CaNickel Mining Limited

www.canickel.com

CONDENSED INTERIM

FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

NOTES TO READER

These unaudited condensed interim financial statements of CaNickel Mining Limited (the “Company”), for the three and six months ended June 30, 2016 have been prepared by management of the Company and have not been reviewed by the Company’s independent auditors, and therefore, they should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2015 which are available at SEDAR website at www.sedar.com.

Condensed Interim Statements of Comprehensive Loss

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

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2016**	2015	**2016**	2015
Care and maintenance costs		**(517,798)**	(861,659)	$ **(918,905)**	$ (1,666,430)
Loss from mine operations	3	**(517,798)**	(861,659)	**(918,905)**	(1,666,430)
Finance costs	4	**(1,633,130)**	(691,662)	**840,303**	(7,055,568)
General and administration		**(15,877)**	(11,636)	**(18,136)**	(16,671)
Impairment of mineral properties, plant and equipment		**12,558**	-	**(8,926)**	-
Legal and professional fees		**(21,815)**	(17,407)	**(37,036)**	(22,407)
Other income and expenses		**12,430**	135,714	**12,580**	214,907
Salaries, consulting and management fees	11	**(50,500)**	(50,000)	**(105,500)**	(110,000)
Shareholder communications and investor relations		**(27,606)**	(20,543)	**(36,253)**	(51,497)
Net loss and Comprehensive loss for the period		**(2,241,738)**	(1,517,193)	**(271,873)**	(8,707,666)
Loss per share - basic & diluted		$ **(0.06)**	$ (0.04)	$ **(0.01)**	$ (0.23)
Weighted average number of shares - basic & diluted		**37,520,369**	37,520,369	**37,520,369**	37,520,369

Condensed Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Notes		June 30, 2016		December 31, 2015
ASSETS					
Current					
Cash		$	**66,350**	$	27,633
Receivables and prepaid expenses			**12,502**		104,605
Inventory	5		**126,280**		126,280
			205,132		258,518
Non-Current					
Inventory	5		**152,017**		152,017
Mineral properties, plant and equipment	6		**8,232,694**		8,850,294
Other non-current assets			**537,374**		537,374
		$	**9,127,217**	$	9,798,203
LIABILITIES					
Current					
Accounts payable and accrued liabilities	7	$	**1,661,947**	$	1,717,484
Loans and advances from a shareholder	8		**73,582,508**		73,947,222
			75,244,455		75,664,706
Non-Current					
Site closure and reclamation provisions	9		**2,099,188**		2,078,050
			77,343,643		77,742,756
SHAREHOLDERS' EQUITY					
Share capital	10		**186,952,654**		186,952,654
Contributed surplus			**32,873,345**		32,873,345
Accumulated deficit			**(288,042,425)**		(287,770,552)
			(68,216,426)		(67,944,553)
		$	**9,127,217**	$	9,798,203

Contingencies and legal matters (Note 13)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

“Wenfeng Liu”, Director

“Kevin Zhu”, Director

Condensed Interim Statements of Changes in Equity

(Unaudited - 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**	**$**	**(287,770,552)**	**$**	**(67,944,553)**
Loss for the period	**-**		**-**		**-**		**(271,873)**		**(271,873)**
As at June 30, 2016	**37,520,369**	**$**	**186,952,654**	**$**	**32,873,345**	**$**	**(288,042,425)**	**$**	**(68,216,426)**

	Common Shares								
	Number of shares issued		Amount		Contributed Surplus		Accumulated Deficit		Total Equity
As at January 1, 2015	37,520,369		186,952,654		32,873,345		(247,324,098)	$	(27,498,099)
Loss for the period	-		-		-		(8,707,666)		(8,707,666)
As at June 30, 2015	37,520,369	$	186,952,654	$	32,873,345	$	(256,031,764)	$	(36,205,765)

Condensed Interim Statements of Cash Flow

(Unaudited - Expressed in Canadian Dollars)

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
OPERATING ACTIVITIES:					
Net loss for the period		**$ (2,241,738)**	$ (1,517,193)	**$ (271,873)**	$ (8,707,666)
Items not affecting cash:					
Accretion of site closure and reclamation provisions		**10,569**	12,016	**21,138**	20,876
Depreciation, depletion and amortization		**342,483**	577,433	**617,600**	1,154,772
Unrealized foreign exchange (gain) loss		**(23,334)**	(938,031)	**(4,533,654)**	3,944,442
Interest accretion & expenses		**1,646,787**	1,616,361	**3,674,053**	3,088,001
Impairment on mineral properties, plant and equipment		**(12,558)**	-	**8,926**	-
Net change in non-cash working capital	14	**47,821**	45,248	**(11,866)**	81,230
		(229,970)	(204,166)	**(495,676)**	(418,345)
FINANCING ACTIVITIES:					
Advance from related parties		**200,000**	200,000	**500,000**	200,000
Payment and discharge of capital leases		**-**	-	**-**	(6,691)
		200,000	200,000	**500,000**	193,309
INVESTING ACTIVITIES:					
Payment to acquire mineral properties, plant and equipment		**55,877**	26,576	**34,393**	(70,223)
		55,877	26,576	**34,393**	(70,223)
CHANGE IN CASH		**25,907**	22,410	**38,717**	(295,259)
CASH, beginning of period		**40,443**	47,314	**27,633**	364,983
CASH, end of period		**$ 66,350**	$ 69,724	**$ 66,350**	$ 69,724
SUPPLEMENTAL INFORMATION					
Interest paid		**$ -**	$ 2,209	**$ -**	$ 6,252
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"), which was trading on TSXV effective at the opening of trading on February 5, 2016 under symbol of "CML". The current registered office and corporate head office of the Company is located at Suite 1655, 999 West Hastings Street, Vancouver, British Columbia, Canada.

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.

2. BASIS OF PREPARATION

a) Statement of Compliance

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted and these unaudited condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All financial information in these financial statements is presented in Canadian dollars, except as otherwise stated.

The accounting policies applied in preparation of these financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2015.

These financial statements have assumed that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation, and therefore, these financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. However, the Company has incurred significant losses, negative working capital, and negative cash flow from operations in recent years, which indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. In the event that Company is not able to secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classification used.

To address its financing requirements, the Company is currently relying on advance from its related parties, mainly Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), the largest beneficial shareholder and creditor of the Company. However, there is no assurance that Hebei Wenfeng will continue to funds the Company without any limit.

The Board of Directors approved these condensed interim financial statements on August 11, 2016.

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

3. LOSS FROM MINE OPERATIONS

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Care and maintenance costs				
Cash cost	**$ 175,524**	$ 275,036	**$ 301,514**	$ 524,119
Non - cash cost	**342,274**	586,623	**617,391**	1,142,311
Loss from mine operations	**$ 517,798**	$ 861,659	**$ 918,905**	$ 1,666,430

4. FINANCE COSTS

Finance costs comprise the following:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Accretion for site closure and reclamation provision	**$ 10,569**	$ 12,016	**$ 21,138**	$ 20,876
Foreign exchange loss (gain)	**(24,226)**	(938,031)	**(4,535,494)**	3,944,634
Interest expense and bank charges	**1,646,787**	1,617,677	**3,674,053**	3,090,058
	$ 1,633,130	$ 691,662	**$ (840,303)**	$ 7,055,568

5. INVENTORY

Inventory is recorded at the lower of cost and net realizable value. As of June 30, 2016, inventory comprised material, supplies, and spare parts of $278,297 (December 31, 2015 - $278,297). During the three and six months ended June 30, 2016, the amount of inventory charged to care and maintenance cost was $7,707 and $11,111, respectively (same periods last year - $14,685 and $25,000, respectively).

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

6. 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		181,224		-		-		181,224
Government assistance and refunds		(172,298)		-		-		(172,298)
As at June 30, 2016	**$**	**21,755,460**	**$**	**96,783,028**	**$**	**74,257,527**	**$**	**192,796,015**

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		-		-		617,600		617,600
Impairment		8,926		-		-		8,926
As at June 30, 2016	**$**	**21,755,460**	**$**	**96,783,028**	**$**	**66,024,833**	**$**	**184,563,321**

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 June 30, 2016	**$**	**-**	**$**	**-**	**$**	**8,232,694**	**$**	**8,232,694**

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of $1,661,947 remained outstanding as at June 30, 2016 (December 31, 2015 - $1,717,484), which included Retail Sales Tax (“RST”) of $315,708 (December 31, 2015 - $365,539) payable to Ministry of Finance of Manitoba Government (“Manitoba Finance”). In 2013, Manitoba Finance conducted a RST audit in relation to the Company’s purchases and expenditures incurred and for the operations in Manitoba over the period from 2008 to 2013. The audit results found that the Company was required to pay $515,933 RST liabilities, which including $37,440 penalty and $106,135 interest. 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%.

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

8. LOANS AND ADVANCES FROM SHAREHOLDER

		June 30, 2016		December 31, 2015
Interest bearing loans (a)	$	**62,168,618**	$	62,636,292
Non interest bearing advances (b)		**11,413,890**		11,310,930
	$	**73,582,508**	$	73,947,222

(a) Interest bearing loans

As at Jun 30, 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$5,000,000 (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. As at June 30, 2016, the outstanding balance including interest accretion was $10,462,257, or US$8,042,332 (2015 - $10,702,556 or US$7,673,721)

In October 2014, Hebei Wenfeng entered into an Assignment Agreement with a third party to acquire all its rights and interest of a debt facility which the Company obtained from the third party in 2011. The debt facility bears interest of 12% per annum but matured on July 22, 2014. The principle of the debt facility is US$25 million. Immediately after the acquisition, Hebei Wenfeng waived the Company interest of US$3.5 million in 2014. As at June 30, 2016, the outstanding balance of this debt facility, including interest accretion, was $51,706,361 or US$39,746,607 (December 31, 2015 - $51,933,736 or US$37,357,021).

During the six months ended June 30, 2016, a total of $3,668,940 (same prior year period - $3,088,001) interest expenses and $4,136,614 foreign exchange gain (same prior year period – loss of $3,525,401), respectively, were recorded arising from these 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. During the six months ended June 30, 2016 Hebei Wenfeng advanced a total of $500,000 to the Company and as at June 30, 2016, the outstanding balance of the advances from Hebei Wenfeng, including foreign exchange impact, was $11,413,890 (December 31, 2015 - $11,310,930).

The advances bear no interest and are due on demand.

9. SITE CLOSURE AND RECLAMATION PROVISIONS

		June 30, 2016		December 31, 2015
Balance, beginning of year	$	**2,078,050**	$	2,332,470
Accretion		**21,138**		41,751
Change in estimates		**-**		(296,171)
Balance, end of year	$	**2,099,188**	$	2,078,050

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

10. SHARE CAPITAL

(a) Authorized

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

(b) Stock Options

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

No option was granted during the periods reported and the continuity of stock options issued and outstanding is as follows:

	Number of Options		Weighted Average Price
Outstanding, January 1, 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, June 30, 2016	**-**	**$**	**-**

11. RELATED PARTY TRANSACTIONS

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Related party transactions with Hebei Wenfeng, the largest shareholder of the Company, are disclosed in note 8 above.

The Company has identified its directors and certain senior officers as its key management personnel. The compensation cost for key management personnel for the three and six months ended June 30, 2016 was $45,000 and $90,000, respectively (three and six months ended June 30, 2015 - $45,000 and $100,000).

12. 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. Currently, the Company does not apply any form of hedge accounting.

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

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, and trade payables approximate their carrying amounts largely due to the short-term maturities of these instrument.

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 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.

	June 30, 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	**$ 66,350**	**$ -**	**$ -**	$ 27,633	$ -	$ -

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 June 30, 2016 (December 31, 2015 - $nil) for which 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 June 30, 2016, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $73,582,508 loans and advances from a shareholder, was in a deficit position of $1,456,815. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at June 30, 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	$ 1,661,947	$ -	$ -	$ 1,661,947
Loans and advances from a shareholder	73,582,508	-	-	73,582,508
Total Contractual Obligations	**$ 75,244,455**	**$ -**	**$ -**	**$ 75,244,455**

d) Market risk

Mark risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, and commodity price risk. Financial instruments affected by market risk include 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 June 30, 2016, the Company had $62.2 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 some financing activities being denominated in US dollars. As at June 30, 2016, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents		**June 30, 2016**		December 31, 2015
Financial assets denominated in US Dollars				
Cash	**$**	**906**	$	1,008
		906		1,008
Financial liabilities denominated in US Dollars				
Accounts payables and accured liabilities		**12,658**		13,654
Loans and advances from a shareholder		**68,811,818**		69,279,492
	$	**68,824,476**	$	69,293,146

Based on the financial assets and liabilities denominated in US dollars as at June 30, 2016, every 1% strengthening in US dollars would increase net loss by $688,236 (December 31, 2015 - $692,621). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

iii) Commodity price risk

Since July 2012, the Company suspended its mining operations due to unfavourable nickel prices, and has no sales receivable or forward/option contract outstanding as at June 30, 2016. Change of commodity prices would not have any significant impact on the financial position of the Company. However, commodity prices, mainly nickel prices, would have significant impact on the appropriate course of actions to be taken by the Company. The Company's future operations, including exploration activities and if to resume mining operations at Bucko Lake mine, would 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.

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

13. CONTINGENCIES AND LEGAL MATERS

Since the mining operation was suspended in July 2012, the Company has been encountering difficulties in retiring some outstanding accounts payables in accordance with terms provided by vendors, and therefore expects that some liens will be placed and legal actions will be initiated. As at June 30, 2016, there was one lien placed against Bucko Lake Mine for $377,086.

In January 2014, the Company received a statement of claim for $377,086 from the same contractor who placed the lien against Bucko Lake Mine. The Company believed that it has fulfilled its contracted obligations to make payment to the contractor and the claim has no base; accordingly, 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 defence 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 defence and requested the claim to be dismissed.

In 2015, the Company was 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 in its preliminary stages and the potential liability is not determinable at this time.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Net change in non-cash working capital				
Decreasein receivables and prepaid expenses	**$ 23,656**	$ 58,535	**$ 92,103**	$ 153,049
Decrease in inventory	**-**	19,829	**-**	24,951
Decrease in accounts payable and accrued liabilities	**67,484**	(33,116)	**(60,650)**	(96,770)
	$ 91,140	$ 45,248	**$ 31,453**	$ 81,230

As at June 30, 2016, $167,492 (December 31, 2015 - $188,972) was included in accounts payable and accrued liabilities to acquire mineral properties, plant and equipment.

15. SEGMENTED INFORMATION

The Company currently operates in a single reportable segment and is focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. All assets of the Company are located in Canada. No revenue is recorded during the period reported as the Company's only operational mine is on care and maintenance.

CaNickel Mining Limited

Formerly: Crowflight Minerals Inc.

www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the three and six months ended June 30, 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. This MD&A should be read in conjunction with the Company's unaudited condensed interim financial statements for the three and six months ended June 30, 2016 and the audited financial statements for the year ended December 31, 2015 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 August 11, 2016 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.

SECOND QUARTER OF 2016 HIGHLIGHTS

- Loss for the three months ended June 30, 2016 ("Q2 2016") amounted to $2,241,738, compared to loss of $1,517,193 in the same period last year ("Q2 2015");

- Care and maintenance costs at Bucko Lake Mine in Q2 2016 was $517,798 compared to $861,659 inQ2 2015; and,

- Receipt of exploration credit refunds of $172,298.

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" 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 November 2015, Hebei Wenfeng entered into a loan arrangement agreement with the Company that Hebei Wenfeng would continue to fund the Company a minimum of $600,000 for the next six months. For the six months ended June 30, 2016, Hebei Wenfeng advanced a total of $500,000 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 $175,524 and $301,514 during the three and six months ended June 30, 2016 (three and six months ended June 30, 2015 - $275,036 and $524,119, 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.

During the six months ended June 30, 2016, the Company incurred exploration expenditures of $181,224 at TNB properties, and also received work credit refunds of $172,298 from the Manitoba Government.

As TNB properties were impaired as determined in 2015 due to the decline of nickel prices, and the market condition for nickel have no significant changes since then, a further impairment charge of $8,926 was taken against the carrying value of TNB properties. The recoverable amount is determined based on the properties' future cash flows expected to be derived and represent its fair value less estimated costs to sell ('FVLCTS"). 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.

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

Net loss in Q2 2016 was $2,241,738 (Q2 2015 - $1,517,193), which mainly comprised $517,798 loss from mine care and maintenance (Q2 2015 - $861,659) and $1,633,130 finance costs (Q2 2015 – of $691,662).

Net loss for the six months ended June 30, 2016 was $271,873, which mainly comprised of $918,905 care and maintenance costs (six months ended June 30, 2016 - $1,666,430) offset by finance income of $840,303 (six months ended June 30, 2015 – finance costs of $7,055,568).

Care and maintenance costs incurred at Bucko Lake Mine in Q2 2016 were $517,798 (Q2 2015 - $861,659). The care and maintenance cost included cash costs of $175,524 (Q2 2015 - $275,036) and non-cash cost, mainly the amortization expenses, of $342,274 (Q2 2015 - $586,623).

Care and maintenance costs for the six months ended June 30, 2016 was $918,905 (six months ended June 30, 2015 - $1,666,430), which comprised of cash costs of $301,514 (six months ended June 30, 2015 - $524,119) and non-cash costs of $617,391 (six months ended June 30, 2015 - $1,142,311).

Since Bucko Lake was placed in care and maintenance, the Company has been taking various alternatives to minimize the cash outlays.

Finance costs in Q2 2016 were $1,633,130 (Q2 2015 - $691,662). Finance costs primarily included the following:

- Accretion for site closure and reclamation provision: $10,569 (Q2 2015 - $12,106);
- Foreign exchange gain: $24,226 (Q2 2015 - $938,031); and
- Interest expenses and bank charges: $1,646,787 (Q2 2015 - $1,617,677).

Finance costs during six months ended June 30, 2016 were an income of $840,303 (six months ended June 30, 2015 - costs of $7,055,568). Finance costs primarily included the following:

- Accretion for site closure and reclamation provision: $21,138 (six months ended June 30, 2015 - $20,876);
- Foreign exchange gain: $4,535,494 (six months ended June 30, 2015 – loss of $3,944,634); and
- Interest expenses and bank charges: $3,674,053 (six months ended June 30, 2015 - $3,090,058).

The foreign exchange gain or loss was mainly due to the fluctuation 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 Q2 2016 was $15,877, an increase of $4,241 compared to $11,636 in Q2, 2015.

For the six months ended June 30, 2016, general and administration expenses were $18,136, an increase of $1,465 compared to $16,671 for the six months ended June 30, 2015.

Legal and professional fees in Q2 2016 was $21,815 (Q2 2015 - $17,407), which mainly include legal fee and audit fees accruals, and the increase mainly due to the legal fee incurred arising from the trading of common shares transferred to TSX Venture Exchange from Toronto Stock Exchange and defending the legal cases the Company is facing.

Legal and professional fees during the six months ended June 30, 2016 was $37,036 (six months ended June 30, 2015 - $22,407), and the increase mainly due the legal fee incurred arising from defending the legal cases the Company is facing.

Other income in Q2 2016 was $12,430 (Q2 2015 - $135,714), which was mainly the rental income from temporarily renting out part of the camp facility.

Other income during the six months ended June 30, 2016 was $12,580 (six months ended June 30, 2015 - $214,907).

Salaries, consulting and management fees in Q2 2016 were $50,500, which was comparable to the $50,000 recorded in Q2 2015.

Salaries, consulting and management fees during the six months ended June 30, 2016 were $105,500, which was comparable to the $110,000 recorded during the six months ended June 30, 2015.

Shareholder communication and investor relations in Q2 2016 were $27,606 (Q2 2015 - $20,543). Shareholder communication and investor relations include the expenses related to regulatory filing, stock exchange listing, annual shareholder meeting, newswire, and investor conference and shows.

Shareholder communication and investor relations during the six months ended June 30, 2016 were $36,253 (six months ended June 30, 2015 - $51,497), and the decrease was mainly due to the decrease of listing fee arising from the change of market capitalization of the common shares of the Company and the listing on Toronto Stock Venture Exchange from the Toronto Stock Exchange.

Use of proceeds from financing

The Company did not raise any funds through equity financing but advanced $500,000 from Hebei Wenfeng in Q1 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			
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Care and maintenance costs	$ (517,798)	$ (401,107)	$ (730,203)	$ (809,053)
Other items	(1,723,940)	2,370,972	(3,836,208)	(26,363,324)
Net loss	$ (2,241,738)	$ 1,969,865	$ (4,566,411)	$ (27,172,377)
Loss per share - basis and diluted	$ (0.06)	$ 0.05	$ (0.12)	$ (0.72)

	Quarters ended			
	March 31, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Care and maintenance cost	$ (861,659)	$ (804,771)	$ (865,721)	$ (935,098)
Other items	(655,534)	(6,385,702)	(397,261)	(2,405,078)
Net loss	$ (1,517,193)	$ (7,190,473)	$ (1,262,982)	$ (3,340,176)
Loss per share - basis and diluted	$ (0.04)	$ (0.19)	$ (0.03)	$ (0.09)

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.

The net loss for the quarter ended September 30, 2015 was mainly due to $20,446,733 impairment charges to Thompson Nickel Belt properties.

ANNUAL INFORMATION

	Years ended December 31		
	2015	2014	2013
Total assets	**$ 8,731,985**	$ 32,173,134	$ 33,965,792
Total liabilities	**76,982,199**	59,671,233	53,836,522
Shareholders' equity	**(68,250,214)**	(27,498,099)	(19,870,730)
Dividend declared	**-**	-	-
Care and maintenance cost	**(3,155,928)**	(3,484,223)	(4,555,879)
Other items	**(37,596,187)**	(5,143,146)	(7,785,717)
Net loss	**(40,752,115)**	(8,627,369)	(12,341,596)
Loss per share - basis & diluted	**$ (1.09)**	$ (0.23)	$ (0.88)

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2016, the Company had cash of $66,350, increase by $38,717 compared to cash balance of $27,633 as at December 31, 2015. The increase of cash on hand was mainly because the Company advanced more funds from Hebei Wenfeng to run the care and maintenance program.

Cash used in operating activities in Q2 2016 was $229,970 compared to a total of $204,166 cash used in Q2 2015. Before net change in non-cash working capital, cash used in operation was $277,791 (Q2 2015 - $249,414).

Cash used in operating activities during the six months ended June 30, 2016 was $495,676 compared to a total of $418,345 cash used during the six months ended June 30, 2015. Before net change in non-cash working capital, cash used in operation was $483,810 (six months ended June 30, 2015 - $499,575).

Cash from financing activities in Q2 2016 was $200,000 (Q2 2015 - $200,000). In Q2 2016, the Company advanced $200,000 from Hebei Wenfeng (Q2 2015 - $200,000).

Cash from financing activities during the six months ended June 30, 2016 was $500,000 (six months ended June 30, 2015 - $193,309). During the six months ended June 30, 2016, the Company advanced $500,000 from Hebei Wenfeng (six months ended June 30, 2015 - $200,000) and repaid $nil (six months ended June 30, 2015 - $6,691) to capital lease obligations.

Cash from investing activities in Q2 2016 was $55,877 (Q2 2015 - $26,576). In Q2 2016, the Company received $172,298 exploration work credit refunds from Manitoba Government (Q2 2015 - $139,479) and paid exploration expenditures of $116,421 (Q2 2015 - $86,327) incurred at TNB properties.

Cash from investing activities during the six months ended June 30, 2016 was $34,393 (six months ended June 30, 2015 - $70,223). During the six months ended June 30, 2016, the Company received $172,298 exploration work credit refunds from Manitoba Government (six months ended June 30, 2015 - $139,479) and paid exploration expenditures of $137,905 (six months ended June 30, 2015 - $209,702) incurred at TNB properties.

Working capital as at June 30, 2016 was a deficit of $75,039,323 compared to the negative working capital of $74,497,661 as at December 31, 2015. The decrease of working capital was primarily because of additional loss incurred. Excluding the loans and advances from a shareholder, the working capital as at June 30, 2016 was a deficit of $1,456,815 (December 31, 2015 - $1,458,966).

Shareholder's equity as at June 30, 2016 was negative $68,216,426 (December 31, 2015 - negative of $67,944,553) and the decrease was mainly due to additional loss recorded in the current period.

The estimated cash outflow based on the Company's contractual obligations as at June 30, 2016 was amounted to $75,244,455 and was due within one year. Excluding the loans and advances from a shareholder of $73,582,508, the working capital was in a deficit position of $1,456,815. The estimated burn rate of the Company is approximately $100,000. 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 November 2015, the Company entered into a written agreement with Hebei Wenfeng that Hebei Wenfeng would continue to provide further $600,000, free of interest, to the Company at the sole discretion of the Company. During the six months ended June 30, 2016, the Company advanced $500,000 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, non-financial assets and liabilities measured at fair value, assets and liabilities with fair value disclosed are as follows:

	June 30, 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	**$ 66,350**	**$ -**	**$ -**	$ 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. During the six months ended June 30, 2016, further impairment charges against TNB properties were recorded.

RISK MANAGEMENT

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

Management constantly monitors and assesses the fluctuation of nickel price and US dollars. The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on its financial condition or results of operations, other than those disclosed in this MD&A and the unaudited condensed interim financial statements for the three months ended Jun 30, 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 June 30, 2016 (December 31, 2015 - $nil) for which 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 June 30, 2016, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $73,582,508 loans and advances from a shareholder, was in a deficit position of $1,456,815. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at June 30, 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	$ 1,661,947	$ -	$ -	$ 1,661,947
Loans and advances from a shareholder	73,582,508	-	-	73,582,508
Total Contractual Obligations	**$ 75,244,455**	**$ -**	**$ -**	**$ 75,244,455**

c) Market risk

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

d) 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 June 30, 2016, the Company had $62.2 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.

e) 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 some financing activities being denominated in US dollars. As at June 30, 2016, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	**June 30, 2016**	December 31, 2015
Financial assets denominated in US Dollars		
Cash	**$ 906**	$ 1,008
	906	1,008
Financial liabilities denominated in US Dollars		
Accounts payables and accured liabilities	**12,658**	13,654
Loans and advances from a shareholder	**68,811,818**	69,279,492
	$ 68,824,476	$ 69,293,146

Based on the financial assets and liabilities denominated in US dollars as at June 30, 2016, every 1% strengthening in US dollars would increase net loss by 688,236 (December 31, 2015 - $692,621). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

i) Commodity price risk

Since July 2012, the Company suspended its mining operations due to unfavourable nickel prices, and has no sales receivable or forward/option contract outstanding as at June 30, 2016. Change of commodity prices would not have any significant impact on the financial position of the Company. However, commodity prices, mainly nickel prices, would have significant impact on the appropriate course of actions to be taken by the Company. The Company's future operations, including exploration activities and if to resume mining operations at Bucko Lake mine, would 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.

f) 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 for the three and six months ended June 30, 2016 was $45,000 and $90,000 (three and six months ended June 30, 2015 - $45,000 and $100,000).

(b) Transactions with Hebei Wenfeng

		June 30, 2016		December 31, 2015
Interest bearing loans (i)	**$**	**62,168,618**	$	62,636,292
Non interest bearing advances (ii)		**11,413,890**		11,310,930
	$	**73,582,508**	$	73,947,222

i) Interest bearing loans

As at Jun 30, 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$5,000,000 (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. As at June 30, 2016, the outstanding balance including interest accretion was $10,462,257, or US$8,042,332 (2015 - $10,702,556 or US$7,673,721)

In October 2014, Hebei Wenfeng entered into an Assignment Agreement with a third party to acquire all its rights and interest of a debt facility which the Company obtained from the third party in 2011. The debt facility bears interest of 12% per annum but matured on July 22, 2014. The principle of the debt facility is US$25 million. Immediately after the acquisition, Hebei Wenfeng waived the Company interest of US$3.5 million in 2014. As at June 30, 2016, the outstanding balance of this debt facility, including interest accretion, was $51,706,361 or US$39,746,607 (December 31, 2015 - $51,933,736 or US$37,357,021).

During the six months ended June 30, 2016, a total of $3,668,940 (same prior year period - $3,088,001) interest expenses and $4,136,614 foreign exchange gain (same prior year period – loss of $3,525,401), respectively, were recorded arising from these 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. During the six months ended June 30, 2016 Hebei Wenfeng advanced a total of $500,000 to the Company and as at June 30, 2016, the outstanding balance of the advances from Hebei Wenfeng, including foreign exchange impact, was $11,413,890 (December 31, 2015 - $11,310,930).

The advances bear no interest and are due on demand.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting policies applied in preparation of these financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2015

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.

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of these condensed interim financial statements are consistent with those applied and disclosed in note 3 to the Company's financial statements for the year ended December 31, 2015.

Readers are encouraged to refer to the critical accounting policies and estimates as described in the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2015.

CONTINGENCIES AND LEGAL MATTERS

Since the mining operation was suspended in July 2012, the Company has been encountering difficulties in retiring some outstanding accounts payables in accordance with terms provided by vendors, and therefore expects that some liens will be placed and legal actions will be initiated. As at March 31, 2016, there was one lien placed against Bucko Lake Mine for $377,086.

In January 2014, the Company received a statement of claim for $377,086 from the same contractor who placed the lien against Bucko Lake Mine. The Company believed that it has fulfilled its contracted obligations to make payment to the contractor and the claim has no base; accordingly, 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 defence 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 defence and requested the claim to be dismissed.

In 2015, the Company was 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 in its preliminary stages and the potential liability is not determinable at this time.

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. No option was outstanding as at June 30, 2016.

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 6 to the unaudited condensed interim financial statements for the three and six months ended June 30, 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 unaudited condensed interim statements of loss and comprehensive loss for the three and six months ended June 30, 2016.

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

None

END OF THIS REPORT