



CaNickel Mining Limited

www.canickel.com

**CONDENSED INTERIM
FINANCIAL STATEMENTS**

March 31, 2013

(Unaudited)

NOTES TO READER

These unaudited condensed interim financial statements of CaNickel Mining Limited (the “Company”), for the three months ended March 31, 2013 have been prepared by management of the Company and have not been reviewed by the Company’s independent auditors, and therefore, they should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2012 which are available at SEDAR website at www.sedar.com.

Condensed Interim Statements of Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars, except share data)

	Notes	Three months ended March 31,	
		2013	2012
Revenue		\$ -	\$ 6,383,826
Cost of goods sold		-	(6,858,279)
Care and maintenance costs		(624,706)	-
Loss from mine operations	13	(624,706)	(474,453)
Finance costs	14	(1,702,854)	(256,998)
General and administration		(21,893)	(179,321)
Legal and professional fees		(5,206)	(38,574)
Net gain on derivative instruments		-	49,668
Other income and expenses		54,044	215,173
Salaries, consulting and management fees	12(b)	(54,130)	(630,934)
Shareholder communications and investor relations		(27,570)	(40,562)
Net loss and Comprehensive loss for the period		(2,382,315)	(1,356,001)
Loss per share - basic & diluted		\$ (0.06)	\$ (0.04)
Weighted average number of shares - basic & diluted		37,520,369	37,520,369

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

Condensed Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Notes	March 31, 2013	December 31, 2012
ASSETS			
<i>Current</i>			
Cash and cash equivalents		\$ 1,275,350	\$ 251,797
Receivables and prepaid expenses	4	64,079	104,109
Inventory	5	977,090	1,005,622
		2,316,519	1,361,528
<i>Non-Current</i>			
Mineral property, plant and equipment	6	35,029,914	37,618,480
Other non-current assets		543,165	543,165
		\$ 37,889,598	\$ 39,523,173
LIABILITIES			
<i>Current</i>			
Accounts payable and accrued liabilities	7	\$ 8,020,159	\$ 8,055,896
Current portion of obligations under capital leases	9	689,661	1,165,122
		8,709,820	9,221,018
<i>Non-Current</i>			
Loans payable	8	35,919,613	34,241,621
Obligations under capital leases	9	121,355	547,989
Site closure and reclamation provisions	10	2,050,924	2,041,736
		46,801,712	46,052,364
SHAREHOLDERS' EQUITY			
Share capital	11	186,952,654	186,952,654
Contributed surplus		32,872,680	32,873,288
Accumulated deficit		(228,737,448)	(226,355,133)
		(8,912,114)	(6,529,191)
		\$ 37,889,598	\$ 39,523,173

Contingencies and Legal Matters (Note 17)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

“Raymond Lai” , Director

“Wenfeng Liu” , Director

Condensed Interim Statements of Changes in Equity

(Unaudited - Expressed in Canadian Dollars, except share data)

	Common Shares		Contributed Surplus	Accumulated Deficit	Total Equity
	Number of shares issued	Amount			
As at January 1, 2013	37,520,369	\$ 186,952,654	\$ 32,873,288	\$ (226,355,133)	\$ (6,529,191)
Share based compensation - options	-	-	(608)	-	(608)
Loss for the period	-	-	-	(2,382,315)	(2,382,315)
As at March 31, 2013	37,520,369	\$ 186,952,654	\$ 32,872,680	\$ (228,737,448)	\$ (8,912,114)

	Common Shares		Contributed Surplus	Accumulated Deficit	Total Equity
	Number of shares issued	Amount			
As at January 1, 2012	37,520,369	186,952,654	33,312,165	(193,287,692)	26,977,127
Share based compensation - options	-	-	423,935	-	423,935
Loss for the period	-	-	-	(1,356,001)	(1,356,001)
As at March 31, 2012	37,520,369	\$ 186,952,654	\$ 33,736,100	\$ (194,643,693)	\$ 26,045,061

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

Condensed Interim Statements of Cash Flow

(Unaudited - Expressed in Canadian Dollars)

	Notes	Three months ended March 31,	
		2013	2012
OPERATING ACTIVITIES:			
Net loss for the period		\$ (2,382,315)	\$ (1,356,001)
Items not affecting cash:			
Accretion of site closure and reclamation provisions		9,188	11,020
Depreciation, depletion and amortization		-	1,035,920
Gain on derivative instruments		-	(49,668)
Stock-based compensation expense		(608)	423,935
Unrealized foreign exchange (gain) loss		718,705	(412,991)
Interest accretion & expenses		959,287	604,877
Settlement of obligations		(55,740)	-
Net change in non-cash working capital	18	(435,087)	(2,829,933)
		(1,186,570)	(2,572,841)
FINANCING ACTIVITIES:			
Proceeds from debt financing		-	7,045,800
Advance from related parties		498,250	-
Payment and discharge of capital leases		(876,693)	(346,134)
		(378,443)	6,699,666
INVESTING ACTIVITIES:			
Payment to acquire mineral properties, plant and equipment		(618,434)	(4,812,452)
Proceeds from disposal of mineral properties, plant, and equipment		3,207,000	-
		2,588,566	(4,812,452)
CHANGE IN CASH AND CASH EQUIVALENTS		1,023,553	(685,627)
CASH AND CASH EQUIVALENTS, beginning of period		251,797	1,376,942
CASH AND CASH EQUIVALENTS, end of period		\$ 1,275,350	\$ 691,315
SUPPLEMENTAL INFORMATION			
Interest paid		\$ 15,913	\$ -
Income taxes paid		-	-

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

CANICKEL MINING LIMITED

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

1. CORPORATE INFORMATION

CaNickel Mining Limited (“CaNickel” or “the Company”) is a Canadian mining company focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. The Company changed its name from Crowflight Minerals Inc. to CaNickel Mining Limited and continued to the Province of British Columbia from the Province of Ontario in June, 2011. The common shares of the Company are traded on the Toronto Stock Exchange under symbol of “CML” and on the Frankfurt Stock Exchange under the symbol of “CMIC”. In September 2012, the Company consolidated its share on the basis of one post-consolidation share for forty (40) pre-consolidation shares, and therefore all shares and per share data contained herein have been retroactively restated.

The current registered office of the Company is located at 1500 Royal Centre, 1055 West Georgia Street, Vancouver British Columbia, and the corporate head office is located at Suite 1655, 999 West Hastings Street, Vancouver, British Columbia, Canada.

2. BASIS OF PREPARATION

a) Statement of Compliance

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the IASB have been condensed or omitted and these unaudited condensed interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2012.

b) Basis of Measurement

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

The accounting policies applied in preparation of these financial statements are consistent with those applied and disclosed in the Company’s audited financial statements for the year ended December 31, 2012, with the exception of the application of certain new and amended IFRSs issued by the ISAB, which were effective from January 1, 2013. Those new and revised IFRSs that had impacts on the Company’s unaudited condensed interim financial statements are described in note 3 below.

The Company’s management makes judgements in its process of applying the Company’s accounting policies in the preparation of its unaudited condensed interim financial statements. In addition, the preparation of the financial data requires that the Company’s management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company’s assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company’s assets and liabilities are accounted for prospectively. The critical judgements and estimates applied in the preparation of these condensed interim financial statements are consistent with those applied and disclosed in note 3 to the Company’s financial statements for the year ended December 31, 2012.

CANICKEL MINING LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

These financial statements have assumed that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation, and therefore, these financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. However, the Company has incurred significant losses and negative cash flow from operations in recent years, and therefore, ongoing operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future. In the event that Company is not able to secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classification used.

The Board of Directors approved these condensed interim financial statements on May 13, 2013.

3. CHANGES IN ACCOUNTING POLICIES

The Company has applied the following new and revised IFRSs in these unaudited condensed interim financial statements.

IFRS 13, Fair value measurement, provides a single IFRS framework for measuring fair value and require disclosures about fair value measurement. The Standard defines fair value on the basis of exit price notion and use a fair value hierarchy, which results in a market-based, rather than entity-specific measurement. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The Company also adopted the amendments to *IAS 1, Presentation of Financial Statements*, effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

4. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised the following:

	March 31, 2013		December 31, 2012
Trade receivable	\$ -	\$	38,981
Taxes receivable	53,172		43,989
Prepaid expenses	10,907		21,139
	\$ 64,079	\$	104,109

CANICKEL MINING LIMITED

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

5. INVENTORY

As of March 31, 2013, inventory comprised material, supplies, and spare parts of \$977,090 (December 31, 2012 - \$1,005,622).

6. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Cost	Exploration and evaluation expenditure	Mineral property acquisition and development	Plant, building and equipment	Equipment under capital lease	Total
As at January 1, 2012	\$ 17,641,010	\$ 94,615,193	\$ 69,875,512	\$ 7,514,303	\$ 189,646,018
Additions	2,087,319	2,464,006	1,857,886	-	6,409,211
Disposal	-	-	(921,238)	(192,315)	(1,113,553)
As at December 31, 2012	\$ 19,728,329	\$ 97,079,199	\$ 70,812,160	\$ 7,321,988	\$ 194,941,676
Additions	918,700	-	-	-	918,700
Disposal	-	-	-	(4,079,136)	(4,079,136)
Reclassification	-	-	638,188	(638,188)	-
As at March 31, 2013	\$ 20,647,029	\$ 97,079,199	\$ 71,450,348	\$ 2,604,664	\$ 191,781,240

Accumulated depreciation, depletion and amortization	Exploration and evaluation expenditure	Mineral property acquisition and development	Plant, building and equipment	Equipment under capital lease	Total
As at January 1, 2012	\$ 1,160,482	\$ 72,106,167	\$ 55,144,450	\$ 4,952,952	\$ 133,364,051
Depreciation, depletion and amortization	-	488,795	2,550,656	317,106	3,356,557
Disposal	-	-	(99,801)	(30,450)	(130,251)
Impairment / Write-down	-	24,484,237	(329,521)	(3,421,877)	20,732,839
As at December 31, 2012	\$ 1,160,482	\$ 97,079,199	\$ 57,265,784	\$ 1,817,731	\$ 157,323,196
Disposal	-	-	-	(571,870)	(571,870)
Reclassification	-	-	157,188	(157,188)	-
As at March 31, 2013	\$ 1,160,482	\$ 97,079,199	\$ 57,422,972	\$ 1,088,673	\$ 156,751,326

Net book value	Exploration and evaluation expenditure	Mineral property acquisition and development	Plant, building and equipment	Equipment under capital lease	Total
As at December 31, 2012	\$ 18,567,847	\$ -	\$ 13,546,376	\$ 5,504,257	\$ 37,618,480
As at March 31, 2013	\$ 19,486,547	\$ -	\$ 14,027,376	\$ 1,515,991	\$ 35,029,914

During the three months ended March 31, 2013, the Company disposed four pieces of mining equipment with net book value of approximately \$3.5 million (same period last year - \$nil), and no gain or loss was recorded on the disposition.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2013	December 31, 2012
Amounts due to non-related parties	\$ 2,496,709	\$ 3,030,696
Amounts due to related parties	5,523,450	5,025,200
	\$ 8,020,159	\$ 8,055,896

Amounts due to related parties are further disclosed on Note 8 and 12.

CANICKEL MINING LIMITED**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

8. LOANS PAYABLE

	March 31, 2013	December 31, 2011
Loan facility with Hebei Wenfeng Industrial Company Limited	\$ 6,015,124	\$ 5,753,510
Loan facility with Luckyup Investment Limited	29,904,489	28,488,111
	\$ 35,919,613	\$ 34,241,621

In May 2011, the Company arranged a one year term unsecured debt facility of up to US\$5,000,000 (the "Loan") with Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), an affiliated company of King Place Enterprises Limited. The Loan may be drawn down at the option of the Company and bears interest at 10% per annum. The Company will also pay 2% of any funds drawn down under the Loan as a structuring fee to Hebei Wenfeng. Principal, interest and structure fees are payable upon maturity. In March 2012, the Company entered into an amended agreement with Hebei Wenfeng to extend the maturity date of the loan from one year term to three years term expiring May 28, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. As at March 31, 2013, the outstanding balance including interest accretion and foreign exchange impact was \$6,015,124.

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 \$5,389,050 to the Company as of March 31, 2013. The advance bears no interest and is due on demand and included as part of accounts payable and accrued liabilities on the statements of financial position.

The Company entered into an unsecured debt facility of up to US\$15 million in July 2011 and increased to US\$25 million in December 2011 with Luckyup Investment Limited ("Luckyup"), an arm's-length party based in Hong Kong. This debt facility may be drawn down at the option of the Company and bears interest of 12% per annum. Principal and interest are payable upon maturity. In March 2012, the Company entered into an amended agreement with Luckyup to extend the maturity date from one year term to three years term expiring July 22, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. As at March 31, 2013, the outstanding balance including interest accretion and foreign exchange impact was \$29,904,489.

During the three months ended March 31, 2013, the Company incurred borrowing costs of \$959,287 (same period last year - \$799,016) on loans payable, of which a total of \$nil (same period last year - \$194,140) was capitalized in the mineral property, plant and equipment. As Bucko Lake Mine was placed on care and maintenance in July 2012 and subject to impairment charges, the Company stopped capitalizing the borrowing cost starting July 2012.

CANICKEL MINING LIMITED**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

9. CAPITAL LEASE OBLIGATIONS

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

	March 31, 2013	December 31, 2012
Balance, beginning of period	\$ 1,713,111	\$ 3,080,712
Interest accrual	15,913	169,351
Discharge	(918,008)	(1,536,952)
Balance, ending of period	\$ 811,016	\$ 1,713,111
Less: Current portion of lease obligations	(689,661)	(1,165,122)
Long-term portion of lease obligations	\$ 121,355	\$ 547,989

Minimum lease payments for the remaining lease terms as at March 31, 2013:

2013	509,644
2014	301,372
	<u>\$ 811,016</u>

10. SITE CLOSURE AND RECLAMATION PROVISIONS

	March 31, 2013	December 31, 2012
Balance, beginning of period	\$ 2,041,736	\$ 2,272,249
Accretion	9,188	44,083
Change in estimates	-	(274,596)
Balance, end of period	\$ 2,050,924	\$ 2,041,736

11. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

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

(b) Share Consolidation and Equity Financing

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

There is no equity financing activity conducted during the three months ended March 31, 2013 and the year ended December 31, 2012.

CANICKEL MINING LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

(c) Warrants

The continuity of warrants issued and outstanding is as follows:

	March 31, 2013		December 31, 2012	
	Number of Warrants	Weighted Average Price	Number of Warrants	Weighted Average Price
Balance, beginning of period	7,500,000	\$ 4.40	8,000,000	\$ 4.40
Expired	(7,500,000)	4.40	(500,000)	8.40
Balance, end of period	-		7,500,000	\$ 4.40

(d) Stock Options

The Company has a stock option plan designed to encourage directors, officers, employees and consultants of the Company to have equity participation in the Company through the acquisition of common shares. The Company may issue options to purchase common shares equal to 10% of the issued and outstanding common shares of the Company. Options are non-transferable, non-assignable and may be granted for a term not exceeding five years. The exercise price of the options and vesting provisions, if any, are fixed by the Board of Directors of the Company at a price not below the market price of the common shares at the time of grant, subject to all applicable regulatory requirements. There are no cash settlement alternatives.

No option was granted during the three months ended March 31, 2013 and the year ended December 31, 2012. The continuity of stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Price
Outstanding, January 1, 2012	1,272,250	\$ 3.60
Cancelled/Forfeited	(1,162,500)	3.47
Outstanding, December 31, 2011	109,750	3.60
Cancelled/Forfeited	(7,875)	3.00
Outstanding, March 31, 2013	101,875	\$ 2.75

As of March 31, 2013, the following stock options were outstanding:

Number of Options	Number of Options Exercisable as at		Exercise Price	Expiry Date
	December 31, 2012			
125	125	\$ 8.00	March 20, 2014	
375	375	\$ 9.60	May 6, 2014	
750	750	\$ 8.40	August 19, 2014	
1,250	1,250	\$ 6.40	March 15, 2015	
91,250	91,250	\$ 2.60	January 10, 2016	
8,125	6,094	\$ 3.00	June 22, 2016	
101,875	99,844			

The weighted average exercise price of stock options that are exercisable as at March 31, 2013 was \$2.75 with weighted average contractual life of 2.75 years.

CANICKEL MINING LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

12. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Related party transactions with Hebei Wenfeng, the largest shareholder of the Company, are disclosed in note 8 above. Related party transactions not disclosed elsewhere include the following:

- (a) Transactions with LJ Resources Co. Ltd.

LJ Resources Co. Ltd ("LJ"), a private entity associated with a director of the Company, provides office space, office equipment, and administration services to the Company for fees. During the three months ended March 31, 2013, the Company incurred \$15,284 (same period last year - \$50,400) expenditures for services provided by LJ. As at March 31, 2013, a total of \$134,400 (December 31, 2012 - \$134,400) payable to LJ remained outstanding and included in the accounts payable and accrued liabilities on the statement of financial position. The balance with LJ is unsecured, interest-free and repayable on demand.

- (b) Transactions with key management

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

	<u>Three months ended March 31,</u>	
	2013	2012
Salaries and fees	\$ 43,650	\$ 215,873
Stock based compensation	417	389,721
	\$ 44,067	\$ 605,594

13. LOSS FROM MINE OPERATIONS

In July 2012, the Company decided to place its 100% owned Bucko Lake Mine on care and maintenance. Expenditures incurred during the care and maintenance period are recorded as care and maintenance on the statement of comprehensive loss or capitalized if the expenditures are capital in nature and determined to be recoverable in future operations. Losses from mine operations for the periods presented are as follows:

	<u>Three months ended March 31,</u>	
	2013	2012
Revenue	\$ -	\$ (7,839,087)
Cost of goods sold		
Cash cost	-	7,262,795
Non - cash cost	-	1,050,745
Care and maintenance costs	624,706	-
Loss from mine operations	\$ 624,706	\$ 474,453

CANICKEL MINING LIMITED**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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14. FINANCE COSTS

Finance costs comprise the following:

	Three months ended March 31,	
	2013	2012
Accretion for site closure and reclamation provisions	\$ 9,188	\$ 11,020
Foreign exchange (gain) loss	718,627	(428,704)
Interest expenses and bank charges	976,384	674,682
Interest income	(1,345)	-
	<u>\$ 1,702,854</u>	<u>\$ 256,998</u>

15. CAPITAL MANAGEMENT AND COMMITMENTS

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

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

	March 31, 2013	December 31, 2012
Shareholders' equity	\$ (8,912,114)	\$ (6,529,191)
Loans payable	35,919,613	34,241,621
Advances from related parties	5,523,450	5,025,200
	<u>32,530,949</u>	<u>27,712,430</u>
Less: cash and cash equivalents	(1,275,350)	(251,797)
	<u>\$ 31,255,599</u>	<u>\$ 27,460,633</u>

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets.

The Company is not exposed to any other additional commitments.

16. FINANCIAL INSTRUMENTS

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

CANICKEL MINING LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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a) Fair value

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

	Financial instrument classification	Carrying amount		Fair value	
		March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Financial liabilities					
Loans payable	Amortized cost	\$ 35,919,613	\$ 34,241,621	\$ 35,800,540	\$ 34,212,239

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

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

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and,

Level 3 - inputs for the asset or liability that are not based on observable market data.

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

	March 31, 2013		December 31, 2012	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	\$ 1,275,350	\$ -	\$ 251,797	\$ -

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

b) Credit risk

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

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

CANICKEL MINING LIMITED**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at March 31, 2013, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of \$5,523,450 advances from related parties, was in a deficit position of \$180,190. Accordingly, additional financing is required for the Company to continue as a going concern. The Company's contractual obligations as at March 31, 2013 are summarized as follows:

Contractual Obligations	Payment Due by Period				Total
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	
Loans payable	\$ -	\$ 35,919,613	\$ -	\$ -	\$ 35,919,613
Finance lease obligations	689,661	121,355	-	-	811,016
Site closure and reclamation obligations	-	-	-	2,050,924	2,050,924
Accounts payable and accrued liabilities	8,020,159	-	-	-	8,020,159
Total Contractual Obligations	\$ 8,709,820	\$ 36,040,968	\$ -	\$ 2,050,924	\$ 46,801,712

d) Market risk

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

i) Interest rate risk

The Company has cash and cash equivalent subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposit issued by financial institutions. As at March 31, 2012, the Company had \$35.9 million loans payable bearing fixed coupon rates of 10% to 12% per annum, therefore change of interest rate has no effect on the Company's comprehensive loss. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the debt facility interest rates and balance advanced under the facilities. Currently, the Company does not hedge against interest rate risk.

CANICKEL MINING LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Unaudited - Express in Canadian Dollars, except share data and otherwise stated

ii) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions and financing activities being denominated in US dollars. As at March 31, 2013, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	March 31, 2013	December 31, 2012
Financial assets denominated in US Dollars		
Cash and cash equivalents	\$ 11,373	\$ 10,537
Accounts receivable	-	38,981
	11,373	49,518
Financial liabilities denominated in US Dollars		
Advances from related parties	5,389,050	4,890,800
Loans payable	35,919,613	34,241,621
	\$ 41,308,663	\$ 39,132,421

Based on the financial assets and liabilities denominated in US dollars as at March 31, 2013, every 1% strengthening in Canadian dollars would decrease net loss by \$412,973 (December 31, 2012 - \$390,829). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

iii) Commodity price risk

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

As the Company has suspended its mining operations in July 2012, and currently has no sales and forward sales contracts or call option outstanding, the change of commodity price would not have any significant impact on the financial position of the Company.

17. CONTINGENCIES AND LEGAL MATERS

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 March 31, 2013, there were one lien placed against Bucko Lake Mine for a total amount of approximately \$0.3 million, and two statements of claims for a total of approximately \$50,000 were received.

CANICKEL MINING LIMITED**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**Unaudited - Express in Canadian Dollars, except share data and otherwise stated

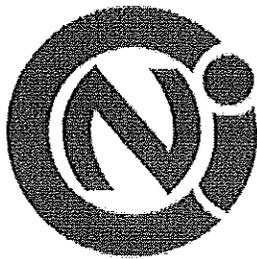
18. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
	2013	2012
Net change in non-cash working capital		
(Increase) decrease in receivables and prepaid expenses	\$ 40,030	\$ (877,497)
Decrease (increase) in inventory	28,532	(1,094,004)
Decrease in accounts payable and accrued liabilities	(503,649)	(858,432)
	<u>\$ (435,087)</u>	<u>\$ (2,829,933)</u>

As at March 31, 2013, \$650,052 (December 31, 2012 - \$391,391) was included in account payable and accrued liabilities to acquire mineral properties, plant and equipment.

19. SEGMENTED INFORMATION

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



CaNickel Mining Limited

www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the three months ended March 31, 2013

The Management's Discussion and Analysis ("MD&A") focuses on significant factors that affected the performance of CaNickel Mining Limited, formerly Crowflight Minerals Inc., ("we", "our", "us", "CaNickel", or the "Company") and such factors may also affect future performance. The MD&A for the three months ended March 31, 2013 should be read in conjunction with the Company's unaudited condensed financial statements for the three months ended March 31, 2013 and the audited financial statements for the year ended December 31, 2012 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form, which were prepared by management and available on SEDAR at www.sedar.com.

This MD&A is prepared as at March 10, 2013 and all figures are in Canadian dollars unless otherwise indicated. Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained therein.

HIGHLIGHTS

- Loss for the three months ended March 31, 2013 amounted to \$2,382,315 (same period last year – loss of \$1,356,001).
- Completed 3,078 meters diamond drilling program at Bowden Lake Deposit and 8,683 meters diamond drilling program at Bucko North Deposit.

DESCRIPTION OF BUSINESS

CaNickel is a Canadian mining company focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. In June 2011, the Company changed its name from Crowflight Minerals Inc. to CaNickel Mining Limited and continued to the Province of British Columbia from the Province of Ontario. Commencing on June 23, 2011, the Company is traded on the Toronto Stock Exchange under the new name and the trading symbol remains as "CML". The trading symbol on the Frankfurt Stock Exchange was changed to "CMIC" from "CMI". In September 2012, the Company consolidated its common share on the basis of one (1) post-consolidated common share for forty (40) pre-consolidated common shares. References to common shares, per share data, and other securities, including stock options and warrants, have been retroactively restated.

The current registered office of the Company is located at 1500 Royal Centre, 1055 West Georgia Street, Vancouver, British Columbia, and the corporate head office is located at Suite 1655, 999 West Hastings Street, Vancouver, British Columbia, Canada.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. In July 2012, due to the unfavorable nickel price, the Company placed its 100% owned and the only operational mine, Bucko Lake

CaNickel Mining Limited

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

OPERATION REVIEW

In July 2012, due to the unfavorable nickel price, the Company placed its only operational and 100% owned mine, Bucko Lake Mine, on care and maintenance. As a result, no production and sales was achieved but a total of \$624,706 care and maintenance costs were recorded for the three months ended March 31, 2013. During the same period last year, the Company mined 60,518 tonnes of ore at an average cash mining cost of \$64.88 per tonne, milled 54,034 tonnes of ore at an average cash milling cost of \$36.54 with an average recovery rate of 75.2% to produce 1,062,056 pound of nickel, and sold a total of 905,855 pounds of payable nickel at a cash cost of \$8.02 per pound.

DEVELOPMENT AND EXPLORATION

BACKFILL PASTE PLANT AND TAILING MANAGEMENT AREA

As Bukco Lake Mine is placed on the care and maintenance and the timing to resume the operations is uncertain, the commissioning of the paste backfill plant and the construction of the phase II tailing management area are placed on hold.

EXPLORATION - THOMPSON NICKEL BELT EXPLORATION PROPERTIES (“TNB”)

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

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

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

In October 2012, the Company completed and released CaNickel 2012 Technical Report which provides updated resource estimates covering Bucko Lake Mine and its satellite properties, including M11A, Apex, Halfway Lake, and Bowden Lake. The updated reserves and resources estimates have included all drilling from the 1960's to 2012.

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With additional drilling conducted at M11A projects in 2012, the Company was able to bring the confident level of some resources estimates at M11A to indicated class. For detailed resources estimates, please review our press release “CaNickel Announces Updated Mineral Reserves and Resources For the Bucko Lake Nickel Project” dated October 26, 2012” and the CaNickel 2012 Technical Report, which is available on the SEDAR system at www.sedar.com and on the Company’s website at www.canickel.com in due course.

During the three months ended March 31, 2013, the Company completed 3,078 meters drilling program at Bowden Lake Deposits and initiated another drilling program at Bucko North Deposit. A total of \$918,700 expenditures were incurred at TNB during the three months ended March 31, 2013, and the cumulative expenditures incurred at TNB as at March 31, 2013 was \$19,486,547.

Subsequent to March 31, 2013, the Company completed 8,683 meters diamond drilling meters at Bucko North Deposit and the assay of the drilling is pending. The Company expects that the Company will incur all required option expenditures to earn in 100% interest in TNB during the second quarter ended June 30, 2013 pursuant to the terms of the Agreement and Amending Agreement with Xstrata.

RESULTS OF OPERATIONS

Three months ended March 31, 2013 (“Q1 2013”) vs. Three months ended March 31, 2012 (“Q1 2012”)

Net loss in Q1 2013 was \$2,382,315 (Q1 2012 - \$1,356,001), which mainly comprised \$624,706 (Q1 2012 - \$474,453) loss from mine operations, \$1,702,854 (Q1 2012 - \$256,998) finance cost, and \$54,130 (Q1 2012 - \$630,934) salaries, consulting and management fees.

Loss from mine operation in Q1 2013 was \$624,706 (Q1 2012 - \$474,453), which comprised of revenue of \$nil (Q1 2012 - \$6,383,826) offset by cost of goods sold of \$nil (Q1 2012 - \$6,858,279) and \$624,706 care and maintenance cost (Q1 2012 - \$nil). The Company’s only operational mine, Bucko Lake Mine, has been placed on care and maintenance since July 2012, and since then, all costs incurred at Bucko Lake Mine was recorded as care and maintenance costs.

Finance costs in Q1 2013 was \$1,702,854 (Q1 2012 - \$256,998). Finance costs primarily included foreign exchange loss of \$718,627 (Q1 2012 – gain of \$428,704), interest and bank charges of \$976,384 (Q1 2012 - \$674,682), and accretion of site closure and reclamation provisions of \$9,188 (Q1 2012 - \$11,020) offset by interest income of \$1,345 (Q1 2012 - \$nil). The foreign exchange gain or loss was mainly the effect on the translation of the outstanding balance of loans payable, which dominated in US dollars, at the period end due to the fluctuation of US dollars. The increase of interest was mainly due to the increase in the amount and outstanding dates of loans payable and no interest was capitalized in Q1 2013 while a total of \$194,140 interest expense was capitalized in Q1 2012.

General and administration in Q1 2013 was \$21,893 (Q1 2012 - \$179,321), and the decrease was mainly because the Company has been maintaining minimum administration activities since Bucko Lake Mine was placed on care and maintenance in July 2012.

Legal and professional fees in Q1 2013 was \$5,206 (Q1 2013 - \$38,574) and the decrease was mainly due to less legal activities since Bucko Lake Mine was placed on care and maintenance in July 2012.

Other income and expenses in Q1 2013 was an income of \$54,044 (Q1 2012 – income of \$215,173). The \$54,044 income was mainly the forgiven amount when the Company retired some outstanding accounts payable in Q1 2013 while the income of \$215,173 in Q1 2012 was a refund of prepayments written off in prior periods.

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Salaries, consulting and management fees in Q1 2013 was \$54,130 (Q1 2012 - \$630,934), and the decrease was mainly because the Company has been maintaining minimum administration activities since Bucko Lake Mine was placed on care and maintenance in July 2012.

Shareholder communication and investor relations in Q1 2013 was \$27,570 (Q1 2012 - \$40,562) and was mainly comprised of annual report filing fee and annual listing sustaining fee.

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Revenue *	\$ -	\$ 200,397	\$ 282,737	\$ 2,748,251
Cost of goods sold *	-	(5,075)	(273,667)	(6,998,815)
	-	195,322	9,070	(4,250,564)
Care and maintenance costs	(624,706)	(1,611,024)	(1,971,540)	(1,059,677)
Other items	(1,757,609)	(14,636,499)	(140,119)	(8,246,409)
Net loss	\$ (2,382,315)	\$ (16,052,201)	\$ (2,102,589)	\$ (13,556,650)
Loss per share - basis and diluted	\$ (0.06)	\$ (0.43)	\$ (0.06)	\$ (0.36)

	Quarters ended			
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Revenue *	\$ 6,383,826	\$ 4,726,883	\$ 4,479,036	\$ -
Cost of goods sold *	(6,858,279)	(11,702,619)	(10,198,010)	-
	(474,453)	(6,975,736)	(5,718,974)	-
Care and maintenance cost	-	-	-	(3,562,910)
Other items	(881,548)	(72,394,153)	(1,902,172)	(1,528,152)
Net loss	\$ (1,356,001)	\$ (79,369,889)	\$ (7,621,146)	\$ (5,091,062)
Loss per share - basis and diluted	\$ (0.04)	\$ (2.12)	\$ (0.20)	\$ (0.14)

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

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

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

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

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

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operation resumed in June 2011.

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

ANNUAL INFORMATION

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2013, the Company only had cash and cash equivalents of \$1,275,350, increased by \$1,023,553 compared to cash and cash equivalents balance of \$251,797 as at December 31, 2012. The increase of cash and cash equivalents on hand was mainly as a result of \$2,588,566 from investing activities offset by \$1,186,570 cash used in operation activities and \$378,443 cash used in financing activities.

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Cash used in operating activities for the three months ended March 31, 2013 was \$1,186,570 compared to a total of \$2,572,841 cash used in the same period last year. Before net change in non-cash working capital, cash used in operation was \$751,483 (same period last year – provided of \$257,092). More cash used in operating activities was mainly because no revenue was generated in the current period as the Company’s operational mine was placed on care and maintenance since July 2012 while a positive cash flow was generated from mine operations during the same period last year.

Cash used in financing activities for the three months ended March 31, 2013 was \$378,443 (same period last year – provided of \$6,699,666). During the three months ended March 31, 2013, the Company advanced \$498,520 (same period last year - \$nil) from related parties and repaid \$876,693 (same period last year - \$346,134) to capital lease obligations. No equity or debt financing was conducted in the current period while a total of \$7,045,800 was raised through debt financing in the same period last year.

Cash used from investing activities for the three months ended March 31, 2013 was \$2,588,566 (same period last year – used of \$4,812,452). During the three months ended March 31, 2013, a total of 3,207,000 cash was generated through dispositions of some mining equipment (same period last year - \$nil) offset by \$618,434 (same period last year - \$4,812,452) cash paid for the exploration expenditures.

Working capital as at March 31, 2013 was a deficit of \$6,393,301 compared to the negative working capital of \$7,859,490 as at December 31, 2012. The increase of working capital was primarily because the Company use the cash from investing activities to retire some accounts payable and capital lease obligations.

Shareholder's equity as at March 31, 2013 was negative \$8,912,114 (December 31, 2012 – negative of \$6,529,191) and the decrease was mainly due to the additional loss of \$2,382,315 was recorded in the current period.

The Company's contractual obligations including payments due for each of the next five years and thereafter as at March 31, 2013 are amounted to \$46,801,712 and summarized below under “Risk Management”.

Due to the unfavourable nickel price, the Company suspended the milling operations at its 100% own Bucko Lake Mine near Wabowden, Manitoba in May 2012, and in July 2012, the Company decided to put Bucko Lake Mine on care and maintenance. The cumulative deficit as at March 31, 2013 amounted to \$228,737,448 with working capital in deficiency of \$6,393,301, and therefore, the Company needs to raise additional capital to complete its capital expenditures.

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng Industrial Company Limited (“Hebei Wenfeng”), the largest shareholder of the Company, and funds from disposal of some mining equipment. Although the Company has obtained approval from minority shareholders and Toronto Stock Exchange to increase the debt facility with Hebei Wenfeng from US\$5.0 million to US\$15.0 million, the finalization of the agreement is currently pending. There is uncertain if Hebei Wenfeng will continue to inject funds to support the care and maintenance program at Bucko Lake or the Company could raise funds through other alternatives in the current weak nickel price and equity market conditions. Such uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. In the event that the above financing efforts are not successful and not able to continue as a going concern, material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classification used.

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

FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents are at fair value, while accounts receivable, accounts payable, and

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accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments. Loans payable and obligation on capital leases are initially measured at fair value, net of transactions costs, and subsequently measured at amortized cost using the effective interest method.

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

Financial instrument classification	Carrying amount		Fair value		
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	
Financial liabilities					
Loans payable	Amortized cost	\$ 35,919,613	\$ 34,241,621	\$ 35,800,540	\$ 34,212,239

Fair value estimates are made at a specific point in time, based on relevant market information of the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates. The categories of fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

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

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

	March 31, 2013		December 31, 2012	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	\$ 1,275,350	\$ -	\$ 251,797	\$ -

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

Management constantly monitors and assesses the fluctuation of nickel price and US dollars. The Company only has one customer and the credit risk of this customer is considered minimum. The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on its financial condition or results of operations, other than those disclosed in this MD&A and the unaudited condensed interim financial statements for the three months ended March 31, 2013 and the related notes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting policies applied in preparation of these financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2012, with the exception of the application of certain new and amended IFRSs issued by the ISAB, which were effective from January 1, 2013. The Company has applied the following new and revised IFRSs in these unaudited condensed interim financial statements.

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IFRS 13, Fair value measurement, provides a single IFRS framework for measuring fair value and require disclosures about fair value measurement. The Standard defines fair value on the basis of exit price notion and use a fair value hierarchy, which results in a market-based, rather than entity-specific measurement. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The Company also adopted the **amendments to IAS 1, Presentation of Financial Statements**, effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of these condensed interim financial statements are consistent with those applied and disclosed in note 3 to the Company's financial statements for the year ended December 31, 2012.

Readers are encouraged to refer to the critical accounting policies and estimates as described in the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2012.

RISK MANAGEMENT

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

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

a) Credit risk

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

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

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b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at March 31, 2013, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of \$5,523,450 advances from related parties, was in a deficit position of \$180,190. Accordingly, additional financing is required for the Company to continue as a going concern.

The Company's contractual obligations as at March 31, 2013 are summarized as follows:

Contractual Obligations	Payment Due by Period				Total
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	
Loans payable	\$ -	\$ 35,919,613	\$ -	\$ -	\$ 35,919,613
Finance lease obligations	689,661	121,355	-	-	811,016
Site closure and reclamation obligations	-	-	-	2,050,924	2,050,924
Accounts payable and accrued liabilities	8,020,159	-	-	-	8,020,159
Total Contractual Obligations	\$ 8,709,820	\$ 36,040,968	\$ -	\$ 2,050,924	\$ 46,801,712

c) Market risk

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

i) Interest rate risk

The Company has cash and cash equivalent subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposit issued by financial institutions. As at March 31, 2012, the Company had \$35.9 million loans payable bearing fixed coupon rates of 10% to 12% per annum, therefore change of interest rate has no effect on the Company's comprehensive loss. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the debt facility interest rates and balance advanced under the facilities. Currently, the Company does not hedge against interest rate risk.

ii) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions and financing activities being denominated in US dollars. As at March 31, 2013, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	March 31, 2013	December 31, 2012
Financial assets denominated in US Dollars		
Cash and cash equivalents	\$ 11,373	\$ 10,537
Accounts receivable	-	38,981
	11,373	49,518
Financial liabilities denominated in US Dollars		
Advances from related parties	5,389,050	4,890,800
Loans payable	35,919,613	34,241,621
	\$ 41,308,663	\$ 39,132,421

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Based on the financial assets and liabilities denominated in US dollars as at March 31, 2013, every 1% strengthening in Canadian dollars would decrease net loss by \$412,973 (December 31, 2012 - \$390,829). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

iii) Commodity price risk

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

As the Company has suspended its mining operations in July 2012, and currently has no sales and forward sales contracts or call option outstanding, the change of commodity price would not have any significant impact on the financial position of the Company.

d) Environmental risk

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

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

RELATED PARTY TRANSACTIONS

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

(a) Transactions with LJ Resources Co. Ltd.

LJ Resources Co. Ltd ("LJ"), a private entity associated with a director of the Company, provides office space, office equipment, and administration services to the Company for fees. During the three months ended March 31,

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2013, the Company incurred \$15,284 (same period last year - \$50,400) expenditures for services provided by LJ. As at March 31, 2013, a total of \$134,400 (December 31, 2012 - \$134,400) payable to LJ remained outstanding and included in the accounts payable and accrued liabilities on the statement of financial position. The balance with LJ is unsecured, interest-free and repayable on demand.

(b) Transactions with key management

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

	Three months ended March 31,	
	2013	2012
Salaries and fees	\$ 43,650	\$ 215,873
Stock based compensation	417	389,721
	\$ 44,067	\$ 605,594

(c) Transactions with Hebei Wenfeng

In May 2011, the Company arranged a one year term unsecured debt facility of up to US\$5,000,000 (the "Loan") with Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), an affiliated company of King Place Enterprises Limited. The Loan may be drawn down at the option of the Company and bears interest rate at 10% per annum. The Company will also pay 2% of any funds drawn down under the Loan as a structuring fee to Hebei Wenfeng. Principal, interest and structure fees are payable upon maturity. In March 2012, the Company entered into an amended agreement with Hebei Wenfeng to extend the maturity date of the loan from one year term to three years term expiring May 28, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. As at March 31, 2013, the outstanding balance including interest accretion was \$6,015,124.

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 \$5,389,050 to the Company as of March 31, 2013. The advance bears no interest and is due on demand and included as part of accounts payable and accrued liabilities on the statements of financial position.

CONTINGENCIES AND LEGAL MATTERS

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 March 31, 2013, there were one lien placed against Bucko Lake Mine for a total amount of approximately \$0.3 million, and two statements of claims for a total of approximately \$50,000 were received.

OUTSTANDING SHARE DATA

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

As at the date of this report, a total of 37,520,668 common shares of the Company were issued and outstanding. Of the options to purchase common shares issued to directors, officers, employees, and consultants of the Company under the share option plan, 100,000 remain outstanding with exercise prices ranging from \$2.60 to \$9.60, with

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expiry dates ranging from January 31, 2014 to June 22, 2016.

OFF BALANCE SHEET ITEMS

There are no off balance sheet items.

PROPOSED TRANSACTIONS

There are no proposed assets or business acquisition or disposition.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management's Report on Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of Chief Executive Officer and Chief Financial Officer, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

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

As a result of the mine operation suspension at Bucko Lake Mine and downsizing in 2012, the Company modified its internal control over financial reporting. The Company's management team, including the Interim Chief Executive Officer and Chief Financial Officer, reviewed and evaluated the internal control procedures in place and determined that the financial reporting changes that resulted from the downsizing have not materially affected, or are not reasonably likely to materially affect, the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as March 31, 2013 to provide a reasonable assurance of the reliability of our financial reporting and preparation of the financial statements.

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Limitations of Controls and Procedures

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

OTHER INFORMATION

Additional information regarding the Company is included in the Company's Annual Information Form ("AIF"), which is available at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for statements of historical fact relating to CaNickel, certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to the ability to continue as going concern; drilling program at Thomson Nickel Belt properties; the increase of debt facility with Hebei Wenfeng; foreign exchange rates; the timing for the construction of tailing facility and resumption of operations at Bucko Lake Min, and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward - looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the anticipated timing, amount and cost of mining at the Company's projects are based on assumptions underlying mineral reserve and mineral resource estimates and the realization of such estimates are set out herein. Capital and operating cost estimates are based on extensive research of the Company, purchase orders placed by the Company to date, recent estimates of construction and mining costs and other factors that are set out herein. Production estimates are based on mine plans and production schedules, which have been developed by the Company's personnel and independent consultants. These estimates are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of CaNickel to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of nickel and other minerals; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.