial position or performance.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and will therefore be applied in the Company's first annual report after becoming effective.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12 (refer below), what remains in IAS 27 is limited to accounting for subsidiaries, joint arrangements and associates in separate financial statements. The Company does not present separate financial statements.

The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment will have no impact on the Company.

The revised standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurement of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 10, IFRS 11 and IFRS 12.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues covered in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the investments currently held by the Company.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Company is currently assessing the impact that this standard will have on the financial position and performance.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 relating to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required, but will have no impact on the Company's financial position or performance.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and require disclosures about fair value measurement. The Standard defines fair value on the basis of exit price notion and use a fair value hierarchy, which results in a market-based, rather than entity-specific measurement. A number of new disclosures are also required, but will have no impact on the Company's financial position or performance.

This standard is effective for annual periods beginning on or after 1 January 2013

Annual Improvements May 2012

These improvements include:

IAS 1 Presentation of Financial Statements: clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
IAS 16, Property Plant and Equipment: clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32, Financial Instruments: Presentation: clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

The improvements are effective for annual periods beginning on or after 1 January 2013.

The Company expects no impact on its financial position, performance, disclosures or stated accounting policies from the adoption of these amendments.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

		December 31, 2012		December 31, 2011
Cash	**$**	**251,797**	$	1,319,442
Short-term deposits		**-**		57,500
	$	**251,797**	$	1,376,942

6. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised the following:

		December 31, 2012		December 31, 2011
Trade receivable	**$**	**38,981**	$	3,040,075
Taxes receivable		**43,989**		218,744
Prepaid expenses		**21,139**		279,238
	$	**104,109**	$	3,538,057

7. INVENTORY

Inventory comprised the following:

		December 31, 2012		December 31, 2011
Materials and supplies	**$**	**1,005,622**	$	1,824,673
Ore stockpile		**-**		365,568
Nickel concentrate		**-**		283,343
Nickel concentrate in transit		**-**		944,844
	$	**1,005,622**	$	3,418,428

8. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Cost		Exploration and evaluation expenditure		Mineral property acquisition and development		Plant, building and equipment		Equipment under capital lease		Total
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
Additions		2,087,319		2,464,006		1,857,886		-		6,409,211
Disposal				-		(921,238)		(192,315)		(1,113,553)
As at December 31, 2012	**$**	**19,728,329**	**$**	**97,079,199**	**$**	**70,812,160**	**$**	**7,321,988**	**$**	**194,941,676**

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, 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
Depreciation, depletion and amortization		-		488,795		2,550,656		317,106		3,356,557
Disposal		-		-		(99,801)		(30,450)		(130,251)
Impairment / Write-down		-		24,484,237		(329,521)		(3,421,877)		20,732,839
As at December 31, 2012	**$**	**1,160,482**	**$**	**97,079,199**	**$**	**57,265,784**	**$**	**1,817,731**	**$**	**157,323,196**

Net book value		Exploration and evaluation expenditure		Mineral property acquisition and development		Plant, building and equipment		Equipment under capital lease		Total
As at December 31, 2011	$	16,480,528	$	22,509,026	$	14,731,062	$	2,561,351	$	56,281,967
As at December 31, 2012	**$**	**18,567,847**	**$**	**-**	**$**	**13,546,376**	**$**	**5,504,257**	**$**	**37,618,480**

(a) Exploration and evaluation expenditures

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.

During the year ended December 31, 2012, the Company completed a total of 7,157 meters of diamond drilling program at the M11A North Deposit of the TNB as well as an independent technical report which complied with the requirements of National Instrument 43-101 to upgrade the mineral resource estimates at the M11A North Deposit of the TNB.

Also, a diamond drilling program at Bowden Lake Deposits of the TNB was initiated during the year ended December 31, 2012 and a total of 3,078 meters drilling was completed as of January 31, 2013. The assay results of the drilling are pending.

Subsequent to December 31, 2012, a 7,800 meter drilling program at Bucko Lake North Deposits of TNB was planned and initiated.

AER Kidd Property

The Company wrote off the value of the AER Kidd property during the year ended December 31, 2008. During the year ended December 31, 2012, the Company farmed out the property by entering an option agreement with a third party (the "Optionee") to grant an option to the Optionee to earn in 50% interest in AER-Kidd Property, a nickel project located in Sudbury, Ontario, for cash consideration of $500,000 and incurring option expenditures of $5,000,000 over a four year period. The Optionee has a right to earn an additional 20% interest for payment of $250,000 and incurring additional $2,000,000 in option expenditures over a two year period after the earn in of the 50% interest. The $500,000 cash consideration received was recorded as a gain on the statement of comprehensive loss for the year ended December 31, 2012.

(b) Bucko Lake Mine

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

During the year ended December 31, 2012, the Company disposed of two pieces of equipment with a net book value of $983,302 for total proceeds of $997,680, and a gain of $14,378 was recorded for the year ended December 31,

2012. 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, and a loss of $112,289 was recorded in the consolidated statement of comprehensive loss.

As Bucko Lake Mine was placed on care and maintenance due to unfavourable nickel price and the timing when Bucko Lake Mine would resume operation is uncertain, the Company reassessed the recoverable value of Bucko Lake Mine as at December 31, 2012 and determined that its recoverable value was lower than its carrying value. Consequently, a total of $20,732,839 (2011 - $70,982,597) impairment charges to the assets used at Bucko Lake Mine was recorded for the year ended December 31, 2011. Fair market value less cost to sell, estimated recoverable value of each piece of property, plant and equipment, was used for the recoverable value estimates as value in use and discounted cash flow technique approaches were determined not appropriate due to the uncertainty of the timing to resume the mining operation at Bucko Lake Mine.
The Company's interest in the Bucko Lake mining lease is subject to a back-in right held by Xstrata. In the event that 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 mining lease outside of the Bucko resource block prior to the date of exercise of the back-in right. Accordingly, the potential benefit to the Company of any discovery of a significantly increased deposit will be limited to a 50% interest in the project.

9. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

		December 31, 2012		December 31, 2011
Deposit on mineral properties, plant and equipment	**$**	**-**	$	390,649
Restricted cash		**543,165**		594,874
	$	**543,165**	$	985,523

Restricted cash includes $5,750 (2011 - $57,500) as deposit for the Company's credit card and $537,415 (2011 - $537,374) reclamation deposit in accordance with statutory requirements for reclamation provisions to be incurred at the end of the mine life of the Company's Bucko Lake Mine. These funds are not available to finance the Company's day-to-day operations and therefore have been excluded from cash and cash equivalent for the purposes of the statement of cash flows and disclosed as non-current assets.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2012		December 31, 2011
Amounts due to non-related parties	**$**	**3,030,696**	$	8,929,855
Amounts due to related parties		**5,025,200**		33,600
	$	**8,055,896**	$	8,963,455

Amounts due to related parties are further disclosed on Note 11 and 15.

11. LOANS PAYABLE

		December 31, 2012		December 31, 2011
Loan facility with Hebei Wenfeng Industrial Company Limited	**$**	**5,753,510**	$	5,325,975
Loan facility with Luckyup Investment Limited		**28,488,111**		18,981,399
	$	**34,241,621**	$	24,307,374

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 Enterprises Limited. The Loan may be drawn down at the option of the Company and bears interest 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. In March 2012, the Company entered into an amended agreement with Hebei Wenfeng to extend the maturity date of the loan from one year term to three years term expiring May 28, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. As at December 31, 2012, the outstanding balance including interest accretion was $5,753,510.

During the year ended December 31, 2012, the Company proposed to increase the debt facility with Hebei Wenfeng from US$5,000,000 to US$15,000,000. The Company has obtained all regulatory approval, but has not yet reached a final agreement with Hebei Wenfeng. While pending the final agreement, Hebei Wenfeng advanced $4,890,800 to the Company as of December 31, 2012. The advance bears no interest and is due on demand and included as part of accounts payable and accrued liabilities on the statements of financial position.

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 Investment Limited ("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 of 12% per annum. Principal and interest are payable upon maturity. In March 2012, the Company entered into an amended agreement with Luckyup to extend the maturity date from one year term to three years term expiring July 22, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. As at December 31, 2012, the outstanding balance including interest accretion was $28,488,111.

During the year ended December 31, 2012, the Company incurred borrowing costs of $3,514,085 (2011 - $1,010,143) on loans payable, of which a total of $364,277 (2011- $189,021) was capitalized in the mineral property, plant and equipment. The capitalized amount represented approximately 10% (2011 – 19%) of total borrowing cost for the year ended December 31, 2012. As Bucko Lake Mine was placed on care and maintenance in July 2012 and subject to impairment charges, the Company stopped capitalizing the borrowing cost starting July 2012.

12. 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, 2012		December 31, 2011
Balance, beginning of period	**$**	**3,080,712**	$	313,251
Additions		**-**		3,831,470
Interest accrual		**169,351**		130,839
Discharge		**(1,536,952)**		(1,194,848)
Balance, ending of period	**$**	**1,713,111**	$	3,080,712
Less: Current portion of lease obligations		**(1,165,122)**		(1,353,061)
Long-term portion of lease obligations	**$**	**547,989**	$	1,727,651

Minimum lease payments for the next five years as at December 31, 2012:

2013		1,244,373
2014		560,585
Total		1,804,958
Less: Interest portion		(91,847)
	$	1,713,111

Subsequent to December 31, 2012, the Company disposed three leased mining equipment and retired a total of $686,765 lease obligations.

13. SITE CLOSURE AND RECLAMATION PROVISIONS

		December 31, 2012		December 31, 2011
Balance, beginning of period	**$**	**2,272,249**	$	823,575
Accretion		**44,083**		39,077
Change in estimates		**(274,596)**		1,409,597
Balance, end of period	**$**	**2,041,736**	$	2,272,249

The site closure and reclamation provisions represent the present value of reclamation costs related to Bucko Lake Mine, which are expected to be incurred up to 2030. These provisions have been created based on the Company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual reclamation costs will ultimately depend upon future market prices for the necessary reclamation works required that will reflect market conditions at the relevant time.

The undiscounted value of these obligations was $2,814,878 as at December 31, 2012 (December 31, 2011 - $2,753,608), calculated using inflation rate of 1.50% (December 31, 2011, - 2.60 %). As a result of the change of

expected timing of the reclamation activities from 2021 to 2030, the present value of the site closure and reclamation provisions, as at December 31, 2012, were reduced by $274,596 to $2,041,736 (December 31, 2011- $2,272,249) as determined using a discount rate of 1.80% (2011- 1.94%).

14. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value
Unlimited class A & Class B preference shares without par value.

(b) Share Consolidation and Equity Financing

In September 2012, the Company consolidated its share on the basis of one post-consolidation share for forty (40) pre-consolidation shares, and therefore all shares and per share data contained herein have been retroactively restated.

There is no equity financing activity conducted during the year ended December 31, 2012, and the equity financing activities conducted during the year ended December 31, 2011 are summarized as follows:

- On March 7, 2011, the Company completed a private placement financing by issuing an aggregate of 15 million units at a price of $2.00 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 $4.00.

- On April 4, 2011, the Company issued 6,470,493 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 $1.7628 per share.

(c) Warrants

The continuity of warrants issued and outstanding is as follows:

	December 31, 2012			December 31, 2011		
	Number of Warrants		**Weighted Average Price**	Number of Warrants		Weighted Average Price
Balance, beginning of period	**8,000,000**	**$**	**4.40**	2,246,941	$	9.60
Granted, private placements	**-**		**-**	7,500,000		4.00
Expired	**(500,000)**		**8.40**	(1,746,941)		9.60
Balance, end of period	**7,500,000**	**$**	**4.00**	8,000,000	$	4.40

Subsequent to December 31, 2012, a total of 7,500,000 warrants expired unexercised.

(d) 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.

No option was granted during the year ended December 31, 2012 and the continuity of stock options issued and outstanding is as follows:

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

	Number of Options	Weighted Average Price ($)
Outstanding, January 1, 2011	882,406	12.80
Granted	1,360,625	3.20
Expired	(862,563)	12.40
Cancelled/Forfeited	(108,219)	2.80
Outstanding, December 31, 2011	1,272,250	3.60
Cancelled/Forfeited	(1,162,500)	3.47
Outstanding, December 31, 2012	**109,750**	**2.78**

As of December 31, 2012, the following stock options were outstanding:

Number of Options	Exercisable as at December 31, 2012	Exercise Price	Expiry Date
375	375	$ 8.00	January 31, 2014
125	125	$ 8.00	March 20, 2014
375	375	$ 9.60	May 6, 2014
750	750	$ 8.40	August 19, 2014
1,250	1,250	$ 6.40	March 15, 2015
93,750	70,313	$ 2.60	January 10, 2016
13,125	9,844	$ 3.00	June 22, 2016
109,750	**83,031**		

The weighted average exercise price of stock options that are exercisable as at December 31, 2012 is $2.78 with weighted average contractual life of 3.05 years.

15. 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 with Hebei Wenfeng, the largest shareholder of the Company, are disclosed in note 11 above. Related party transactions not disclosed elsewhere include the following:

(a) Transactions with LJ Resources Co. Ltd.

LJ Resources Co. Ltd ("LJ"), a private entity associated with a director of the Company, provides office space, office equipment, and administration services to the Company for fees. During the year ended December 31, 2012, the Company incurred $110,814 (2011 - $180,000) expenditures for services provided by LJ. As at December 31, 2012, a total of $134,400 payable to LJ remained outstanding and included in the accounts payable and accrued liabilities on the statement of financial position. The balance with LJ is unsecured, interest-free and repayable on demand.

(b) Transactions with key management

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

		2012		2011
Salaries and fees	**$**	**619,805**	$	643,006
Stock based compensation		**(438,549)**		531,691
	$	**181,256**	$	1,174,697

During the year ended December 31, 2012, a total of 1,000,000 options granted to key management were forfeited which resulted in a total of $458,337 stock based compensation expenses were reversed.

16. INCOME TAXES

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:

	2012	2011
Accounting loss before income taxes	**(33,067,441)**	(98,037,155)
Canadian federal and provincial income tax rates	**26.92%**	28.42%
	(8,901,755)	(27,862,159)
Non-deductible expenses	**(228,880)**	234,831
Temporary income tax differences not recognized	**(152,541)**	(156,273)
Adjustments in respect of prior year	**-**	(539,144)
Rate differences related to origination and reversal of temporary differences	**-**	1,422,120
Mining tax impact on impairment	**(1,564,934)**	(5,153,299)
Change in estimates and other	**1,059,759**	(345,301)
Change in unrecognized deferred tax assets	**9,788,351**	32,399,225
	$ -	$ -

Effective January 1, 2012, the Canadian Federal corporate tax rate decreased from 16.5% to 15%, which resulting in a decrease combined federal and provincial tax rates of the Company to 26.92%.

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

		December 31, 2012		December 31, 2011
Deferred income tax asset				
Unused non-capital losses	$	**25,334,927**	$	21,904,670
Resource properties		**20,068,598**		14,216,793
Mining tax asset		**13,668,309**		12,103,376
Finance cost		**566,853**		855,132
Federal Pre-production mining Income Tax Credit		**1,374,958**		1,222,301
Change in estimate and others		**(23,054)**		611,689
		60,990,591		50,913,961
Unrecognized deferred tax asset		**(60,990,591)**		(50,913,961)
	$	**-**	$	-

The Company has approximately $94.1 million (2011 - $81.4 million) non-capital losses, which have not been recognized but could be utilized to reduce the taxable income of future years under certain circumstances, expire as follows:

Expire Date	Amount
2029	$24,890,947
2030	32,937,803
2031	23,540,753
2032	12,742,410
Total	**$94,111,913**

The Company also has $48.1 million (2011 - $42.3 million) of Canadian exploration and development expenditures as at December 31, 2012 which under certain circumstances could be utilized to reduce the taxable income of future years as well.

Based on the Mining Tax Act (Manitoba, Canada), the Company has a mining tax asset of approximately $13.7 million for which there is a full valuation allowance for the year ended December 31, 2012.

17. COST OF GOODS SOLD

Cost of goods sold comprises of the following:

		2012		2011
Cash cost	$	**12,059,832**	$	16,898,566
Non - cash cost		**2,076,004**		5,002,062
Cost of goods sold	$	**14,135,836**	$	21,900,628

18. LOSS ON MINE TEMPORARY SHUTDOWN

Expenditures incurred during the mine temporary suspension period are expensed and recorded as loss on mine temporary shutdown or capitalized if the expenditures are capital in nature and determined to be recoverable in future operations. For the year ended December 31, 2012, loss on mine temporary shutdown were $4,642,241 (2011 - $8,462,759).

19. FINANCE COSTS

Finance costs comprise the following:

		2012		2011
Accretion for site closure and reclamation provisions	$	**44,083**	$	39,077
Foreign exchange (gain) loss		**(695,500)**		981,274
Interest expenses and bank charges		**3,380,250**		1,856,955
Interest income		**(1,043)**		(34,763)
	$	**2,727,790**	$	2,842,543

20. CAPITAL MANAGEMENT AND COMMITMENTS

The Company's current objective when managing its capital is to safeguard its assets and ability to carry the care and maintenance program at its Bucko Lake Mine and drilling exploration programs at Thompson Nickel Belts.

The capital of the Company consists of items included in shareholders' equity, loans payable, and advances from related parties, net of cash and cash equivalents as follows:

		December 31, 2012		December 31, 2011
Shareholders' equity	$	**(6,529,191)**	$	26,977,127
Loans payable		**34,241,621**		24,307,374
Advances from related parties (note 11)		**5,025,200**		-
		27,712,430		51,284,501
Less: cash and cash equivalents		**(251,797)**		(1,376,942)
	$	**27,460,633**	$	49,907,559

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.

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 in 2013. The Company is not exposed to any other additional commitments.

21. FINANCIAL INSTRUMENTS

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

a) Fair value

Set out below is a comparison by category of the Company`s financial instruments that are recognized in the financial statements where their carrying amount and fair value differ.

	Financial instrument classification	**Carrying amount**		**Fair value**	
		2012	2011	**2012**	2011
Financial liabilities					
Loans payable	Amortized cost	**$ 34,241,621**	$ 24,307,374	**$ 34,212,239**	$ 24,356,174

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 (unadjusted) 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, 2012		December 31, 2011	
	Level 1	**Level 2**	Level 1	Level 2
Cash and cash equivalents	**$ 251,797**	**$ -**	$ 1,376,942	$ -

There has been financial instrument categorized as level 3 in the fair value hierarchy, and no transfers between fair value levels during the reporting period.

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, 2012, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $5,025,200 advances from related parties, was in a deficit position of $2,834,290. Accordingly,

additional financing is required for the Company to continue as a going concern. The Company's contractual obligations as at December 31, 2012 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	$ -	$ 34,241,621	$ -	$ -	$ 34,241,621
Finance lease obligations	1,165,122	547,989	-	-	1,713,111
Exploration option obligations	1,500,000	-	-	-	1,500,000
Site closure and reclamation obligations	-	-	-	2,041,736	2,041,736
Accounts payable and accrued liabilities	8,055,896	-	-	-	8,055,896
Total Contractual Obligations	**$ 10,721,018**	**$ 34,789,610**	**$ -**	**$ 2,041,736**	**$ 47,552,364**

d) Market risk

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

i) 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, 2012, the Company had $34.2 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.

ii) 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, 2012, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	**December 31, 2012**	December 31, 2011
Financial assets denominated in US Dollars		
Cash and cash equivalents	**$ 10,537**	$ 59,388
Accounts receivable	**38,981**	3,040,075
	49,518	3,099,463
Financial liabilities denominated in US Dollars		
Advances from related parties	**4,890,800**	-
Loans payable	**34,241,621**	24,307,374
	$ 39,132,421	$ 24,307,374

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2012, every 1% strengthening in Canadian dollars would decrease net loss by $390,829 (2011 - $212,079). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

iii) Commodity price risk

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

As the Company has suspended its mining operations in July 2012, and only $38,981 of trade receivable remained outstanding and no forward sales contracts or call option outstanding as at December 31, 2012, the change of commodity price would not have any significant impact on the financial position of the Company.

22. CONTINGENCIES AND LEGAL MATERS

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. In March 2012, Total Equipment reached an agreement with the Company to settle the legal suit by paying a sum of $251,728 inclusive of interest, costs and taxes in full to the Company. As a result, a net gain of $215,173 was recorded on the consolidated statements of comprehensive loss for the year ended December 31, 2012.

Since the mining operation was suspended in July 2012, the Company has been encountering difficulties in retiring some outstanding accounts payables in accordance with terms provided by vendors, and therefore expects that some liens will be placed and legal actions will be initiated. As at December 31, 2012, there were three liens placed against Bucko Lake Mine for a total amount of approximately $0.4 million, and two statements of claims for a total of approximately $50,000 were received.

23. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31,	
	2012	2011
Net change in non-cash working capital		
(Increase) decrease in receivables and prepaid expenses	**$ 3,433,948**	$ (1,406,084)
Decrease (increase) in inventory	**2,412,806**	(815,761)
Increase (decrease) in accounts payable and accrued liabilities	**(2,696,523)**	(3,122,240)
	$ 3,150,231	$ (5,344,085)

As at December 31, 2012, $391,391 (2011 - $3,393,737) 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the year ended December 31, 2012

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, 2012 should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2012 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form, which were prepared by management and available on SEDAR at www.sedar.com.

This MD&A is prepared as at March 25, 2013 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

- Due to the unfavourable nickel price, the Company suspended the operations at its 100% Bucko Lake Mine in May 2012 and put the mine on care and maintenance in July 2012;
- Loss for the year ended December 31, 2012 amounted to $33.1million (2011 – loss of $98.0 million), which including an impairment charge of $20.7 million (2011 - $72.1 million) against Bucko Lake Mine.
- Filed a NI43-101 technical report to update the mineral reserves and resources of Buck Lake Mine and its satellite deposits
- Entered into an option agreement to grant an option to the optionee to earn in up to 70% interest in AER-Kidd Property, located in Sudbury, Ontario.
- Completed 7,157 meters diamond drilling program at M11A North Deposit and 3,078 meters diamond drilling program at Bowden Lake Deposit

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. In June 2011, 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. Commencing on June 23, 2011, 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". In September 2012, the Company consolidated its common share on the basis of one (1) post-consolidated common share for forty (40) pre-consolidated common shares. References to common shares, per share data, and other securities, including stock options and warrants, have been retroactively restated.

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.

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 July 2012, as a result of unfavourable nickel prices, the Company decided to put Bucko Lake Mine on care and maintenance. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

OPERATION REVIEW

In January 2012, in order to increase productivity and reduce production costs, the Company started to try the combination of cut and fill mining and long hole stoping mining at its Bucko Lake Mine. The preliminary results of the long hole stoping mining was positive and the improved ore quality from the long hole stopes also helped the processing plant achieve better recovery rates. For the first quarter ended March 31, 2012, the Company mined 60,518 tonnes of ore at an average cash mining cost of $64.88 per tonne, and milled 54,034 tonnes of ore at an average cash milling cost of $36.54 per tonne with an average recovery rate of 75.2% to produce 1,062,056 pounds of nickel. However, the operations were affected by the stop work orders the Company received in the second quarter ended June 30, 2012.

During the second quarter ended June 30, 2012, a total of 11,738 tonnes (same period last year – 14,192 tonnes) of ore mined and a total of 22,616 tonnes (same period last year – 9,723 tonnes) of ore milled with an average recovery rate of 76.98% (same period last year – 54.21%). The average mining cost and milling cost increased by $113.0 and $24.81 from last quarter, respectively, to $177.88 and $61.36 per tonne (same period last year - $186.86 and $22.84 per tonne), respectively, as a result of less production due to impact arising from the stop work orders the Company received in the second quarter ended June 30, 2012.

As a result of the unfavorable nickel price, the Company suspended the mill operation in May 2012 and put Bucko Lake Mine on care and maintenance in July 2012, and since then, the main activities at Bucko Lake Mine were to optimize and execute the care and maintenance program while carrying studies to optimize the mining plan at Bucko Lake Mine. As the current nickel price is still below the price which allows the operations at Bucko Lake Mine to be financially viable, the timing to resume the mining operations at Bucko Lake Mine is uncertain.

During the year ended December 31, 2012, a total of 1,445,523 (2011- 1,363,534) pounds of payable nickel sold at a cash cost $9.78 (2011- $13.91) per pound and a total cost of $11.22 (2011 - $17.50) per pound of payable nickel sold. Operations at Bucko Lake Mine was first resumed in April 2011 using the Company’s own mining crew and mining equipment and the operations were suspended in July 2012 as a result of the unfavorable nickel price. Therefore, the production results presented for 2012 were mainly the results for the first six months of 2012 while the results for 2011 were mainly the results for the second six months of 2011. The improvement of cash cost and total cost in 2012 were mainly the results of the improvement in production and milling recovery. However, the Company has not yet achieved its planned production capacity and the mining method employed also not yet stabilized, and therefore, the unit cost might not represent the actual unit cost when Bucko Lake Mine reaches its planned production capacity.

The following is a summary of the operating results at Bucko Lake Mine for the year ended December 31, 2012 and 2011.

			2012		2011
Production data					
	Ore mined (tonne)		**72,256**		107,451
	Ore milled (tonne)		**76,650**		102,069
	Nickel produced (pound)		**1,437,510**		1,631,916
	Head grade		**1.12%**		1.18%
	Metallurgical recovery		**75.65%**		61.00%
Production Costs					
	Unit mining cost ($/tonne)	**$**	**83.78**	$	105.48
	Unit milling cost ($/tonne)	**$**	**43.86**	$	67.32
Cost per pound of payable nickel sold**					
	Cost of goods sold	**$**	**14,135,836**	$	21,900,628
	Deduct: Non-cash cost	**$**	**2,076,004**	$	5,002,062
	Cost of goods sold - cash cost	**$**	**12,059,832**	$	16,898,566
	Add: smelter charges, net of byprodut credit ($)	**$**	**2,018,094**	$	2,025,436
	Cash cost of payable nickel sold ($)	**$**	**14,077,926**	$	18,924,002
	Cash cost per pound of nickel sold ($/pound)**	**$**	**9.78**	$	13.88
	Non cash cost per pound of payable nickel sold ($/pound) **	**$**	**1.44**	$	3.67
	Cost per pound of payable nickel sold ($/pound)**	**$**	**11.22**	$	17.55
Sales Data					
	Payable Nickel Sold (pound)		**1,445,523**		1,363,534
	Revenue ($) *	**$**	**9,615,211**	$	9,443,501
	Add: Smelter charges, net of byproudct credit ($)	**$**	**1,870,217**	$	2,025,436
	Proceeds from payable nickel sold ($) *	**$**	**11,485,428**	$	11,468,937
	Average selling price ($/pound)	**$**	**7.95**	$	8.41

**Including pricing/volume adjustments on concentrate sold in prior periods*

***Cost per pound of payable nickel is non-GAAP performance measure that management uses to monitor performance. The Company reports cost per pound of payable nickel or cash cost per pound of payable nickel on sales basis. In the mining industry, this is a common performance measure but does not have any standardized meaning. Management uses this statistic to assess how well the Company's producing mine is performing compared to plan and to assess overall efficiency and effectiveness of the mining operations. CaNickel provides cash cost information as it is a key performance indicator required by users of the Company's financial information in order to assess the Company's profit potential and performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining operation.*

DEVELOPMENT AND EXPLORATION

BACKFILL PASTE PLANT

To reduce the backfill costs and to increase the quality of backfill, the Company was underway to construct a paste backfill plant at its Bucko Lake Mine in 2011. Although the construction was affected by several design issues and late delivery of equipment, all surface contracture and equipment installation were completed in the first quarter of 2012. However, as the operation at Bucko Lake Mine was now suspended, the Company decided to put the commissioning of the paste backfill plant on hold.

As of December 31, 2012, a total of $5.9 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 is carried in two phases and the phase I construction was completed and put in used in March 2012. As Bucko Lake Mine is currently on care and maintenance, the Company may not be able to carry out the phase II construction before the restart at Bucko Lake Mine.

As of December 31, 2012, a total of $4.3 million expenditures were incurred in the construction of the TMA.

EXPLORATION - THOMPSON NICKEL BELT EXPLORATION PROPERTIES (“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 (incurred); 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 October 2012, the Company completed and released CaNickel 2012 Technical Report which provides updated resource estimates covering Bucko Lake Mine and its satellite properties, including M11A, Apex, Halfway Lake, and Bowden Lake. The updated reserves and resources estimates have included all drilling from the 1960's to 2012. With additional drilling conducted at M11A projects in 2012, the Company was able to bring the confident level of some resources estimates at M11A to indicated class. For detailed resources estimates, please review our press release "CaNickel Announces Updated Mineral Reserves and Resources For the Bucko Lake Nickel Project" dated October 26, 2012" and the CaNickel 2012 Technical Report, which is available on the SEDAR system at www.sedar.com and on the Company's website at www.canickel.com in due course.

During the year ended December 31, 2012, the Company completed a 7,157 meters drilling program at M11A North Deposit and the assay results were published on a press release dated September 7, 2012. As of the date of the report, the Company completed a 3,078 meters drilling program at Bowden Lake Deposits and the assay results are pending.

Also, the Company is currently carrying an 8,400 meters drilling program at Bucko Lake North deposits. Through extensive drilling programs at Bucko Lake Mine's satellite deposits, the Company expects that those deposits could eventually provide a source of supplemental feed for the Bucko Lake Mine operations to expand production and extend the life of the operations and the financial viabilities of Bucko Lake Mine.

During the year ended December 31, 2012, the Company incurred expenditures of $2.1 million at TNB. As of December 31, 2012, the cumulative exploration expenditures incurred at TNB was approximately $18.6 million.

AER KIDD PROPERTY

The Company wrote off the value of the AER Kidd Property during the year ended December 31, 2008. During the year ended December 31, 2012, the Company farmed out the property by entering an option agreement with a third party (the "Optionee") to grant an option to the Optionee to earn in 50% interest in AER-Kidd Property, a nickel project located in Sudbury, Ontario, for cash consideration of $500,000 and incurring option expenditures of $5,000,000 over a four year period. The Optionee has a right to earn in additional 20% interest for payment of $250,000 and incurring additional $2,000,000 option expenditures over a two year period after the earn in of the 50% interest. The $500,000 cash consideration received was recorded as a gain on the statement of comprehensive loss for the year ended December 31, 2012.

RESULTS OF OPERATIONS

Year ended December 31, 2012 vs. Year ended December 31, 2011

Net loss for the year ended December 31, 2012 was $33.1 million (2011 - $98.0 million), which comprised of $20.7 million (2011- $72.1 million) impairment charges to Bucko Lake Mine and $4.6 million (2011 - $8.5 million) loss on temporary shutdown costs as results of the unfavourable nickel price and mine operation suspension.

Revenue for the year ended December 31, 2012 was $9.6 million (2011 - $9.4 million). Mining operations was restarted in April 2011 and in July 2012, the Company decided to place Bucko Lake Mine on care and maintenance due to the unfavourable nickel price. For the year ended December 31, 2012, a total of 1,445,523 pounds of nickel sold at an average price of $7.94 per pound while a total of 1,363,534 pounds of nickel sold at an average price of $8.41 per pound during the year ended December 31, 2011.

Cost of sales for the year ended December 31, 2012 was $14.1 million (2011 - $21.9 million), which consisted of

cash cost of $12.1 million (2011 - $16.9 million) and non cash cost of $2.1 million (2011 - $5.0 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 though the improvement of mining efficient due to the implementation of long hole mining method at the beginning of 2012 and the improvement of milling recovery as well as less amortization, depletion and depreciation of mineral property, plant, and equipment as substantial impairment charges were taken in prior years.

Temporary shutdown costs for the year ended December 31, 2012 were $4.6 million (2011 - $8.5 million). The temporary shutdown costs in 2012 were representing the care and maintenance cost at Bucko Lake Mine since its operation was suspended in July 2012 while the temporary shutdown costs in 2011 were incurred when the Company prepared to resume the operations at Buck Lake Mine during the first half of 2011.

Finance costs for the year ended December 31, 2012 were $2.7 million (2011- $2.8 million). Finance costs primarily included foreign exchange gain of $0.7 million (2011 - loss of $1.0 million), interest and bank charges of $3.4 million (2010 - $1.9 million), and accretion of site closure and reclamation provisions of $0.04 million (2011 - $0.04 million). The foreign exchange gain or loss was mainly the effect on the translation of the outstanding balance of loans payable, which dominated in US dollars, at the period end due to the fluctuation of US dollars. The increase of interest was mainly due to the increase in the amount and outstanding dates of loans payable.

General and administration for the year ended December 31, 2012 was $0.6 million, which was slightly lower than the general and administration cost of $0.6 million in 2011.

Impairment of mineral property, plant, and equipment for the year ended December 31, 2012 were $20.7 million (2011 - $72.1 million). As Bucko Lake Mine was placed on care and maintenance and the timing to resume its operation was uncertain, the Company estimates its recoverable value using fair value less cost to sell approach, mainly the sellable value of each equipment and plant employed at Buck Lake Mine. As a result, a further $20.7 million impairment charges were taken to against the assets employed at Buck Lake Mine. The $72.1 million impairment charges recorded in 2011 included $0.5 million write-down charge to Pure Nickel Joint Venture, $0.6 million write-down charges to Peter's Roost Property, and $71 million impairment charges to Buck Lake Mine, which was estimated using discounted cash flow technique.

Legal and professional fees for the year ended December 31, 2012 were $0.2 million, which was consistent with the legal and professional fees in 2011.

Gain on disposal of property, plant and equipment for the year ended December 31, 2012 were $0.5 million (2011 – loss of $0.1 million). The gain in 2012 was mainly arising from the farmout agreement related to AER Kidd property and the disposition of a piece of mining equipment while the loss in 2012 was related to an exchange of two piece of mining equipment.

Net gain on derivative instrument for the year ended December 31, 2012 was $49,668 (2011 - $275,377). The gain for the current year was mainly related to the change of the fair value of the forward nickel sales contracts while the gain in 2011 was related to the change of the fair value of the conversion feature of the Company's convertible debentures and a call option unexercised.

Salaries, consulting and management fees for the year ended December 31, 2012 were $0.2 (2011 - $1.5 million). The decrease was mainly due to less consulting activities during the care and maintenance period and a reversal of $458,337 stock base compensation expenses as a result of forfeiture of stock options.

Shareholder communication and investor relations for the year ended December 31, 2012 were $0.2 million, which was consistent with the expenses incurred in 2011.

Fourth quarter 2012 ("Q4 2012") vs. Fourth quarter 2011 ("Q4 2011")

Net loss in Q4 2012 was $16.1 million (Q4 2011- $79.4 million), which was mainly comprised of $14.4 million (Q4 2011 - $71.6 million) impairment charges, $1.4 million (Q4 2011 – $7.0 million) loss from mine operation.

Revenue in Q4 2012 was $0.2 million compared to revenue of $4.7 million in Q4 2011. The revenue in Q4 2012 was mainly the pricing adjustment associated to the concentrates sold in prior period as Bucko Lake Mine was placed on care and maintenance while Bucko Lake Mine was in operation status in Q4 2011.

Cost of sales in Q4 2012 was $5,075 which was mainly the additional smelter charges associated with the pricing adjustment as no production activity during the period. In Q4 2011, the Company recorded a total of $11.7 million cost of goods sold as Bucko Lake Mine was in operations.

Temporary shutdown costs in Q4 2012 was $1.6 million (Q4 2011 – $nil), which representing the care and maintenance cost at Bucko Lake Mine during the period. No temporary shutdown cost recorded in Q4 2011 as Bucko Lake Mine was in production during that period.

Finance costs in Q4 2012 were $1.4 million (Q4 2011 - $0.06 million), which mainly comprised of foreign exchange loss of $0.4 million (Q4 2011 – gain of $0.5 million) and interest expense of $0.9 million (Q4 2011 - $0.6 million). The foreign exchange gain or loss was mainly the effect on the translation of the outstanding balance of loans payable, which dominated in US dollars, at the period end due to the fluctuation of US dollars. The increase of interest was mainly due to the increase in the amount and outstanding dates of loans payable.

Impairment of mineral property, plant, and equipment in Q4 2012 was $14.4 million (Q4 2011 - $71.6 million). As Bucko Lake Mine was placed on care and maintenance and the timing to resume its operation was uncertain, the Company estimates its recoverable value using fair value less cost to sell approach, mainly the sellable value of each equipment and plant employed at Buck Lake Mine. As a result, a further $14.4 million impairment charges were taken to against the assets employed at Buck Lake Mine in Q4 2012. The $71.6 million impairment charges recorded in Q4 2011 included $0.6 million write-down charges to Peter's Roost Property, and $71 million impairment charges to Buck Lake Mine, which was estimated using discounted cash flow technique.

Gain on disposal of property, plant and equipment in Q4 2012 was $0.5 million (Q4 2011 - $nil) was arising from the farmout agreement related to AER Kidd property.

Salaries, consulting and management fees in Q4 2012 was a recovery of $0.8 million (Q4 2011 – expense of $0.5 million), which was mainly due to a reversal of stock base compensation expenses arising from the forfeiture of stock options granted in prior periods but not yet vested.

Use of proceeds from financing

During the year ended December 31, 2012, the Company drawn down US$7.0 million from the debt facilities and the Company advanced $4.9 million from related parties. All proceeds were used as planned to fund the operations and care and maintenance program at its Bucko Lake Mine.

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Revenue *	$ 200,397	$ 282,737	$ 2,748,251	$ 6,383,826
Cost of goods sold *	(5,075)	(273,667)	(6,998,815)	(6,858,279)
	195,322	9,070	(4,250,564)	(474,453)
Care and maintenance costs	(1,611,024)	(1,971,540)	(1,059,677)	-
Other items	(14,636,499)	(140,119)	(8,246,409)	(881,548)
Loss before taxes	(16,052,201)	(2,102,589)	(13,556,650)	(1,356,001)
Income tax recovery	-	-	-	-
Net loss	$ (16,052,201)	$ (2,102,589)	$ (13,556,650)	$ (1,356,001)
Loss per share - basis and diluted	$ (0.43)	$ (0.06)	$ (0.36)	$ (0.04)

	Quarters ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Revenue *	$ 4,726,883	$ 4,479,036	$ -	$ 237,582
Cost of goods sold *	(11,702,619)	(10,198,010)	-	-
	(6,975,736)	(5,718,974)	-	237,582
Care and maintenance cost	-		(3,562,910)	(4,899,849)
Other items	(72,394,153)	(1,902,172)	(1,528,152)	(1,292,792)
Loss before taxes	(79,369,889)	(7,621,146)	(5,091,062)	(5,955,059)
Income tax recovery	-	-	-	-
Net loss	$ (79,369,889)	$ (7,621,146)	$ (5,091,062)	$ (5,955,059)
Loss per share - basis and diluted	$ (2.12)	$ (0.20)	$ (0.14)	$ (0.16)

* During the nine months ended September 30, 2012, the Company reclassified smelter charges and by-product credit from cost of goods sold to net of revenue. Such reclassification resulted in decreases in both revenue and costs of goods sold by the same amount for all the periods presented and affected, but had no impact on the loss from mine operation and net loss and comprehensive loss for the periods affected.

In May 2012, the Company suspended the milling operation at Bucko Lake Mine and in July 2012, the Company placed the Bucko Lake Mine on care and maintenance. During the quarter ended June 30, 2012, a total of $6.3 million impairment charges were taken to against the assets employed at Bucko Lake Mine, and during the quarter ended December 31, 2012, an additional $14.4 million impairment charges were taken against Bucko Lake Mine.

The net loss for quarter ended December 31, 2011 was mainly due to an impairment charge of $71.6 million against the mineral property, plant and equipment at Bucko Lake Mine.

The net loss for quarter ended September 2011 was due to low nickel price and high operation costs.

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 the quarter ended December 31, 2010 included impairment charge of $44.1 million and care and maintenance costs of $6.5 million as the operations at Bucko Lake Mine was suspended in October 2010.

ANNUAL INFORMATION

	Years ended December 31		
	2012	2011	2010
Total assets	**$ 39,523,173**	$ 65,600,917	$ 118,721,788
Shareholders' equity	**(6,529,191)**	26,977,127	85,607,695
Dividend declared	**-**	-	-
Revenue ***	**9,615,211**	9,443,501	22,966,206
Gross margin	**(4,520,625)**	(12,457,127)	(21,048,077)
Care and maintenance cost	**(4,642,241)**	(8,462,759)	(12,370,759)
Other items	**(23,904,575)**	(77,117,269)	(53,227,586)
Income tax recovery	**-**	-	6,000,200
Net loss	**(33,067,441)**	(98,037,155)	(80,646,222)
Loss per share - basis & diluted	**$ (0.88)**	$ (2.61)	$ (5.62)

*** During the year ended December 31, 2012, the Company reclassified smelter charges and by-product credit from cost of goods sold to net of revenue. Such reclassification resulted in decreases in both revenue and costs of goods sold by the same amount for all the periods presented and affected, but had no impact on the loss from mine operation and net loss and comprehensive loss for the periods affected. For the year ended December 31, 2012, 2011, and 2010, revenue presented in the above annual information has been reduced by $1,807,217, $2,025,436, and $3,069,664 respectively.

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 were re-commenced in April 2011. The loss in 2011 included an impairment charge of $72.1 million to the mineral property, plant and equipment.

In July 2012, the Company decided to place Bucko Lake Mine on care and maintenance, and a total of $20.7 million impairment charges were included in the loss of 2012.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, the Company only had cash and cash equivalents of $0.25 million, decreased by $1.13 million compared to cash and cash equivalents balance as at December 31, 2011. The decrease of cash and cash equivalents on hand was mainly as a result of $10.5 million provided from financing activities offset by $4.3 million used in operation activities and $7.3 million used in investing activities.

Cash used in operating activities for the year ended December 31, 2012 was $4.3 million compared to a total of $24.3 million used in 2011. Before net change in non-cash working capital, cash used in operation was $7.4 million (2011 – used of $18.9 million). Less cash used in operating activities in 2012 was mainly due to the cost saving arising from the implementation of long range mining method and the improvement of milling recovery rate achieved in the first two quarter of 2012. Since July 2012, Bucko Lake Mine was placed on care and maintenance.

Cash from operation activities for three months ended December 31, 2012 ("Q4 2012") was $1.3 million (Q4 2012 - used of $3.0 million). Before net change in non-cash working capital, cash used in operation in Q4 2012 was $0.8 million (Q4 2012 - $6.5 million). Less cash used in operating activities in Q4 2012 was mainly because Bucko Lake Mine was on care and maintenance while it was in production with significant negative gross margin in Q4 2011.

Cash provided from financing activities for the year ended December 31, 2012 was $10.5 million (2011 - $38.4 million). In 2012, the Company did not conduct any equity financing while a total of $26.9 million were raised through equity financing. A total of $7.0 million (2011 - $22.5 million) was drawn down from the Company's debt facilities and $4.8 million (2011 - $nil) was advanced from related parties in 2012 offset by repayment of 1.4 million (2011 - $1.1 million) capital lease obligations. In 2011, the Company also repaid $10.0 million convertible debenture.

Cash provided from financing activities for Q4 2012 was $1.9 million (Q4 2011 - $6.1 million). In Q4 2012, the Company advanced a total of $2.2 million (2011 - $nil) from related parties offset by repayment of $0.4 million (Q4 2011 - $0.3 million) to capital lease obligations. No fund was withdrawn from the Company's debt facilities as all credits were utilized in prior period while a total of $6.1 million were drawn down in Q4 2011.

Cash used in investing activities for the year ended December 31, 2012 was $7.3 million (2011- $16.8 million). A total of $8.9 million (2011 - $16.7 million) were paid for the acquisition of mineral rights, plant and equipment offset by $1.5 million proceeds from disposal of equipment in 2012.

In Q4 2012, a total of $3.0 million (Q4 2011 - $3.5 million) cash was used in investing activities, which consisting of $3.5 million (Q4 2011 - $3.4 million) payment for the acquisition of mineral rights, plant and equipment offset by $0.5 million (Q4 2011- $nil) proceeds from an farmout option agreement regarding the AER-Kidd Property.

Working capital as at December 31, 2012 was a deficit of $7.9 million compared to the negative working capital of $26.3 million as at December 31, 2011. The increase of working capital was primarily due to the reclassification of loans payable from short-term to long-term as the Company entered into amended agreements to extend the loan facilities from one year term to three year terms and now they are expiring in 2014. As of December 31, 2012, the carrying balance of the loan facilities was $34.2 million.

Shareholder's equity as at December 31, 2012 was negative $6.5 million, a decrease of $33.5 million from $27.0 million at December 31, 2011, primarily due to a net loss of $33.1 million, which included an impairment charge of $20.7million, recorded in 2012. As at December 31, 2012, the Company had approximately 37.5 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, 2012 are amounted to $47.6 million and summarized below under "Risk Management".

To fulfill the obligation under the option agreement with Xstrata Nickel Inc. to earn in 100% interest in TNB, the Company is required to incur approximately $12.7 million option expenditures by December 31, 2013, of which a total of approximately $1.5 million to be incurred in 2013.

Due to the unfavourable nickel price, the Company suspended the milling operations at its 100% own Bucko Lake

Mine near Wabowden, Manitoba in May 2012, and in July 2012, the Company decided to put Bucko Lake Mine on care and maintenance. In 2012, the Company incurred a loss of $33.1 million and the cumulative deficit as at December 31, 2012 amounted to $226.4 million with working capital in deficiency of $7.9 million, and therefore, the Company needs to raise additional capital to complete its capital expenditures.

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), the largest shareholder of the Company, and funds from disposal of some mining equipment. Although the Company has obtained approval from minority shareholders and Toronto Stock Exchange to increase the debt facility with Heibei Wenfeng from US$5.0 million to US$15.0 million, the finalization of the agreement is currently pending.

In the meantime, the Company is also evaluating if the Company will continue to file a short form prospectus to active the Committed Equity Facility ("CEF"), which the Company entered into with Haverstock Master Fund Ltd. ("Haverstock") in September 2011. The CEF 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, up to a total of $20 million and subject to certain regulatory limitation. 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. There is uncertain if the Company will continue to pursue to active the CEF or filing of short form prospectus is accepted by regulatory authorities. Such uncertainties cast significant doubt upon the Company's ability to continue as a going concern. In the event that the above financing efforts are not successful, the Company may have to 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. In the event that Company is not able 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.

The Company's current objective when managing its capital is to safeguard its assets and ability to carry the care and maintenance program at its Bucko Lake Mine and drilling exploration programs at Thompson Nickel Belts.

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 instruments. 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.

Set out below is a comparison by category of the Company`s financial instruments that are recognized in the financial statements where their carrying amount and fair value differ.

	Financial instrument classification	**Carrying amount**		**Fair value**	
		2012	2011	**2012**	2011
Financial liabilities					
Loans payable	Amortized cost	**$ 34,241,621**	$ 24,307,374	**$ 34,212,239**	$ 24,356,174

Fair value estimates are made at a specific point in time, based on relevant market information of 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 (unadjusted) 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, 2012		December 31, 2011	
	Level 1	**Level 2**	Level 1	Level 2
Cash and cash equivalents	**$ 251,797**	**$ -**	$ 1,376,942	$ -

There has been financial instrument categorized as level 3 in the fair value hierarchy, and no transfers between fair value levels during the reporting period.

Management constantly monitors and assesses the fluctuation of nickel price and US dollars. 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 audited financial statements and the related notes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

In particular, the Company has identified the following areas where significant judgement, estimates and assumptions are required. Changes in these assumptions may materially affect the financial position or financial results reported in future periods. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements

a) 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 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.

The Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $226.4 million as at December 31, 2012, and the mining operations at the Company's Bucko Lake Mine have not yet achieved its design capacity and experienced a cycle of start-up and suspension, and then restart-up and suspension in recent years. In July 2012, as a result of unfavourable nickel prices, the Company decided to put Bucko Lake Mine on care and maintenance. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

As at December 31, 2012, the Company only has $251,797 cash and cash equivalent on hand but a negative working capital of approximately $7.9 million. The Company will need to raise additional capital in order to fund its exploration expenditures and the care and maintenance program. In the event that Company is not able 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.

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng Industrial Company Limited, the largest shareholder of the Company, and funds from disposal of some pieces of mining equipment.

In the meantime, the Company is also evaluating if the Company will continue to file a short form prospectus to activate the Committed Equity Facility ("CEF"), which the Company entered into with Haverstock Master Fund Ltd. ("Haverstock") in September 2011. The CEF 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, up to a total of $20 million and subject to certain regulatory limitation. 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.

b) Mineral reserve and resource estimates

Mineral reserves are estimates of the amount of minerals that can be economically and legally extracted from the Company's mining property. The Company's mineral reserve and resources were estimated by independent and qualified professionals using standards and assumptions in compliance with the requirements of National Instrument 43-101. The assessment involves geological and geophysical studies and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body.

As the economic assumptions used may change and as additional geological information is produced during the operation of a mine, estimates of reserves may change. Such changes may impact the Company's reported financial position and results which include:

- The carrying value of mineral property, plant, and equipment may be affected due to change in estimated future cash flows

- Depreciation, depletion, and amortization charges in profit or loss may change where such charges are determined using the unit of production method, or where the useful life of the related assets change

- Site closure and reclamation provisions may change where changes to the reserve estimates affect expectation about when such activities will occur and the associated cost of these activities

c) Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment to determine whether it is likely that future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. The determination of mineral resources in compliance with the requirements of National Instrument 43-101 is itself an estimation process that involves varying degree of uncertainty depending on how the resources are classified (i.e. measured, indicated or inferred). The estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

d) Depreciation, depletion, and amortization

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 while estimated economically recoverable reserves are used in determining the depreciation of mineral property. This results in a depreciation/amortization charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and present assessment of economically recoverable reserves of the mine property at which the assets is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Changes in estimates are accounted for prospectively.

e) Site closure and reclamation provisions

The Company assesses its site closure and reclamation provisions at each reporting date. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent, cost, and timing of rehabilitation activities, technological changes, regulatory changes, cost increases as compare to the inflation rate (1.5% (2011 – 1.6%)), and change in discount rates (1.8% (2011 – 1.8%)). These uncertainties may result in future expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future reclamation costs required.

f) Impairment of assets

The Company assesses each asset or cash generating unit ("CGU") each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends, and related factors), discount rates, operating costs, future capital requirement, closure and rehabilitation costs, exploration potential, reserves and subject to risk and uncertainty. Therefore, there is possibility that changes in circumstances will impact these projections, which may impact the recoverable

amount of assets and/or CGUs. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money, and the risks specific to the asset/CGU. When discounted cash flow technique is not practical, recoverable value of each piece of property, plant and equipment is used for the recoverable estimate. Management has assessed its CGUs as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets/CGUs.
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g) Share-based compensation

The fair value of stock options is estimated using the Black-Scholes option pricing model, which requires the Company to make certain assumptions and estimates regarding such items as the expected life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. The estimated fair value of stock option is amortized and expensed over the their vesting periods with adjustments to reflect the actual forfeiture rates at each reporting dates, and such adjustments are accounted for prospectively.

h) Recovery of deferred tax assets

Judgment is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgment is also required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sale volumes, commodity prices, reserves, operating costs, closure and reclamation costs, capital expenditure, dividends and other capital management transactions) and judgment about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differs significantly form estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting data could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

i) Inventories

Net realizable value tests are performed at each reporting date and represent the estimated future sales price of the product the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained nickel pounds is based on assay date, and the estimated recovery percentage is based on the expected processing method.

Stockpile tonnages are verified by periodic surveys.

j) Fair value hierarchy

If the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, then fair value is determined using valuation techniques such as discounted cash flow methods. The inputs to these models are taken from observable markets where possible, but if this is not feasible, a degree of judgment is required in establishing fair value. The judgments include factors which could affect the reported fair value of financial instruments.

k) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

Summary of significant accounting policies are disclosed on note 4 to the audited financial statements for the year ended December 31, 2012.

NEW ACCOUNTING PRONOUNCEMENTS

The standards and interpretations that are issued but not yet effective listed below, are those that the Company reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the presentation of items in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Company's financial position or performance.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and will therefore be applied in the Company's first annual report after becoming effective.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12 (refer below), what remains in IAS 27 is limited to accounting for subsidiaries, joint arrangements and associates in separate financial statements. The Company does not present separate financial statements.

The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment will have no impact on the Company.

The revised standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to

classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurement of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 10, IFRS 11 and IFRS 12.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues covered in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the investments currently held by the Company.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Company is currently assessing the impact that this standard will have on the financial position and performance.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 relating to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required, but will have no impact on the Company's financial position or performance.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and require disclosures about fair value measurement. The Standard defines fair value on the basis of exit price notion and use a fair value hierarchy, which results in a market-based, rather than entity-specific measurement. A number of new disclosures are also required, but will have no impact on the Company's financial position or performance.

This standard is effective for annual periods beginning on or after 1 January 2013

Annual Improvements May 2012

These improvements include:

IAS 1 Presentation of Financial Statements: clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

IAS 16, Property Plant and Equipment: clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32, Financial Instruments: Presentation: clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

The improvements are effective for annual periods beginning on or after 1 January 2013.

The Company expects no impact on its financial position, performance, disclosures or stated accounting policies from the adoption of these amendments.

RISK MANAGEMENT

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

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, 2012, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $5,025,200 advances from related parties, was in a deficit position of $2,834,290. Accordingly, additional financing is required for the Company to continue as a going concern.

The Company's contractual obligations as at December 31, 2012 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	$ -	$ 34,241,621	$ -	$ -	$ 34,241,621
Finance lease obligations	1,165,122	547,989	-	-	1,713,111
Exploration option obligations	1,500,000	-	-	-	1,500,000
Site closure and reclamation obligations	-	-	-	2,041,736	2,041,736
Accounts payable and accrued liabilities	8,055,896	-	-	-	8,055,896
Total Contractual Obligations	**$ 10,721,018**	**$ 34,789,610**	**$ -**	**$ 2,041,736**	**$ 47,552,364**

c) Market risk

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

i) 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, 2014, the Company had $34.2 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.

ii) 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, 2012, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents		**December 31, 2012**		December 31, 2011
Financial assets denominated in US Dollars				
Cash and cash equivalents	**$**	**10,537**	$	59,388
Accounts receivable		**38,981**		3,040,075
		49,518		3,099,463
Financial liabilities denominated in US Dollars				
Advances from related parties		**4,890,800**		-
Loans payable		**34,241,621**		24,307,374
	$	**39,132,421**	$	24,307,374

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2012, every 1% strengthening in Canadian dollars would decrease net loss by $390,829 (2011 - $212,079). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

iii) Commodity price risk

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

As the Company has suspended its mining operations in July 2012, and only $38,981 of trade receivable remained outstanding and no forward sales contracts or call option outstanding as at December 31, 2012, the change of commodity price would not have any significant impact on the financial position of the Company.

d) 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 License 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 Licence (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. As Bucko Lake Mine currently is on care and maintenance, the phase II construction is currently uncertain.

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 LJ Resources Co. Ltd.

LJ Resources Co. Ltd ("LJ"), a private entity associated with a director of the Company, provides office space, office equipment, and administration services to the Company for fees. During the year ended December 31, 2012, the Company incurred $110,814 (2011 - $180,000) expenditures for services provided by LJ. As at December 31, 2012, a total of $134,400 payable to LJ remained outstanding and included in the accounts payable and accrued liabilities on the statement of financial position. The balance with LJ is unsecured, interest-free and repayable on demand.

(b) Transactions with key management

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

		2012		2011
Salaries and fees	**$**	**619,805**	$	643,006
Stock based compensation		**(438,549)**		531,691
	$	**181,256**	$	1,174,697

During the year ended December 31, 2012, a total of 1,000,000 options granted to key management were forfeited which resulted in a total of $458,337 stock based compensation expenses were reversed.

(c) Transactions with Hebei Wenfeng

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 Enterprises Limited. 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. In March 2012, the Company entered into an amended agreement with Hebei Wenfeng to extend the maturity date of the loan from one year term to three years term expiring May 28, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. As at December 31, 2012, the outstanding balance including interest accretion was $5,753,510.

During the year ended December 31, 2012, the Company proposed to increase the debt facility with Hebei Wenfeng from US$5,000,000 to US$15,000,000. The Company has obtained all regulatory approval, but has not

yet reached a final agreement with Hebei Wenfeng. While pending the final agreement, Hebei Wenfeng advanced $4,890,800 to the Company as of December 31, 2012. The advanced bears no interest and due on demand and included as part of accounts payable and accrued liabilities on the statements of financial position.

LEGAL MATTERS

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. In March 2012, Total Equipment reached an agreement with the Company to settle the legal suit by paying a sum of $251,728 inclusive of interest, costs and taxes in full to the Company. As a result, a net gain of $215,173 was recorded on the consolidated statements of comprehensive loss for the six months ended June 30, 2012.

Since the mining operation suspended in July 2012, the Company has been encountering difficulties to retire some outstanding accounts payables in accordance with terms provided by vendors, and therefore expects that some liens will be placed and legal actions will be initiated. As at December 31, 2013, there were three liens placed against Bucko Lake Mine for a total amount approximately $0.4 million, and two statements of claims for a total of approximately $50,000 were received.

OUTSTANDING SHARE DATA

In September 2012, the Company consolidated its common share on the basis of one (1) post-consolidated common share for forty (40) pre-consolidated common shares. References to common shares, per share data, and other securities, including stock options and warrants, have been retroactively restated.

As at the date of this report, a total of 37,520,668 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, 109,750 remain outstanding with exercise prices ranging from $2.60 to $9.60, with expiry dates ranging from January 31, 2014 to June 22, 2016.

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.

As a result of the mine operation suspension at Bucko Lake Mine and downsizing in 2012, the Company modified its internal control over financial reporting. The Company's management team, including the Interim 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 downsizing have not materially affected, or are not reasonably likely to materially affect, the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as December 31, 2012 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 ability to continue as going concern; drilling program at Thomson Nickel Belt properties; the activation of the committed equity line; the increase of debt facility with Hebei Wenfeng;

foreign exchange rates; the timing for the construction of tailing facility and resumption of operations at Bucko Lake Min, 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.