CaNickel Mining Limited

www.canickel.com

FINANCIAL STATEMENTS

December 31, 2016

Independent auditors' report

To the Shareholders of
CaNickel Mining Limited

We have audited the accompanying financial statements of **CaNickel Mining Limited**, which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **CaNickel Mining Limited** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3(a) in the financial statements, which indicates that the Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $294.4 million as at December 31, 2016, and, as of that date, the Company had only $73,396 of cash on hand and a negative working capital of $80.8 million. These conditions, along with other matters as set forth in note 3(a), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Without modifying our opinion, we also draw attention to note 3(g) to the financial statements, which explains that certain comparative information for the year ended December 31, 2015 has been restated.

Ernst & Young LLP

Vancouver, Canada
April 25, 2017

Chartered Professional Accountants

Statements of Comprehensive Loss

(Expressed in Canadian Dollars, except share data)

	Notes		Year ended December 31, 2016		2015
	3(g)				Restated
Care and maintenance costs		**$**	**(1,737,394)**	$	(3,205,686)
Loss from mine operations	5		**(1,737,394)**		(3,205,686)
Finance costs	6		**(5,204,983)**		(16,676,011)
General and administration			**(31,906)**		(46,384)
Impairment of mineral properties, plant and equipment	10		**120,510**		(19,523,881)
Inventory writedown	9		**(278,297)**		(151,574)
Legal and professional fees			**(74,909)**		(62,053)
Other income and expenses			**12,580**		203,579
Salaries, consulting and management fees	16		**(234,745)**		(225,000)
Shareholder communications and investor relations			**(41,973)**		(60,603)
Net loss and Comprehensive loss for the period			**(7,471,117)**		(39,747,613)
Loss per share - basic & diluted		**$**	**(0.20)**	$	(1.06)
Weighted average number of shares - basic & diluted			**37,520,369**		37,520,369

Statements of Financial Position

(Expressed in Canadian Dollars)

	Notes		December 31, 2016		December 31, 2015
	3(g)				Restated
ASSETS					
Current					
Cash		$	**73,396**	$	27,633
Receivables and prepaid expenses	8		**12,792**		104,605
Inventory	9		**-**		126,280
			86,188		258,518
Non-Current					
Inventory	9		**-**		152,017
Mineral properties, plant and equipment	10		**7,928,982**		8,850,294
Other non-current assets	11		**537,374**		537,374
		$	**8,552,544**	$	9,798,203
LIABILITIES					
Current					
Accounts payable and accrued liabilities	12	$	**1,653,171**	$	1,717,484
Obligations under capital leases			**-**		-
Loans and advances from a shareholder	13		**79,238,206**		73,130,419
			80,891,377		74,847,903
Non-Current					
Site closure and reclamation provisions	14		**2,260,034**		2,078,050
			83,151,411		76,925,953
SHAREHOLDERS' EQUITY					
Share capital	15		**186,952,654**		186,952,654
Contributed surplus			**32,873,345**		32,873,345
Accumulated deficit			**(294,424,866)**		(286,953,749)
			(74,598,867)		(67,127,750)
		$	**8,552,544**	$	9,798,203

Going concern (Note 3(a))
Contingencies and legal matters (Note 19)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Kevin Zhu" , Director

"Myles Gao" , Director

Statements of Changes in Equity

(Expressed in Canadian Dollars, except share data)

	Common Shares								
	Number of shares issued		**Amount**		**Contributed Surplus**		**Accumulated Deficit**		**Total Equity**
As at January 1, 2016	**37,520,369**	**$**	**186,952,654**	**$**	**32,873,345**	**$**	**(286,953,749)**	**$**	**(67,127,750)**
Loss for the period	**-**		**-**		**-**		**(7,471,117)**		**(7,471,117)**
As at December 31, 2016	**37,520,369**	**$**	**186,952,654**	**$**	**32,873,345**	**$**	**(294,424,866)**	**$**	**(74,598,867)**

	Common Shares								
	Number of shares issued		Amount		Contributed Surplus		Accumulated Deficit		Total Equity
As at January 1, 2015 (Note 3.g)	37,520,369	$	186,952,654	$	32,873,345	$	(247,206,136)	$	(27,380,137)
Loss for the period	-		-		-		(39,747,613)		(39,747,613)
As at December 31, 2015 (Note 3.g)	37,520,369	$	186,952,654	$	32,873,345	$	(286,953,749)	$	(67,127,750)

Statements of Cash Flow

(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2016	2015 Restated
	3(g)		
OPERATING ACTIVITIES:			
Net loss for the period		**$ (7,471,117)**	$ (39,747,613)
Items not affecting cash:			
Accretion of site closure and reclamation provisions	14	**42,508**	41,751
Depreciation, depletion and amortization	10	**1,060,788**	2,293,549
Unrealized foreign exchange (gain) loss	6	**(1,923,212)**	10,521,981
Unpaid interest expenses	6	**7,071,776**	6,105,365
Impairment on mineral properties, plant and equipment	10	**(120,510)**	19,523,881
Inventory writedown	9	**278,297**	151,574
Net change in non-cash working capital	21	**(13,822)**	(60,201)
		(1,075,292)	(1,169,713)
FINANCING ACTIVITIES:			
Advance from related parties	13(b)	**1,000,000**	1,100,000
Payment and discharge of capital leases		**-**	(6,691)
		1,000,000	1,093,309
INVESTING ACTIVITIES:			
Mineral properties, plant, and equipment		**121,055**	(260,946)
		121,055	(260,946)
CHANGE IN CASH		**45,763**	(337,350)
CASH, beginning of period		**27,633**	364,983
CASH, end of period		**$ 73,396**	$ 27,633
SUPPLEMENTAL INFORMATION			
Interest paid		**$ 12,873**	$ -
Income taxes paid		**$ -**	$ -

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. In February 2016, the Company voluntarily delisted its common shares from trading on Toronto Stock Exchange ("TSX") and transferred its listing to the TSX Venture Exchange ("TSXV"). Trading on the TSXV commenced on February 5, 2016 under symbol of "CML.V". The current registered office of the Company is located at Suite 1655, 999 West Hastings Street, Vancouver, British Columbia, Canada.

Since the Company's only operational mine, Bucko Lake Mine, was placed into care and maintenance in July 2012, the Company's main focus is to run the care and maintenance program at Bucko Lake Mine to safeguard assets and to maintain mineral claims in good standing.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB"). IFRS comprises IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") and the former Standards Interpretations Committee ("SICs").

These financial statements have been approved by the Board of Directors on April 25, 2017.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

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

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

a) Going concern

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of property, plant and equipment 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.

As at December 31, 2016, the Company only has $73,396 cash on hand and a negative working capital of approximately $80,805,189. Excluding $79,238,206 loans and advances from the Company’s largest beneficial shareholders, Hebei Wenfeng Industrial Group Limited (“Hebei Wenfeng”), the working capital of the Company is in negative of $1,566,983. The Company will need to raise additional capital in order to fund its ongoing exploration expenditures and the care and maintenance program. The Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $294,424,866 as at December 31, 2016. Since July 2012, Bucko Lake Mine was placed on care and maintenance due to the unfavourable nickel prices. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

In the event that Company is not able to secure additional financing and continue as a going concern, material adjustments could be required to the carrying value of assets and liabilities and the balance sheet classification used.

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng. In 2016, Hebei Wenfeng advanced a total of $1,000,000 to the Company. Subsequent to December 31, 2016, Hebei Wenfeng advanced a total of $270,000 to the Company.

b) Site closure and reclamation provisions

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

c) Impairment of assets

The Company assesses each asset or cash generating unit (“CGU”) at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends, and related factors), discount rates, operating costs, future capital requirement, closure and rehabilitation costs, exploration potential, and reserves. Therefore, there is the possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money, and the risks specific to the asset or CGU. When discounted cash flow technique is not practical, estimated net sellable value of each piece of property, plant and equipment is used for the recoverable estimate. Management has assessed its CGUs as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets or CGUs. Given there are no plans to resume the mining operations, the recoverable amount of plant and equipment at Bucko Lake has been determined based on the value that could be recovered through an orderly sales process. As to the Thompson Nickel Belt properties ("TNB properties"), management deemed it prudent to write off its carrying value by reference to the current nickel prices, previous operation costs, and its known mineral resources, and the likelihood to find a buyer or partner to advance the project.

d) Inventory

Materials and supplies are valued at the lower of purchase cost and net realizable value. Replacement costs of supplies are generally used as the best measure of net realizable value, and salvage value is used as the measure of net realizable value for obsoleted items. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

If the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, then fair value is determined using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The inputs to these models are taken from observable markets where possible, but if this is not feasible, a degree of judgement is required in establishing fair value. Changes in estimates and assumptions about these inputs could affect the reported fair value of financial instruments.

f) Contingencies

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

g) Restatements of prior year balances

Certain adjustments related to the 2015 and 2014 financial statements were identified in the year ended December 31, 2016. These adjustments are considered material. Therefore, the Company considers it is appropriate to restate the previously reported 2015 and 2014 statement of financial position and statement of comprehensive loss. Details of the adjustments made are as follows:

Statements of Comprehensive Loss

(Expressed in Canadian Dollars, except share data)	As reported previously	Adjustments	Note	Restated
	Year ended December 31, 2015			
Care and maintenance costs	$ (3,205,686)	-		$ (3,205,686)
Loss from mine operations	(3,205,686)	-		(3,205,686)
Finance costs	(17,374,852)	698,841	(i)	(16,676,011)
General and administration	(46,384)	-		(46,384)
Impairment of mineral properties, plant and equipment	(19,523,881)	-		(19,523,881)
Inventory writedown	(151,574)	-		(151,574)
Legal and professional fees	(62,053)	-		(62,053)
Other income and expenses	203,579			203,579
Salaries, consulting and management fees	(225,000)	-		(225,000)
Shareholder communications and investor relations	(60,603)	-		(60,603)
Net loss and Comprehensive loss for the period	(40,446,454)	698,841		(39,747,613)
Loss per share - basic & diluted	$ (1.08)			$ (1.06)
Weighted average number of shares - basic & diluted	37,520,369			37,520,369

Statements of Financial Position

(Expressed in Canadian Dollars)	As reported previously	Adjustments	Note	Restated	As reported previously	Adjustments	Note	Restated
	December 31, 2015				December 31, 2014			
ASSETS								
Current								
Cash	27,633	-		27,633	364,983	-		364,983
Receivables and prepaid expenses	104,605	-		104,605	184,256	-		184,256
Inventory	126,280	-		126,280	301,229	-		301,229
	258,518	-		258,518	850,468	-		850,468
Non-Current								
Inventory	152,017	-		152,017	147,142	-		147,142
Mineral properties, plant and equipment	8,850,294	-		8,850,294	30,638,150	-		30,638,150
Other non-current assets	537,374	-		537,374	537,374	-		537,374
	9,798,203	-		9,798,203	32,173,134	-		32,173,134
LIABILITIES								
Current								
Accounts payable and accrued liabilities	1,717,484			1,717,484	1,776,803			1,776,803
Obligations under capital leases	-			-	6,691	-		6,691
Loans and advances from a shareholder	73,947,222	(816,803)	(i)	73,130,419	55,555,269	(117,962)	(i)	55,437,307
	75,664,706	(816,803)		74,847,903	57,338,763	(117,962)		57,220,801
Non-Current								
Site closure and reclamation provisions	2,078,050	-		2,078,050	2,332,470	-		2,332,470
	77,742,756	(816,803)		76,925,953	59,671,233	(117,962)		59,553,271
SHAREHOLDERS' EQUITY								
Share capital	186,952,654	-		186,952,654	186,952,654	-		186,952,654
Contributed surplus	32,873,345	-		32,873,345	32,873,345	-		32,873,345
Accumulated deficit	(287,770,552)	816,803	(i)	(286,953,749)	(247,324,098)	117,962	(i)	(247,206,136)
	(67,944,553)	816,803		(67,127,750)	(27,498,099)	117,962		(27,380,137)
	9,798,203	-		9,798,203	32,173,134	-		32,173,134

(i) To correct interest expenses and foreign exchange gain/loss related to the US$3.5 million waived interest by the Company's largest beneficial shareholder, Hebei Wenfeng. The adjustment to 2015 was a decrease of $698,841 in comprehensive loss and the adjustment to 2014 was a decrease of $117,962 to the 2014 closing accumulated deficit. These two adjustments have resulted in a total decrease of $816,803 to the 2015 accumulated deficit. Similar adjustments have been made to reduce loans and advances from a shareholder.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

The Company's financial statements are presented in Canadian dollars, which is also the functional currency of the Company. Monetary assets and liabilities denominated in currencies other than the Canadian dollar are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction, and then translated into Canadian dollars at the rates of exchange prevailing at the reporting date. All differences are taken to profit or loss on the statement of comprehensive income. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at average rates throughout the reporting period.

(b) Loss per share

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

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

(c) Inventory

Materials and supplies are valued at the lower of purchase cost and net realizable value. Replacement costs of supplies are generally used as the best measure of net realizable value for materials and supplies. The Company is current under care and maintenance. Therefore, the Company determines that salvage value is used as the measure of net realizable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

(d) Mineral properties, plant and equipment

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

Recognition and measurement

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

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

Exploration and evaluation costs include the costs to acquire exploration and evaluation assets, payments to maintain the assets in good standing, costs of conducting geological surveys, exploratory drilling, and sampling, and administrative and other general overhead costs associated with finding specific mineral resources. Exploration and evaluation costs are capitalized provided that there is an expectation that the costs will be recoverable in exploitation or sale. Expenditures incurred prior to the Company obtaining legal rights to explore an area are recognized as an expense in the period. Upon completion of a technical feasibility study and when commercial viability is demonstrated, capitalized exploration and evaluation costs are tested for impairment and transferred to and classified as mineral property acquisition and development costs. No amortization is charged during the exploration and evaluation phase.

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

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

When a mine is placed on care and maintenance, expenditures incurred in relation to maintaining the mine during the care and maintenance period are expensed and recorded as care and maintenance costs on the statements of comprehensive loss.

Depreciation, depletion and amortization

Plant and equipment are amortized to their estimated residual value on a straight-line basis over the shorter of their estimated useful lives and economic lives as follows:

Building	20 years
Equipment:	3 to 10 years

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

(e) Impairment of non-financial assets

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

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

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

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

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

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed on if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset or CGU in prior years. Such a reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase and is recognized through other comprehensive income.

(f) Provisions

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

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

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

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

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risk specific to the liability. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in profit and loss.

Site closure and reclamation provisions

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

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

The periodic unwinding of the discount is recognized in profit or loss as part of finance costs. Additional disturbances or changes in reclamation costs are recognized as additions or charges to the corresponding assets and reclamation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) that is created on an ongoing basis during production are provided for at their present value and recognized in profit or loss as extraction progresses.

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

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

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

(g) Income taxes

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

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

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss)
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be

controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized

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

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

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

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

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

(h) Financial instruments

i) Financial assets

<u>Initial recognition and measurement</u>

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

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

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

The Company's financial assets include cash, receivables, and deposits.

<u>Subsequent measurement</u>

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

Financial assets at fair value through profit or loss

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

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

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial assets upon initial recognition as fair value through profit or loss.
The Company evaluates its financial assets as held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify them. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

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

Loans and receivables

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

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

This category applies to the Company's receivable and deposits.

Derecognition

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

- The rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

The Company's financial liabilities include trade and other payables, loans payable and obligations under capital lease.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Interest-bearing loans and borrowings

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

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

This category applies to the Company’s loans payable. For more information, refer to Note 13.

Derecognition

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

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

iii) Offsetting of financial instruments

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

iv) Cash

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

(i) Share capital

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

(j) Borrowing costs

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

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

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

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

(k) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Management of the Company determines the policies and procedures for both recurring fair value measurement, such as cash and cash equivalents, and non-recurring measurement, such as impairment tests.

At each reporting date, management analyzes the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Company's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(l) Current versus non-current classification

The Company presents assets and liabilities in statements of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Company classifies all other liabilities as non-current.

(m) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(n) Accounting standards issued but not yet effective

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

IFRS 7 Statement of Cash Flows ("IFRS 7)

IAS 7 has been revised to incorporate amendments issued by the International Accounting Standards Board ("IASB") in January 2016. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company does not expect any significant impact on the Company's financial statements arising from adoption of this standard.

IFRS 9, Financial Instruments ("IFRS 9)

IFRS 9 was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard and amendments on its financial statements.

IFRS 12 Income Taxes ("IFRS 12")

IAS 12 was revised to incorporate amendments issued by the IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company does not expect any significant impact arising from the adoption of this standard.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued by IASB in May 2014 and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of analyzing IFRS 15 and determining the effect on our financial statements as a result of adopting this standard.

Expressed in Canadian Dollars, except share data and otherwise stated

IFRS 16, Leases (“IFRS 16”)

IFRS 16 was issued by IASB in January 2016 and will replace IAS17, Lease and related interpretations. IFRS establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating of finance. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted if IFRS 15 has also been applied. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Company is in the process of analyzing IFRS 16 and determining the effect on our financial statements as a result of adopting this standard.

5. LOSS FROM MINE CARE AND MAINTENANCE

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.

	Year ended December 31,	
	2016	2015
Care and maintenance costs		
Cash cost	**$ 677,025**	$ 915,497
Non - cash cost	**1,060,369**	2,290,189
Loss from mine operations	**$ 1,737,394**	$ 3,205,686

6. FINANCE COSTS

Finance costs comprise the following:

	Year ended December 31,	
	2016	2015
Accretion for site closure and reclamation provision	**$ 42,508**	$ 41,751
Foreign exchange loss (gain)	**(1,909,301)**	10,525,347
Interest expense and bank charges	**7,071,776**	6,108,913
	$ 5,204,983	$ 16,676,011

Expressed in Canadian Dollars, except share data and otherwise stated

7. INCOME TAXES

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

	2016	2015
Accounting loss before income taxes	**(7,471,117)**	(39,747,613)
Canadian federal and provincial income tax rates	**26.54%**	26.93%
	(1,982,834)	(10,704,032)
Non-deductible expenses	**1,355,711**	4,179,309
Temporary income tax differences not recognized	**647,825**	1,423,950
Mining tax impact	**(31,983)**	5,257,781
Change in estimates and other	**11,281**	(157,008)
	$ -	$ -

The Company has not recognized any deferred income tax asset, and the significant components of deferred income tax assets are as follows:

	December 31, 2016	December 31, 2015
Deferred income tax asset		
Unused non-capital losses	**$ 27,917,321**	$ 27,669,808
Resource properties	**27,900,352**	28,222,854
Mining tax asset	**14,288,879**	14,221,459
Finance cost	**-**	168,252
Federal pre-production mining Income tax credit	**1,455,864**	1,451,595
	$ 71,562,416	$ 71,733,968

Expressed in Canadian Dollars, except share data and otherwise stated

The Company has approximately $104.1 million (2015 - $103.8 million) non-capital losses, which could be utilized to reduce the taxable income of future years under certain circumstances, expire as follows:

Expire Date	Amount
2029	$24,890,947
2030	32,937,803
2031	23,540,753
2032	12,688,652
2033	4,907,159
2034	1,862,510
2035	1,917,327
2036	1,380,151
Total	**$104,127,301**

The Company also has $50.4 million of Canadian exploration and development expenditures and $60.3 million capital cost allowance as at December 31, 2016 which under certain circumstances could be utilized to reduce the taxable income of future years as well.

Based on the Mining Tax Act (Manitoba, Canada), the Company has a mining tax asset of approximately $14.2 million (2015 - $14.2 million) for the year ended December 31, 2016.

8. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised the following:

	December 31, 2016	December 31, 2015
Taxes receivable	**$ 9,212**	$ 24,893
Prepaid expenditures	**3,580**	79,712
	$ 12,792	$ 104,605

9. INVENTORY

Inventory comprised material and supplies of $nil (2015 - $278,297), and is recorded at the lower of cost and net realizable value. The amount of inventory charged to care and maintenance costs was $42,716 in 2016 (2015 - $30,225). The Company also wrote down $278,297 inventory in 2016 (2015 - $151,574).

Expressed in Canadian Dollars, except share data and otherwise stated

10. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Cost		Exploration and evaluation expenditure		Mineral property acquisition and development		Plant, building and equipment		Total
As at January 1, 2015	$	21,420,789	$	97,079,199	$	74,257,527	$	192,757,515
Additions		564,419		-		-		564,419
Adjustments to reclamation provision		-		(296,171)		-		(296,171)
Government assistance and refunds		(238,674)		-		-		(238,674)
As at December 31, 2015		21,746,534		96,783,028		74,257,527		192,787,089
Additions		286,942		-		-		286,942
Adjustments to reclamation provision		-		-		139,476		139,476
Government assistance and refunds		(407,452)		-		-		(407,452)
As at December 31, 2016	**$**	**21,626,024**	**$**	**96,783,028**	**$**	**74,397,003**	**$**	**192,806,055**

Accumulated depreciation, depletion, amortization, and impairment		Exploration and evaluation expenditure		Mineral property acquisition and development		Plant, building and equipment		Total
As at January 1, 2015	$	1,160,482	$	97,079,199	$	63,879,684	$	162,119,365
Depreciation, depletion and amortization		-		-		2,293,549		2,293,549
Impairment		20,586,052		(296,171)		(766,000)		19,523,881
As at December 31, 2015		21,746,534		96,783,028		65,407,233		183,936,795
Depreciation, depletion and amortization		-		-		1,060,788		1,060,788
Impairment		(120,510)		-		-		(120,510)
As at December 31, 2016	**$**	**21,626,024**	**$**	**96,783,028**	**$**	**66,468,021**	**$**	**184,877,073**

Net book value		Exploration and evaluation expenditure		Mineral property acquisition and development		Plant, building and equipment		Total
As at December 31, 2015	$	-	$	-	$	8,850,294	$	8,850,294
As at December 31, 2016	**$**	**-**	**$**	**-**	**$**	**7,928,982**	**$**	**7,928,982**

(a) Exploration and evaluation expenditures

<u>Thompson Nickel Belt ("TNB")</u>

Under the terms of the Exploration Option Agreement (“Agreement”) and Exploration Amending Agreement ("Amending Agreement") with Glencore Canada Corporation (“Glencore”), formerly known as Xstrata Nickel Inc., the Company has the right to earn a 100% Glencore’s interest in Glencore'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. In 2013, the Company fulfilled its obligations and submitted the exercise notice to Glencore to exercise its options. In 2014, titles of all Glencore’s TNB properties governed by the Agreement and Amending Agreement have been transferred to the Company.

In 2015, the Company continued survey programs at TNB properties and incurred $564,419 exploration expenditures, and received a total of $238,674 government assistance and refund on the qualified exploration expenditures incurred during the year. However, due to the decline of metal prices, the Company determined that the carrying value of TNB properties exceeds its recoverable value, and an impairment charge of $20,586,052 was taken against its carrying value.

The recoverable amount is determined based on the properties' future cash flows expected to be derived and represent its fair value less estimated costs of disposal ('FVLCD"). FVLCD includes an "option value" meaning that these projects may have value even if they are not expected to be profitable at current price and cost estimates. The cash flows were determined based on cash flow projections which incorporate management's best estimates of future metal prices, recoverable reserves, production timing and levels, operating costs, capital expenditures, tax rates, foreign exchange rates, discount rates and net asset value ("NAV") multiples over the life of the properties. Expected prices of US$5.37 per pound in 2016 and US$4.70 per pound in 2017 and thereafter were used for the estimation. As at December 31, 2015, management has determined the option value to be nominal as it is uncertain how much longer the Company will continue to maintain these properties and it has not yet been able to sell or farm-out the projects to third parties.

In 2016, the Company incurred $286,942 expenditures at TNB properties and received a total of $407,452 government assistance and refund on the qualified exploration expenditures incurred in the current year and prior years. The excess of $120,510 government assistance and refund over the expenditures incurred in 2016 was reversed to prior year impairment charges.

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, Glencore 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 Glencore 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 Glencore.

(b) Bucko Lake Mine

Bucko Lake Mine, located near the town of Wabowden, Manitoba, was first declared commercial production in 2009, but did not reach its designed capacity. Since July 2012, Bucko Lake Mine has been placed on care and maintenance due to the unfavourable nickel prices. The timing when Bucko Lake Mine would resume operation is uncertain and mainly depends on the prices of nickel.

Bucko Lake Mine is considered as the lowest level cash generating unit. All long-lived assets, which include mineral property acquisition and development, plant, building and equipment, and equipment under capital leases, used for the operations at the Bucko Lake Mine are grouped together and subject to impairment testing in each reporting period.

The Company reassessed the recoverable value of Bucko Lake Mine as at December 31, 2016, and determined no further adjustment to the impairment charges (2014 – a reversal of $766,000) to the assets used at Bucko Lake Mine. FVLCD was used for the recoverable value estimates as value in use and discounted cash flow technique approaches were determined not appropriate due to the uncertainty of the timing to resume the mining operation at Bucko Lake Mine. In calculating the FVLCD, the Company referred to open market or publications for similar used equipment and plant to estimate the recoverable value of each piece of property, plant and equipment.

The Company's interest in the Bucko Lake mining lease is subject to a back-in right held by Glencore. 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, Glencore 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.

Expressed in Canadian Dollars, except share data and otherwise stated

11. OTHER NON-CURRENT ASSETS

Other non-current assets comprised restricted cash of $537,374 (2015 - $537,374), which is the reclamation deposit in accordance with statutory requirements for reclamation provisions to be incurred at the end of the mine life of the Company's Bucko Lake Mine. These funds are not available to finance the Company's day-to-day operations and therefore have been excluded from cash for the purposes of the statement of cash flows.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of $1,653,171 remained outstanding as at December 31, 2016 (2015 - $1,717,484).

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. The audit results were finalized in 2014 and required the Company to pay $515,933 RST liabilities, which included $37,440 penalty and $106,135 interest. Upon the Company's application in 2014, Manitoba Finance agreed to waive the interest of $106,135 subject to the full payment of all other remaining amounts and a monthly $10,000 instalment repayment plan. However, the unpaid amount of the RST liabilities is subject to monthly compound interest at the current annual rate of 9%. As at December 31, 2016, $276,552 RST liabilities remained outstanding.

13. LOANS AND ADVANCES FROM SHAREHOLDER

				Restated (Note 3.g)
		December 31, 2016		**December 31, 2015**
Interest bearing loans (a)	**$**	**67,125,516**	$	61,819,489
Non interest bearing advances (b)		**12,112,690**		11,310,930
	$	**79,238,206**	$	73,130,419

(a) Interest bearing loans

As at December 31, 2015 and 2016, all interest bearing loans are unsecured, due on demand, and payable to Hebei Wenfeng.

In May 2011, the Company arranged a one-year term unsecured debt facility of up to US$5 million (the "Loan") with Hebei Wenfeng. The Loan was drawn down at the option of the Company and bears interest at 10% per annum. The Company is also required to 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. The Loan was subsequently extended to a three-year term, but expired on May 28, 2014 and became payable on demand. In October 2014, Hebei Wenfeng waived the Company a total accrued interest of US$500,000 on the US$5 million loan.

In July 2011, the Company entered into an unsecured debt facility of up to US$15 million in July 2011 with Luckyup, an arm's-length party based in Hong Kong. In December 2011, this debt facility was increased to US$25 million. This debt facility was 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, this debt facility was extended from one-year term to three-year terms, but expired on July 22, 2014. In October 2014, Hebei Wenfeng and Luckyup entered into an Assignment Agreement that Luckyup assigned and transferred its right and interest in this debt facility to Hebei Wenfeng. Immediately after this Assignment Agreement, Hebei Wenfeng became the only interest bearing loan creditor. In October 2014, Hebei Wenfeng waived the Company a total accrued interest of US$3.0 million on the US$25 million credit facility.

Expressed in Canadian Dollars, except share data and otherwise stated

As at December 31, 2016, the total outstanding balance of interest bearing loans from Hebei Wenfeng, including interest accretion and foreign exchange impact, was $67,125,516 (2015 - $61,819,489).

In 2016, a total of $7,020,866 interest expenses (2015 - $6,071,132) and $1,714,839 foreign exchange gain (2015 – loss of $9,447,261), respectively, were recorded arising from the US dollar denominated interest bearing loans.

(b) Non-interest bearing advances

Due to the financial conditions of the Company, Hebei Wenfeng advanced funds, from time to time, to the Company to support the Company's operation. In 2016, Hebei Wenfeng advanced a total of $1,000,000 to the Company and as of December 31, 2016, the outstanding balance of the advances from Hebei Wenfeng, was $12,112,690. In 2016, a total of $198,240 foreign exchange gain (2015 - $1,074,720 foreign exchange loss) was recorded arising from the US dollar denominated outstanding balances advanced from Hebei Wenfeng. Subsequent to December 31, 2016, Hebei Wenfeng further advanced $270,000 to the Company.

The advances bear no interest and are due on demand.

14. SITE CLOSURE AND RECLAMATION PROVISIONS

		December 31, 2016		December 31, 2015
Balance, beginning of year	**$**	**2,078,050**	$	2,332,470
Accretion		**42,508**		41,751
Change in estimates		**139,476**		(296,171)
Balance, end of year	**$**	**2,260,034**	$	2,078,050

The site closure and reclamation provisions represent the present value of reclamation costs related to Bucko Lake Mine, which are expected to be incurred up to 2035. These provisions have been created based on the Company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual reclamation costs will ultimately depend upon future market prices for the necessary reclamation works required that will reflect market conditions at the relevant time.

The undiscounted value of these obligations was $3,178,644 as at December 31, 2016 (December 31, 2015 - $3,049,963), calculated using inflation rate of 1.6% (December 31, 2015 – 1.4%). The expected timing of the reclamation activities also changed from 2034 to 2035. Using a discount rate of 1.72% (2015 – 2.04%), the present value of the site closure and reclamation provisions was increased by $139,476 to $2,260,034 (December 31, 2015 - $2,078,050).

Expressed in Canadian Dollars, except share data and otherwise stated

15. 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, is fixed by the Board of Directors of the Company at a price not below the market price of the common shares at the time of grant, subject to all applicable regulatory requirements. There are no cash settlement alternatives.

No option was granted during the year ended December 31, 2016 and 2015 and the continuity of stock options issued and outstanding is as follows:

	Number of Options		Weighted Average Price
Outstanding, January 1, 2015	6,250	$	2.90
Cancelled/Forfeited	(1,250)		2.73
Outstanding, December 31, 2015	5,000		3.60
Expired	(5,000)		3.60
Outstanding, December 31, 2016	**-**	**$**	**-**

16. RELATED PARTY TRANSACTIONS

Related party transactions 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 beneficial shareholder of the Company, are disclosed in note 13 above. Related party transactions not disclosed elsewhere include the following:

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, including fees paid or payable to company controlled by key management personnel, is as follows:

	Year ended December 31,			
		2016		2015
Salaries and fees	**$**	**179,333**	$	185,000
	$	**179,333**	$	185,000

Expressed in Canadian Dollars, except share data and otherwise stated

17. CAPITAL MANAGEMENT AND COMMITMENTS

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

In order to achieve this overall objective, the Company's management, among other things, aims to ensure that it can secure necessary funds from related parties, delay repayments to outstanding debts, and minimize cash expenditures.

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, but systemic quantity measurements have not yet employed.

The capital of the Company consists of items included in shareholders' equity, loans payable, and advances from related parties. There have been no changes in the way the Company manages its capital during the year ended December 31, 2016.

The Company is not exposed to any other additional commitments.

18. FAIR VALUE MEASUREMENT AND 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.

a) Fair value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates. Management assessed that the fair value of cash, trade receivable, trade payables, and obligation under capital lease approximate their carrying amounts largely due to the short-term maturities of these instrument.

Fair value of the loans and advance from a shareholder(s) could be materially less than its carrying amount as the terms of the loans and advance from shareholder(s) do not represent terms that the Company could obtain on similar loans with arm's length parties. Accordingly, the fair value of these loans would differ from the current book value. Due to the Company's credit risk, it is unrealistic to expect an arm's length third party to provide an equivalent level of debt financing, or at least the terms on which such funding would be made available is undeterminable. Accordingly, the fair value of these loans has not been disclosed as a reasonable estimate cannot be made. For all other current assets and liabilities, book value approximates fair value.

The following table provides the quantitative disclosures of fair value measurement hierarchy of the Company's financial assets and liabilities measured on recurring basis.

	December 31, 2016			December 31, 2015		
	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	**$ 73,396**	**$ -**	**$ -**	$ 27,633	$ -	$ -

Expressed in Canadian Dollars, except share data and otherwise stated

There was no transfer between fair value levels during the reporting period.

b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations. The Company is exposed to credit risk primarily associated to accounts receivable and cash. The carrying value of financial assets represents the maximum credit exposure.

The Company undertakes credit evaluations on counterparties as necessary and has monitoring processes intended to mitigate credit risks. There are no amounts in receivables which are past due at December 31, 2016 (December 31, 2015 - $nil) and no provision is recognized.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2016, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $79,238,206 loans and advances from a shareholder, was in a deficit position of $1,566,983. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at December 31, 2016, cash outflow of those obligations based on contractual undiscounted payments, are estimated and summarized as follows:

	Payment Due by Period			
Contractual Obligations	Less than 1 year	1 - 3 years	After 3 years	Total
Accounts payable and accrued liabilities	$ 1,653,171	$ -	$ -	$ 1,653,171
Loans and advances from a shareholder	79,238,206	-	-	79,238,206
Total Contractual Obligations	**$ 80,891,377**	**$ -**	**$ -**	**$ 80,891,377**

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 subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposits issued by financial institutions. As at December 31, 2016, the Company had $67.1 million loans payable bearing fixed coupon rates of 10% to 12% per annum. Due to the financial conditions of the company and the nature of the loans, which owed to the largest shareholder of the Company, its fair value may not be reasonably estimated, and therefore the impact on the fair value of loans arising from the change of interest rate may not be reasonably estimated. Currently, the Company does not hedge against interest rate risk.

ii) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions and financing activities being denominated in US dollars. As at December 31, 2016, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents		**December 31, 2016**		December 31, 2015
Financial assets denominated in US Dollars				
Cash	**$**	**881**	$	1,008
		881		1,008
Financial liabilities denominated in US Dollars				
Accounts payables and accured liabilities		**13,247**		13,654
Loans and advances from a shareholder		**73,570,476**		68,462,689
	$	**73,583,723**	$	68,476,343

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2016, every 1% strengthening in US dollars would increase net loss by $735,828 (2015 - $684,753). 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 and the fair value of its mineral property will be significantly affected by changes in the market prices for nickel. Prices fluctuate daily 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 December 31, 2016, 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 fair value of financial instruments of the Company. However, change of nickel price would have significant impact on the estimation of the fair value of the Company's mineral properties.

19. 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 December 31, 2016, one lien placed against Bucko Lake Mine for $377,086 remained outstanding.

In January 2014, the Company received a statement of claim for $377,086 from the 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, the Company retained a legal counsel to file a statement of defense and made a counter claim for refund of overpayment for services not delivered and damages to be determined by court. No further action was carried by the plaintiff since our filing of the defence and counter claim. No provision has been provided for this claim.

Expressed in Canadian Dollars, except share data and otherwise stated

In February 2015, the Company received a statement of claim $175,412 against the Company for property damages arising from a blast in February 2013 at Bucko Lake Mine. Management believes that no evidence shows any relation between the property damages and the blast, and the Company is therefore not responsible. Consequently, the Company has filed a statement of defence and requested the claim to be dismissed.

In 2015, the Company was also charged with offences under the Fisheries Act for an alleged “deposit of deleterious substance” and alleged failure to “conduct acute lethality testing” at the Bucko Lake Mine between January and October 2014. This matter has been settled by payment of $80,000 in penalties.

20. 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 in Canada, and Bucko Lake Mine was the only operational mine, which the Company has an off-take agreement with Glencore over its mine life.

Bucko Lake Mine has been placed into care and maintenance since July 2012. Expenditures incurred 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 operation.

21. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31, 2016	2015
Net change in non-cash working capital		
Decrease in receivables and prepaid expenses	**$ 91,813**	$ 79,651
Decrease in inventory	**-**	18,500
Decrease in accounts payable and accrued liabilities	**(105,635)**	(158,352)
	$ (13,822)	$ (60,201)

As at December 31, 2016, $124,719 (2015 - $124,173) was included in account payable and accrued liabilities to acquire mineral properties, plant and equipment.

CaNickel Mining Limited

www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the year ended December 31, 2016

The Management's Discussion and Analysis ("MD&A") focuses on significant factors that affected the performance of CaNickel Mining Limited ("we", "our", "us", "CaNickel", or the "Company") and such factors may also affect future performance. The MD&A for the year ended December 31, 2016 should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2016 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and available on SEDAR at www.sedar.com.

This MD&A is prepared as at April 25, 2017 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; continued support and funding from 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.

DESCRIPTION OF BUSINESS

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 and corporate head office of the Company 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.

Due to the unfavorable nickel price, the Company's only operational mine, Bucko Lake Mine, was placed into care and maintenance in July 2012. Since then, the Company's main objective have been focused on carrying minimum exploration program and running the care and maintenance program at Bucko Lake Mine to safeguard assets. 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.

In August 2015, the Company received notice from the Toronto Stock Exchange (the "TSX") that TSX is reviewing the eligibility of the Company's common shares for continued listing on the TSX. Specifically, the TSX has advised that it is reviewing whether the Company meets the TSX's continued listing criteria in the following areas: (i) the Company's financial condition and operating results, and (ii) whether the Company has adequate working capital and an appropriate capital structure. CaNickel was being reviewed under the TSX's remedial review process and has been granted 120 days to comply with all requirements for listing. In January 2016, the Company voluntarily applied to de-list from TSX and transfer its listing to TSXV as the Company viewed that it would be unable to continue to meet certain minimum financial listing requirements of the TSX. Shares of the Company delisted from TSX on the close of business on February 4, 2016 and commenced trading on TSXV on February 5, 2016. The transfer of the listing provides continued trading liquidity for shareholders on a recognized trading platform and results in lower listing costs for the Company. The Company continues to trade under the symbol "CML.V" and no action is required by shareholders.

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 advances from Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), the largest beneficial shareholder of the Company. In 2016, Hebei Wenfeng advanced a total of $1,000,000 to the Company. Subsequent to December 31, 2016, Hebei Wenfeng further advanced $270,000 to the Company.

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 to run the care and maintenance program to safeguards assets and ensure compliances. Excluding the non-cash costs, the costs to run the care and maintenance program were $677,025 and $915,497 in 2016 and 2015, respectively.

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, Glencore 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

In light of the Company's financial conditions and the nickel price, the Company has adopted a conservative approach to reserve cash. As a result, the Company would only carry minimum exploration activities to ensure compliances and maintain mineral claims in good standing.

In 2015, the Company continued survey programs at TNB properties and incurred $564,419 exploration expenditures, and received a total of $238,674 government assistance and refund on the qualified exploration expenditures incurred during the year. However, due to the decline of metal prices, the Company determined that the carrying value of TNB properties exceeds its recoverable value, and an impairment charge of $20,586,052 was taken against its carrying value. The recoverable amount is determined based on the properties' future cash flows expected to be derived and represent its fair value less estimated costs of disposal ('FVLCD"). FVLCD includes an "option value" meaning that these projects may have value even if they are not expected to be profitable at current price and cost estimates. The cash flows were determined based on cash flow projections which incorporate management's best estimates of future metal prices, recoverable reserves, production timing and levels, operating costs, capital expenditures, tax rates, foreign exchange rates, discount rates and net asset value ("NAV") multiples over the life of the properties. Expected prices of US$5.37 per pound in 2016 and US$4.70 per pound in 2017 and thereafter were used for the estimation. As at December 31, 2015, management has determined the option value to be nominal as it is uncertain how much longer the Company will continue to maintain these properties and it has not yet been able to sell or farm-out the projects to third parties.

In 2016, the Company incurred $286,942 expenditures at TNB properties and received a total of $407,452 government assistance and refund on the qualified exploration expenditures incurred in the current year and prior years. The excess of $120,510 government assistance and refund over the expenditures incurred in 2016 was reversed to prior year impairment charges.

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, Glencore 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 Glencore 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 Glencore.

RESULTS OF OPERATIONS

Year ended December 31, 2016 "2016" vs. Year ended December 31, 2015 "2015"

Net loss in 2016 was $7,471,117 (2015 - $39,747,613). The decrease was mainly due to the decrease in care and maintenance cost, finance costs, and impairment charges incurred in 2016.

Loss from mine care and maintenance in 2016 was $1,737,394 (2015 - $3,205,686), which were the care and maintenance costs incurred at Bucko Lake Mine. The care and maintenance cost included cash costs of $677,025 (2015 - $915,497) and amortization expenses of $1,060,369 (2015 - $2,290,189). Since Bucko Lake was placed in care and maintenance, the Company has been taking various alternatives to minimize the cash outlays.

Finance costs in 2016 were $5,204,983 (2015 - $16,676,011). Finance costs primarily included interest and bank charges of $7,071,776 (2015 - $6,108,913), foreign exchange gain of $1,909,301 (2015 - loss of $10,525,347), and accretion of site closure and reclamation provisions of $42,508 (2015 - $41,751). The decrease of finance costs was mainly due to the foreign exchange gain recorded in 2016 while a loss was recorded in the prior year. Foreign exchange gain or loss was mainly due to the revaluation of US dollars against Canadian dollars as significant portions of the outstanding balance of loans and advances from shareholder are denominated in US dollar.

General and administration in 2016 was $31,906, which slightly decreased compared to $46,384 general and administration expenses incurred in 2015.

Legal and professional fees in 2016 was $74,909 (2015 - $62,053), which mainly include legal fee and audit fees accruals.

Other income in 2016 was $12,580 (2015 - $203,579), which include rental income of $12,580 (2015 - $192,688) from renting out part of the camp facility, and a gain of $nil (2015 - $10,911) on liabilities settlement.

Salaries, consulting and management fees in 2016 was $234,745 (2015 - $225,000), and the increase was mainly due to the change of personnel and pay rates.

Shareholder communication and investor relations in 2016 were $41,973 (2015 - $60,603). Shareholder communication and investor relations include the expenses related to regulatory filing, stock exchange listing, annual shareholder meeting, newswire, and investor conference and shows.

Impairment of mineral properties, plant and equipment in 2016 was a reversal of $120,510(2015 - $19,523,881). In 2016, the Company incurred $286,942 expenditures at TNB properties and received a total of $407,452 government assistance and refund on the qualified exploration expenditures incurred in the current year and prior years. The excess of $120,510 government assistance and refund over the expenditures incurred in 2016 was reversed to prior year impairment charges. The impairment charges recorded in 2015 comprised of $20,586,052 impairment charges against TNB properties offset by $1,062,171 adjustments to the carrying value of the plant and equipment employed at Bucko Lake Mine.

Inventory write down in 2016 was $278,297 (2015 - $151,574) as they were determined obsolete due to passage of time since the care and maintenance at Bucko Lake mine.

Fourth Quarter ended December 31, 2016 ("Q4 2016") vs. Fourth Quarter ended December 31, 2015 ("Q4 2015")

Net loss in Q4 2016 was $4,601,460 (Q4 2015 - $3,867,570), which mainly comprised $406,451 loss from mine care and maintenance (Q4 2015- $730,203), $3,727,801 finance costs (Q4 2015 - of $3,738,880), and $278,297 inventory write down (Q4 2015 - $151,574).
Loss from mine care and maintenance in Q4 2016 was $406,451 (Q4 2015 - $730,203), which were the care and maintenance costs incurred at Bucko Lake Mine. The care and maintenance cost included cash costs of $151,240 (Q4 2015- $160,037) and amortization expenses of $255,211 (Q4 2015- $570,166). Since Bucko Lake was placed in care and maintenance, the Company has been taking various alternatives to minimize the cash outlays.

Finance costs in Q4 2016 were a loss of $3,727,801 (Q4 2015 – of $3,738,880). Finance costs primarily included foreign exchange loss of $1,752,470 (Q4 2015 - $2,448,142), interest and bank charges of $1,964,646 (Q4 2015 - $1,280,300), and accretion of site closure and reclamation provisions of $10,685 (Q4 2015 - $10,438). The foreign exchange loss was mainly due to the revaluation of US dollars against Canadian dollars as significant portions of the outstanding balance of loans and advances from shareholder are denominated in US dollar. The interest was associated to the outstanding loans and advance from shareholder.

General and administration in Q4 2016 was $8,002 (Q4 2015 - $29,055).

Legal and professional fees in Q4 2016 was $28,070 (Q4 2015 - $29,646), which mainly include legal fee and audit fees accruals.

Other expenses in Q4 2016 was $nil (Q4 2015 – $43,094).

Salaries, consulting and management fees during the Q4 2016 was $84,745 (Q4 2015 - $60,000), and the increase was mainly due to the change of personnel and pay rates.

Shareholder communication and investor relations during the Q4 2016 were $4,197 (Q4 2015 - $7,970). Shareholder communication and investor relations include the expenses related to regulatory filing, stock exchange listing, annual shareholder meeting, newswire, and investor conference and shows.

Inventory write down in Q4 2016 was $278,297 (Q4 2015 - $151,574) as they were determined obsolete due to passage of time since the care and maintenance at Bucko Lake mine.

Use of proceeds from financing

The Company did not raise any funds through equity financing but advanced $1,000,000 from Hebei Wenfeng in 2016. All funds advanced from the related party are to run the care and maintenance program at Bucko Lake Mine, carrying exploration program to safeguard assets, and for general corporate purposes to maintain the listing status of the Company.

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Care and maintenance costs	$ (406,451)	$ (412,038)	$ (517,798)	$ (401,107)
Other items	(4,195,009)	(2,185,746)	(1,723,940)	2,370,972
Net loss	$ (4,601,460)	$ (2,597,784)	$ (2,241,738)	$ 1,969,865
Loss per share - basis and diluted	$ (0.12)	$ (0.07)	$ (0.06)	$ 0.05

	Quarters ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Care and maintenance cost	$ (730,203)	$ (809,053)	$ (861,659)	$ (804,771)
Other items	(3,137,367)	(26,363,324)	(655,534)	(6,385,702)
Net loss	$ (3,867,570)	$ (27,172,377)	$ (1,517,193)	$ (7,190,473)
Loss per share - basis and diluted	$ (0.10)	$ (0.72)	$ (0.04)	$ (0.19)

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 fluctuation of US dollars has significant impact on the foreign exchange gain or loss, which included in other items as above. The fluctuation of other items is mainly arising from the fluctuation of foreign exchange unless otherwise specifically stated.

ANNUAL INFORMATION

	Years ended December 31		
	2016	2015	2014
		Restated	Restated
Total assets	**$ 8,552,544**	$ 9,798,203	$ 32,173,134
Total liabilities	**83,151,411**	76,925,953	59,553,271
Shareholders' equity	**(74,598,867)**	(67,127,750)	(27,380,137)
Dividend declared	**-**	-	-
Care and maintenance cost	**(1,737,394)**	(3,205,686)	(3,484,223)
Other items	**(5,733,723)**	(36,541,927)	(5,025,184)
Net loss	**(7,471,117)**	(39,747,613)	(8,509,407)
Loss per share - basis & diluted	**$ (0.20)**	$ (1.06)	$ (0.23)

Certain adjustments related to the 2015 and 2014 financial statements were identified in the year ended December 31, 2016. These adjustments are considered material. Therefore, the Company considers it is appropriate to restate the previously reported 2015 and 2014 statement of financial position and statement of comprehensive loss. Details of the adjustments made are as follows:

Statements of Comprehensive Loss

(Expressed in Canadian Dollars, except share data)	As reported previously Year ended December 31, 2015	Adjustments	Note	Restated
Care and maintenance costs	$ (3,205,686)	-		$ (3,205,686)
Loss from mine operations	(3,205,686)	-		(3,205,686)
Finance costs	(17,374,852)	698,841	(i)	(16,676,011)
General and administration	(46,384)	-		(46,384)
Impairment of mineral properties, plant and equipment	(19,523,881)	-		(19,523,881)
Inventory writedown	(151,574)	-		(151,574)
Legal and professional fees	(62,053)	-		(62,053)
Other income and expenses	203,579			203,579
Salaries, consulting and management fees	(225,000)	-		(225,000)
Shareholder communications and investor relations	(60,603)	-		(60,603)
Net loss and Comprehensive loss for the period	(40,446,454)	698,841		(39,747,613)
Loss per share - basic & diluted	$ (1.08)			$ (1.06)
Weighted average number of shares - basic & diluted	37,520,369			37,520,369

Statements of Financial Position

(Expressed in Canadian Dollars)	As reported previously	Adjustments	Note	Restated	As reported previously	Adjustments	Note	Restated
	December 31, 2015				December 31, 2014			
ASSETS								
Current								
Cash	27,633	-		27,633	364,983	-		364,983
Receivables and prepaid expenses	104,605	-		104,605	184,256	-		184,256
Inventory	126,280	-		126,280	301,229	-		301,229
	258,518	-		258,518	850,468	-		850,468
Non-Current								
Inventory	152,017	-		152,017	147,142	-		147,142
Mineral properties, plant and equipment	8,850,294	-		8,850,294	30,638,150	-		30,638,150
Other non-current assets	537,374	-		537,374	537,374	-		537,374
	9,798,203	-		9,798,203	32,173,134	-		32,173,134
LIABILITIES								
Current								
Accounts payable and accrued liabilities	1,717,484			1,717,484	1,776,803			1,776,803
Obligations under capital leases	-			-	6,691	-		6,691
Loans and advances from a shareholder	73,947,222	(816,803)	(i)	73,130,419	55,555,269	(117,962)	(i)	55,437,307
	75,664,706	(816,803)		74,847,903	57,338,763	(117,962)		57,220,801
Non-Current								
Site closure and reclamation provisions	2,078,050	-		2,078,050	2,332,470	-		2,332,470
	77,742,756	(816,803)		76,925,953	59,671,233	(117,962)		59,553,271
SHAREHOLDERS' EQUITY								
Share capital	186,952,654	-		186,952,654	186,952,654	-		186,952,654
Contributed surplus	32,873,345	-		32,873,345	32,873,345	-		32,873,345
Accumulated deficit	(287,770,552)	816,803	(i)	(286,953,749)	(247,324,098)	117,962	(i)	(247,206,136)
	(67,944,553)	816,803		(67,127,750)	(27,498,099)	117,962		(27,380,137)
	9,798,203	-		9,798,203	32,173,134	-		32,173,134

(i) To correct interest expenses and foreign exchange gain/loss related to the US$3.5 million waived interest by the Company’s largest beneficial shareholder, Hebei Wenfeng. The adjustment to 2015 was a decrease of $698,841 in comprehensive loss and the adjustment to 2014 was a decrease of $117,962 to the 2014 closing accumulated deficit. These two adjustments have resulted in a total decrease of $816,803 to the 2015 accumulated deficit. Similar adjustments have been made to reduce loans and advances from a shareholder.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had cash of $73,396, increased by $45,763 compared to cash balance of $27,633 as at December 31, 2015. The increase of cash on hand was mainly because the Company was able to reduce the cash outlays to run the care and maintenance program and additional funds advanced from Hebei Wenfeng.

Cash used in operating activities in 2016 was $1,075,292 compared to a total of $1,169,713 cash used in 2015. Before net change in non-cash working capital, cash used in operation was $1,061,470 (2015 - $1,109,512).

Cash used in operating activities in Q4 2016 was $266,835 (Q4 2015 - $426,931). Before net change in non-cash working capital, cash used in operation was $293,720 (Q4 2015 - $334,800).

Cash from financing activities in 2016 was $1,000,000 (2015 - $1,093,309). In 2016, the Company received $1,000,000 advances from Hebei Wenfeng (2015 - $1,100,000) and repaid $nil (2015 - $6,691) to capital lease obligations.

Cash from financing activities in Q4 2016 was $350,000 (Q4 2015 - $400,000). In Q4 2016, the Company received $300,000 advances from Hebei Wenfeng (Q4 2015 - $400,000).

Cash from investing activities in 2016 was $121,055 (2015 – used cash of $260,946) as the Company received $407,452 (2015 - $238,674) government assistance and refundable cash offset by $286,942 (2015 - $564,419) exploration expenditures incurred at TNB properties.

In Q4 2016, cash used in investing activities was $63,352 (Q4 2015 - $74,520), which was exploration expenditures incurred at TNB properties.

Working capital as at December 31, 2016 was a deficit of $80,805,189 compared to the negative working capital of $74,589,385 as at December 31, 2015. The increase of working capital deficiency was primarily because i) 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; and ii) additional interest accrued on loans and advances from a shareholder. Excluding the loans and advances from a shareholder, the working capital as at December 31, 2016 was a deficit of $1,566,983 (December 31, 2015 - $1,458,966).

Shareholder's equity as at December 31, 2016 was negative $74,598,867 (December 31, 2015 - negative of $67,127,750) and the decrease was mainly due to the additional loss of $7,471,117 was recorded in the current period.

The estimated cash outflow based on the Company's contractual obligations and assuming Hebei Wenfeng calls upon its debt as at December 31, 2016 was amounted to $80,891,377 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, the largest beneficial shareholder of the Company. In 2016, the Company advanced $1,000,000 from Hebei Wenfeng. Subsequent to December 31, 2016, the Company received $2700,000 advances from Hebei Wenfeng.

In the event that Hebei Wenfeng discontinues its support or demand repayments, the Company might not be able to raise enough funds to be able to continue as a going concern, and 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 exploration programs at TNB properties.

FAIR VALUE MEASUREMENTS

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

Management assessed that the fair value of cash, trade receivable, trade payables, and obligation under capital lease approximate their carrying amounts largely due to the short-term maturities of these instrument.

The quantitative disclosures on financial instruments measured at fair value on a recurring basis are as follows:

	December 31, 2016			December 31, 2015		
	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	**$ 73,396**	**$ -**	**$ -**	$ 27,633	$ -	$ -

There was no transfer between fair value levels during the reporting period.

Fair value of the loans and advance from shareholder(s) could be materially less than its carrying amount as the terms of the loans and advance from shareholder(s) do not represent terms that the Company could obtain on similar loans with arm's length parties. Accordingly, the fair value of these loans would differ from the current book value. Due to the Company's credit risk, it is unrealistic to expect an arm's length third party to provide an equivalent level of debt financing, or at least the terms on which such funding would be made available is undeterminable. Accordingly, the fair value of these loans has not been disclosed as a reasonable estimate cannot be made. For all other financial instruments, book value approximates fair value.

In 2015, the Company recognized an impairment of the Company's exploration and evaluation expenditures incurred at TNB properties down to their recoverable amounts. The recoverable amounts become the carrying value, and certain assumptions used in the calculation of the recoverable amounts are categorized as level 3 in the fair value hierarchy.

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 audited financial statements for the year ended December 31, 2016 and the related notes.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations. The Company is exposed to credit risk primarily associated to accounts receivable and cash. The carrying value of financial assets represents the maximum credit exposure.

The Company undertakes credit evaluations on counterparties as necessary and has monitoring processes intended to mitigate credit risks. There are no amounts in receivables which are past due at December 31, 2016 (December 31, 2015 - $nil) and no provision is recognized.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2016, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $79,283,206 loans and advances from a shareholder, was in a deficit position of $1,566,983. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at December 31, 2016, cash outflow of those obligations based on contractual undiscounted payments, are estimated and summarized as follows:

	Payment Due by Period			
Contractual Obligations	Less than 1 year	1 - 3 years	After 3 years	Total
Accounts payable and accrued liabilities	$ 1,653,171	$ -	$ -	$ 1,653,171
Loans and advances from a shareholder	79,238,206	-	-	79,238,206
Total Contractual Obligations	**$ 80,891,377**	**$ -**	**$ -**	**$ 80,891,377**

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 cash, receivables, accounts payable and accrued liabilities, and loans and advances from a shareholder.

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 deposits issued by financial institutions. As at December 31, 2016, the Company had $67.1 million loans payable bearing fixed coupon rates of 10% to 12% per annum. Due to the financial conditions of the company and the nature of the loans, which owed to the largest shareholder of the Company, its fair value may not be reasonably estimated, and therefore the impact on the fair value of loans arising from the change of interest rate may not be reasonably estimated. 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 expenditures are incurred in Canadian dollars. The Company is exposed to foreign exchange risk as a result of some financing activities being denominated in US dollars. As at December 31, 2016, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents		**December 31, 2016**		December 31, 2015
Financial assets denominated in US Dollars				
Cash	**$**	**881**	$	1,008
		881		1,008
Financial liabilities denominated in US Dollars				
Accounts payables and accured liabilities		**13,247**		13,654
Loans and advances from a shareholder		**73,570,476**		68,462,689
	$	**73,583,723**	$	68,476,343

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2016, every 1% strengthening in US dollars would increase net loss by $735,828 (2015 - $684,753). 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 unfavorable nickel prices. The timing to resume mining operations would mainly depend on the nickel prices. As at December 31, 2016, 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 fair value of financial instruments of the Company. However, change of nickel prices would have significant impact on the fair value estimation of the Company's mineral properties.

d) Environmental risk

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

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

The Company received its Environment Act License from the Province of Manitoba to permit the Company to commence production at the Bucko Lake Nickel Mine in Manitoba. In September 2011, the Company was granted by the Manitoba government a revised Environment Act License (the "License") 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 License. If the Company fails to comply with those requirements, the License 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 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 in 2016 was $179,333 (2015 - $185,000).

(b) Transactions with Hebei Wenfeng

		December 31, 2016		December 31, 2015
Interest bearing loans (i)	**$**	**67,125,516**	$	61,819,489
Non interest bearing advances (ii)		**12,112,690**		11,310,930
	$	**79,238,206**	$	73,130,419

i) Interest bearing loans

As at December 31, 2015 and 2016, all interest bearing loans are unsecured, due on demand, and payable to Hebei Wenfeng.

In May 2011, the Company arranged a one-year term unsecured debt facility of up to US$5.0 million (the "Loan") with Hebei Wenfeng. The Loan was drawn down at the option of the Company and bears interest at 10% per annum. The Company is also required to 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. The Loan was subsequently extended to a three-year term, but expired on May 28, 2014 and became payable on demand. In October 2014, Hebei Wenfeng waived the Company a total accrued interest of US$500,000 on the US$5.0 million loan.

In July 2011, the Company entered into an unsecured debt facility of up to US$15 million in July 2011 with Luckyup, an arm's-length party based in Hong Kong. In December 2011, this debt facility was increased to US$25 million. This debt facility was 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, this debt facility was extended from one-year term to three-year terms, but expired on July 22, 2014. In October 2014, Hebei Wenfeng and Luckyup entered into an Assignment Agreement that Luckyup assigned and transferred its right and interest in this debt facility to Hebei Wenfeng. Immediately after this Assignment Agreement, Hebei Wenfeng became the only interest bearing loan creditor. In October 2014, Hebei Wenfeng waived the Company a total of accrued interest of $3.0 million on the US$25 million credit facility.

As at December 31, 2016, the total outstanding balance of interest bearing loans from Hebei Wenfeng, including interest accretion and foreign exchange impact, was $67,125,516 (2015 - $61,819,489).

In 2016, a total of $7,020,866 interest expenses (2015 - $6,071,132) and $1,714,839 foreign exchange gain (2015 – loss of $9,447,261), respectively, were recorded arising from the US dollar denominated interest bearing loans.

ii) Non-interest bearing advances

Due to the financial conditions of the Company, Hebei Wenfeng advanced funds, from time to time, to the Company to support the Company's operation. In 2016, Hebei Wenfeng advanced a total of $1,000,000 to the Company and as of December 31, 2016, the outstanding balance of the advances from Hebei Wenfeng, was $12,112,690. In 2016, a total of 198,240 foreign exchange gain (2015 - $1,074,720 foreign exchange loss) was recorded arising from the US dollar denominated outstanding balances advanced from Hebei Wenfeng. Subsequent to December 31, 2016, Hebei Wenfeng further advanced $270,000 to the Company.

The advances bear no interest and are due on demand.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

a) Going concern

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

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

As at December 31, 2016, the Company only has $73,396 cash on hand and a negative working capital of approximately $80,805,189. Excluding $79,238,206 loans and advances from the Company's largest beneficial shareholders, Hebei Wenfeng Industrial Group Limited ("Hebei Wenfeng"), the working capital of the Company is in negative of $1,566,983. The Company will need to raise additional capital in order to fund its ongoing exploration expenditures and the care and maintenance program. The Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $294,424,866 as at December 31,

2016. Since July 2012, Bucko Lake Mine was placed on care and maintenance due to the unfavourable nickel prices. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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.

b) Mineral reserve and resource estimates

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

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

- The carrying value of mineral property, plant, and equipment may be affected due to change in estimated future cash flows
- Depreciation, depletion, and amortization charges in profit or loss may change where such charges are determined using the unit of production method, or where the useful life of the related assets change
- Site closure and reclamation provisions may change where changes to the reserve estimates affect expectation about when such activities will occur and the associated cost of these activities

c) Exploration and evaluation expenditure

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

d) Depreciation, depletion, and amortization

Plant and equipment are amortized to their estimated residual value on a straight line basis over the shorter of their estimated useful lives and economic lives while estimated economically recoverable reserves are used in determining the depreciation of mineral property. This results in a depreciation/amortization charge proportional to the depletion of the anticipated remaining life of mine production. Each item’s life is assessed annually in relation to both its physical life limitations and present assessment of economically recoverable reserves of the mine property at which the assets is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Changes in estimates are accounted for prospectively.

e) Site closure and reclamation provisions

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

f) Impairment of assets

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

g) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

If the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, then fair value is determined using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The inputs to these models are taken from observable markets where possible, but if this is not feasible, a degree of judgment is required in establishing fair value. Changes in estimates and assumptions about these inputs could affect the reported fair value of financial instruments.

h) Contingencies

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

Summary of significant accounting policies are disclosed on note 4 to the audited financial statements for the year ended December 31, 2016.

CHANGE IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

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

IFRS 7 Statement of Cash Flows ("IFRS 7)

IAS 7 has been revised to incorporate amendments issued by the International Accounting Standards Board ("IASB") in January 2016. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company does not expect any significant impact on the Company's financial statements arising from adoption of this standard.

IFRS 9, Financial Instruments ("IFRS 9)

IFRS 9 was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard and amendments on its financial statements.

IFRS 12 Income Taxes ("IFRS 12")

IAS 12 was revised to incorporate amendments issued by the IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company does not expect any significant impact arising from the adoption of this standard.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued by IASB in May 2014 and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of analyzing IFRS 15 and determining the effect on our financial statements as a result of adopting this standard.

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued by IASB in January 2016 and will replace IAS17, Lease and related interpretations. IFRS establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating of finance. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted if IFRS 15 has also been applied. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Company is in the process of analyzing IFRS 16 and determining the effect on our financial statements as a result of adopting this standard.

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 September 30, 2016, one lien placed against Bucko Lake Mine for $377,086 remained outstanding.

In January 2014, the Company received a statement of claim for $377,086 from the 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, the Company retained a legal counsel to file a statement of defense and also made a counter claim for refund of overpayment for services not delivered and damages to be determined by court. No further action was carried by the plaintiff since our filing of the defense and counter claim. No provision has been provided for this claim.

In February 2015, the Company received a statement of claim $175,412 against the Company for property damages arising from a blast in February 2013 at Bucko Lake Mine. Management believes that no evidence shows any relation between the property damages and the blast, and the Company is therefore not responsible. Consequently, the Company has filed a statement of defense and requested the claim to be dismissed.

In 2015, the Company was also charged with offences under the Fisheries Act for an alleged "deposit of deleterious substance" and alleged failure to "conduct acute lethality testing" at the Bucko Lake Mine between January and October 2014. This matter is settled by paying $80,000 penalties

OUTSTANDING SHARE DATA

As at the date of this report, a total of 37,520,369 common shares of the Company were issued and outstanding.

OFF BALANCE SHEET ITEMS

There are no off balance sheet items.

PROPOSED TRANSACTIONS

There are no proposed assets or business acquisition or disposition.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

(a) capitalized or expensed exploration and development costs;

The required disclosure is presented no note 10 to the audited financial statements for the year ended December 31, 2016.

(b) expense research and development costs;

Not applicable.

(c) deferred development costs;

Not applicable.

(d) general and administration expenses;

This required disclosure is presented on audited financial statements of loss and comprehensive loss for the year ended December 31, 2016.

(e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);

None

END OF THIS REPORT