



# **CaNickel Mining Limited**

## **ANNUAL INFORMATION FORM**

**For the year ended December 31, 2012**

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

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This annual information form contains forward-looking statements under Canadian securities legislation. Forward-looking statements include, but are not limited to, statements with respect to the Company's production, development potential and timetable of the Company's properties, including the Bucko Lake Nickel Mine; the future price of nickel and other minerals; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations; the realization of mineral reserve estimates; the timing and amount of estimated future production; future cash flow; future financing; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking statements 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 statements are 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 Bucko Lake Nickel Mine are based on assumptions underlying mineral reserve and mineral resource estimates and the probability of realizing such estimates that 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 development 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. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to: unexpected events and delays during construction, expansion and operation; variations in mineral grade and recovery rates; receipt and revocation of 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 minerals, particularly nickel; failure of plant, equipment or processes to operate as anticipated; reliance on joint venture partners and contractor service providers; 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 statements, 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 statements. The Company does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

## **DEFINITIONS AND GLOSSARY OF TERMS**

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In this annual information form, references to “CaNickel” or the “Company” mean CaNickel Mining Limited and the following abbreviations and defined terms are used:

“AIF”	means this annual information form.
“Audit Committee”	means the audit committee of the Board.
“Board”	means the Board of Directors of CaNickel.
“Common Shares”	means the common shares in the capital of the Company.
“Compensation Committee”	means the compensation committee of the Board.
“Corporate Governance and Nominating Committee”	means the corporate governance and operating committee of the Board.
“NI 43-101”	means National Instrument 43-101 – <i>Standards of Disclosure for Mineral Projects</i> of the Canadian Securities Administrators
“BCCA”	<i>Business Corporations Act</i> (British Columbia)
"OBCA"	<i>Business Corporation Act</i> (Ontario)

## **CURRENCY PRESENTATION AND NOTES ON INFORMATION**

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This AIF contains references to United States dollars and Canadian dollars. All dollar amounts referenced herein, unless otherwise indicated, are expressed in Canadian dollars and United States dollars are referred to as “United States dollars”, or “US\$”.

All information in this AIF is given as of December 31, 2012, unless otherwise indicated.

## **CORPORATE STRUCTURE**

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CaNickel was incorporated under the name Nootka-Zeballos Gold Mines Limited, under the laws of British Columbia on January 11, 1937, by registration of its Memorandum and Articles with the British Columbia Registrar of Companies. On December 13, 1937, Nootka-Zeballos Gold Mines Limited changed its name to Privateer Mine Limited. On January 29, 1959, Privateer Mine Limited changed its name to New Privateer Mine Limited. On June 6, 1995, New Privateer Mine Limited changed its name to Phrygian Mining Corporation, consolidated its common shares on a five-to-one basis and altered its post consolidation authorized share capital to consist of 100,000,000 common shares without par value. On August 12, 1998, Phrygian Mining Corporation changed its name to Crowflight Minerals Inc., consolidated its common shares on a three-to-two basis and altered its post consolidation authorized share capital to consist of 100,000,000 common shares without par value, 100,000,000 Class “A” Preference Shares with a par value of \$10.00 each and 100,000,000 Class “B” Preference Shares with a par value of \$50.00 each. On August 12, 1998, the Common Shares were listed on the Toronto Venture Exchange. On July 30, 2003, Crowflight Minerals Inc. filed Articles of Continuance pursuant to the OBCA to continue the Company from British Columbia to Ontario. Also on July 30, 2003, Crowflight amended its Articles to increase its authorized share capital to an unlimited number of common shares without par value, an unlimited number of Class “A” Preference Shares and an unlimited number of Class “B” Preference Shares. On June 21, 2004, Crowflight Minerals Inc. was registered as an extra-provincial corporation in the Province of Manitoba.

In December 2010, the Company changed its head office and registered office at 181 Bay Street, Suite 2500, Toronto, Ontario, M5J 2T7 and relocated its corporate office to 999 West Hastings Street, Suite 1655, Vancouver, British Columbia, V6C 2W2.

In June 2011, the Company, pursuant to the BCCA, continue the Company from the province of Ontario to the province of British Columbia and changed its name to CaNickel Mining Limited. The current registered office of the Company is located at 1500 Royal Centre, 1055 West Georgia Street, Vancouver, British Columbia.

In September 2012, the Company consolidated its common shares on a forty-to-one basis. All share and per share data herein have been retroactively restated to reflect the impact of this share consolidation.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

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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 the Thompson Nickel Belts, Manitoba. The Company's 100% own nickel mine, Bucko Lake Mine, was first declared commercial production in June 2009, but since then, it has been experienced two temporary suspension in October 2009 and 2010, and then resumed operations in April 2010 and 2011. As a result of the unfavourable nickel price, the Company decided to place Bucko Lake Mine on care and maintenance in July 2012.

CaNickel currently has one operational nickel mine, Bucko Lake Mine near Wabowden, Manitoba, and holds nickel, copper and platinum group mineral projects in the Thompson Nickel Belts, Manitoba. Commercial production at Bucko Lake Mine was declared in June 2009, but was suspended in October 2009. In April 2011, the Company resumed the mining operation at Bucko Lake Mine after its operation suspended in October 2010.

### **2013 Outlook**

Since Bucko Lake Mine was placed on care and maintenance in July 2012, the Company has been devoting substantial resources to run the care and maintenance program to ensure the environmental, health, and safety at Bucko Lake Mine. As the current nickel price is still below the point to allow the Company to achieve viable financial operations at Buck Lake Mine, the timing to resume the operations at Bucko Lake Mine is uncertain.

In 2013, the Company will continue to carry diamond drilling programs at Thompson Nickel Belts to expand the mineral resources of the satellite deposits of Bucko Lake Mine and expect that such satellite deposits would eventually to provide supplemental feed to Buck Lake Mine.

### **Three-Year History**

The following is a summary of the general development of the Company's business over the three most recently completed financial years.

#### ***Financial Year Ended December 31, 2012***

In October 2012, the Company completed and released CaNickel 2012 Technical Report which provides updated resources 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 since 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](http://www.sedar.com) and on the Company's website at [www.canickel.com](http://www.canickel.com) in due course.

In October 2012, the Company formed out AER-Kidd Property, a nickel project located in Sudbury, Ontario, 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 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.

In September 2012, the Company consolidated its common shares on the basis of one (1) post-consolidated common shares for forty (40) pre-consolidated common shares.

In July 2012, due to the unfavorable nickel price, the Company decided to place Bucko Lake Mine on care and maintenance. Dr. Dianmin Chen resigned from the Board and as the Chief Executive Officer of the Company and Mr. Wenfeng Liu, Chairman of the Board, assumed the responsibilities and acted as Interim Chief Executive Officer of the Company.

In May 2012, the Company received a stop work order from Manitoba's Workplace Safety and Health Division to cease blasting operations at Buck Lake Mine until all known open voids backfilled, the mining plan and operations were reviewed by an independent engineer, and a revision to the mining plan in light of the audit and review. In July 2012, the stop work order was lifted.

As a result of the implementation of long hole mining method and the improvement of mill recovery rate, the Company achieved positive cash flow from operations before net change in non-cash working capital during the first quarter ended March 31, 2012.

In March 2012, the Company entered into an amended agreement with Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), the largest shareholder of the Company, to extend the maturity date of the US\$5,000,000 loan the Company borrowed from Hebei Wenfeng from one year term to three year term expiring May 28, 2014.

In February 2012, the Company entered into an amended agreement with Luckyup Investment Limited ("Luckyup"), an arm's length party based in Hong Kong, to extend the maturity date of the US\$25,000,000 loan the Company borrowed from Luckyup from one year term to three year term expiring July 22, 2014.

In February 2012, the Company filed a preliminary shelf base short form prospectus with intention to activate a committed equity facility ("CEF") of \$20,000,000 the Company entered with Harvestock Master Fund in September, 2011. As a result of the disclosure review by the British Columbia Security Commission, the Company was placed on a default list, which was removed after the Company completed and filed an updated technical report in October 2012. The preliminary shelf base short form prospectus was withdrawn after the Company was placed on the default list, and the Company is evaluating if refilling a short form prospectus to activate the CEF if viable.

#### Financial Year Ended December 31, 2011

On December 29, 2011, due to the unfavourable nickel price and in order to reserve capital to complete the paste backfill plant construction and tailings facility expansion, the Company decided to scale down the operation at Bucko Lake Mine, but the decision was reversed as a result of the successful trial of long hole stoping mining method in January 2012.

In December 2011, the Company entered into an agreement with Luckyup to increase its one year term debt facility from US\$15 million to US\$25 million. This debt facility bears an interest rate of 12% per

annum.

In September 2011, the Company was granted by the Manitoba government a revised Environment Act License (the "Licence") to construct and operate a land based tailing management area (the "TMA") at its Bucko Lake Mine, Wabowden, Manitoba. The TMA is an expansion of the existing Interim Tailing Storage Facility (the "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.

In September 2011, the Company entered into an equity financing agreement with Haverstock Master Fund, Ltd. ("Haverstock"), a fund managed by Haverstock Manager, LLC., to secure access to funds on an as-needed basis for up to \$20 million through a Committed Equity Facility ("CEF"). The CEF enables the Company, over a period of 36 months, to receive the greater of \$500,000 and the average daily trading dollar volume for the five days preceding a draw down notice issued by the Company under the CEF for each drawdown, subject to the amount remaining on the CEF. The timing of any drawdown is at CaNickel's sole discretion and the Company is able to set a minimum price (the "Floor Price") of each drawdown. Pursuant to the terms of the CEF, CaNickel will issue Commons Shares to Haverstock at a price equal to, as applicable: (i) 93% of the Market Price (defined herein), if the Market Price is \$0.15 and above, or (ii) 90% of Market Price if the Market Price is below \$0.15 and, (iii) 95% of the Market Price if the Market Price is above \$0.75. The "Market Price" is the higher of (i) the volume weighted average trading price of the Common Shares for each trading day during the five consecutive trading days subsequent to the date of the drawdown notice under the CEF and (ii) the Floor Price. The distribution of any Common Shares under the CEF must be qualified by a prospectus. Prior to the exercise of any draw down under the CEF, CaNickel would file a final base short form prospectus and a prospectus supplement describing the CEF and the Requested Relief. In the case of each drawdown, a separate pricing supplement will be filed describing the terms of the particular drawdown. The facility cannot be drawn down until CaNickel and Haverstock have received such exemptive relief and CaNickel has filed and had a receipt issued for its final shelf prospectus and has filed the related prospectus supplement in connection with the facility and the pricing supplement for each drawdown. Any issuances of Common Shares under the CEF will also be subject to the approval of the Toronto Stock Exchange. Haverstock may resell any Common Shares at its discretion, through registered dealers trading through the Toronto Stock Exchange. CaNickel is under no obligation to draw from the CEF and remains at all times free to enter into other financing transactions with the exception of similar transactions. In consideration for entering into the CEF, CaNickel has agreed to pay Haverstock an implementation fee of \$200,000 and issue two promissory notes to Haverstock in the amount of \$100,000 each.

In July 2011, the Company entered into one year term debt facility of up to US\$15 million with Luckyup with intention to use the funds to meet capital investment needs to complete the construction of paste backfill plant and the expansion of tailing facilities. The debt facility bears an interest rate of 12% per annum.

In May 2011, the Company entered into one year term debt facility of up to US\$5 million with Hebei Wenfeng. The debt facility bears an interest rate of 10% per annum and the Company is required to pay 2% of any funds drawn down under the debt facility as structuring fee to Hebei Wenfeng. Hebei Wenfeng, an insider of the Company, who, together with its affiliated entity, King Place Enterprises Limited ("King Place"), owned approximately 37.6% of the issued and outstanding shares of the Company. The debt involves no equity or voting component and therefore was exempt from related party transaction requirements of Multilateral Instrument 61-101.

In April 2011, the Company resumed the mining operation at its 100% owned Bucko Lake Mine.

In April 2011, the Company received majority disinterested shareholders' written consent and issued 258,819,703 common shares of the Company to King Place to retire all outstanding convertible

debentures and accrued interest of \$11,310,421 the Company owed to King Place. Pursuant to the terms of the Convertible Debentures Notes, the conversion price was \$0.0437 per share, which was the price equal to the volume weighted average price of the Company shares on the five trading days (from March 15 to March 21, 2011) less the permitted discount of 25%.

In March 2011, the Company completed a private placement financing and received gross proceeds of \$30 million. The Company signed subscriptions for 600 million Units at a subscription price of \$0.05. Each Unit consists of one common share and one-half share purchase warrant ("Warrant") and each Warrant entitled the holder to acquire one additional common share for a period of two years at a price of \$0.10. No investor in this financing would hold more than 10% of the Company's 1.24 billion shares then outstanding on the closing of this financing. A finder's fee of 10% of the gross proceeds placed was paid to an arm's length party, and the net proceeds was expected to be used to bring all accounts payable current, retire portion of convertible debentures, and to acquire necessary mining equipment to resume the mine operation at Bucko Lake Mine and for its general working capital.

#### Financial Year Ended December 31, 2010

In December 2010, upon completion of the private placement in the form of a convertible debenture issued to King Place in the principle amount of the \$10 million, the Company restructured its Board of Directors and management team.

On October 1, 2010, CaNickel announced that it was temporarily suspending ore production mining operations at the Bucko Lake Nickel Mine in order to facilitate the introduction of its own underground mining equipment and team and to make adjustments to address certain operational issues.

On September 23, 2010, CaNickel announced a private placement financing in the form of a convertible debenture issued to King Place in the principal amount of \$3 million (the "Convertible Debenture"). The Convertible Debenture shall mature on the date that is six months from the date of issue. Amounts owing under the Convertible Debenture shall be unsecured and interest shall accrue at a rate of 10% per annum, compounded annually. The Convertible Debenture holder shall be entitled to convert amounts owing into common shares of CaNickel at a price equal to the five-day Volume Weighted Adjusted Price (VWAP) on the Toronto Stock Exchange (the "TSX") at the time of conversion less the maximum discount allowed under TSX regulations, subject to the Company not issuing an aggregate of more than 58,356,471 common shares of CaNickel in total pursuant to the Convertible Debenture and the convertible debenture of the Company issued to King Place on September 3, 2010, without prior approval from a simple majority of disinterested shareholders. In addition, King Place holds a pre-emptive right to maintain its 42.5% interest (see press release of September 3, 2010).

On August 26, 2010, CaNickel issued and sold a convertible debenture (the "Convertible Debenture") to King Place in the principal amount of \$10,050,000 (see press release of August 27, 2010). The Convertible Debenture shall mature on February 27, 2011. Amounts owing under the Convertible Debenture shall be unsecured and interest shall accrue at a rate of 10% per annum, compounded annually. The holder shall be entitled to convert amounts owing under the Convertible Debenture into common shares of CaNickel at a price equal to the five-day Volume Weighted Adjusted Price (VWAP) at the time of conversion less the maximum discount allowed under Toronto Stock Exchange regulations at the time of conversion. However, King Place may not convert any portion of the amounts outstanding hereunder in excess of the amount that would result in the obligation to issue an aggregate number of shares exceeding 58,356,471 Common Shares without prior approval of disinterested shareholders. King Place, who purchased the Convertible Debenture, is the largest shareholder of CaNickel. King Place owns and controls a total of 247,029,971 common shares and 50,588,235 warrants of CaNickel prior to this private placement, or 42.5% of the issued and outstanding common shares of CaNickel on a non-diluted basis. CaNickel previously issued and sold a non-convertible debenture in the principal amount of \$5,050,000 to King Place (see press release of August 9, 2010), which was cancelled and replaced by the \$10,050,000 Convertible Debenture.



On April 6, 2010, the Company received an offer from Jinchuan Group Ltd. ("Jinchuan") to acquire all of the common shares of CaNickel in consideration for an aggregate cash payment of \$150,000,000. Based on the number of CaNickel common shares outstanding at the time of the announcement, this Offer equates to approximately \$0.26 per common share. The Offer represents a premium of 47.3% to the closing price on the Toronto Stock Exchange for the Company's common shares on April 2, 2010 and a premium of 56.8% to the 20 day volume weighted average trading price. On a partially diluted basis, taking into account the outstanding convertible securities of the Company that have an exercise price of equal to or less than \$0.22, the Offer equates to approximately \$0.22 per share. On this basis, the Offer represents a premium of 27.0% to the closing price on the Toronto Stock Exchange for the Company's common shares on April 2, 2010 and a premium of 35.1% to the 20 day volume weighted average price. Please see press release dated April 6, 2010. The Offer was premised on Jinchuan obtaining 100% of the offtake from the Bucko Lake Mine and any of the CaNickel exploration properties that are subsequently placed into production and remained valid August 31, 2010. Subsequent to the receipt of the offer, negotiations continued between representatives of the Company and Jinchuan, but were terminated in September 2010.

On March 22, 2010, the Company announced that it had re-commenced shipments of nickel concentrate from the Bucko Lake Nickel Mine. This marked the first shipment of nickel concentrate since operations at the Bucko Mine had been suspended in November 2009.

On February 19, 2010, the Company completed a private placement financing for gross proceeds of approximately \$11,552,000. CaNickel issued an aggregate of 72,200,000 common shares of the Company at a price of \$0.16 per share. The Company stated that the purposes of the net proceeds of the financing was to fund the continued ramp up of the Bucko Lake Mine in the Thompson Nickel Belt, Manitoba and for general corporate and working capital purposes.

In January 2010, the Company received a non-binding expression of interest (the "Expression of Interest") from Pala Investments Holdings Limited ("Pala") regarding the direct or indirect acquisition of the Bucko Lake Nickel Mine and certain surrounding exploration areas held by CaNickel in the Thompson Nickel Belt, including the M11A and Apex deposits (collectively, the "Bucko Assets"). In consideration for the purchase of the Bucko Assets, Pala proposed that it would pay to CaNickel the sum of \$101.9 million. If the acquisition were completed, the Company would cancel the 116,079,971 common shares and 50,588,235 share purchase warrants of CaNickel held by Pala at the time in consideration for \$29.88 million, providing an aggregate net payment from Pala to the Company of \$72.0 million. In addition to receiving the cash consideration, CaNickel would retain certain exploration mineral properties of the Company, including the Bowden Lake, Halfway Lake and Manibridge deposits located in Manitoba as well properties within the Sudbury district namely, the AER Kidd property and the Peter's Roost property (collectively, the "Exploration Assets"). The expression of interest was non-binding and subject to a number of conditions, including the negotiation and execution of a definitive agreement, receipt of requisite board, shareholder and regulatory approvals and Pala being satisfied with its due diligence review of the Bucko Assets. Due to offer from Jinchuan, in April 2010, Pala terminated the discussion relate to the non-binding expression of interest.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

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### *General*

CaNickel owns a 100% interest in the Bucko Lake deposit and operates a mine and mill complex on the Bucko Lake Mine site near Wabowden, Manitoba. The Company maintains an interest in a variety of grass roots and advance-staged exploration properties in the Thompson Nickel Belt, Manitoba.

In April 2011, the Company started to employ its own mining equipment and mining crew for the mining operations at Buck Lake Mine and achieved approximately \$9.6 million and \$9.4 million, respectively, revenue from the sales of nickel concentrates for the year ended December 31, 2012 and 2011.

Due to the unfavorable nickel price, Bucko Lake Mine as currently placed into care and maintenance.

### Suppliers

The Company spends a significant percentage of its financial resources to procure goods and services in support of its business activities. Principal goods and services include labour and contractor personnel, maintenance and repair parts and services, electricity, fuel and lubricants, ground support materials, explosives, tires, chemical reagents and ventilation supplies. The Company uses suppliers or independent contractors for a portion of the equipment rebuilds and repairs both on and off-site, as well as for construction activities.

### Competitive Conditions

The base metals mineral exploration and mining business is highly competitive. CaNickel competes with numerous other companies for the discovery and acquisition of mineral rich properties that can be developed and produced economically, the technical expertise to find, develop, and operate such properties, the labour to operate the properties, and the capital for the purchase of such properties. Many of these companies are substantially larger and have greater financial resources than the Company.

### Offtake Arrangement

The Company's primary product is nickel concentrate. CaNickel has a concentrate sales agreement with Xstrata Nickel Inc. pursuant to which the Company has agreed to sell, and Xstrata Nickel Inc. has agreed to purchase, 100% of the nickel concentrate produced at the Bucko Lake Mine at commercially competitive terms during the life of the Bucko Lake Mine.

### Environmental Protection

The operations of the Company, are subject to extensive federal, provincial and local laws and regulations governing; environmental protection, employee health and safety, exploration, development, tenure, production, taxes, labour standards, wastes disposal, toxic substances and other matters. CaNickel is also 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 mine, mill facility and power supply line have been established on a previously disturbed site. CaNickel 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 CaNickel to consider alternative solution for tailings disposal. A Notice of Alteration (NOA) to its original *Environmental Act* Licence Proposal in December 2007 to include the provision for an interim (land-based) tailings storage facility (ITSF) was submitted and approved. CaNickel has received its *Environment Act* License from the Province of Manitoba to permit CaNickel to commence production at the Bucko Lake Nickel Mine in Manitoba. In September 2011, the Company was granted by the Manitoba government a revised Environment Act License (the "Licence") to construct and operate a land based tailing management area (the "TMA") at its Bucko Lake Mine, Wabowden, Manitoba. The TMA is an expansion of the existing ITSF and has a footprint of approximately 68.5 hectares to store all tailing from Bucko Lake Mine for the remainder of its existing mine life. Environmental studies indicated that the TMA would have a net benefit in relation to environmental impact, eliminating the need for sub-aqueous deposition of the tailing into Bucko Lake Mine. The construction of the TMA is to be carried in two phases and the phase I construction was completed in March 2012. The phase II construction is currently on hold as Buck Lake Mine is on care and maintenance.

## Employees

As at December 31, 2011, the Company employed a total of 20 employees from across Canada to run the care and maintenance program at Bucko Lake Mine as well as corporate office and exploration program administration. When Bucko Lake Mine was in full operations, a total of 152 employees on an average basis were employed and the average employees employed by the Company in 2012 were 72.

## **Risks of the Business**

Investing in the Company involves risks that should be carefully considered. The operations of the Company are speculative due to the high-risk nature of its business. Investors should be aware that there are various risks, including those discussed below, that could have a material adverse effect on, among other things, the operation of the Bucko Lake Mine, and the operating results, earnings, business and condition (financial or otherwise) of the Company. See “Cautionary Statement Regarding Forward-Looking Information”.

## Nature of Mining, Mineral Exploration and Development Projects

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

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

Although Bucko Lake Mine was declared commercial production in June 2009, the Company temporarily suspended production operations in November 2009 to focus on ramp development, mine development and installation of the backfill plant. Milling operations subsequently resumed in March 2010, but was suspended again in October 2010 in order to facilitate the introduction of its own underground mining equipment and team and to make adjustments to address certain operation issues. Operation at Bucko Lake Mine re-commenced in April 2011, but the operations were affected by a number of issues, such as late delivery of mining equipment, issues left over from previous operation, and unfavourable nickel price. On December 29, 2011, the Company decided to scale down the operations at Bucko Lake Mine in order to reserve capital to complete the construction of paste backfill plant and the expansion of tailing facility. Although the decision of reduced operation was reversed in January 2012 as a result of the successful trial of long hole stoping mining method and the improvement of mill performance, the Company decided to place the Bucko Lake Mine on care and maintenance in July 2012 due to the unfavorable nickel price. The timing to resume the operations at Buck Lake Mine is uncertain and mainly depends on the nickel price. There is also no assurance that the mine can be operated at the designed capacity and financial viable, particularly in light of its past operational history

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible,

during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable mineral reserves through drilling. Due to these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that the expenditures made towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

### Going Concerns and Future Financings

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 price, the Company decided to put Buck 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, and proceeds from disposal of some mining equipment.

In the meantime, the Company is also evaluating if the Company will continue to file a base shelf short form prospectus to active the CEF. 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.

### Nickel Prices

The Company is focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. The Company's future profitability is largely dependent on movements in the price of nickel. Nickel prices have historically been volatile and are primarily affected by levels of industrial production in addition to production supply/demand balance. Given the historical volatility of nickel prices, there are no assurances that the nickel price will remain at economically attractive levels. A decline in nickel prices would be expected to adversely affect the business of the Company and could affect the feasibility of the Company's projects. Many nickel projects have been placed on care and maintenance due to the impact of decreased nickel prices since the financial crises in 2008. If nickel prices decrease further and below the economically attractive levels, or CaNickel has difficulty in maintaining sufficient cash resources to maintain operations, CaNickel will have to consider placing the Bucko Lake Mine on care and maintenance.

Nickel prices are also affected by several other factors beyond the Company's control, including the relative exchange rate of the U.S. dollar with other major currencies, global and regional demand, political and economic conditions, production levels and costs and transportation costs in major nickel producing regions. If as a result of a decline in nickel prices, revenues from nickel sales were to fall below cash operating costs, the feasibility of continuing development and operations would have to be evaluated and if warranted, could be discontinued.

### Foreign Exchange

Nickel and other material are sold in U.S. dollars thus the Company is subject to foreign exchange risks relating to the relative value of the Canadian dollar as compared to the U.S. dollar. To the extent that the Company generates revenues, it will be subject to foreign exchange risks as revenues will be received in U.S. dollars while operating and capital costs will be incurred primarily in Canadian dollars. The Company does not currently hold any currency hedges. A decline in the U.S. dollar would result in a decrease in the real value of the Company's revenues and adversely impact the Company's financial performance.

### Mineral Resource and Mineral Reserve Estimates May be Inaccurate

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves. Such estimates are a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of nickel from such deposits may be different. Differences between management's assumptions, including economic assumptions such as metal prices, market conditions and actual events could have a material adverse effect on the Company's mineral reserve estimates, financial position and results of operations. The results of historical production activities called into question the estimated grades at the Bucko Lake Mine upon which the mineral reserve and mineral resource estimates were based. Although the Company has completed additional analysis and continues to believe that the estimated grades are accurate, this could result in a significant adverse impact on the potential profitability of the mine if the Company cannot realize the estimated grades.

### Licenses and Permits, Laws and Regulations

The Company's exploration and development activities, including mine, mill, road, rail and port facilities, require permits and approvals from various government authorities, and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, transportation, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more time-consuming and costly. In addition, the Company may be required to compensate those suffering loss or damage by reason of its activities. There can be no guarantee that the Company will be able to maintain or obtain all necessary licenses, permits and approvals that may be required to explore and develop its properties, commence construction or operation of mining facilities. The failure of compliance with federal, provincial, and local laws and regulations could result in a partial, temporary or even complete cessation of the mining operations at the Bucko Lake Mine.

### Environmental

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

### Title to Properties

The acquisition of title to resource properties is a very detailed and time-consuming process. The Company holds title to the Bucko Lake Mine through mining claims. Title to, and the area of, the mining claims may be disputed. There is no guarantee that such title will not be challenged or impaired. There

may be challenges to the title of the properties in which the Company may have an interest, which, if successful, could result in the loss or reduction of the Company's interest in the properties.

CaNickel's interest in the Bucko Lake mining lease is subject to a back-in right held by Xstrata Nickel Inc. In the event that CaNickel 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 CaNickel of an amount equal to the aggregate of all direct expenditures that were incurred by CaNickel in carrying out mining operations on the Bucko Lake Lease outside of the Bucko resource block prior to the date of exercise of the back-in right. Accordingly, the potential benefit to CaNickel of any discovery of a significantly increased deposit will be limited to a 50% interest in the project.

#### Uninsured Risks

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

#### Competition

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

#### Dependence on Outside Parties

The Company has relied upon consultants, engineers, third party contractors and others and intends to rely on these parties for development, construction and operating expertise. Substantial expenditures are required to develop and construct mining related facilities, to develop mining plan and ground support procedures, to establish mineral reserves through drilling, to carry out environmental and social impact assessments, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the exploration and plant infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on the Company.

#### Qualified Personnel

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the exploration, development, and mining activities is limited and competition for this workforce is generally intense. The operations of the Company may be significantly delayed or otherwise adversely affected if the Company cannot recruit and retain qualified personnel as and when required.

#### Availability of Reasonably Priced Raw Materials and Mining Equipment

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

### Failure to Meet Production Targets and Cost Estimates

Although commercial production at Bucko Lake Mine was declared in June 2009, the mine operation has never been reached its designed and planned production capacity. Due to numerous reasons, operations at Bucko Lake Mine have been experiencing a cycle of startup and suspension, and then restart-up and suspension since 2009. Also, the cash cost of production is frequently subject to great variation from one year to the next due to a number of factors, such as ore grade, metallurgy, cost of supplies and services (for example, electricity and fuel) and the exchange rate in the case of supplies and services denominated in foreign currencies. If these costs used in connection with the Company's operations were to increase significantly, and remain at such levels for a substantial period, the Company's cash flows from operations may be negatively affected. Although the Company prepares estimates of future production and unit cash costs of production annually, no assurance can be given that such estimates will be achieved. Failure to achieve production or cost estimates or material increases in operating or capital costs could have an adverse impact on the Company's future cash flows, profitability, results of operations and financial condition.

### Share Price Fluctuations

The market price of securities of many companies experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. Over the past 52 weeks, the share price of the Company ranged from \$0.11 to \$1.60 per share, and since the Company placed Bucko Lake Mine on care and maintenance, the common shares of the Company were trading approximately 70% below the 52-week high. There can be no assurance that fluctuations in the Company's share price will not continue.

### Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other companies and, to the extent that such other companies may participate in ventures in which the Company may participate or consider opportunities that may be of interest to the Company, the directors of the Company may have a conflict of interest. In particular, and without limitation, the Company entered into a management service agreement with a corporation controlled by Wenfeng Liu, a director of the Company, which the corporation provides administrative service, office space, and equipment rental to the Company. Conflicts of interest have the potential to call into question the good governance of the Company and can also result in additional time and costs reviewing and implementing transactions involving a conflict.

### Land Reclamation

Although they vary, depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies, as well as companies with mining operations, in order to minimize long term effects of land disturbance. Reclamation may include requirements to control dispersion of potentially deleterious effluents and to reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out reclamation obligations imposed on the Company in connection with its mineral exploration and mining operations, the Company must allocate financial resources that might otherwise be spent on further exploration programs.

### Bucko Lake Mine Nickel Concentrate Sale Agreement

The Company entered into a sale agreement with Xstrata Nickel that provided that the Company will sell 100% of the Bucko Lake nickel concentrate to Xstrata Nickel on commercially competitive terms over the life of Bucko Lake Mine. There can be no assurance that "commercially competitive terms" will be favourable to the Company, given the state of the nickel market. As the Company has agreed to sell 100% of the Bucko Lake nickel concentrate to one customer, should Xstrata Nickel breach the sale agreement or

encounter financial difficulties and be unable to perform its obligations under the sale agreement, the Company's financial position could be negatively impacted.

## **DESCRIPTION OF THE BUCKO LAKE PROPERTY**

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**The information in this section has been derived in part from and based on the assumptions, qualifications and procedures set out in the “NI 43-101 Technical Report regarding Update to Reserves and Resources for the Bucko Lake Nickel Project, Wabowden, Manitoba” (the “Technical Report”), prepared by Lane A. Griffin, P.Geo, Paul L. Martin, P.Eng., and Chris C. Brioli, P. Geo., dated October 19, 2012. Each of the authors is independent from the Company and a Qualified Person under NI 43-101. The Technical Report is available on SEDAR at [www.sedar.com](http://www.sedar.com). See “Interests of Experts”, “Risk Factors - Mineral Resource and Mineral Reserve Estimates May be Inaccurate” and “Cautionary Statement Regarding Forward-Looking Information”.**

### **Property Description and Location**

The Bucko Lake property is located approximately 4.5 km southwest of the town of Wabowden, Manitoba, 1116 km southwest of Thompson, Manitoba or 657 km north of Winnipeg, Manitoba on Highway 6

The Bucko Lake Property consists of a single mineral lease (ML-031) which covers 557 hectares (Ha). All mineralized zones, mineral resources, mineral reserves, mine workings and current and proposed tailings and waste rock deposition areas are located within the boundary of this lease. In Manitoba the ML-031 lease has a 21 year term and requires the party holding such lease make annual payments of CAD \$10.50 per hectare if in production or CAD \$12.00 per hectare if not in production. Mining leases which terminate after the initial 21 year period can be renewed for an additional 21 year period on into perpetuity through the payment of the annual per hectare fee. One of the conditions required of recording a mining lease is that the boundary of the area under application be surveyed by a Manitoba Land Surveyor. Mining lease ML-031 was recorded in 1992 and is up for renewal in April 2013. CaNickel also maintains surface rights for Mining Lease 031 under a separate lease agreement with the Province of Manitoba ensuring no restriction to access or development on the property.

CaNickel's 100% interest in ML-031 is subject to a Back-in-Right whereby should CaNickel outline a Threshold Deposit-a new deposit (outside of currently known Bucko Resources) exceeding 200 million pounds (90.9 million Kg) of nickel in Measured and Indicated reserves, Xstrata would have the right to Back-In for a 50% interest and to become the operator of the Threshold Deposit by paying to CaNickel an amount equal to the aggregate of all direct expenditures which were incurred by CaNickel in carrying out mining operation on the Bucko Lake Lease outside of the Bucko Lake Resource Block prior to the date of exercise of the Back-In Right.

Under the terms of the Lease Transfer Agreement production from the property is subject to a 2.5% Net Smelter Royalty payable to Xstrata net of all charges and penalties for smelting and refining, insurance premiums, and sampling and assay charges incurred after the minerals, metals or metal concentrates have left the site. If the cash quotation from the London Metal Exchange is less than \$6.00 per pound for Nickel Grade A in any month then proceeds from this Net Smelter Payment would not apply.

### **Accessibility, Climate, Local Resources, Infrastructure and Physiography**

The property is accessible from Provincial Highway 6 and a network of all weather gavel roads and seasonal trails extending from the Highway, and surrounding infrastructure associated with the town of Wabowden which is located centrally within the project area.



The climate is typical of northern areas within the Canadian Shield with long winters and short warm to hot summers. Average temperatures range from a low average of -25 degrees centigrade in January to a high average of 17 degrees centigrade in July. The average number of frost free days is 104. The annual precipitation average 315 cm of rain and 147.5 cm of snow. For most purposes the site can be considered an all weather operation except for temporary unusual weather conditions.

The HBR (Omnitrax) Rail Line to Churchill and a major electric transmission line heading south along Hwy 6 transect the project area.

Fresh water make-up is supplied by a combination of water from Bucko Lake and underground diamond drill holes from underground. Recycling systems are established to reuse water from the underground operations and the tailings facility to reduce additional water consumption from the make-up sources.

## **History**

Consolidated Marbenor Mines Limited (CMML) first acquired the lands containing the Bucko Lake deposit in 1959 and subsequently optioned the property to Falconbridge in 1962 after drilling hole M77-B which intersected 1.54% Nickel over 6.3m. CMML and Falconbridge conducted numerous follow-up ground and airborne-based magnetic, electromagnetic, seismic refraction and induced polarization surveys on the claims.

In 1964 the Bucko Lake mineralization was discovered with a drill program that tested geophysical drill targets. After a 53 hole program in 1970 with over 21,000m of work was completed a decision was made to go underground and run an exploration program at depth. In 1971-72 an all-weather access road was developed and a three compartment shaft was sunk to 356.6m below the surface. Over 900m of drift was developed on the 305m (1000 ft) level and a diamond drill program of 61 holes with over 12,000m of drilling. In 1974 the shaft was capped, allowed to flood and the site demobilized.

Not until 1990 was work begun again on the property when additional geophysical surveys were conducted and 9 holes were completed totaling 6880m of drilling. Nuinsco Resources Ltd. conducted a due-diligence drilling program in 2000 testing the continuity of mineralization and followed up with additional drilling in 2001 for a total of over 7100m of work.

CaNickel became involved with the project in 2004 with operating partner Falconbridge and conducted surface diamond drilling. During this period 77 holes totaling 32,246 meters were drilled to in-fill areas of known mineralization, expand resources and reserves, and to obtain bulk sample material for metallurgical testing. In 2008, CaNickel conducted underground infill drilling on the 1000 foot (304.8 m) level to delineate reserves in areas of planned initial production as well as increase the geotechnical database for ground conditions. CaNickel achieved first production from the Bucko Lake Mine in September of 2008.

Underground operations have continued but occasional slowdowns have occurred as many startup operations experienced. On December 29, 2011 a reduction in operations occurred due to unfavorable nickel prices in an effort reduce operational costs and preserve capital and was in effect until April when work ramped back up to full capacity.

Full production of the Bucko Lake Property was achieved in the first quarter of 2012 having mined over 60,000 tonnes of ore and milled 54,000 tonnes to produce over a million pounds(453,590 kg) of nickel. CaNickel sold just over 900,000 pounds (408,230 kg) of nickel and an average selling price of \$8.65 US per pound for \$7.8 million dollars US. During this time they also completed construction of Phase 1 of the tailings management area. The month of March saw a milestone as the mill achieved a record recovery rate of 79.1%.

On May 16, 2012 CaNickel received a stop work order from Manitoba's Workplace Safety and Health

Division to cease blasting operations at the company's Bucko Lake Mine. The stop work order was lifted in June, 2012 and known voids have been backfilled and the current mining plan is revised to correct the ground condition issues. Moreover, as a consequence of weakening nickel prices and higher mining costs experienced by the company using cut and fill mining methods, CaNickel decided to place the Buck Lake Mine on care and maintenance in July 2012.

## **Geological Setting and Mineralization**

### Regional Geology

The Bucko Lake mine is located within the Thompson Nickel Belt, a northeastern trending zone 10-35km wide and 100km long zone of variably reworked Archean basement gneisses and early Proterozoic cover rocks between the Superior and Churchill Provinces in northern Manitoba.

Strong gravity and magnetic expressions allow delineation of the belt and permit its extension beneath platformal cover. It is comprised of gneisses, metasedimentary, metavolcanic and ultramafic rocks and felsic plutons. The metasedimentary, metavolcanic and ultramafic rocks and associated nickel deposits are located on the western side of the belt.

The intermediate to felsic gneisses are stratiform in nature and have a complex tectonic and metamorphic history. They also have an earlier Archean granulite facies and a pervasive retrograde Proterozoic amphibolites facies metamorphism. Of the two structural events identified an earlier folding produced tight sub-horizontal plunging synclinal structures and the later cross folding produced sub-vertically plunging folds.

The metavolcanic pile consists of pillowed and massive metabasaltic flows. They are recrystallized to amphibolites and no primary textures are evident. Magnesium metabasalts and minor ultramafic flows are also associated with these flows. Field relationships suggest that the metavolcanic rocks are coeval with the metasedimentary rocks. The ultramafic rocks have been divided into serpentinites and ultramafic amphibolites. Serpentinites occur as sheet-like or lenticular concordant bodies in the gneisses and they range from dunite to peridotite in composition. The ultramafic amphibolites also occur as lenticular concordant bodies in the gneisses. The general character of the ultramafic rocks suggest that they were originally intruded as sills and are early "Hudsonian" or "pre-Hudsonian" in age.

The present producer is Vale at their Birchtree and Thompson underground mines and the Thompson open pit mine. Past producers include the Pipe, Soab, and Manibridge deposits. The nickel deposits are genetically and spatially related to the serpentinite sills. Their present distribution is the result of remobilization during the long and complex tectonic history of the Thompson Belt. Sulfides occur as interstitial grains in the serpentinites, as massive and inclusion bearing sulfides on the contact between the serpentinites and the country rocks and as stringers or veins in the serpentinites and country rocks.

### Local Geology

The Bucko Lake property is underlain by Archean gneisses and Proterozoic ultramafic intrusive rocks. The Archean magmatic gneisses have been subdivided into granite gneiss, amphibole gneiss and amphibolite.

The Archean gneisses were intruded by Aphebian ultramafic sills including the Bucko Lake Ultramafic which hosts the nickel mineralization on the property. The Bucko Lake Ultramafic sill is on the northeast flank of the Resting Lake intrusion. The footwall contact of the deposit comes in close contact to granodiorite gneiss associated with this intrusion.

The Bucko Lake ultramafic sill is primarily composed of metamorphosed peridotite and dunite with lesser amounts of olivine orthopyroxenite, poikilitic harzburgite, orthopyroxenite and amphibole bearing peridotite. It has been interpreted as a hook shaped body dipping steeply (75- 80 degrees) to the east. It is approximately 20m wide at the south end, gradually increasing to over 150m wide at the north end where it wraps around the nose of a synformal fold structure plunging steeply to the south. A strike length of approximately 800m has been determined from its north-south trace on the surface.

Contacts of the ultramafic rocks with the surrounding country rocks are usually obscured by alteration, shearing or late stage pegmatite dikes. Blocks of amphibolite rich gneiss called plagioclase amphibole occur in the northern part of the ultramafic sill. The larger xenoliths occur within a distinct bulge or keel in the footwall of the ultramafics adjacent to the Hinge Zone. These blocks appear to be xenoliths of country rock incorporated into the sill during its emplacement.

The sill has undergone two stages of metasomatic alteration. The serpentinization of the olivine was first with concurrent alteration of the orthopyroxene to anthophyllite, tremolite and phlogopite. The next stage of alteration was superimposed on the serpentinized ultramafics and occurs as envelopes around pegmatite dikes and fractures. The envelopes range from centimeters to meters in width and consist of an outer zone of talc and tremolite, a central zone of fibrous tremolite and an inner zone of phlogopite and minor anthophyllite.

## **Exploration**

Surface work is very restricted on the nickel prospects in this part of Manitoba because of limited rock exposures. Lakes cover much of the area and initial exploration along the Thompson Nickel belt relies largely on ground and airborne geophysical surveys (mainly gravity and magnetics) to locate areas of potential nickel mineralization.

The Bucko Lake Project has been actively explored since 1959, mainly by Falconbridge Ltd. and Crowflight Minerals. Beginning in 1962, Falconbridge conducted numerous follow up geophysical surveys with some additional surveys done in 1990, specifically ground and airborne magnetic and electromagnetic (EM) surveys. In addition, many down-hole EM surveys were done on selected drill holes. The final geophysical surveys were done in 2004.

Initial exploration drilling began in 1962 with diamond drill core holes on the east side of Bucko Lake. In 1972 a decline shaft was sunk to 305 meters depth, after which the drilling consisted solely of underground drill holes designed to follow the nickel mineralization to depths of 800 meters. A report by P&E Mining Consultants Inc. in 2005 entitled “Technical Report and Resource Estimate on the Bucko Lake Property, The Pas Mining District, Manitoba, Canada” provided resource estimates for the mineralization discovered up to then and highlighted several areas where additional drilling could result in expansion of the resource. Crowflight began extensive drilling in 2006 to verify the location, shape and quality of this mineralization to enhance the economics of the project. The same year (2006) Micon reported a reserve for the Bucko Lake Project in a report entitled “Feasibility Study for the Bucko Lake Nickel Deposit, Wabowden Manitoba” and in the following year (2007) Micon produced an updated report entitled “Technical Report on the Updated Bucko Lake Nickel Project Feasibility Study, Bowden, Manitoba.”

As of early 2009, surface and underground diamond drilling at Bucko Lake consisted of 157 holes totaling 45,929 meters. In mid-2010, CaNickel drilled infill and exploration holes to further define and expand the resources, but no surface or underground drilling has been done since then.

## **Mineralization**

Three areas of nickel mineralization are currently recognized within the Bucko Lake deposit.

- The West Limb or western limb of the structure. The Lower, Middle, and Upper Zones follow interpreted continuity in elevated mineralization between drill intercepts through corresponding portions of the intrusion. Two corridors of elevated nickel within this area are referred to as the North and South trends.
- The Hinge Zone occupies the “hinge” area between the western and eastern fold limbs and represents the northernmost portion of the deposit and consists of three zones of mineralization interpreted to be folded extensions to the Lower, Middle, and Upper Zones observed on the West Limb.
- The Footwall Zone represents a new mineralized horizon that was intersected during the course of infill drilling and driving footwall development on the 1,000 foot (308.4 m) level in 2008. This zone is interpreted to tie within mineralization intersected by historical exploration drill holes near the southern limit of drilling on the 1,400 foot (426.7 m) level.

Wide zones of lower grade disseminated mineralization (usually >1.0% Ni) typically envelope higher grade net textured to semi-massive sulphide layers or shoots (>3% Ni) within segregated portions of the ultramafic intrusion. Mineralization consists of disseminated to net textured sulfides containing (in order of relative abundance) pentlandite, pyrrhotite, mackinawite, pyrite, and chalcopyrite.

A network of remobilized sulphide veinlets ranging from the millimeter to several meter scale are associated with a fracture controlled talc/tremolite/phlogopite/anthophyllite alteration network that overprints the intrusion. Sulfides are also observed along altered contacts with pegmatite dykes cross-cutting the intrusion.

## **Drilling**

CaNickel has conducted a number of drill programs on the Bucko Lake property. It has completed infill drilling with the goal of further defining the resources at the project. A total of 625 holes totaling 143,645 meters diamond drilling were completed at Bucko Lake property since 1962.

Drilling was completed from both surface and underground collar locations. Holes drilled from surface typically collected NQ diameter core. The majority of surface drill holes were surveyed by DGPS and recorded as UTM coordinates using a NAD 83 Zone 14 projection system. The collar positions are then converted to a local mine coordinate system using an orthographic projection system based on an assigned shaft elevation of 304.8 meters. The eastings and northings are translated without rotation by subtracting 520,000 meters from the UTM Easting and 6,000,000 from the UTM Northing. This local grid system is used for surface and underground engineering design and resource modeling. Underground drill hole collars are spotted and aligned prior to completion using standard underground survey methods and picked up again following completion of drilling at each set-up.

Downhole surveying of all drill holes was completed in all holes at a 30 metre intervals using an electronic single shot survey instrument, such as Reflex ZS-Shot or Flex-it, which accurately measures azimuth, inclination, magnetic tool face angle, gravity roll angle, magnetic field strength and temperature. All core was logged and is stored on a secured compound at the Bucko Mine Site. Drill sites were inspected upon completion by CaNickel personnel, and cleaned if necessary. Manitoba Conservation officers were notified upon the completion of drilling for post drilling site inspection. Site locations were marked by a stake affixed with aluminum tags containing hole number, depth, azimuth, and dip. Underground holes are plugged and marked with metal tags containing hole name information.

## **Sampling Methods and Approach**

CaNickel prepares its core samples at the company’s secure core facilities in Wabowden. The samples consist of NQ sized (47.6 mm) diamond drill core for most surface drill holes and smaller BQ sized core

(36.5 mm) from underground drilling. The NQ core from surface drilling is split in half using a diamond blade rock saw, whereas the smaller BQ core from underground infill (definition) drilling is mainly whole sampled after it has been logged and photographed. Only a couple of samples from each drill section were selected to split in 2007 to 2009 underground definition drilling program. Core is stored in racks or cross stacked at Bucko Lake Mine Site. Samples are bagged with identification tags, bundled together in rice sacks on shrink wrap bound pallets, and shipped to independent accredited commercial laboratories for preparation and subsequent analysis.

All drill core samples, both from the earlier Crowflight drilling and CaNickel's subsequent drilling, have been sent to ALS Chemex in Thunder Bay for preparation and from there to ALS Chemex in Vancouver for analysis. ALS Chemex is a reputable international laboratory who has provided analytical services to the mining and mineral exploration industry in more than 15 countries. All ALS Chemex laboratories in Canada are registered under ISO 9001:2000 quality standard.

Samples received at the ALS Chemex preparation facility in Thunder Bay, Ontario, are verified against the submittal forms and weighed, and their subsequent preparation progress is then tracked and monitored by the Laboratory Information Management System (LIMS). The entire sample is crushed in a jaw crusher to 75% passing -10 mesh (2 mm). Sieve tests are completed periodically to monitor grain size variation. Samples are split in a riffle splitter to achieve a 200 to 225 g split. The sample splits are pulverized using a ring mill for approximately two minutes to achieve 85% passing -200 mesh. The pulp is sealed in paper envelopes affixed with a digital label and shipped via courier to the ALS Chemex analytical laboratory in Vancouver. A confirmation of shipping, including submittal form number, number of samples, and waybill number is e-mailed from the sample preparation laboratory to the CaNickel Quality Assurance and Quality Control (QA/QC) geologist.

At the ALS analytical facility in Vancouver, the sample pulps are again verified against the submittal form, logged as 'received' into the SGS LIMS, and then posted to the laboratory's secure website, where their progress may be monitored by authorized staff. For Ni, Cu, Co, Pb, Zn, Fe and S, 0.2 g of the pulp is fused with 2.6 g of sodium peroxide at 650°C. The resulting melt is cooled and dissolved in dilute nitric acid. The solution is analyzed by ICP-AES and the results corrected for spectral interference. Calibration solutions for the ICP-AES must be prepared in a similar fashion to achieve matrix matching. Detection limits are 0.01% for both Ni and Cu, and 0.001% for Co.

ALS manages its internal QA/QC using procedures to ensure proper tracking of samples during sample preparation is followed and its analytical equipment is properly calibrated. Results from each batch of samples prepared by ALS are presented in a certificate of analysis accompanied by a QA/QC statement, ensuring that the lab's internal QA/QC procedures are transparent and effective.

#### Sample Preparation, Analysis, and Security

All diamond drill core utilized during the 2009-10 drill program was sent to ALS Chemex in Thunder Bay for preparation. Prepared samples were subsequently analyzed in Vancouver. ALS Chemex is a reputable international laboratory which has provided analytical services to the mining and mineral exploration industry in more than 15 countries. All ALS Chemex laboratories in Canada are ISO 9001:2000 certified.

Upon reception in Thunder Bay, all samples were sorted and checked against the sample submission form before entering the preparation laboratory. All samples were subsequently dried at 70°C for at least two hours before sample preparation continued. Once weighed, all drill core samples were crushed to 95% passing 2mm, and then the whole sample was homogenized before taking the final split for the pulp. Once all samples were homogenized, a 250g split was selected to be pulverized using a LM-2 to 95% passing 75 µm. A final pulp of at least 100g was produced by splitting through an appropriate sized Jones splitter for analyses to ALS Chemex lab in Vancouver.

ALS Chemex was required to include internal specific quality control measures. Preparation duplicates were inserted every 20 samples and pulp duplicates every 10 samples for all analyses. The laboratory was also requested to use a preparation blank at least twice for each work order and insert in-house standards appropriate to the samples approximately every 20 samples. Particle size analysis (PSA) was also requested for the coarse reject and pulp for every 20 samples.

### Mineral Reserve and Mineral Resource Estimates

Results from a program of surface and underground drilling completed on the property from 2007 to 2010 were used to produce an updated Mineral Reserve and Resource estimate. By taking out mined areas between March 25, 2010 to March 31, 2012 and based on interpolation of drill results, geological information and updated information regarding capital and operating costs, available from the mine operations, fully diluted Proven and Probable Reserves and Mineral Resources were prepared in accordance with NI 43-101 guidelines are summarized as follows:

#### Estimated Mineral Reserves and Resources at Bucko Lake Mine as at April 1, 2012

Category	Cut-Off Grade	Tonnes	Ni %	Contained Nickel (000 000 lbs)
Proven Reserves	1.25%	616,000	1.43	19.4
Probable Reserves	1.25%	1,994,000	1.44	63.13
<b>Total Reserves</b>	<b>1.25%</b>	<b>2,610,000</b>	<b>1.43</b>	<b>82.53</b>
Measured Resources*	1.0%	751,000	1.37	22.68
Indicated Resources*	1.0%	2,845,000	1.28	80.06
<b>Total Measured and Indicated Resources</b>	<b>1.0%</b>	<b>3,596,000</b>	<b>1.30</b>	<b>102.74</b>
Inferred Resources**	1.0%	5,043,000	1.41	156.89
<b>Total Inferred Resources</b>	<b>1.0%</b>	<b>5,043,000</b>	<b>1.41</b>	<b>156.89</b>

\* Resources are exclusive of reserves.

\* Mineral Resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal title, taxation, sociopolitical, marketing or other relevant issues.

\*\*The quality and grade of reported inferred resources in this estimation are conceptual in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured mineral resource and it is uncertain if further exploration will result in upgrading them to an indicated or measured mineral resource category.

The mineral resources were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.

Mining reserves for the Bucko Lake Mine were derived from the mineable portion of the Measured and Indicated resources defined by a cut-off grade of 1.25% nickel grade totaling 3,491,200 tonnes at 1.78% Ni. They represent the portion of the Measured and Indicated mineral resources that have been subject to a detailed economic assessment by Mr. Martin using the current Bucko Lake mine, mill, G/A unit costs, milling recovery, concentrate ratios, recovery and transportation costs for year to date 2012. Stope design, underground development and all volumetric queries were created by CaNickel; using the computerized mine design software packages Gemcom and Flairbase Amine. Solids were developed for each level for cut & fill and long hole stopes including crown pillars to constrain grade interpolation and calculate grade and volumes.

Mine design factors used in the reserve estimates are consistent with standard industry practices for base metals deposits. They include:

- Utilization of the resource block model as a basis for stope design. A full block approach was utilized with stope shells based on the full block. Block sizing is 2mW x 2mD x 2mH which is smaller than the minimum mining width.
- Conversion of resources to reserves considered the following factors: mining dilution and recovery, mucking recovery, allowance for backfill gouging, accountability parameters and mining, G/A and milling costs.

Dilution parameters used for the Proven and Probable reserve estimates include Longhole (LH) stopes include 20% external dilution – as per approved stope grade from mine inventory. Cuts have 4.7% over break factor applied plus 2% fill dilution factor as calculated from Overhand Cut and Fill (OHCF) study. Crowns assume 15% external dilution at 1.0% Ni, 2.5% fill dilution at 0% Ni applied on an 85% mining recovery.

The stopes are defined by a 1.25% nickel cut-off grade within the ultramafic zone. The 1.25% cut-off grade is calculated using a 30% profit margin for the mine operations using historical mine operations parameters. The bulk of the mining going forward starting in 2012 is utilizing Longhole stoping methods. Stopes are defined by grade boundaries, not geologic contacts.

Mining of the reserves was based primarily on Longhole extraction methods from the 1000 ft (305 m) to the bottom of the reserve model, and Overhand Cut and Fill method for the stopes above the 1000 ft (305 m) elevation.

Mining methods include the use of consolidated backfill and sequencing based on a series of primary and secondary stopes to achieve complete recovery of the modeled reserve.

### **Mining Operations**

Commercial production at Bucko Lake Mine was declared in June 2009 and the mine operation was temporarily suspended in November 2009 in order to complete ramp development, review the mining method, accelerate mine development, continue with underground diamond drilling, and to upgrade the backfill plant. In March 26, 2010, CaNickel resumed nickel concentrate shipments from the Bucko Lake Mine. However, due to numerous reasons, the Company was not able to achieve the production target and unit mining cost was very high. In October 2010, the Company temporarily suspended the mining operation at Bucko Lake Mine in order to facilitate the introduction of its own underground mining equipment and team and make readjustments address certain operation issues.

Mining operations at Bucko Lake Mine was resumed in April 2011, but re-startup was affected by the late delivery of mining equipment, issues left over from previous operation, and unfavorable nickel price. In order to reserve capital to complete the construction of paste backfill plant and the tailing facilities, the Company decided to scale down the operation at Bucko Lake Mine on December 29, 2011, however, the decision was reversed as a result of the successful trial of long hole stoping mining method in January 2012. In May 2012, the Company received a stop work order from Manitoba's Workplace Safety and Health Division which require the Company to stop underground blasting until the Company backfill all known open voids underground, an independent mining engineer to review the current mine plan and audit the last twelve months of mining methods in respect to the mine plan, and the Company revise the mine plan based on the audit and finding. The stop work order was lifted in June 2012, but due to the weakening of nickel prices, the Company decided to place Bucko Lake Mine on care and maintenance in July 2012. During the care and maintenance period, the Company will continue its efforts to optimize the underground mining methods and mine plan. However, the timing to re-open the operations at Buck Lake Mine is uncertain.

Several metallurgical tests have been conducted to measure the methods and techniques that would best liberate the metals from the Bucko Lake Mine rock. Falconbridge initiated testing in the 1960's at the Lakefield Research facility (now SGS-Lakefield Laboratories, a metallurgical testing laboratory in Ontario) and continued until 1991.

The overall design of the Bucko Lake Mill involved detailed studies of mineralogy, mineral processing and design and was coordinated and supervised by Micon International, Toronto, Canada. From 2005-2007 metallurgical test work was performed by G&T Metallurgical Laboratories, Kamloops, British Columbia. The process design for the mill is predominately based on this program.

In 2006 a new metallurgical sample comprising three major types of mineralization was studied. The purpose of this new program was to further investigate the effect of different types of MgO (magnesium oxide) mineralization on the metallurgical performance and to optimize certain processing parameters. A sample comprised of 160 half sawn core intervals of representatively mineralized rock weighing 380 kg was submitted to G&T Labs. This sample was considered to be more representative than the previous samples because of the greater number of samples and the greater spatial distribution throughout the deposit.

The sample was sub-characterized based on three mineralogical distinct ore types. Type 1 is characteristic of unaltered periodite consisting of fine disseminated interstitial to incipient net textured nickel sulfide in a relatively homogenous gangue assemblage consisting of orthopyroxene and amorphous serpentine minerals. When this rock was observed to contain greater than 50% fracture controlled to pervasive talc/tremolite/phlogopite/anthophyllite alteration by volume, it was classified as Type 2 Ore. Ore type 3 consists of fracture controlled to semi-massive nickel sulfide mineralization occurring along the margins of and with the interior of cross cutting pegmatite dykes observed throughout the ore body. The process selected to produce a single primarily nickel concentrate is based on the interpretation of the results from the historic and 2005-2007 metallurgical test work programs. The basic process selected is primary crushing, grinding to 80% passing 98 microns, flotation to produce a single bulk concentrate, concentrate dewatering and tailings disposal.

The installed processing plant at Bucko Lake Mine was based on the above determinations and is currently designed to treat 1,000 dry ton per day but can be expanded to the rate of 1,500 tonnes per day with minimum capital investment and amended permitting. During the first quarter ended March 31, 2012, the Company achieved an average milling recovery rate of 75.20% with an average head grade of 1.18%. In March 2012, the Company reported a monthly average of 79.1% mill recovery rate with an average head grade of 1.16% and the highest daily recovery rate of 86.1%.

Based on the production rate of 1000 tonnes per day or 363,000 tonnes per year and the 2.61 million tonnes of diluted proven and probable reserves, Bucko Lake Mine has remaining mine life of 7.2 years. Using long term nickel price of US\$8.50 per pound, mining cost of \$63.53 per tonne, processing cost of \$38.13 tonne, general and administration cost of \$7.84 per tonne, and a discount rate of 6%, the net present value of Bucko Lake Mine is approximately \$80.0 million ("base case").

Sensitivity analysis for net present value has been applied to the base case pre-tax economic evaluation for the price of nickel per pound, nickel grade in percent nickel and underground mine operating costs per tonne of ore to the mill varying the Base Case values from -30% to +30% in 10% increments and summarized as follows:



<b>Sensitivity Value into LOM Pre-Tax Economic Evaluation</b>			
Percent Change	Nickel Price (\$/lb)	Nickel Grade (%)	Mining cost (\$/tonne)
+30%	\$11.05	1.86	\$82.58
+20%	\$10.20	1.72	\$76.23
+10%	\$9.35	1.58	\$69.88
Base Case	\$8.5	1.43	\$63.53
-10%	\$7.65	1.29	\$57.17
-20%	\$6.80	1.15	\$50.82
-30%	\$5.95	1.00	\$44.47
<ul style="list-style-type: none"> <li>• <b>Sensitivity Net Present Value at 6% Discount Rate</b></li> </ul>			
Percent Change	Nickel Price (\$/lb)	Nickel Grade (%)	Mining cost (\$/tonne)
+30%	\$195,715,129	\$186,641,628	\$40,587,708
+20%	\$157,152,747	\$151,103,745	\$53,733,132
+10%	\$118,590,364	\$115,565,863	\$66,880,557
Base Case	\$80,027,981	\$80,027,981	\$80,027,981
-10%	\$41,465,598	\$44,490,099	\$93,175,405
-20%	\$2,903,215	\$8,952,217	\$106,322,830
-30%	(\$35,659,167)	(\$26,585,666)	\$119,470,254

### **Concentrate Sale Agreement**

In 2007, the Company entered into a sale agreement with Xstrata Nickel that provided that the Company will sell 100% of the Bucko Lake nickel concentrate to Xstrata Nickel on commercially competitive terms over the life of Bucko Lake Mine. Under the terms of the Agreement, a net smelter return (NSR) is payable to Xstrata on the proceeds of production for all nickel sold at a monthly average daily spot price that is greater than US \$6.00 per pound of nickel. The NSR is not payable for product sold at a metal price less than US \$6.00 per pound of nickel.

### **DESCRIPTION OF OTHER EXPLORATION PROPERTIES**

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

The Thompson Nickel Belt (TNB) is a geological region located in north central Manitoba known to host large deposits of nickel sulphides. Since discovery in the 1950s, the belt has produced more than four billion pounds of nickel from several mines operated at one point or another by either Vale Inco Limited or Falconbridge Limited. Two deposits owned and operated by Vale (Thompson and Birchtree) are currently in production and in 2005 produced about 70 million pounds of contained nickel. The nickel smelting and refining facilities at Thompson contribute to roughly one-third of total Canadian nickel output.

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

- An initial amount of not less than \$2.5 million during 2007 (incurred);
- 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 is subject to a back-in right whereby should CaNickel 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 TNB South Exploration Properties, or satellite deposits of Bucko Lake Mine, include (a) M11A Project; (b) the Bowden Lake Nickel Deposit; (c) Apex Zone Project, and (d) Halfway Lake Prospect located within 30 kilometres of the Bucko Deposit.

The TNB North Project area encompasses 250 square kilometres of mineral claims in six properties (Burntwood River, Birchtree South, Birchtree North, Airport, Moak Lake and Strong Lake) located adjacent to Vale's Thompson and Birchtree mines near the town of Thompson, Manitoba.

**The following information has been derived in part from and based on the assumptions, qualifications and procedures set out in the "NI 43-101 Technical Report regarding Update to Reserves and Resources for the Bucko Lake Nickel Project, Wabowden, Manitoba" (the "Technical Report"), prepared by Lane A. Griffin, P.Geo, Paul L. Martin, P.Eng., and Chris C. Brioli, P. Geo., dated October 19, 2012. Each of the authors is independent from the Company and a Qualified Person under NI 43-101. The Technical Report is available on SEDAR at [www.sedar.com](http://www.sedar.com). See "Interests of Experts", "Risk Factors - Mineral Resource and Mineral Reserve Estimates May be Inaccurate" and "Cautionary Statement Regarding Forward-Looking Information".**

#### **Bowden Properties (M11A, Apex, and Bowden Lake)**

The M11A deposit is approximately 4 km northeast of the Bucko Lake deposit and 1 km east of the town of Wabowden and shares the same good road and infrastructure characteristics as the Bucko Lake deposit. The outline of the deposit as defined in recent drilling occupies a wetland bog and is best traveled during the frozen winter months. The approximate UTM NAD83 (Zone 14) coordinate for the property is 524,000mE; 6,084,000mN.

The Bowden Lake and Apex prospects are located outside the town of Wabowden, Manitoba, 106 km south-southwest of Thompson and 640 km north of Winnipeg. The approximate central UTM NAD83 (Zone 14) coordinate for the claims mentioned in this report is: 521,300mE; 6,084,100mN.

Like the Bucko Property, the Bowden Properties (M11A, Bowden Lake and Apex) is underlain by Archean magmatic gneisses and Opswagan Group (Manasan Formation) metasediments hosting concordant ultramafic rocks. The western portion of the Lease is underlain by an amphibole quartz monzonite believed to be an extension of the Resting Lake Pluton. The full extent of the Opswagan Group metasedimentary sequence in this area is poorly understood. The Bowden Nickel Deposit lies within a faulted, folded and pegmatite intruded altered ultramafic-mafic complex enveloped by mafic to felsic gneisses. The Bowden deposit consists of a large number of variable sized elongate lenticular disseminated sulfide bodies. They all occur within ultramafic horizons but show no consistent

relationship to either structural footwall or hanging wall contacts. On the M11A mining lease a variable sized elongate lenticular disseminated sulfide body was defined. It occurs within an ultramafic horizon. The M11A mineralized lens strikes over 500 meters at N050° before splitting in two limbs (N-NE and E) over 250 meters. The horizontal thickness varies from 6 to 120 meters.

The Bowden project area has been the subject of exploration activity since the 1950's. In the 1960's and early 1970's, a total of 67 drill holes were drilled on the M11A property by Consolidated Marbenor and Falconbridge Nickel Mines Limited. During this period Falconbridge also conducted a variety of ground magnetic, AFMAG EM and IP surveys. This work resulted in the discovery of the Bucko Lake, Bowden Lake, and initial M11A (or Discovery) deposits. By the mid 1970's non-compliant 43-101 historical resource estimates had been internally established by Falconbridge at all three zones. In 1976 due to low nickel prices and operations problems at Manibridge, Falconbridge Ltd. curtailed exploration and development activities in Manitoba.

In 1990 Falconbridge returned to the area to complete additional ground geophysical surveys, digitally compile historical drill logs, and to re-assess resources located near Wabowden. In 1991 several holes were drilled to test targets located east of the Bucko Lake deposit. In 1992 Falconbridge applied for and was granted mining leases 31, 32, 33, and 34. In 2004, Falconbridge optioned approximately 580 square km of its exploration properties in the Thompson Nickel belt to the Company. Since 2004, the Company and Falconbridge jointly explored portions of the optioned property undertaking programs of exploratory drilling in 2005, 2006, 2007, 2008 and the fall-winter of 2009-2010. This activity has resulted in the discovery of new zones of mineralization referred to as the Apex and M11A North deposits and the further definition of the known resources at M11A and Bowden Lake.

In 2006 holes W11106-01, 02, 03, and 04 were completed intersecting (W11106-01) 0.91% Ni over 11.38m (inc 1.67% Ni over 0.46m), (W11106-02) 0.79% Ni over 14.97m (inc. 2.39% Ni over 0.73m), (W11106-03) 0.76% Ni / 7.6m, and (W11106-04) 1.65% Ni / 0.33m and 1.34% Ni/ 0.75m.

During the 2007 winter program 4 drill holes were completed for a total of 1655.7 meters. One additional hole was added in April 2007 for a total of 465 meters.

During the 2008 winter program a total of 6 drill holes were completed for a total of 2033.1 meters drilled. Exploration diamond drilling intersected what was interpreted to be a new zone of nickel sulfide mineralization located beneath the M11A North deposit Hole M08-03 that intersected 26.7 meters (87.5 feet) grading 1.30% nickel including 5.76 meters (16.6 feet) grading 3.06% nickel.

An exploration and delineation drilling was completed in December 2009 at M11A North Project Area. This program consisted of 6,675 metres of diamond drilling in 18 holes, and was designed to test theories on plunge and orientation of previously intersected mineralization. Highlights from the drilling results was released on February 4, 2010 and March 4, 2010, including 8.15 metres grading 1.90% nickel in hole M09-17, 5.20 metres grading 1.82% nickel in hole M09-15, and 4.33 metres in hole M09-18.

No drilling program was carried out in 2010 as the Company was focusing its energies at trying to start up the operations at Bucko Lake Mine. As a result, a modified agreement was entered with Xstrata to cover the deficiency in the exploration expenditures in 2010.

In January 2011, the Company carried out a winter drilling program at two deposits, M11A North Deposits and Gonlin Deposits, of the TNB, to explore further potential in satellite deposits surrounding the Bucko Lake Mine. A total of 13 holes were completed, and a total of 5,889 metres was drilled throughout the program with 1,548 samples taken. There was no significant result from the hole drilled at Gonlin Deposits, and a total of 5,202 metres in 12 diamond drill holes were completed at M11A North Deposits, of which 11 holes reached their planned depth with 1,548 samples assayed while one hole was abandoned. This successful winter drilling program demonstrates that the M11A North Deposit can be

extended at depth, to the northeast and southwest tying the deposit to mineralization intersected in drill hole M09-17 with several intervals of potentially mineable widths and grades. Hole M11-08 with 14.25 metres grading 1.60% nickel and hole M11-07 with 14.85 metres grading 1.19% nickel and another intersection of 6.40 metres grading 1.80% nickel had extended the deposit to the northeast. The previously discovered high grade mineralization in hole M08-03 and hole M09-12 had been extended further at depth by hole M11-01 with an intersection of 9.98 metres grading 2.35% nickel. For detailed and complete drilling results of the winter drilling program at the M11A Deposits, please refer to the press release dated June 29, 2011.

In 2012, a 12-hole with a total of 7,157 meters diamond drilling program at M11A was completed and 1,519 samples were assayed. Hole M12-02 intersected 7.3 meters grading 2.59% nickel, Hole M12-07 intersected 5.3 meters grading 2.24% nickel, Hole M12-08 intersected 10.4 meters grading 1.20% nickel and M12-09 intersected 12.9 meters grading 1.21% nickel. For detailed and complete drilling results of this 2012 drilling program, please refer to the press release dated September 7, 2012.

In the fourth quarter of 2012, the Company also initiated a drilling program at Bowden Lake and a total of 3,078 meters drilling was completed and currently pending for the assay results.

At the Bowden Properties, primary Ni sulfide mineralization occurs as disseminations interstitial to metasomatized olivine grains. Net textured sulfides have also been observed locally in the peridotites. The sulfides consist of pyrrhotite, pentlandite, pyrite, chalcopyrite, and mackinawite. Minor accessory violarite and millerite may also be present. Stringer-type mineralization is present in proximity to the pegmatites and consists of hydrothermally remobilized veins and stringers. These are usually massive to semi-massive and contain variable amounts of pyrrhotite, pentlandite, pyrite and chalcopyrite.

### **Halfway Lake Prospect**

The Halfway Lake property is located outside of the town of Wabowden, Manitoba, 106 km south-southwest of Thompson and 640 km north of Winnipeg UTM NAD83 (Zone 14) coordinates 535,000mE and 6,092,000mN: NTS 63J115, in the Pas Mining District. The property is located on the southeast portion of the Halfway Lake and continues to the southwest past the Bucko-Bowden properties.

Access to the property can be achieved by travelling approximately 20 kilometers NE from Wabowden on the Wekusko-Thompson Highway, and then east 5 kilometers along drill roads to Halfway Lake. Summer and winter access may also be achieved by using float or ski-equipped aircraft from Wabowden to Halfway Lake a distance of approximately 16 air-kilometers. The Canadian National Railway line crosses the NE portion of the property.

Between 1960 and 1970, Falconbridge carried out ground magnetic and AFMAG-EM Surveys and followed up with a regional follow up program of drilling. During this period a total of 36 holes were drilled on the property testing shallow targets. Between 1994 and 1996, Falconbridge carried out a regional Geotem Airborne EM Survey and followed this up with ground HLEM and Magnetic Surveys. Falconbridge drilled a total of 13 diamond drill holes focused on a mineralized ultramafic in the northeast of the property. Significant results from this drilling included a zone of 1.19% Nickel over 7.97 meters; 1.25% Nickel over 5.72 meters; 1.23% Nickel over 0.80 meters, and the best interval to date gave 1.38% Nickel over 17.55 meters. Limited borehole EM was carried out on the 1995 and 1996 drill holes. No deep penetrating EM surveys have been used to date on this property.

The Halfway Lake property is underlain by an Archean banded magmatic gneiss complex, which includes plagioclase-quartz-biotite-hornblende gneisses (granite to granodiorite gneisses), hornblende-biotite gneisses and amphibolite rocks. Younger felsic feldspar-quartz ( $\pm$  biotite) pegmatitic dykes and intrusions cross cut and intrude all gneissic lithologies. The more amphibole and biotite-rich gneisses and amphibolites may be the metamorphic equivalent of upper Ospwagan mafic volcanic rocks. Ultramafic (peridotite and pyroxenite) bodies, invariably altered to serpentinite, tremolite, anthophyllite with minor

biotite, talc and chlorite, have been drill intersected in several localities within the Halfway Lake property. Ultramafic lithologies do not outcrop in this area. Several of these bodies are weakly Nickel bearing. Pyrrhotite and pyrite rich gneissic horizons adjacent to ultramafic bodies were also intersected in several locations.

The Halfway Lake property is a mineralized ultramafic body in the northeast portion of the property and is Nickel bearing. The past and recent drill holes have revealed significant results included a zone of 1.19% Nickel over 7.97 meters (Hole # HW94-02); 1.25% Nickel over 5.72 meters (Hole # HW96-08), and the best interval to date gave 1.38% Nickel over 17.55 meters (Hole # HW95-05).

### Mineral Resources Estimates – Satellite Deposits near Buck Lake Mine

The determination of mineral resources was based on geostatistical block modeling using Gemcom Software utilizing the inverse distance squared method for grade interpolation. Composite lengths were based on a 1.5 meter ideal interval within resource domain solids. The density of material was based on average bulk density measurements taken in mineralized intervals based on available density data. The Inferred Resource calculation used a 150 meter (X) by 50 meter (Y) and 50 meter (Z) search ellipse within minimums of two drill holes and five samples per block. A 0.5% nickel cut-off grade was used to constrain the interpolation model. A 1% nickel cut-off grade was used to report inferred resources for the satellite deposits. The updated mineral resources as of April 1, 2012 are summarized as follows:

#### Statement of Mineral Resources at Satellite Deposits near Bucko Lake Mine as at April 1, 2012

Deposit	Category	Cut-Off Grade	Tonnes	Ni %	Contained Nickel (lbs)
<b>M11A North</b>	Indicated Resources*	1.00%	800,000	1.17%	20,639,000
	Inferred Resources*	1.00%	525,000	1.11%	12,850,000
<b>Apex</b>	Inferred Resources*	1.00%	41,000	1.19%	1,076,000
<b>Bowden</b>	Inferred Resources*	1.00%	2,044,000	1.16%	52,281,000
<b>Halfway Lake</b>	Inferred Resources*	1.00%	900,000	1.20%	23,814,000

\* Mineral Resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal title, taxation, sociopolitical, marketing or other relevant issues.

The quality and grade of reported inferred resources in this estimation are conceptual in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured mineral resource and it is uncertain if further exploration will result in upgrading them to an indicated or measured mineral resource category.

### AER KIDD PROPERTY, SUDBURY, ONTARIO

CaNickel holds an interest in a 280 hectare property along approximately 2 kilometres of the historically productive Worthington Offset Dyke of the Sudbury Intrusive Complex (SIC, Sudbury Basin). Past production on the AER Kidd property has come from numerous underground and surface workings (Howland Pit, Rosen and Robinson Deposits). The property is subject to an Agreement dated June 9th, 2000 made between AER Nickel Corporation, Toburn Gold Mines Ltd., Patrick J. Sheridan Sr., and CaNickel. CaNickel fulfilled all its obligations under the terms of this Agreement and vested a 100% interest in the property subject to a 3% net smelter royalty. Up to 50% of this royalty could be purchased

for \$1.2 million up to the time when commercial production commences. There is a \$50,000 advance royalty payment payable semi-annually beginning January 31, 2001.

From December 2003 to August 2004, CaNickel was active on the property, completing 18,000 metres of diamond drilling in 27 holes designed to test a series of geophysical anomalies along a one kilometer segment of the Worthington Offset Dyke, roughly one kilometer northeast of Vale's Totten Deposit.

In 2012, the Company formed out the AER Kidd 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 the property, 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.

## **DIVIDENDS AND DISTRIBUTIONS**

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The constating documents of the Company do not limit its ability to pay dividends on its Common Shares. However, the Company has not paid any dividends since incorporation and the Company does not expect to pay dividends in the foreseeable future. Payment of dividends in the future will be made at the discretion of the Board of Director of the Company.

## **DESCRIPTION OF CAPITAL STRUCTURE**

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The authorized capital of the Company consists of an unlimited number of common shares without par value (the "Common Shares"). 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.

As of March 28, 2013, the issued and outstanding Common Shares of the Company are 37,520,668, and a further 101,875 for issuance upon proper exercise of certain stock options outstanding as of March 25, 2013.

### **Common Shares**

Holders of Common Shares are entitled to receive notice of and to attend any meetings of shareholders and shall have one vote per share at all meetings, except meetings at which only holders of another class or series of shares are entitled to vote separately as such class or series. Holders of Common Shares are entitled to receive, on a pro rata basis, such dividends, if any, as and when declared by the Board and, upon liquidation, dissolution or winding up of the Company, are entitled to receive on a pro rata basis the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares.

## **MARKET FOR SECURITIES**

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The Common Shares of the Company commenced trading on the Toronto Stock Exchange on December 3, 2008 under the symbol “CML”, prior to which the common shares traded on the TSX Venture Exchange under the same symbol. The table below shows the price ranges and volume of trading for each month of the year ended December 31, 2012:

<b>Month</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Close (\$)</b>	<b>Average Daily Volume (# of Shares)</b>
December 2012	0.25	0.12	0.25	8,730
November 2012	0.26	0.115	0.195	6,425
October 2012	0.395	0.25	0.26	3,353
September 2012	0.65	0.35	0.35	9,964
August 2012	0.80	0.60	0.60	2,295
July 2012	0.80	0.40	0.80	2,845
June 2012	1.00	0.40	0.40	6,831
May 2012	1.40	0.80	0.80	3,435
April 2012	1.60	1.20	1.20	941
March 2012	1.60	1.40	1.60	2,851
February 2012	1.80	1.20	1.40	4,076
January 2012	1.60	1.20	1.20	3,429

## **ESCROWED SECURITIES**

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The Company has no securities currently held in escrow.

## DIRECTORS AND OFFICERS

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The following table sets forth the name, province of residence, position held with the Company, and principal occupation of each person who is a director/officer or a former director/officer of the Company but hold office in 2012. Unless otherwise stated, all directors hold office until the next annual meeting of shareholders of the Company or until their successors are elected or appointed.

<b>Name and Province of Residence</b>	<b>Position(s) with Company and Period of Service as a Director</b>	<b>Principal Occupation</b>
Wenfeng Liu <sup>(2)(3)</sup> (British Columbia, Canada)	Chairman of the Board Since December 2010 Interim CEO since July 2012	Business Executive
Myles Gao <sup>(1)(2)(3)</sup> (British Columbia, Canada)	Director since December 2010	Mining Executive
John (Zhonghua) Pan <sup>(1)</sup> (British Columbia, Canada)	Director since December 2010	Geologist
Raymond Lai <sup>(1)(3)</sup> (Alberta, Canada)	Director since July 2012	Business Executive
Derek Liu (British Columbia, Canada)	CFO and Corporate Secretary since December 2010	CFO and Corporate Secretary of the Company
Dr. Dianmin Chen (Australia)	Former Director sand CEO from August 2011 to July 2012	Former Chief Executive Officer of the Company
Michal Hibbitts (British Columbia, Canada)	Former Director from December 2010 to June 2012	Mining Executive
Rick Sproule (Ontario, Canada)	Former Vice President of Geology from October 2010 to May 2012	Former Vice President of Geology of the Company

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Corporate Governance and Nominating Committee.

The current directors and officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control over, 14,185,029 common shares, representing approximately 37.8% of the issued and outstanding common shares of the Company as of the date hereof.

The principal occupations, businesses or employments of each of the Company's directors and executive officers within the past five years are disclosed in the brief biographies below.

*Wenfeng Liu, Chairman and Director*, Mr. Liu is a Chinese-Canadian businessman and investor who has numerous business interests and who serves as a principal of Canadian Maple Leaf Investment Ltd. (CMLI). Mr. Liu has held senior positions with Chinese steel producer Hebei Wenfeng Iron and Steel Co., Ltd. from its inception to 2004, as well as senior management and executive positions in various other business corporations in China. In Canada Mr. Liu served as Director of Welichem Biotech Inc. from January 24, 2008 to March 12, 2009.



*Myles Gao, Director*, Mr. Gao is a director and the president or chief operating officer of Silvercorp Metals Inc since 2003. Mr. Gao obtained his B.Sc. in geology from Lanzhou University, China in 1982 and received his M. Sc. Degree in geology in 1993 from Laurentian University. Prior to the engagement in Silvercorp Metals Inc., he worked for numerous Canadian mining and exploration companies.

*Raymond Lai, Director*, Mr. Lai holds a Bachelor of Commerce degree received from the University of Calgary in 1975 and is a member of Certified Management Accountant in Alberta. Mr. Lai has been a successful key executive for public companies in the mining, manufacturing, and packaging industries over the past ten years, and currently the Chairman, Chief Executive Officer and President of Maple Leaf Green World Inc., a public company traded in Toronto Stock Venture Exchange.

*John (Zhonghua) Pan, Director*, Mr. Pan is a geologist with more than 15 years of experience in mineral exploration and mining. He has a doctorate in geology and is currently an independent consulting geologist working on several projects.

*Derek Liu, Chief Financial Officer and Corporate Secretary*, Mr. Liu is a professional accountant with over 15 years of diverse international experience in financial reporting, auditing, and accounting. He is a member of Certified General Accountants Association of British Columbia ("CGA, BC") and a Certified Public Accountant ("CPA") in the State of Colorado, USA. Prior to joining the Company, he was the Chief Financial Officer of Prophecy Resource Corp., a Director and Chief Financial Officer of Maple Leaf Reforestation Inc., and held controller position at Silvercorp Metals Inc. from 2006 to 2010.

*Dr. Dianmin Chen, former Director and Chief Executive Officer*, Dr. Chen is a mining engineer and executive with over 20 years' experience in the mining industry. After graduating from Central South University in Changsha, China with a Bachelor of Science degree in Mining Engineering, Dr. Chen worked in the mining industry in China for eight years, and then was sponsored to conduct research in Australia in 1990. In 1994 Dr. Chen was granted his PhD degree from Wollongong University, Australia for his work on rock bolting design systems in underground excavation. Dr. Chen then worked for Northparkes Mines (now part of Rio Tinto) on the design and production of a large modern block carving operation. In 1998, Dr. Chen joined Barrick Gold Corporation, the biggest gold producer in the world, where he held progressively senior roles, and worked at several of Barrick's projects/ operations in Australia. Dr. Chen moved to Sino Gold Corporation, an Australian mining company, (now merged into Eldorado Gold, a Canadian company) in 2007 and was appointed the Executive Director and General Manager at Sino Jinfeng Mining Ltd, a subsidiary of Sino Gold in 2008, where he was responsible for the management of the Jinfeng Gold Mine located in Guizhou Province, China. In 2009, Dr. Chen was the Chief Operations Officer of CITIC Pacific Mining Management Ltd in Western Australia before he became the Vice President of Operations at Minco Silver Mining Company and the President of Foshan Minco Fuwan Mining Co Ltd., a subsidiary of Minco Silver.

*Michael Hibbitts, former Director*, Mr. Hibbitts is a professional geologist and senior mining professional with over 30 years of extensive and progressive experience and a proven track record from early exploration through to feasibility, mine development, and production. He has held senior positions at numerous public Canadian mining companies and is currently the Vice President Development and Exploration at Majestic Gold Corp.

*Rick Sproule, former Vice President of Geology*, Mr. Sproule has over 34 years of experience in exploration and geology, with a specific focused on base metals, uranium and gold. He was previously the Senior/Chief Mine Geologist at Goldcorp's Red Lake Mine for eight years. Prior to that, he also worked for Kinross Gold as Mine Geologist and has served on the Board of Directors for various junior mining and exploration companies. Rick has spent a number of years as a consulting geologist handling a portfolio of exploration projects including nickel exploration and evaluation. He holds a Bachelor of Science in geology from Dalhousie University.

### Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer (a) is, as at the date of this document, or has been, within ten years before the date of this document, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under the securities legislation, for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No director or executive officer of CaNickel, or a shareholder holding sufficient number of securities of the Company to affect materially the control of the Company, has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or have significant shareholdings in other reporting companies. For a list of the other reporting issuers in which directors of the Company also serve as directors, please see the 2012 Management Information Circular of the Company and the above biographies of Myles Gao and Raymond Lai.

Under the laws of the Province of British Columbia, the directors and senior officers of the Company are required to act honestly and in good faith with a view to the best interests of the Company. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will disclose such interest in a contract or transaction and will abstain from voting on any resolution in respect of such contract or transaction. Please also see the information above regarding certain existing conflicts of interest involving members of the Board under the heading "*Narrative Description of the Business - Risks of the Business - Conflicts of Interest*".

## **AUDIT COMMITTEE**

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The Corporation's Audit Committee is responsible for monitoring the Company's systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents and monitoring the performance and independence of the Company's external auditors. The Audit Committee is also responsible for reviewing the Company's annual audited financial statements, unaudited interim financial statements and management's discussion and analysis of financial results of operations for both annual and interim financial statements and review of related operations prior to their approval by the full board of directors of the Company.

### **Audit Committee's Charter**

The Audit Committee's charter sets out its responsibilities and duties, qualifications for membership, procedures for committee member removal and appointments and reporting to the Company's board of directors. A copy of the charter is attached hereto as Schedule "A".

### **Composition of the Audit Committee**

The Company's audit committee is comprised of three directors, Raymond Lai (Chair), Myles Gao, and John (Zhonghua) Pan. Each member of the audit committee is independent of the Company and financially literate; as such terms are defined in NI 52-110.

### **Relevant Education and Experience**

The following provides a brief summary of the qualifications of each member of the Audit Committee.

#### ***Raymond Lai, Director***

Mr. Lai holds a Bachelor of Commerce degree received from the University of Calgary in 1975 and is a member of Certified Management Accountant in Alberta. Mr. Lai has been a successful key executive for public companies in the mining, manufacturing, and packaging industries over the past ten years, and since 2007, Mr. Lai has been the Chairman, Chief Executive Officer and President of Maple Leaf Green World Inc. ("MGW"), a public company traded in Toronto Stock Venture Exchange, and also oversee the financial reporting procedures and internal control of MGW. From 2004 to 2009, Mr. Lai was the Chairman, Chief Executive Officer and President of Surge Technology Inc. From 1995 to 2004, Mr. Lai was the Vice President of Finance and Administration of Leader Mining International Inc. As a professional accountant experienced in the mining industry, Mr. Lai is fully understand the complexity of accounting issues that the Company is exposed to.

#### ***Myles Gao, Director***

Mr. Gao is a professional geologist. He graduated from Laurentian University in 1993 with a Master's degree in science and from Chinese University of Geosciences in 1986 with a Master's degree in science. From 1998 to 2003, Mr. Gao was a senior geologist at Northgate Minerals, and since 2003, he has been the Director, President or Chief Operating Officer of Silvercorp Metals Inc. ("Silvercorp"), and actively in sourcing, assessing, and acquiring mineral projects for Silvercorp over the past ten years. As a senior officer of a public traded company who actively involving in merger and acquisition evaluation, Mr. Gao has been experiencing analyzing and evaluating financial statements, and is able to understand the internal control and procedures for financial reporting, the accounting principles used by mining companies, and to assess the general application of such accounting principles in connection with the accounting estimates, accruals and provisions.

### John Pan, Director

Mr. Pan graduated from Changchun College of Geology in 1982 with a Bachelor's degree in engineer in mineral exploration and in 1993, he earned a Doctor's degree in Geology from the Institute of Geology, Chinese Academy of Sciences. Mr. Pan is a member of the American Chemical Society and the Society of Chinese Mineralogy, Petrology and Geochemistry. From 1998 to 2003, Mr. Pan was the post doctoral research scientist/research associate at Henry Krumb School of Mines, Columbia University. From 2004 to 2005, he was a project engineer at Process Research ORTECH Inc. From 2006 to 2007, he was a metallurgist at Process Research Associates Ltd. From 2007 to 2008, he was a project geologist at Red Dragon Resources Corporation. From 2008 to 2009, he was a geologist at Silvercorp Metals Inc. From 2009 to 2010, he was a staff exploration geologist at Xcel Management Consulting Inc. From 2010 to 2011, he as a consulting geologist at Majestic Gold Corp, and since 2011, he has been a consulting geologist at CRMC Canadian Royal Mining Corp. Through his consulting activities and the financial model employed in his mineral reserve and resource estimates, Mr. Pan has the ability to understand and assess the general application of accounting principles used in the mining industry.

### **Audit Committee Oversight**

At no time since the commencement of the Company's most recently completed financial year has there been a recommendation of the Audit Committee to nominate or compensate an external auditor that was not adopted by the Board.

### **Reliance on Certain Exemptions**

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemption in sections 2.4, 3.2, 3.3(2), 3.4, 3.5, 3.6 or 3.8 of NI 52-110, or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

### **Pre-Approval Policies and Procedures**

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services.

### **External Auditor Service Fees**

The Audit Committee has review a nature and amount of the services provided by Ernst & Young LLP to ensure auditor independence. Fee billed or billable by external auditors for audit services in the last two fiscal years are outlined below:

<b>Nature of Services</b>	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>
Audit fees <sup>(1)</sup>	\$60,000	\$105,000
Tax fee <sup>(2)</sup>	Nil	Nil
Audit related fees <sup>(3)</sup>	Nil	\$40,000
<b>Total fees</b>	<b>\$60,000</b>	<b>\$145,000</b>

Notes:

(1) "Audit Fees" include fees and expenses related to professional services of the principal accountant for the audit of the Company's annual financial statements and the review of the Company's interim financial statements, notwithstanding when the fees and expense were billed or when the service were rendered.

(2) "Tax fees" include fees and expense related to professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning from January through December of the fiscal year, notwithstanding when fees and expenses were billed.

(3) "Audit related fees" include fees and expense related to assurance and related services by the principle accountant that reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under above item (1). In 2011, the audit related fee was for the review of the Company's Bucko Lake Mine valuation model and interim financial statements.

## **PROMOTERS**

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To the best of the Company's knowledge, no person or company has been within the three most recently completed fiscal years, or is during the current fiscal year, a promoter of the Company.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

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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 small claims from two suppliers for a total of approximately \$50,000 were received.

There have been no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the fiscal year ended December 31, 2012, or any other time that would likely be considered important to a reasonable investor making an investment decision in the Company. The Company has not entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during the fiscal year ended December 31, 2012.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

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None of the directors, executive officers or principal shareholders of the Company and no associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect the Company or any of its subsidiaries, other than:

- 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.

- In May 2011, the Company entered into one year term debt facility of up to US\$5 million with Hebei Wenfeng. The debt facility bears an interest rate of 10% per annum and the Company is required to pay 2% of any funds drawn down under the debt facility as structuring fee to Hebei Wenfeng. Hebei Wenfeng, an insider of the Company, who, together with its affiliated entity, King Place, owns approximately 37.6% of the issued and outstanding shares of the Company. The debt involves no equity or voting component and therefore is exempt from related party transaction requirements of Multilateral Instrument 61-101.
- In April 2011, the Company received majority disinterested shareholders' written consent and issued 258,819,703 common shares of the Company to King Place to retire all outstanding convertible debentures and accrued interest of \$11,310,421 the Company owed to King Place. Pursuant to the terms of the Convertible Debentures Notes, the conversion price was \$0.0437 per share, which was the price equal to the volume weighted average price of the Company shares on the five trading days (from March 15 to March 21, 2011) less the permitted discount of 25%.
- During the year ended December 31, 2010, the Company entered into three convertible debenture notes with King Place to raise gross proceeds of \$23,050,000, which could be converted into common shares at a conversion price equal to five-day Volume Weighted Adjusted Price (VWAP) on the TSX at the time of conversion less the maximum discount allowed under TSX regulations, subject to the Company not issuing an aggregate of more than 58,356,471 common shares of CaNickel in total without prior approval from a simple majority of disinterested shareholders.
- In June 2010, Pala sold all 152,311,221 common shares and 50,588,235 warrants of the Company to King Place for \$30.75 million. As a result of this transaction, a change of control of the Company was triggered, and King Place became the largest shareholders and held approximately 42.3% of then-issued and outstanding common shares of the Company.
- In 2009, King Place participated in private placement financing of the Company to purchase 80,000,000 common shares at a price of \$0.25 per share for an aggregate purchase price of \$20,000,000.
- In connection with its purchase of securities of the Company on July 2009, the Company granted Pala the right to nominate two persons to the Board.
- Pala holds a significant shareholding in Dumas, which was the mining contractor, engaged by the Company at the Bucko Lake Mine.
- Pala submitted the Expression of Interest to the Company in January 2010.
- Pala participated in the private placement financing of the Company completed on February 19, 2010 pursuant to which Pala purchased 36,231,250 common shares at a price of \$0.16 per common share for an aggregate purchase price of \$5,797,000.

## **TRANSFER AGENTS AND REGISTRARS**

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The Company's transfer agent is Equity Transfer and Trust Company, located in Toronto, Ontario.

## **MATERIAL CONTRACTS**

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There are no other contracts, other than those disclosed in this AIF and other than those entered into in the ordinary course of the Company's business, that are material to the Company and which were entered into

in the most recently completed financial year ended December 31, 2012, or before the most recently completed financial year but are still in effect as of the date of this AIF.

### **INTERESTS OF EXPERTS**

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Lane A. Griffin, P.Geo., Paul L. Martin, P.Eng., and Chris C. Brioli, P.Geo. were the authors of the Technical Report.

To the best knowledge of the Company, none of the aforementioned individuals had an interest in any securities or other properties of the Company, its associates or affiliates as at the date the individual prepared the applicable report and as at the date hereof.

Ernst & Young, LLP, the auditors of the Company, are independent of the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

### **ADDITIONAL INFORMATION**

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Additional information on the Company can be found on the Company's website at [www.canickel.com](http://www.canickel.com) or on SEDAR located at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under the Company's stock base compensation plan is contained in the Company's management information circular for its most recent annual meeting of shareholders that involved the election of directors.

Additional financial information is provided in the Company's annual financial statements and management discussion and analysis for the year ended December 31, 2012.

## SCHEDULE A

### CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

#### I. PURPOSE

The Audit Committee shall provide assistance to the Board of Directors of CaNickel Minerals Inc. (the "Company") in fulfilling its financial reporting and control responsibilities to the shareholders of the Company and the investment community. The external auditors will report directly to the Audit Committee. The Audit Committee's primary duties and responsibilities are to:

- Oversee the accounting and financial reporting processes of the Company, and the audit of its financial statements, including: (i) the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; and (iii) the independent auditors' qualifications and independence.
- Serve as an independent and objective party to monitor the Company's financial reporting processes and internal control systems.
- Review and appraise the audit activities of the Company's independent auditors.
- Provide open lines of communication among the independent auditors, financial and senior management, and the Board of Directors for financial reporting and control matters, and meet periodically with management and with the independent auditors.

#### COMPOSITION

The Audit Committee shall be comprised of at least three directors. Each Committee member shall be an "independent director" within the meaning of National Instrument 52-110 - *Audit Committees* ("NI 52-110"), as may be amended from time to time. Pursuant to NI 52-110, a member will be considered "independent" if he has no direct or indirect, material relationship with the Company. NI 52-110 sets forth certain relationships which deem one not to be independent. In addition, the composition of the Audit Committee shall comply with the rules and regulations of the Toronto Stock Exchange and any other stock exchange on which the shares of the Company are listed, subject to any waivers or exceptions granted by such stock exchange.

In addition, a director shall not be qualified to be a member of the Audit Committee if such director (i) is an "affiliated person" or (ii) receives (or his/her immediate family member or the entity for which such director is a director, member, partner or principal and which provides consulting, legal, investment banking, financial or other similar services to the Company), directly or indirectly, any consulting, advisory, or other compensation from the Company other than compensation for serving in his or her capacity as member of the Board and as a member of Board committees. An "affiliated person" means a person who directly or indirectly controls the Company, or a director, executive officer, partner, member, principal or designee of an entity that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company.

All members shall, to the satisfaction of the Board of Directors, be financially literate in accordance with the requirements of the NI 52-110 (i.e. will have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the



Company's financial statements). At least one member shall have accounting or related financial management expertise to qualify as a “financial expert” . A person will qualify as “financial expert” if he or she possesses the following attributes:

1. an understanding of financial statements and generally accepted accounting principles used by the Company to prepare its financial statements;
2. an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
3. experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;
4. an understanding of internal controls and procedures for financial reporting; and
5. an understanding of audit committee functions.

The Committee members will be elected annually at the first meeting of the Board of Directors following the annual general meeting of shareholders.

Quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee or such greater number as the Committee shall be resolution determine.

#### RESPONSIBILITIES AND POWERS

Responsibilities and powers of the Audit Committee include:

- Annual review and revision of this Charter as necessary with the approval of the Board of Directors provided that this Charter may be amended and restated from time to time without the approval of the Board of Directors to ensure that that the composition of the Audit Committee and the Responsibilities and Powers of the Audit Committee comply with applicable laws and stock exchange rules.
- Making recommendations to the Board of Directors regarding the selection, the appointment, evaluation, fees and compensation and, if necessary, the replacement of the independent auditors, and assisting in resolving any disagreements between management and the independent auditors regarding financial reporting.
- Approving the appropriate audit engagement fees and the funding for payment of the independent auditors’ compensation and any advisors retained by the Audit Committee.
- Ensuring that the auditor’ s report directly to the Audit Committee and are made accountable to the Board and the Audit Committee, as representatives of the shareholders to whom the auditors are ultimately responsible.
- Confirming the independence of the auditors, which will require receipt from the auditors of a formal written statement delineating all relationships between the auditors and the Company and any other factors that might affect the independence of the auditors and reviewing and discussing with the auditors any significant relationships and other factors identified in the statement. Reporting to the Board of Directors its conclusions on the independence of the auditors and the basis for these conclusions.

- Overseeing the work of the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services.
- Ensuring that the independent auditors are prohibited from providing the following non-audit services and determining which other non-audit services the independent auditors are prohibited from providing:
  - bookkeeping or other services related to the accounting records or financial statements of the Company;
  - financial information systems design and implementation;
  - appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
  - actuarial services;
  - internal audit outsourcing services;
  - management functions or human resources;
  - broker or dealer, investment adviser or investment banking services;
  - legal services and expert services unrelated to the audit; and
  - any other services which the Public Company Accounting Oversight Board determines to be impermissible.
- Pre-approving all audit services, internal control related services and approving any permissible non-audit engagements of the independent auditors, in accordance with applicable legislation.
- Meeting with the auditors and financial management of the Company to review the scope of the proposed audit for the current year, and the audit procedures to be used.
- Meeting quarterly with auditors in “in camera” sessions to discuss reasonableness of the financial reporting process, system of internal control, significant comments and recommendations and management’ s performance.
- Reviewing with management and the independent auditors:
  - the Company's annual financial statements (and interim financial statements as applicable) and related footnotes, management’ s discussion and analysis and the annual information form, for the purpose of recommending approval by the Board of Directors prior to its release, and ensuring that:
    - i. management has reviewed the audited financial statements with the audit committee, including significant judgments affecting the financial statements
    - ii. the members of the Committee have discussed among themselves, without management or the independent auditors present, the information disclosed to the Committee
    - iii. the Committee has received the assurance of both financial management and the independent auditors that the Company's financial statements are fairly presented in conformity with Canadian GAAP in all material respects

- Any significant changes required in the independent auditors' audit plan and any serious issues with management regarding the audit.
  - the Company's internal controls report and the independent auditors' certification of the report, and review disclosures made to the Committee by the CEO and CFO about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
  - Other matters related to the conduct of the audit that are to be communicated to the Committee under generally accepted auditing standards.
- Satisfying itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure described in the preceding paragraph, and assessing the adequacy of such procedures periodically.
  - Reviewing with the independent auditors and management the adequacy and effectiveness of the financial and accounting controls of the Company.
  - Establishing procedures: (i) for receiving, handling and retaining of complaints received by the Company regarding accounting, internal controls, or auditing matters, and (ii) for employees to submit confidential anonymous concerns regarding questionable accounting or auditing matters.
  - Reviewing with the independent auditors any audit problems or difficulties and management's response and resolving disagreements between management and the auditors and reviewing and discussing material written communications between management and the independent auditors, such as any management letter of schedule of unadjusted differences.
  - Making inquiries of management and the independent auditors to identify significant business, political, financial and control risks and exposures and assess the steps management has taken to minimize such risk to the Company.
  - Making inquiries of management and the independent auditors to identify significant business, political, financial, litigation and control risks and exposures and assess the steps management has taken to minimize such risk to the Company.
  - Assessing the overall process for identifying principal business, political, financial, litigation and control risks and providing its views on the effectiveness of this process to the Board.
  - Ensuring that the disclosure of the process followed by the Board of Directors and its committees, in the oversight of the Company's management of principal business risks, is complete and fairly presented.
  - Obtaining reports from management, the Company's independent auditors that the Company is in conformity with legal requirements and the Company's Code of Business Conduct and Ethics and reviewing reports and disclosures of insider and affiliated party transactions.
  - Discussing any earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
  - Ensuring adequate procedures are in place for review of the Company's disclosure of financial information and assess the adequacy of these procedures at least once per year.

- Reviewing of confirmation of compliance with the Company's policies on internal controls, conflicts of interests, ethics, foreign corrupt practice, etc.
- Ensuring that the Company's Annual Information Form and the Company's Management Information Circular contains the disclosure as required by law, including that required by NI 52-110.
- Reviewing with financial management and the independent auditor's interim financial information, including interim financial statements, management discussion and analysis and financial press releases for the purpose of recommending approval by the Board of Directors prior to its release.
- At least annually obtaining and reviewing a report prepared by the independent auditors describing (i) the auditors' internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, or by any inquiry of investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and (iii) all relationships between the independent auditors and the Company (to assess auditors' independence).
- Reviewing and approving hiring policies for employees or former employees of the past and present independent auditors.
- Reviewing disclosure by management in the event that management deviates from existing approved policies and procedures which disclosure must also must be contained in financial reporting sub-certification forms.
- Engaging independent counsel and other advisors, without seeking approval of the Board of Directors or management, if the Committee determines such advisors are necessary to assist the Committee in carrying out its duties and setting and paying for any counsel or advisors employed by the Audit Committee for such purpose. The Committee shall advise the Board of Directors and management of such engagement.
- Discussing with the Company's legal counsel legal matters that may have a material impact on the financial statements or of the Company's compliance policies and internal controls.
- Conducting special investigations, independent of the Board of Directors or management, relating to financial and non-financial related matters concerning the Company and/or any one or more of its directors, officers, employees, consultants and/or independent contractors, if determined by the Committee to be in the best interests of the Company and its Shareholders. The Committee shall advise the Board of Directors with respect to the initiations of such investigations and shall periodically report any findings such investigation to the Board of Directors.
- Reporting annually to the shareholders in the Company's Annual Information Form on the carrying out of its responsibilities under this charter and on other matters as required by applicable securities regulatory authorities.

## MEETINGS

The Audit Committee will meet regularly at times necessary to perform the duties described above in a timely manner, but not less than four times a year and any time the Company proposes to issue a press release with its quarterly or annual earnings information. Meetings may be held at any time deemed appropriate by the Committee.

The Audit Committee shall meet periodically in separate executive sessions with management (including the Chief Financial Officer), the internal auditors and the independent auditor, and have such other direct and independent interaction with such persons from time to time as the members of the Audit Committee deem appropriate. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The independent auditors will have direct access to the Committee at their own initiative.

The Chairman of the Committee will report periodically the Committee's findings and recommendations to the Board of Directors.