



CaNickel Mining Limited

www.canickel.com

**CONDENSED INTERIM
FINANCIAL STATEMENTS**

March 31, 2014

(Unaudited)

NOTES TO READER

These unaudited condensed interim financial statements of CaNickel Mining Limited (the “Company”), for the three months ended March 31, 2014 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, 2013 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,	
		2014	2013
Care and maintenance costs		\$ (654,414)	\$ (624,706)
Loss from mine operations	4	(654,414)	(624,706)
Finance costs	5	(2,992,025)	(1,702,854)
General and administration		(7,389)	(21,893)
Legal and professional fees		(3,963)	(5,206)
Other income and expenses	8	106,514	54,044
Salaries, consulting and management fees	13	(42,276)	(54,130)
Shareholder communications and investor relations		(30,727)	(27,570)
Net loss and Comprehensive loss for the period		(3,624,280)	(2,382,315)
Loss per share - basic & diluted		\$ (0.10)	\$ (0.06)
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, 2014	December 31, 2013
ASSETS			
<i>Current</i>			
Cash		\$ 216,593	\$ 57,833
Receivables and prepaid expenses		33,204	127,829
Inventory	6	645,697	635,355
		895,494	821,017
<i>Non-Current</i>			
Mineral properties, plant and equipment	7	32,176,938	32,601,598
Other non-current assets		537,374	543,177
		\$ 33,609,806	\$ 33,965,792
LIABILITIES			
<i>Current</i>			
Accounts payable and accrued liabilities	8	\$ 10,429,064	\$ 9,800,926
Loans payable	9	43,594,819	40,822,119
Obligations under capital leases	10	161,760	307,171
		54,185,643	50,930,216
<i>Non-Current</i>			
Site closure and reclamation provisions	11	1,919,173	1,906,306
		56,104,816	52,836,522
SHAREHOLDERS' EQUITY			
Share capital	12	186,952,654	186,952,654
Contributed surplus		32,873,345	32,873,345
Accumulated deficit		(242,321,009)	(238,696,729)
		(22,495,010)	(18,870,730)
		\$ 33,609,806	\$ 33,965,792

Going concern (Note 2(b))

Subsequent events (Note 12(b), 16)

Contingencies and legal matters (Note 16)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

“Raymond Lai”, Director

“Wenfeng Liu”, Director

Condensed Interim Statements of Changes in Equity

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

	Common Shares		Contributed Surplus	Accumulated Deficit	Total Equity
	Number of shares issued	Amount			
As at January 1, 2014	37,520,369	\$ 186,952,654	\$ 32,873,345	\$ (238,696,729)	\$ (18,870,730)
Loss for the period	-	-	-	(3,624,280)	(3,624,280)
As at Marc 31, 2014	37,520,369	\$ 186,952,654	\$ 32,873,345	\$ (242,321,009)	\$ (22,495,010)

	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)

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,	
		2014	2013
OPERATING ACTIVITIES:			
Net loss for the period		\$ (3,624,280)	\$ (2,382,315)
Items not affecting cash:			
Accretion of site closure and reclamation provisions		12,867	9,188
Depreciation, depletion and amortization		432,134	-
Share-based compensation expense		-	(608)
Unrealized foreign exchange (gain) loss		1,803,185	718,705
Interest accretion & expenses		1,170,739	959,287
Settlement of obligations		(50,820)	(55,740)
Net change in non-cash working capital	17	(51,471)	(435,087)
		(307,646)	(1,186,570)
FINANCING ACTIVITIES:			
Advance from related parties		700,000	498,250
Payment and discharge of capital leases		(145,411)	(876,693)
		554,589	(378,443)
INVESTING ACTIVITIES:			
Payment to acquire mineral properties, plant and equipment		(93,986)	(618,434)
Proceeds from disposal of mineral properties, plant, and equipment		-	3,207,000
Proceeds released from restricted cash		5,803	-
		(88,183)	2,588,566
CHANGE IN CASH		158,760	1,023,553
CASH, beginning of period		57,833	251,797
CASH, end of period		\$ 216,593	\$ 1,275,350
SUPPLEMENTAL INFORMATION			
Interest paid		\$ 4,043	\$ 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 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, 2013.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis. 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, 2013, with the exception of the application of a new IFRS standard by issued the ISAB, which was effective from January 1, 2014 and is described in note 3 below.

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, negative working capital, and negative cash flow from operations in recent years, which indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. 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 advance from its related parties, mainly Hebei Wenfeng Industrial Company Limited (“Hebei Wenfeng”), the largest beneficial shareholder of the Company. The Company also intends to negotiate with its lenders and suppliers to extend due dates of the Company’s liabilities, or settle liabilities at significant discounted amounts, but the actual outcome of such negotiation is uncertain.

The Board of Directors approved these condensed interim financial statements on May 09, 2014.

3. CHANGES IN ACCOUNTING POLICIES

The Company has applied **IFRIC 21, Levies (“IFRIC 21”)**, effective January 1, 2014. IFRIC 21 provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, Provisions, Contingent

CANICKEL MINING LIMITED
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Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized. An example of a common levy is property taxes.

IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by legislation. A liability to pay a levy is recognized at the date of the obligating event, which may be at a point in time or over a period of time. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate.

The adoption of IFRIC 21 did not affect our financial results or disclosures as our analysis determined that no changes were required to our existing accounting treatment of levies.

4. LOSS FROM MINE OPERATIONS

The Company's only operational mine, Bucko Lake Mine, has been placed into care and maintenance since July 2012. Expenditures incurred at Bucko Lake Mine during the care and maintenance period are expensed or capitalized if the expenditures are capital in nature and determined to be recoverable in the future operations.

	Three months ended March 31,	
	2014	2013
Care and maintenance costs		
Cash cost	\$ 222,280	\$ 580,932
Non - cash cost	432,134	43,774
Loss from mine operations	\$ 654,414	\$ 624,706

5. FINANCE COSTS

Finance costs comprise the following:

	Three months ended March 31,	
	2014	2013
Accretion for site closure and reclamation provision	\$ 12,867	\$ 9,188
Foreign exchange loss	1,803,185	718,627
Interest expense and bank charges	1,175,973	976,384
Interest income	-	(1,345)
	\$ 2,992,025	\$ 1,702,854

6. INVENTORY

Inventory is recorded at the lower of cost and net realizable value. As of March 31, 2014, inventory comprised material, supplies, and spare parts of \$645,697(December 31, 2013 - \$635,355). During the period, the amount of inventory charged to care and maintenance cost was \$13,495 (same period last year - \$45,563)

CANICKEL MINING LIMITED

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

7. 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, 2013	\$ 19,728,329	\$ 97,079,199	\$ 70,812,160	\$ 7,321,988	\$ 194,941,676
Additions	1,341,539	-	-	-	1,341,539
Adjustments to reclamation provision	-	-	172,181	-	(172,181)
Disposal and transfers	-	-	-	(4,079,136)	(4,079,136)
Reclassification	-	-	638,188	(638,188)	-
As at December 31, 2013	21,069,868	97,079,199	71,278,167	2,604,664	192,031,898
Additions	7,474	-	-	-	7,474
As at March 31, 2014	\$ 21,077,342	\$ 97,079,199	\$ 71,278,167	\$ 2,604,664	\$ 192,039,372

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, 2013	\$ 1,160,482	\$ 97,079,199	\$ 57,265,784	\$ 1,817,731	\$ 157,323,196
Depreciation, depletion and amortization	-	-	1,978,151	150,383	2,128,534
Disposal	-	-	-	(872,136)	(872,136)
Reclassification	-	-	157,194	(157,194)	-
Impairment	-	-	1,001,089	(150,383)	850,706
As at December 31, 2013	1,160,482	97,079,199	60,402,218	788,401	159,430,300
Depreciation, depletion and amortization	-	-	394,538	37,596	432,134
As at March 31, 2014	\$ 1,160,482	\$ 97,079,199	\$ 60,796,756	\$ 825,997	\$ 159,862,434

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, 2013	\$ 19,909,386	\$ -	\$ 10,875,949	\$ 1,816,263	\$ 32,601,598
As at March 31, 2014	\$ 19,916,860	\$ -	\$ 10,481,411	\$ 1,778,667	\$ 32,176,938

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2014	December 31, 2013
Amounts due to non-related parties	\$ 2,110,065	\$ 2,377,916
Amounts due to related parties	8,319,000	7,423,010
	\$ 10,429,065	\$ 9,800,926

Amounts due to related parties are funds the Company advanced from Hebei Wenfeng to carry the care and maintenance program at Bucko Lake Mine and activities to safeguard assets of the Company. Those advances bear no interest and are due on demand.

During the three months ended March 31, 2014, the Company retired some accounts payable at significant discounted amounts, and a total of \$50,820 (same period last year - \$54,044) was realized and recorded as portion of the other income and expense on the condensed interim statements of comprehensive loss.

CANICKEL MINING LIMITED
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9. LOANS PAYABLE

	March 31, 2014	December 31, 2013
Loan facility with Hebei Wenfeng Industrial Company Limited	\$ 7,202,382	\$ 6,767,149
Loan facility with Luckyup Investment Limited	36,392,437	34,054,970
	\$ 43,594,819	\$ 40,822,119

In May 2011, the Company arranged a one year term unsecured debt facility of US\$5,000,000 (the "Loan") with Hebei Wenfeng. The Loan 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 Loan was amended and extended to three years term maturing May 28, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. During the three months ended March 31, 2014, a total of \$169,703 interest (same period last year - \$140,982) was accrued and a total of \$265,530 foreign exchange loss (same period last year - \$120,632) was recorded on the Loan. As at March 31, 2014, the outstanding balance of the Loan, including interest accretion and foreign exchange impact, was \$7,202,382.

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 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. During the three months ended March 31, 2014, a total of \$1,001,036 interest (same period last year - \$818,305) was accrued and a total of \$1,336,431 foreign exchange loss (same period last year - \$598,072) was recorded on this debt facility. As at March 31, 2014, the outstanding balance of this debt facility, including interest accretion and foreign exchange impact, was \$36,392,437.

No borrowing cost on loans payable was capitalized during the periods reported as Bucko Lake Mine is on care and maintenance and subject to impairment charges. The foreign exchange loss recorded was mainly arising from the fluctuation of US dollars against Canadian dollars.

10. 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, 2014	December 31, 2013
Balance, beginning of period	\$ 307,171	\$ 1,713,111
Interest accrual	4,043	45,019
Discharge	(149,454)	(1,450,959)
Balance, end of period	\$ 161,760	\$ 307,171

CANICKEL MINING LIMITED
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11. SITE CLOSURE AND RECLAMATION PROVISIONS

	March 31, 2014	December 31, 2013
Balance, beginning of year	\$ 1,906,306	\$ 2,041,736
Accretion	12,867	36,751
Change in estimates	-	(172,181)
Balance, end of period	\$ 1,919,173	\$ 1,906,306

12. SHARE CAPITAL

(a) Authorized

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

(b) 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 periods reported and the continuity of stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Price
Outstanding, January 1, 2013	109,750	\$ 2.78
Cancelled/Forfeited	(56,375)	2.73
Outstanding, December 31, 2013	53,375	2.83
Cancelled/Forfeited	(125)	8.00
Outstanding, March 31, 2014	53,250	\$ 2.82

As of March 31, 2014, the following stock options were outstanding:

Number of Options	Number of Options Exercisable as at		Exercise Price	Expiry Date
	March 31, 2014			
375	375	\$ 9.60	May 6, 2014	
375	375	\$ 8.40	August 19, 2014	
1,250	1,250	\$ 6.40	March 15, 2015	
46,250	46,250	\$ 2.60	January 10, 2016	
5,000	5,000	\$ 3.00	June 22, 2016	
53,250	53,250			

Subsequent to March 31, 2014, a total of 375 options expired unexercised.

CANICKEL MINING LIMITED
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13. 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 and note 9 above.

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,	
	2014	2013
Salaries and fees	\$ 42,276	\$ 43,650
Share based compensation	-	417
	\$ 42,276	\$ 44,067

14. FAIR VALUE MEASUREMENTS

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 quantitative disclosures on financial instruments measured at fair value on a recurring basis, non-financial assets and liabilities measured at fair value, assets and liabilities with fair value disclosed are as follows:

	March 31, 2014			December 31, 2013		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (level 3)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (level 3)
Assets and liabilities measured at fair value						
Cash	\$ 216,593	\$ -	\$ -	\$ 57,833	\$ -	\$ -
Mineral Property, plant and equipment used at Bukco Lake Mine	-	-	12,260,078	-	-	12,692,212
Site closure and reclamation provisions			1,919,173			1,906,306
Assets and liabilities for which fair value are disclosed						
Loans payable	\$ -	\$ 41,666,389	\$ -	\$ -	\$ 38,287,173	\$ -
Obligations under capital leases	-	170,395	-	-	314,181	-

There was no asset and liability categorized as level 2 in the fair value hierarchy, and no transfer between fair value levels during the reporting period.

CANICKEL MINING LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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Management assessed the fair value of receivables and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these financial instruments. Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	Measurement method	Carrying amount		Fair value	
		March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
As at					
Financial liabilities					
Loans payable	Amortized cost	\$ 43,594,819	\$ 40,822,119	\$ 41,666,389	\$ 38,287,173
Obligations under capital leases	Amortized cost	\$ 161,760	\$ 307,171	\$ 170,395	\$ 314,181

15. FINANCIAL INSTRUMENTS

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

a) 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. Currently, no trade receivable is outstanding and therefore such credit risk is remote.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at March 31, 2014, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of \$8,319,000 advances from related parties and \$43,594,819 loans payable, was in a deficit position of \$1,376,331. Accordingly, additional financing is required for the Company to continue as a going concern. Based on the contractual obligations of the Company as at March 31, 2014, cash outflow of those obligations are estimated and summarized as follows:

Contractual Obligations	Payment Due by Period			
	Less than 1 year	1 - 3 years	After 5 years	Total
Loans payable	\$ 42,831,071	\$ -	\$ -	\$ 42,831,071
Finance lease obligations	170,395	-	-	170,395
Accounts payable and accrued liabilities	10,429,065	-	-	10,429,065
Total Contractual Obligations	\$ 53,430,531	\$ -	\$ -	\$ 53,430,531

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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 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, 2014, the Company had \$43,594,819 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, 2014, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	March 31, 2014	December 31, 2013
Financial assets denominated in US Dollars		
Cash	\$ 203	\$ 202
	203	202
Financial liabilities denominated in US Dollars		
Accounts payables and accrued liabilities	5,305,440	5,115,773
Loans payable	43,594,819	40,822,120
	\$ 48,900,259	\$ 45,937,893

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 \$489,013 (December 31, 2013 - \$459,377). Every 1% weakening in Canadian dollars would increase net loss by 489,013 (December 31, 2013 - \$459,377). 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.

In July 2012, the Company suspended its mining operation due to unfavourable nickel prices. The timing to resume mining operations would mainly depend on the nickel prices. As at March 31, 2014, the Company has no nickel sales

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receivable, forward sales contracts, or call options outstanding. Change of commodity prices would not have any significant impact on the financial position of the Company.

16. 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, 2014, there was one lien placed against Bucko Lake Mine for \$377,086. During the period ended March 31, 2014, the Company received a statement of claim for \$377,086 from the same contractor who placed the lien against Bucko Lake Mine. The Company believed that it has fulfilled its contracted obligations to make payment to the contractor and the claim has no base; accordingly, legal counsels has been engaged to defend this claim and to file a counter claim for refund of overpayment for services not delivered and damages to be determined by court. No provision has been provided for this claim.

As at March 31, 2014, there were three statements of claims against the Company for a total of \$532,000 outstanding, of which a total of \$154,000 provisions have been recorded and included in the accounts payable and accrued liabilities on the condensed interim statement of financial position.

In 2013, Manitoba Finance conducted a Retail Sales Tax ("RST") audit in relation to the Company's purchases and expenditures incurred and for the operations in Manitoba over the past five years. Subsequent to March 31, 2014, the Company received the audit results and was required to pay a total of \$515,933 RST, which including \$143,575 interest and penalty. The Company acknowledged the principle amount of the RST liability and submitted an application to request of waiver of the interest and penalty. The \$515,933 RST has been recorded and included in the accounts payable and accrued liabilities on the condensed interim statement of financial position.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Thee months ended March 31,	
	2014	2013
Net change in non-cash working capital		
Decrease in receivables and prepaid expenses	\$ 94,625	\$ 40,030
Decrease (increase) in inventory	(10,342)	28,532
Decrease in accounts payable and accrued liabilities	(135,754)	(503,649)
	\$ (51,471)	\$ (435,087)

As at March 31, 2014, \$124,173 (December 31, 2013 - \$210,685) was included in accounts payable and accrued liabilities to acquire mineral properties, plant and equipment.

18. 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. No revenue is recorded during the period reported as the Company's only operational mine is on care and maintenance.



CaNickel Mining Limited

www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the three months ended March 31, 2014

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, 2014 should be read in conjunction with the Company's unaudited condensed financial statements for the three months ended March 31, 2014 and the audited financial statements for the year ended December 31, 2013 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 May 09, 2014 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.

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 or extension of debt facility with Hebei Wenfeng and Luckyup; 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.

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. 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

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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 unfavourable nickel price, the Company placed its 100% owned and the only operational mine, Bucko Lake Mine, on care and maintenance. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. Also, the Company has incurred significant losses, negative working capital, and negative cash flow from operations in recent years, which indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. 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 advance from its related parties, mainly Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), the largest beneficial shareholder of the Company. The Company also intends to negotiate with its lenders and suppliers to extend due dates of the Company's liabilities, or settle liabilities at significant discounted amount, but the actual outcome of such negotiation is uncertain.

OPERATION REVIEW

Since the Company placed its only operational and 100% owned mine, Bucko Lake Mine, on care and maintenance in July 2012 as a result of the unfavorable nickel price, the Company has been looking at alternatives to minimize cost while to safeguard assets and running the care and maintenance program to ensure the safety at Bucko Lake Mine, physically and environmentally. Excluding the non-cash costs, the costs to run the care and maintenance program in the first three months of 2014 was \$222,280 (same period last year - \$580,932).

As Bucko 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 on hold.

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

EXPLORATION

Under the terms of an Exploration Option Agreement ("Agreement") and Exploration Amending Agreement ("Amending Agreement") with Glencore, the Company has incurred the required option expenditures to earn in 100% Glencore's interest in TNB properties (formerly referred to as the TNB North and TNB South Exploration Properties). The Company has submitted the exercise notice to Glencore to exercise its options, and currently is

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working with Glencore to execute all necessary documents to exercise the options.

The Company also submitted an application for permit to carry further exploration activities in TNB properties. While pending the permit, the Company's objective is to maintain all mineral claims in good standing.

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

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

RESULTS OF OPERATIONS

Three months ended March 31, 2014 ("Q1 2014") vs. Three months ended March 31, 2013 ("Q1 2013")

Net loss in Q1 2014 was \$3,624,280 (Q1 2013 - \$2,382,315), which mainly comprised \$654,414 (Q1 2013 - \$624,706) loss from mine operations and \$2,992,025 (Q1 2013 - \$1,702,854). The increased loss was mainly due to the increase of finance costs.

Loss from mine operation in Q1 2014 was \$654,414 (Q1 2013 - \$624,706), which were the care and maintenance costs incurred at Bucko Lake Mine. The care and maintenance cost included cash costs of \$222,280 (Q1 2013 - \$580,932) and non-cash cost of \$432,134 (Q1 2013 - \$43,774). Since Bucko Lake was placed in care and maintenance, the Company has been taking various alternatives to minimize the cash outlays.

Finance costs in Q1 2014 was \$2,992,025 (Q1 2013 - \$1,702,854). Finance costs primarily included foreign exchange loss of \$1,803,185 (Q1 2013 - \$718,627), interest and bank charges of \$1,175,973 (Q1 2013 - \$976,384), and accretion of site closure and reclamation provisions of \$12,867 (Q1 2013 - \$9,188) offset by interest income of \$nil (Q1 2013 - \$1,345). The foreign exchange gain or loss was mainly the effect on the translation of the outstanding balance of US dollar denominated loans payable at the period end due to the appreciation of the US dollar relative to the Canadian dollar. The increase of interest was mainly due to the increase in the amount and the duration of the outstanding loans payable.

General and administration in Q1 2014 was \$7,389 (Q1 2013 - \$21,893), and the decrease was mainly because the Company has been maintaining minimum administration activities since the mining operations were suspended in July 2012.

Legal and professional fees in Q1 2014 was \$3,963 (Q1 2014 - \$5,206), which was mainly the expenditures related to year end audit.

Other income and expenses in Q1 2014 was an income of \$106,514 (Q1 2013 - income of \$54,044). The \$106,514 income was comprised of \$50,820 forgiven amount on accounts payable (Q1 2013 - \$54,044) and income of \$55,694 from temporarily renting out part of the camp facility (Q1 2013 - \$nil).

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Salaries, consulting and management fees in Q1 2014 was \$42,276 (Q1 2013 - \$54,130), and the decrease was mainly because the Company has been maintaining minimum administration activities since the mining operations were suspended in July 2012.

Shareholder communication and investor relations in Q1 2014 was \$30,727 (Q1 2013 - \$27,570) and was mainly comprised of annual report filing fee and annual listing sustaining fee.

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Care and maintenance costs	(654,414)	(3,185,885)	(337,629)	(407,659)
Other items	(2,969,866)	(5,710,657)	(88,648)	(228,803)
Net loss	\$ (3,624,280)	\$ (8,896,542)	\$ (426,277)	\$ (636,462)
Loss per share - basis and diluted	\$ (0.10)	\$ (0.24)	\$ (0.01)	\$ (0.02)

	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 cost	(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)

* 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.

The Company's only operational mine, Bucko Lake Mine, was placed on care and maintenance in July 2012, and since then, no revenue was generated.

The net loss for the quarter ended December 31, 2013 was mainly due to an adjustment of \$2,113,373 to depletion and depreciation expenses and further \$850,707 impairment charged to Bucko Lake Mine as well as \$1,718,910 foreign exchange loss arising from the strengthen of US dollars.

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.

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ANNUAL INFORMATION

	Years ended December 31		
	2013	2012	2011
Total assets	\$ 33,965,792	\$ 39,523,173	\$ 65,600,917
Shareholders' equity	(18,870,730)	6,529,191	26,977,127
Dividend declared	-	-	-
Revenue ***	-	9,615,211	9,443,501
Gross margin	-	(4,520,625)	(12,457,127)
Care and maintenance cost	(4,555,879)	(4,642,241)	(8,462,759)
Other items	(7,785,717)	(23,904,575)	(77,117,269)
Net loss	(12,341,596)	(33,067,441)	(98,037,155)
Loss per share - basis & diluted	\$ (0.33)	\$ (0.88)	\$ (2.61)

*** 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 and 2011, revenue presented in the above annual information has been reduced by \$1,807,217 and \$2,025,436 respectively.

Bucko Lake Mine was declared commercial production in June 2009, but has not yet reached its designed capacity and experienced a cycle of startup-suspension and then re-startup and re-suspension for various reasons. Since July 2012, Bucko Lake Mine was placed on care and maintenance.

The loss in 2013 mainly included depreciation, depletion and amortization of \$2,128,534, foreign exchange loss of \$2,825,578, interest expense and bank charge of \$4,141,664 and further impairment charge of \$850,070.

The loss in 2012 included a total of \$20,732,839 impairment charges to Bucko Lake Mine.

The loss in 2011 included a total of \$72,143,079 impairment charges to Bucko Lake Mine.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2014, the Company had cash of \$216,593, increased by \$158,760 compared to cash balance of \$57,833 as at December 31, 2013. The increase of cash on hand was mainly because the Company advanced more funds from Hebei Wenfeng to run the care and maintenance program.

Cash used in operating activities for the three months ended March 31, 2014 was \$307,646 compared to a total of \$1,186,570 cash used in the same period last year. Before net change in non-cash working capital, cash used in operation was \$457,399 (same period last year - \$751,483). Less cash used in operating activities was mainly because the Company was able to reduce the propane costs and manpower to run the care and maintenance program at Bucko Lake Mine during the winter seasons.

Cash from financing activities for the three months ended March 31, 2014 was \$554,589 (same period last year – used of \$378,443). During the three months ended March 31, 2014, the Company advanced \$700,000 (same period

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last year - \$498,520) from related parties and repaid \$145,411 (same period last year - \$876,693) to capital lease obligations.

Cash used in investing activities for the three months ended March 31, 2014 was \$88,183 (same period last year – provided cash of \$2,588,566). During the three months ended March 31, 2014, a total of \$93,986 cash was paid for exploration expenditures (same period last year - \$618,434) offset by \$5,803 released from restricted cash. No proceeds was from disposal of mineral properties, plant and equipment in Q1 2014 while a total of \$3,207,000 cash was received arising from dispositions of some mining equipment in Q1 2013.

Working capital as at March 31, 2014 was a deficit of \$53,290,149 compared to the negative working capital of \$50,109,199 as at December 31, 2013. The increase of working capital was primarily because the Company has no cash generated from operations and from equity financing activities and is relying on advances from related parties to maintain the normal operations of the Company.

Shareholder's equity as at March 31, 2014 was negative \$22,495,010 (December 31, 2013- negative of \$18,870,730) and the decrease was mainly due to the additional loss of \$3,624,280 was recorded in the current period.

The estimated cash outflow based on the Company's contractual obligations as at March 31, 2014 was amounted to \$53,430,531 and was due within one year. Accordingly, additional financing is required for the Company to continue as a going concern.

To address its financing requirements, the Company is currently relying on advance from its related parties, mainly Hebei Wenfeng Industrial Company Limited (“Hebei Wenfeng”), the largest beneficial shareholder of the Company. Although the Company was able to advance \$700,000 from Hebei Wenfeng, 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. The Company also intends to negotiate with its lenders and suppliers to extend due dates of the Company’s liabilities, or settle liabilities at significant discounted amount, but the actual outcome of such negotiation is uncertain. Such uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. In the event that the above financing efforts and negotiation 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 classification presented on the statement of financial position.

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.

FAIR VALUE MEASUREMENTS

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.

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The quantitative disclosures on financial instruments measured at fair value on a recurring basis, non-financial assets and liabilities measured at fair value, assets and liabilities with fair value disclosed are as follows:

	March 31, 2014			December 31, 2013		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (level 3)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (level 3)
Assets and liabilities measured at fair value						
Cash	\$ 216,593	\$ -	\$ -	\$ 57,833	\$ -	\$ -
Mineral Property, plant and equipment used at Bukco Lake Mine	-	-	12,260,078	-	-	12,692,212
Site closure and reclamation provisions			1,919,173			1,906,306
Assets and liabilities for which fair value are disclosed						
Loans payable	\$ -	\$ 41,666,389	\$ -	\$ -	\$ 38,287,173	\$ -
Obligations under capital leases	-	170,395	-	-	314,181	-

There was no asset and liability categorized as level 2 in the fair value hierarchy, and no transfer between fair value levels during the reporting period.

Management assessed the fair value of receivables and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these financial instruments. Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	Measurement method	Carrying amount		Fair value	
		March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
As at					
Financial liabilities					
Loans payable	Amortized cost	\$ 43,594,819	\$ 40,822,119	\$ 41,666,389	\$ 38,287,173
Obligations under capital leases	Amortized cost	\$ 161,760	\$ 307,171	\$ 170,395	\$ 314,181

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.

Management constantly monitors and assesses the fluctuation of nickel price and US dollars. 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, 2014 and the related notes.

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

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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. Currently, no trade receivable is outstanding and therefore such credit risk is remote.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at March 31, 2014, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of \$8,319,000 advances from related parties and \$43,594,819 loans payable, was in a deficit position of \$1,376,331. Accordingly, additional financing is required for the Company to continue as a going concern. Based on the contractual obligations of the Company as at March 31, 2014, cash outflow of those obligations are estimated and summarized as follows:

Contractual Obligations	Payment Due by Period			
	Less than 1 year	1 - 3 years	After 5 years	Total
Loans payable	\$ 42,831,071	\$ -	\$ -	\$ 42,831,071
Finance lease obligations	170,395	-	-	170,395
Accounts payable and accrued liabilities	10,429,065	-	-	10,429,065
Total Contractual Obligations	\$ 53,430,531	\$ -	\$ -	\$ 53,430,531

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 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, 2014, the Company had \$43,594,819 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.

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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, 2014, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	March 31, 2014	December 31, 2013
Financial assets denominated in US Dollars		
Cash	\$ 203	\$ 202
	203	202
Financial liabilities denominated in US Dollars		
Accounts payables and accrued liabilities	5,305,440	5,115,773
Loans payable	43,594,819	40,822,120
	\$ 48,900,259	\$ 45,937,893

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 \$489,013 (December 31, 2013 - \$459,377). Every 1% weakening in Canadian dollars would increase net loss by 489,013 (December 31, 2013 - \$459,377). 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.

In July 2012, the Company suspended its mining operation due to unfavourable nickel prices. The timing to resume mining operations would mainly depend on the nickel prices. As at March 31, 2014, the Company has no nickel sales receivable, forward sales contracts, or call options outstanding. Change of commodity prices would not have any significant impact on the financial position of the Company.

d) Environmental risk

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

Challenges with the federal permitting process to allow disposal of tailings in Bucko Lake and the unlikelihood that Environment Canada will recommend authorization caused the Company to consider alternative solution for tailings disposal. A Notice of Alteration (NOA) to its original Environmental Act License Proposal in December 2007 to include the provision for an interim (land-based) tailings storage facility (ITSF) was submitted and approved.

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The Company 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.

During the care and maintenance period, the Company is required to maintain active environmental monitoring at Bucko Lake Mine to comply all requirements of the Licence. If the Company fails to comply with those requirements, the Licence could be revoked and significant fines and penalty would be charged to the Company. Management has been actively working with the related government agents to comply with the environmental requirements.

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 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,	
	2014	2013
Salaries and fees	\$ 42,276	\$ 43,650
Share based compensation	-	417
	<u>\$ 42,276</u>	<u>\$ 44,067</u>

(b) Transactions with Hebei Wenfeng

In May 2011, the Company arranged a one year term unsecured debt facility of US\$5,000,000 (the "Loan") with Hebei Wenfeng. The Loan 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 Loan was amended and extended to three years term maturing May 28, 2014, and the loan was reclassified to non-current liabilities on the statements of financial position. During the three months ended March 31, 2014, a total of \$169,703 interest (same period last year - \$140,982) was accrued and a total of \$265,530 foreign exchange loss (same period last year - \$120,632) was recorded on the Loan. As at March 31, 2014, the outstanding balance of the Loan, including interest accretion and foreign exchange impact, was \$7,202,382.

During the three months ended March 31, 2014, Hebei Wenfeng advanced \$700,000 to the Company to run its normal operations. As at March 31, 2014, a total of \$8,319,000 advanced from Hebei Wenfeng remained outstanding. The advance bears no interest and is due on demand and included as part of accounts payable and accrued liabilities on the condensed interim statements of financial position.

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, 2013, with the exception of the application of IFRIC 21 as described below:

IFRIC 21, Levies ("IFRIC 21") was adopted by the Company effective January 1, 2014. IFRIC 21 provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized. An example of a common levy is property taxes.

IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by legislation. A liability to pay a levy is recognized at the date of the obligating event, which may be at a point in time or over a period of time. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate.

The adoption of IFRIC 21 did not affect our financial results or disclosures as our analysis determined that no changes were required to our existing accounting treatment of levies.

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, 2013.

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, 2013.

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, 2014, there was one lien placed against Bucko Lake Mine for \$377,086. During the period ended March 31, 2014, the Company received a statement of claim for \$377,086 from the same contractor who placed the lien against Bucko Lake Mine. The Company believed that it has fulfilled its contracted obligations to make payment to the contractor and the claim has no base; accordingly, legal counsels has been engaged to defend this claim and to file a counter claim for refund of overpayment for services not delivered and damages to be determined by court. No provision has been provided for this claim.

As at March 31, 2014, there were three statements of claims against the Company for a total of \$532,000 outstanding, of which a total of \$154,000 provisions have been recorded and included in the accounts payable and

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accrued liabilities on the condensed interim statement of financial position.

In 2013, Manitoba Finance conducted a Retail Sales Tax (“RST”) audit in relation to the Company’s purchases and expenditures incurred and for the operations in Manitoba over the past five years. Subsequent to March 31, 2014, the Company received the audit results and was required to pay a total of \$515,933 RST, which including \$143,575 interest and penalty. The Company acknowledged the principle amount of the RST liability and submitted an application to request of waiver of the interest and penalty. The \$515,933 RST has been recorded and included in the accounts payable and accrued liabilities on the condensed interim statement of financial position.

OUTSTANDING SHARE DATA

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, 52,875 remain outstanding with exercise prices ranging from \$2.60 to \$9.60, with expiry dates ranging from August 19, 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;

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- 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, 2014 to provide a reasonable assurance of the reliability of our financial reporting and preparation of the financial statements.

Limitations of Controls and Procedures

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

OTHER INFORMATION

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

END OF THIS REPORT
