



**CaNickel Mining Limited**

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[www.canickel.com](http://www.canickel.com)

**CONDENSED INTERIM  
FINANCIAL STATEMENTS**

*September 30, 2016*

*(Unaudited)*

## **NOTES TO READER**

These unaudited condensed interim financial statements of CaNickel Mining Limited (the “Company”), for the three and nine months ended September 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](http://www.sedar.com).

## Condensed Interim Statements of Comprehensive Loss

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
Care and maintenance costs		(412,038)	(809,053)	\$ (1,330,943)	\$ (2,475,483)
<b>Loss from mine operations</b>	3	<b>(412,038)</b>	<b>(809,053)</b>	<b>(1,330,943)</b>	<b>(2,475,483)</b>
Finance costs	4	(2,317,485)	(5,881,563)	(1,477,182)	(12,937,131)
General and administration		(5,768)	(658)	(23,904)	(17,329)
Impairment of mineral properties, plant and equipment		193,333	(20,446,733)	184,407	(20,446,733)
Legal and professional fees		(9,803)	(10,000)	(46,839)	(32,407)
Other income and expenses		-	31,766	12,580	246,673
Salaries, consulting and management fees	11	(44,500)	(55,000)	(150,000)	(165,000)
Shareholder communications and investor relations		(1,523)	(1,136)	(37,776)	(52,633)
<b>Net loss and Comprehensive loss for the period</b>		<b>(2,597,784)</b>	<b>(27,172,377)</b>	<b>(2,869,657)</b>	<b>(35,880,043)</b>
Loss per share - basic & diluted		\$ (0.07)	\$ (0.72)	\$ (0.08)	\$ (0.96)
Weighted average number of shares - basic & diluted		37,520,369	37,520,369	37,520,369	37,520,369

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

## Condensed Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Notes	September 30, 2016	December 31, 2015
<b>ASSETS</b>			
<i>Current</i>			
Cash		\$ 53,583	\$ 27,633
Receivables and prepaid expenses		13,012	104,605
Inventory	5	126,280	126,280
		<b>192,875</b>	<b>258,518</b>
<i>Non-Current</i>			
Inventory	5	152,017	152,017
Mineral properties, plant and equipment	6	8,044,927	8,850,294
Other non-current assets		537,374	537,374
		\$ 8,927,193	\$ 9,798,203
<b>LIABILITIES</b>			
<i>Current</i>			
Accounts payable and accrued liabilities	7	\$ 1,607,571	\$ 1,717,484
Loans and advances from a shareholder	8	76,023,959	73,947,222
		<b>77,631,530</b>	<b>75,664,706</b>
<i>Non-Current</i>			
Site closure and reclamation provisions	9	2,109,873	2,078,050
		<b>79,741,403</b>	<b>77,742,756</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	186,952,654	186,952,654
Contributed surplus		32,873,345	32,873,345
Accumulated deficit		(290,640,209)	(287,770,552)
		<b>(70,814,210)</b>	<b>(67,944,553)</b>
		\$ 8,927,193	\$ 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		Contributed Surplus	Accumulated Deficit	Total Equity
	Number of shares issued	Amount			
<b>As at January 1, 2016</b>	<b>37,520,369</b>	<b>\$ 186,952,654</b>	<b>\$ 32,873,345</b>	<b>\$ (287,770,552)</b>	<b>\$ (67,944,553)</b>
<b>Loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,869,657)</b>	<b>(2,869,657)</b>
<b>As at September 30, 2016</b>	<b>37,520,369</b>	<b>\$ 186,952,654</b>	<b>\$ 32,873,345</b>	<b>\$ (290,640,209)</b>	<b>\$ (70,814,210)</b>

	Common Shares		Contributed Surplus	Accumulated Deficit	Total Equity
	Number of shares issued	Amount			
As at January 1, 2015	37,520,369	186,952,654	32,873,345	(247,324,098)	\$ (27,498,099)
Loss for the period	-	-	-	(35,880,043)	(35,880,043)
As at September 30, 2015	37,520,369	\$ 186,952,654	\$ 32,873,345	\$ (283,204,141)	\$ (63,378,142)

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

**Condensed Interim Statements of Cash Flow**

(Unaudited - Expressed in Canadian Dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
<b>OPERATING ACTIVITIES:</b>					
Net loss for the period		\$ (2,597,784)	\$ (27,172,377)	\$ (2,869,657)	\$ (35,880,043)
Items not affecting cash:					
Accretion of site closure and reclamation provisions		10,685	10,437	31,823	31,313
Depreciation, depletion and amortization		187,767	570,978	805,367	1,725,750
Unrealized foreign exchange (gain) loss		875,648	4,128,480	(3,658,006)	8,072,922
Interest accretion & expenses		1,433,077	1,740,612	5,107,130	4,828,613
Impairment on mineral properties, plant and equipment		(193,333)	20,446,733	(184,407)	20,446,733
Net change in non-cash working capital	14	(28,841)	(49,300)	(40,707)	31,930
		(312,781)	(324,437)	(808,457)	(742,782)
<b>FINANCING ACTIVITIES:</b>					
Advance from related parties		150,000	500,000	650,000	700,000
Payment and discharge of capital leases		-	-	-	(6,691)
		150,000	500,000	650,000	693,309
<b>INVESTING ACTIVITIES:</b>					
Payment to acquire mineral properties, plant and equipment		150,014	(116,203)	184,407	(186,426)
		150,014	(116,203)	184,407	(186,426)
<b>CHANGE IN CASH</b>		(12,767)	59,360	25,950	(235,899)
<b>CASH, beginning of period</b>		66,350	69,724	27,633	364,983
<b>CASH, end of period</b>		\$ 53,583	\$ 129,084	\$ 53,583	\$ 129,084
<b>SUPPLEMENTAL INFORMATION</b>					
Interest paid		\$ -	\$ -	\$ -	\$ -
Income taxes paid		\$ -	\$ -	\$ -	\$ -

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

## **CANICKEL MINING LIMITED**

### **NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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

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#### **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 November 14, 2016.

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

(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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Care and maintenance costs				
Cash cost	\$ 224,271	\$ 231,341	\$ 525,785	\$ 755,460
Non - cash cost	187,767	577,712	805,158	1,720,023
<b>Loss from mine operations</b>	<b>\$ 412,038</b>	<b>\$ 809,053</b>	<b>\$ 1,330,943</b>	<b>\$ 2,475,483</b>

**4. FINANCE COSTS**

Finance costs comprise the following:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Accretion for site closure and reclamation provision	\$ 10,685	\$ 10,437	\$ 31,823	\$ 31,313
Foreign exchange loss (gain)	873,723	4,132,571	(3,661,771)	8,077,205
Interest expense and bank charges	1,433,077	1,738,555	5,107,130	4,828,613
	<b>\$ 2,317,485</b>	<b>\$ 5,881,563</b>	<b>\$ 1,477,182</b>	<b>\$ 12,937,131</b>

**5. INVENTORY**

Inventory is recorded at the lower of cost and net realizable value. As of September 30, 2016, inventory comprised material, supplies, and spare parts of \$278,297 (December 31, 2015 - \$278,297). During the three and nine months ended September 30, 2016, the amount of inventory charged to care and maintenance cost was \$11,909 and \$23,019, respectively (same periods last year - \$14,685 and \$25,000, respectively).



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

(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	223,046	-	-	223,046
Government assistance and refunds	(407,453)	-	-	(407,453)
<b>As at September 30, 2016</b>	<b>\$ 21,562,127</b>	<b>\$ 96,783,028</b>	<b>\$ 74,257,527</b>	<b>\$ 192,602,682</b>

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	-	-	805,367	805,367
Impairment	(184,407)	-	-	(184,407)
<b>As at September 30, 2016</b>	<b>\$ 21,562,127</b>	<b>\$ 96,783,028</b>	<b>\$ 66,212,600</b>	<b>\$ 184,557,755</b>

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
<b>As at September 30, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,044,927</b>	<b>\$ 8,044,927</b>

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities of \$1,607,571 remained outstanding as at September 30, 2016 (December 31, 2015 - \$1,717,484), which included Retail Sales Tax ("RST") of \$302,395 (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%.

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

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

**8. LOANS AND ADVANCES FROM SHAREHOLDER**

	<b>September 30, 2016</b>	December 31, 2015
Interest bearing loans (a)	<b>\$ 64,410,069</b>	\$ 62,636,292
Non interest bearing advances (b)	<b>11,613,890</b>	11,310,930
	<b>\$ 76,023,959</b>	\$ 73,947,222

**(a) Interest bearing loans**

As at September 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 September 30, 2016, the outstanding balance including interest accretion was \$10,891,3630 (2015 - \$10,702,556).

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 September 30, 2016, the outstanding balance of this debt facility, including interest accretion, was \$53,518,706 (December 31, 2015 - \$51,933,736).

During the nine months ended September 30, 2016, a total of \$5,084,743 (same prior year period - \$4,781,231) interest expenses and \$3,658,006 foreign exchange gain (same prior year period – loss of \$7,261,808), 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 nine months ended September 30, 2016 Hebei Wenfeng advanced a total of \$650,000 to the Company and as at September 30, 2016, the outstanding balance of the advances from Hebei Wenfeng, including foreign exchange impact, was \$11,502,290 (December 31, 2015 - \$11,310,930). Subsequent to September 30, 2016, Hebei Wenfeng further advanced \$200,000 to the Company.

The advances bear no interest and are due on demand.

**9. SITE CLOSURE AND RECLAMATION PROVISIONS**

	<b>September 30, 2016</b>	December 31, 2015
Balance, beginning of year	<b>\$ 2,078,050</b>	\$ 2,332,470
Accretion	<b>31,823</b>	41,751
Change in estimates	-	(296,171)
<b>Balance, end of year</b>	<b>\$ 2,109,873</b>	\$ 2,078,050

## CANICKEL MINING LIMITED

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

(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
<b>Outstanding, September 30, 2016</b>	<b>-</b>	<b>\$ -</b>

#### 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 nine months ended September 30, 2016 was \$60,000 and \$150,000, respectively (three and nine months ended September 30, 2015 - \$45,000 and \$140,000).

#### 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.

## CANICKEL MINING LIMITED

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

(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.

	September 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)
<b>Assets and liabilities measured at fair value</b>						
Cash	\$ 53,583	\$ -	\$ -	\$ 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 meet 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 September 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 September 30, 2016, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of \$76,023,959 loans and advances from a shareholder, was in a deficit position of \$1,414,696. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at September 30, 2016, cash outflow of those obligations based on contractual undiscounted payments, are estimated and summarized as follows:

Contractual Obligations	Payment Due by Period			
	Less than 1 year	1 - 3 years	After 3 years	Total
Accounts payable and accrued liabilities	\$ 1,607,571	\$ -	\$ -	\$ 1,607,571
Loans and advances from a shareholder	76,023,959	-	-	76,023,959
<b>Total Contractual Obligations</b>	<b>\$ 77,631,530</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 77,631,530</b>

## CANICKEL MINING LIMITED

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 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 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 September 30, 2016, the Company had \$64.4 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 September 30, 2016, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	September 30, 2016	December 31, 2015
Financial assets denominated in US Dollars		
Cash	\$ 885	\$ 1,008
	<b>885</b>	1,008
Financial liabilities denominated in US Dollars		
Accounts payables and accrued liabilities	9,815	13,654
Loans and advances from a shareholder	71,053,269	69,279,492
	<b>\$ 71,063,084</b>	\$ 69,293,146

Based on the financial assets and liabilities denominated in US dollars as at September 30, 2016, every 1% strengthening in US dollars would increase net loss by \$710,622 (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 September 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.

## CANICKEL MINING LIMITED

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

(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 September 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. Subsequent to September 30, 2016, the Company settled the charges by paying a penalty of \$80,000.

#### 14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net change in non-cash working capital				
Decrease in receivables and prepaid expenses	\$ (510)	\$ (60,306)	\$ 91,593	\$ 92,743
Decrease in inventory	-	49,124	-	74,075
Decrease in accounts payable and accrued liabilities	(28,331)	(38,118)	(132,300)	(134,888)
	\$ (28,841)	\$ (49,300)	\$ (40,707)	\$ 31,930

As at September 30, 2016, \$124,173 (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](http://www.canickel.com)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*For the three and nine months ended September 30, 2016*

# **MANAGEMENT’S DISCUSSION AND ANALYSIS**

of financial condition and results of operations

*for the three and nine months ended September 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 nine months ended September 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](http://www.sedar.com).

This MD&A is prepared as at November 14, 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**

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*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.*

## **THIRD QUARTER OF 2016 HIGHLIGHTS**

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- Loss for the three months ended September 30, 2016 (“Q3 2016”) was \$2,597,784, compared to loss of \$27,172,377 in the same period last year (“Q3 2015”);
- Care and maintenance costs at Bucko Lake Mine in Q3 2016 was \$412,038 compared to \$809,053 in Q3 2015; and,



## CaNickel Mining Limited

- Receipt of exploration credit refunds of \$235,155.

### DESCRIPTION OF BUSINESS

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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. For the nine months ended September 30, 2016, Hebei Wenfeng advanced a total of \$650,000 to the Company. Subsequent to September 30, 2016, Hebei Wenfeng further advanced \$200,000 to the Company.

## CaNickel Mining Limited

### OPERATION REVIEW

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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 \$224,271 and \$525,785 during the three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015 - \$231,341 and \$755,460, 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

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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 nine months ended September 30, 2016, the Company incurred exploration expenditures of \$223,046 at TNB properties, and also received work credit refunds of \$407,453 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. 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.

## CaNickel Mining Limited

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

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**Net loss** in Q3 2016 was \$2,597,784 (Q3 2015 - \$27,172,377), which mainly comprised \$412,038 loss from mine care and maintenance (Q3 2015 - \$809,053) and \$2,317,485 finance costs (Q3 2015 – \$5,881,563) offset by an impairment reversal of \$193,333 (Q3 2015 – impairment charges of \$20,446,733).

Net loss for the nine months ended September 30, 2016 was \$2,869,657 (same period last year - \$35,880,043), which mainly comprised of \$1,330,943 care and maintenance costs (same period last year - \$2,475,483) and \$1,477,182 finance costs (same period last year - \$12,937,131) offset by an impairment reversal of \$184,407 (same period last year – impairment charges of \$20,446,733).

**Care and maintenance costs** incurred at Bucko Lake Mine in Q3 2016 were \$412,038 (Q3 2015 - \$809,053). The care and maintenance cost included cash costs of \$224,271 (Q3 2015 - \$231,341) and non-cash cost, mainly the amortization expenses, of \$187,767 (Q3 2015 - \$577,712).

Care and maintenance costs for the nine months ended September 30, 2016 was \$1,330,943 (same period last year - \$2,475,483), which comprised of cash costs of \$525,785 (same period last year - \$755,460) and non-cash costs of \$805,158 (same period last year - \$1,720,023).

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

**Finance costs** in Q3 2016 were \$2,317,485 (Q3 2015 - \$5,881,563). Finance costs primarily included the following:

- Accretion for site closure and reclamation provision: \$10,685 (Q3 2015 - \$10,437);
- Foreign exchange loss: \$873,723 (Q3 2015 - \$4,132,571); and
- Interest expenses and bank charges: \$1,433,077 (Q3 2015 - \$1,738,555).

Finance costs during the nine months ended September 30, 2016 were \$1,477,182 (same period last year - \$12,937,131). Finance costs primarily included the following:

- Accretion for site closure and reclamation provision: \$31,823 (same period last year - \$31,313);
- Foreign exchange gain: \$3,661,771 (same period last year - loss of \$8,077,205); and
- Interest expenses and bank charges: \$5,107,130 (same period last year - \$4,828,613).

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 Q3 2016 was \$5,768, an increase of \$5,110 compared to \$658 in Q3, 2015.

For the nine months ended September 30, 2016, general and administration expenses were \$23,904, an increase of \$6,575 compared to \$17,329 in the same period last year.

**Legal and professional fees** in Q3 2016 was \$9,803 (Q3 2015 - \$10,000), which was mainly the legal fee incurred in the current period to defending legal cases the Company is facing. The \$10,000 legal fee incurred in Q3 2015 was related to the legal fee incurred arising from the trading of common shares transferred to TSX Venture Exchange from Toronto Stock Exchange.

## CaNickel Mining Limited

Legal and professional fees during the nine months ended September 30, 2016 was \$46,839 (same period last year - \$32,407), and the increase mainly due to the legal fee incurred arising from defending the legal cases the Company is facing.

**Other income** in Q3 2016 was \$nil (Q3 2015 - \$31,766), which was mainly the rental income from temporarily renting out part of the camp facility.

Other income during the nine months ended September 30, 2016 was \$12,580 (same period last year - \$246,673).

**Salaries, consulting and management fees** in Q3 2016 were \$44,500, which was comparable to the \$55,000 recorded in Q3 2015.

Salaries, consulting and management fees during the nine months ended September 30, 2016 were \$150,000, which was comparable to the \$165,000 recorded in the same period last year.

**Shareholder communication and investor relations** in Q3 2016 were \$1,523 (Q3 2015 - \$1,136). 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 nine months ended September 30, 2016 were \$37,776 (same period last year - \$52,633), 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 \$650,000 from Hebei Wenfeng in the first three quarters of 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			
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Care and maintenance costs	\$ (412,038)	\$ (517,798)	\$ (401,107)	\$ (730,203)
Other items	(2,185,746)	(1,723,940)	2,370,972	(3,836,208)
Net loss	\$ (2,597,784)	\$ (2,241,738)	\$ 1,969,865	\$ (4,566,411)
Loss per share - basis and diluted	\$ (0.07)	\$ (0.06)	\$ 0.05	\$ (0.12)

	Quarters ended			
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Care and maintenance cost	\$ (809,053)	\$ (861,659)	\$ (804,771)	\$ (865,721)
Other items	(26,363,324)	(655,534)	(6,385,702)	(397,261)
Net loss	\$ (27,172,377)	\$ (1,517,193)	\$ (7,190,473)	\$ (1,262,982)
Loss per share - basis and diluted	\$ (0.72)	\$ (0.04)	\$ (0.19)	\$ (0.03)

The Company's only operational mine, Bucko Lake Mine, was placed on care and maintenance in July 2012, and

## CaNickel Mining Limited

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

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	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

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As at September 30, 2016, the Company had cash of \$53,583, increase by \$25,950 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 Q3 2016 was \$312,781 compared to a total of \$324,437 cash used in Q3 2015. Before net change in non-cash working capital, cash used in operation was \$283,940 (Q3 2015 - \$275,137).

Cash used in operating activities during the nine months ended September 30, 2016 was \$808,457 compared to a total of \$742,782 cash used in the same period last year. Before net change in non-cash working capital, cash used in operation was \$767,750 (same period last year - \$774,712).

**Cash from financing activities** in Q3 2016 was \$150,000 (Q3 2015 - \$500,000). In Q3 2016, the Company advanced \$150,000 from Hebei Wenfeng (Q3 2015 - \$500,000).

Cash from financing activities during the nine months ended September 30, 2016 was \$650,000 (same period last year - \$693,309). During the nine months ended September 30, 2016, the Company advanced \$650,000 from Hebei Wenfeng (same period last year - \$700,000) and repaid \$nil (same period last year - \$6,691) to capital lease obligations.

**Cash from investing activities** in Q3 2016 was \$150,014 (Q3 2015 – used cash of \$116,203). In Q3 2016, the Company received \$235,155 exploration work credit refunds from Manitoba Government (Q3 2015 - \$139,479) and paid exploration expenditures of \$106,625 (Q3 2015 - \$186,426) incurred at TNB properties.

Cash from investing activities during the nine months ended September 30, 2016 was \$184,407 (same period last

## CaNickel Mining Limited

year – used cash of \$186,426). During the nine months ended September 30, 2016, the Company received \$407,453 exploration work credit refunds from Manitoba Government (same period last year - \$139,479) and paid exploration expenditures of \$223,046 (same period last year - \$325,905) incurred at TNB properties.

Working capital as at September 30, 2016 was a deficit of \$77,438,655 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 September 30, 2016 was a deficit of \$1,414,696 (December 31, 2015 - \$1,458,966).

Shareholder's equity as at September 30, 2016 was negative \$70,814,210 (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 September 30, 2016 was amounted to \$77,631,530 and was due within one year. Excluding the loans and advances from a shareholder of \$76,023,959, the working capital was in a deficit position of \$1,414,696. The estimated monthly 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 nine months ended September 30, 2016, the Company advanced \$650,000 from Hebei Wenfeng. Subsequent to September 30, 2016, Hebei Wenfeng further advanced \$200,000 to the Company.

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:

	September 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)
<b>Assets and liabilities measured at fair value</b>						
Cash	\$ 53,583	\$ -	\$ -	\$ 27,633	\$ -	\$ -

## CaNickel Mining Limited

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**

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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 and nine months ended September 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 meet 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 September 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 September 30, 2016, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of \$76,023,959 loans and advances from a shareholder, was in a deficit position of \$1,414,696. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at September 30, 2016, cash outflow of those obligations based on contractual undiscounted payments, are estimated and summarized as follows:

## CaNickel Mining Limited

Contractual Obligations	Payment Due by Period			
	Less than 1 year	1 - 3 years	After 3 years	Total
Accounts payable and accrued liabilities	\$ 1,607,571	\$ -	\$ -	\$ 1,607,571
Loans and advances from a shareholder	76,023,959	-	-	76,023,959
<b>Total Contractual Obligations</b>	<b>\$ 77,631,530</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 77,631,530</b>

### 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.

### 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 September 30, 2016, the Company had \$64.4 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 September 30, 2016, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	September 30, 2016		December 31, 2015
Financial assets denominated in US Dollars			
Cash	\$	885	\$ 1,008
		885	1,008
Financial liabilities denominated in US Dollars			
Accounts payables and accrued liabilities		9,815	13,654
Loans and advances from a shareholder		71,053,269	69,279,492
	\$	71,063,084	\$ 69,293,146

Based on the financial assets and liabilities denominated in US dollars as at September 30, 2016, every 1% strengthening in US dollars would increase net loss by 710,622 (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 September 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



## **CaNickel Mining Limited**

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 Environment Act License Proposal in December 2007 to include the provision for an interim (land-based) tailings storage facility (ITSF) was submitted and approved.

The Company 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**

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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 nine months ended September 30, 2016 was \$60,000 and \$150,000, respectively (three and nine months ended September 30, 2015 - \$45,000 and \$140,000).

## CaNickel Mining Limited

### (b) Transactions with Hebei Wenfeng

	<b>September 30, 2016</b>	December 31, 2015
Interest bearing loans (i)	\$ 64,410,069	\$ 62,636,292
Non interest bearing advances (ii)	11,613,890	11,310,930
	<b>\$ 76,023,959</b>	<b>\$ 73,947,222</b>

#### i) Interest bearing loans

As at September 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 September 30, 2016, the outstanding balance including interest accretion was \$10,891,3630 (2015 - \$10,702,556).

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 September 30, 2016, the outstanding balance of this debt facility, including interest accretion, was \$53,518,706 (December 31, 2015 - \$51,933,736).

During the nine months ended September 30, 2016, a total of \$5,084,743 (same prior year period - \$4,781,231) interest expenses and \$3,658,006 foreign exchange gain (same prior year period – loss of \$7,261,808), 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 nine months ended September 30, 2016 Hebei Wenfeng advanced a total of \$650,000 to the Company and as at September 30, 2016, the outstanding balance of the advances from Hebei Wenfeng, including foreign exchange impact, was \$11,502,290 (December 31, 2015 - \$11,310,930). Subsequent to September 30, 2016, Hebei Wenfeng further advanced \$200,000 to the Company.

The advances bear no interest and are due on demand.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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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 amounts of assets or liabilities affected in future periods.

## **CaNickel Mining Limited**

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**

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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. Subsequent to September 30, 2016, the Company settled the charges by paying a penalty of \$80,000.

### **OUTSTANDING SHARE DATA**

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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 September 30, 2016.

### **OFF BALANCE SHEET ITEMS**

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There are no off balance sheet items.

### **PROPOSED TRANSACTIONS**

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There are no proposed assets or business acquisition or disposition.

## **CaNickel Mining Limited**

### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

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(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 nine months ended September 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 nine months ended September 30, 2016.

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

None

**END OF THIS REPORT**

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