CaNickel Mining Limited

www.canickel.com

FINANCIAL STATEMENTS

December 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
CaNickel Mining Limited.

We have audited the accompanying financial statements of **CaNickel Mining Limited**, which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **CaNickel Mining Limited** as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 3(a) in the financial statements which indicates that the Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $238.7 million as at December 31, 2013, and, as of that date, the Company only has $57,833 cash on hand and a negative working capital of $50,109,199. These conditions, along with other matters as set forth in Note 3(a), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young LLP

Vancouver, Canada,
March 25, 2014.

Chartered Accountants

Statements of Comprehensive Loss

(Expressed in Canadian Dollars, except share data)

	Notes		Year ended December 31, 2013		2012
Revenue		**$**	**-**	$	9,615,211
Cost of goods sold	20		**-**		(14,135,836)
			-		(4,520,625)
Care and maintenance costs			**(4,555,879)**		(4,642,241)
Loss from mine operations	20		**(4,555,879)**		(9,162,866)
Finance costs	21		**(7,002,561)**		(2,727,790)
General and administration			**(76,265)**		(594,605)
Impairment of mineral properties, plant and equipment	8		**(850,707)**		(20,732,839)
Inventory writedown	7		**(74,915)**		-
Legal and professional fees			**(69,443)**		(181,636)
Gain on disposal of mineral property, plant & equipment	8		**-**		514,378
Net gain on derivative instruments			**-**		49,668
Other income and expenses	10		**519,650**		171,255
Salaries, consulting and management fees	15(b)		**(188,183)**		(225,015)
Shareholder communications and investor relations			**(43,293)**		(177,991)
Net loss and comprehensive loss for the period			**(12,341,596)**		(33,067,441)
Loss per share - basic & diluted		**$**	**(0.33)**	$	(0.88)
Weighted average number of shares - basic & diluted			**37,520,369**		37,520,369

The accompanying notes form an integral part of these financial statements

Statements of Financial Position

(Expressed in Canadian Dollars)

	Notes		**December 31, 2013**		December 31, 2012
ASSETS					
Current					
Cash		**$**	**57,833**	$	251,797
Receivables and prepaid expenses	6		**127,829**		104,109
Inventory	7		**635,355**		1,005,622
			821,017		1,361,528
Non-Current					
Mineral properties, plant and equipment	8		**32,601,598**		37,618,480
Other non-current assets	9		**543,177**		543,165
		$	**33,965,792**	$	39,523,173
LIABILITIES					
Current					
Accounts payable and accrued liabilities	10	**$**	**9,800,926**	$	8,055,896
Loans payable	11, 15		**40,822,119**		-
Obligations under capital leases	12		**307,171**		1,165,122
			50,930,216		9,221,018
Non-Current					
Loans payable	11, 15		-		34,241,621
Obligations under capital leases	12		-		547,989
Site closure and reclamation provisions	13		**1,906,306**		2,041,736
			52,836,522		46,052,364
SHAREHOLDERS' EQUITY					
Share capital	14		**186,952,654**		186,952,654
Contributed surplus			**32,873,345**		32,873,288
Accumulated deficit			**(238,696,729)**		(226,355,133)
			(18,870,730)		(6,529,191)
		$	**33,965,792**	$	39,523,173

Contingencies and legal matters (Note 18)
Going concern (Note 3(a))
Subsequent events (Note 9, 11, 14(d), and 18)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Raymond Lai", Director

"Wenfeng Liu", Director

Statements of Changes in Equity

(Expressed in Canadian Dollars, except share data)

	Common Shares								
	Number of shares issued		**Amount**		**Contributed Surplus**		**Accumulated Deficit**		**Total Equity**
As at January 1, 2013	**37,520,369**	**$**	**186,952,654**	**$**	**32,873,288**	**$**	**(226,355,133)**	**$**	**(6,529,191)**
Share based compensation - options	**-**		**-**		**57**		**-**		**57**
Loss for the period	**-**		**-**		**-**		**(12,341,596)**		**(12,341,596)**
As at December 31, 2013	**37,520,369**	**$**	**186,952,654**	**$**	**32,873,345**	**$**	**(238,696,729)**	**$**	**(18,870,730)**

	Common Shares								
	Number of shares issued		Amount		Contributed Surplus		Accumulated Deficit		Total Equity
As at January 1, 2012	37,520,369		186,952,654		33,312,165		(193,287,692)		26,977,127
Share based compensation - options	-		-		(438,877)		-		(438,877)
Loss for the period	-		-		-		(33,067,441)		(33,067,441)
As at December 31, 2012	37,520,369	$	186,952,654	$	32,873,288	$	(226,355,133)	$	(6,529,191)

Statements of Cash Flows

(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2013	2012
OPERATING ACTIVITIES:			
Net loss for the period		**$ (12,341,596)**	$ (33,067,441)
Items not affecting cash:			
Accretion of site closure and reclamation provisions		**36,751**	44,083
Depreciation, depletion and amortization		**2,128,534**	3,356,557
Gain on derivative instruments		**-**	(49,668)
Share-based compensation expense		**57**	(438,877)
Unrealized foreign exchange (gain) loss		**2,824,023**	(625,307)
Interest accretion & expenses		**4,085,435**	3,149,477
Impairment on mineral properties, plant and equipment		**850,706**	20,732,839
Inventory writedown		**74,915**	-
Gain/loss on disposal of assets	10	**-**	(514,378)
Gain on settlement of accounts payable		**(410,025)**	-
Net change in non-cash working capital	23	**(6,017)**	3,150,231
		(2,757,217)	(4,262,484)
FINANCING ACTIVITIES:			
Proceeds from debt financing		**-**	7,045,800
Advance from related parties		**2,203,250**	4,791,310
Payment and discharge of capital leases		**(1,405,940)**	(1,367,602)
		797,310	10,469,508
INVESTING ACTIVITIES:			
Payment to acquire mineral properties, plant and equipment		**(1,441,057)**	(8,931,267)
Proceeds from disposal of mineral properties, plant, and equipment		**3,207,000**	1,497,680
Proceeds from disposal of derivative instruments		**-**	49,668
Proceeds released from restricted cash		**-**	51,750
		1,765,943	(7,332,169)
CHANGE IN CASH AND CASH EQUIVALENTS		**(193,964)**	(1,125,145)
CASH AND CASH EQUIVALENTS, beginning of period		**251,797**	1,376,942
CASH AND CASH EQUIVALENTS, end of period		**$ 57,833**	$ 251,797
SUPPLEMENTAL INFORMATION			
Interest paid		$ 45,019	$ 219,213
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. The common shares of the Company are traded on the Toronto Stock Exchange under symbol of "CML" and on the Frankfurt Stock Exchange under the symbol of "CMIC". In September 2012, the Company consolidated its shares on the basis of one post-consolidation share for forty (40) pre-consolidation shares, and therefore all shares and per share data contained herein have been retroactively restated.

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

2. BASIS OF PREPARATION

a) Statement of Compliance

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

b) Basis of Measurement

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

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

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

a) Going concern

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

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

As at December 31, 2013, the Company only has $57,833 cash on hand and a negative working capital of approximately $50,109,199, including $40,822,119 of debt repayable from May 2, 2014 to July 22, 2014. The Company will need to raise additional capital in order to fund its exploration expenditures and the care and maintenance program. The Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $238,696,729 as at December 31, 2013. The mining operations at the Company's Bucko Lake Mine did not achieve its designed capacity and experienced a cycle of start-up and suspension, and then restart-up and suspension in recent years. Since July 2012, Bucko Lake Mine was placed on care and maintenance due to the unfavourable nickel prices. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), the largest beneficial shareholder of the Company. Subsequent to December 31, 2013, the Company received an additional loan of $700,000 from Hebei Wenfeng, but there is no guarantee that Hebei Wenfeng will continue to fund the Company. The Company also intends to negotiate with its lenders to extend the loan facilities, but actual outcome of such negotiation is uncertain.

b) Mineral reserve and resource estimates

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

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

- The carrying value of mineral property, plant, and equipment may be affected due to change in estimated future cash flows

- Depreciation, depletion, and amortization charges in profit or loss may change where such charges are determined using the unit of production method, or where the useful life of the related assets change

- Site closure and reclamation provisions may change where changes to the reserve estimates affect expectation about when such activities will occur and the associated cost of these activities

c) Exploration and evaluation expenditure

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

d) Depreciation, depletion, and amortization

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

e) Site closure and reclamation provisions

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

f) Impairment of assets

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

g) Share-based compensation

The fair value of stock options is estimated using the Black-Scholes option pricing model, which requires the Company to make certain assumptions and estimates regarding such items as the expected life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. The estimated fair value of stock options is amortized and expensed over the their vesting periods with adjustments to reflect the actual forfeiture rates at each reporting date, and such adjustments are accounted for prospectively.

h) Recovery of deferred tax assets

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management’s estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sale volumes, commodity prices, reserves, operating costs, closure and reclamation costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differs significantly form estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting data could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

i) Inventories

Stockpiled ore and concentrate inventories are measured at the lower of production cost and net realizable value (“NRV”). Production cost is determined by the weighted average basis and includes direct and indirect labor, operating materials and suppliers, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation. Net realizable value test is performed at each reporting date and represents the estimated future sales price of the product the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Supplies inventory consists of consumable parts and supplies which are valued at lower of weighted average cost and NRV. Costs include acquisition, freight and other directly attributable costs. Supplies used in the production of inventories are not written down below cost if the finished products, which will be incorporated into inventories, are expected to be sold at or above cost.

j) Fair value measurement

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

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

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

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

k) Contingencies

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

4. CHANGES IN ACCOUNTING POLIES AND DISCLOSURES

Effective January 1, 2013, the Company has applied the following new and amended standards issued by IASB.

IFRS 13, Fair value measure

IFRS 13 provides a single IFRS frame work for measuring fair value and disclosure requirements about fair value measurement. This Standard defines fair value on the basis of exit price notion and use a fair value hierarchy, which results in a market-based, rather than entity-specific measurement. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined (see Note 17).

Amendments to IAS 1, Presentation of Financial Statements

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

Several other amendments and Standards also become effective since January 1, 2013. However, they do not apply to the Company or have no impact on the annual financial statements of the Company.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

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

(b) Revenue recognition

Revenue from the sale of nickel concentrates is recognized when the significant risks and rewards of ownership have passed to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the sale price can be measured reliably, the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably. In circumstances where title is retained to protect the financial security interests of the Company, revenue is recognized when the significant risks and rewards of ownership have passed to the buyer.

Revenues from the sale of nickel concentrates are subject to adjustment upon final settlement of metal prices, weights, and assays as of a date that is typically a few months after the shipment date. The Company records its revenue at the estimated fair value of the consideration that is expected to be ultimately received based on quoted forward prices. Adjustments for weights and assays are recorded as part of revenue when results are determinable or on final settlement. At each reporting date, all outstanding receivables originating from provisionally priced sales are marked to market based on a forecast of reference prices at that time.

(c) Loss per share

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

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

(d) Inventory

Concentrate, concentrate in transit, and ore stockpile inventory are valued at the lower of cost and net realizable value. The cost of stockpile ore includes direct labour, material and contractors expenses related to mining activities, allocation of mine site overhead cost and amortization of mineral properties, plant, and equipment. The cost of concentrate includes the costs of stockpile ore milled, direct labour, material and contractors expenses related to milling process, allocation of mine site overhead cost and amortization of mineral property, plant, and equipment. The cost of concentrate in transit includes the costs of concentrate shipped and the freight charges. Net realizable value is the estimated selling price for inventories less costs of completion, transportation cost from the mill to smelter, refining and treatment charges, other selling costs. When the time value is material, these future prices and costs to complete are discounted. The cost of inventories is determined using the average cost method.

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

(e) Mineral properties, plant and equipment

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

Recognition and measurement

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

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

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

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

When a farm-out arrangement is entered for a specific mineral project at the exploration and evaluation stage, the Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm-out arrangements, but re-designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

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

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

Depreciation, depletion and amortization

Mineral property acquisition and development costs, which provide an economic benefit over the entire mine life, are depleted on a unit of production basis over the proven and probable reserves of the entire mine. Capital development costs incurred to enable access to specific ore blocks or areas of the mine, and which only provide an economic benefit over the period of mining that ore block or area, are depreciated on a unit of production basis over the proven and probable reserves of that block or area.

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

Building	20 years
Equipment:	3 to 10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arsing on derecognition of the asset is included in profit or loss when the asset is derecognized.

Depreciation, depletion and amortization related to production activities is initially recorded in inventory and then recognized in cost of goods sold on the statements of comprehensive loss in the same period as the revenue from the sale of the inventory.

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

(f) Impairment of non-financial assets

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

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

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

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

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

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

(g) Provisions

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

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

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

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

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

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

Site closure and reclamation provisions

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

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

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

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

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

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

(h) Income taxes

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

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

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss)

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized

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

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

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

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

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

(i) Financial instruments

i) Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Interest-bearing loans and borrowings

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

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

This category applies to the Company's loans payable. For more information, refer to Note 11.

Derecognition

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

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

iii) Offsetting of financial instruments

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

iv) Cash

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

(j) Leases

Leases are classified as finance or operating depending on the terms and conditions of the lease agreements. Payments under operating leases are expensed in the period in which they are incurred. Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of an asset related to a finance lease, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Leased assets are amortized on a straight line basis over the period of expected use. Obligations under finance lease are reduced by lease payments, net of imputed interest.

(k) Share capital

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

(l) Borrowing costs

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

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

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

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

(m) Fair value measurement

The Company measures cash and cash equivalents at fair value at each balance-sheet date and, for the purposes of impairment testing, uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets.

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

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

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

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

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

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

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

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

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

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

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

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

(n) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when either:

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

The Company classifies all other liabilities as non-current.

(o) Accounting standards issued but not yet effective

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

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Company's financial assets but it will not have an impact on classification and measurement of the Company's financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the Interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, with early application permitted.

Express in Canadian Dollars, except share data and otherwise stated

The adoption of IFRIC 21 may have an impact on the Company's accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12. However, the Company is still assessing and quantifying the effect.

6. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised the following:

		December 31, 2013		December 31, 2012
Accounts receivables	**$**	**78,995**	$	38,981
Taxes receivable		**-**		43,989
Prepaid expenses		**48,834**		21,139
	$	**127,829**	$	104,109

7. INVENTORY

Inventory comprised material and supplies of $635,355 (2012 - $1,005,622), and a total of $74,915 inventory was written down in 2013 (2012 - $nil). The amount of inventory charge to care and maintenance costs was $186,223 in 2013, whereas the amount of inventory charged to cost of goods sold and care and maintenance was $14,882,570 in 2012.

Express in Canadian Dollars, except share data and otherwise stated

8. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Cost		TNB Properties Exploration and evaluation expenditure		Bucko Lake Mine Properties Mineral property acquisition and development		Plant, building and equipment		Equipment under capital lease		Total
As at January 1, 2012	$	17,641,010	$	94,615,193	$	69,875,512	$	7,514,303	$	189,646,018
Additions		2,087,319		2,464,006		1,857,886		-		6,409,211
Disposal		-		-		(921,238)		(192,315)		(1,113,553)
As at December 31, 2012	$	19,728,329	$	97,079,199	$	70,812,160	$	7,321,988	$	194,941,676
Additions		1,341,539		-		-		-		1,341,539
Adjustments to reclamation provision		-		-		(172,181)		-		(172,181)
Disposal and transfers		-		-		-		(4,079,136)		(4,079,136)
Reclassification		-		-		638,188		(638,188)		-
As at December 31, 2013	**$**	**21,069,868**	**$**	**97,079,199**	**$**	**71,278,167**	**$**	**2,604,664**	**$**	**192,031,898**

Accumulated depreciation, depletion and amortization		Exploration and evaluation expenditure		Mineral property acquisition and development		Plant, building and equipment		Equipment under capital lease		Total
As at January 1, 2012	$	1,160,482	$	72,106,167	$	55,144,450	$	4,952,952	$	133,364,051
Depreciation, depletion and amortization		-		488,795		2,550,656		317,106		3,356,557
Disposal		-		-		(99,801)		(30,450)		(130,251)
Impairment / Write-down		-		24,484,237		(329,521)		(3,421,877)		20,732,839
As at December 31, 2012	$	1,160,482	$	97,079,199	$	57,265,784	$	1,817,731	$	157,323,196
Depreciation, depletion and amortization		-		-		1,978,151		150,383		2,128,534
Disposal		-		-		-		(872,136)		(872,136)
Reclassification		-		-		157,194		(157,194)		-
Impairment		-		-		1,001,089		(150,383)		850,706
As at December 31, 2013	**$**	**1,160,482**	**$**	**97,079,199**	**$**	**60,402,218**	**$**	**788,401**	**$**	**159,430,300**

Net book value		Exploration and evaluation expenditure		Mineral property acquisition and development		Plant, building and equipment		Equipment under capital lease		Total
As at December 31, 2012	$	18,567,847	$	-	$	13,546,376	$	5,504,257	$	37,618,480
As at December 31, 2013	**$**	**19,909,386**	**$**	**-**	**$**	**10,875,949**	**$**	**1,816,263**	**$**	**32,601,598**

(a) Exploration and evaluation expenditures

Thompson Nickel Belt ("TNB")

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

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

In October 2012, the Company completed and released CaNickel 2012 Technical Report which provided an updated resources estimate covering Bucko Lake Mine and its satellite properties, including M11A, Apex, Halfway Lake, and Bowden Lake projects. The updated reserves and resources estimates have included all drillings from the 1960's to 2012. With additional drilling conducted at M11A projects in 2012, the Company was able to bring the confidence level of some resources estimates at M11A project to indicated category. For detailed resources estimates, please review our press release "CaNickel Announces Updated Mineral Reserves and Resources For the Bucko Lake Nickel Project" dated October 26, 2012" and the CaNickel 2012 Technical Report, which is available on SEDAR at www.sedar.com and on the Company's website at www.canickel.com.

During the year ended December 31, 2013, the Company completed 3,078 meters drilling program at Bowden Lake Deposit and 669 samples were assayed in this four holes drilling program. The assay results were disclosed on the Company`s press release dated July 12, 2013.

In addition, the Company also completed a 17-hole 8,682 diamond drilling program at Bucko North property and 1,033 samples were assayed. The assay results were disclosed on the Company's press release dated September 23 2013. The above press releases are available on SEDAR at www.sedar.com and on the Company's website at www.canickel.com.

A total of $1,341,539 expenditures were incurred at TNB properties during the year ended December 31, 2013 and the carrying value of the TNB properties as at December 31, 2013 was $19,909,386.

Pursuant to terms of the agreements with Xstrata, the Company has fulfilled its obligations to earn in Xstrata's 100% interest in TNB properties. The Company has submitted the exercise notice to Xstrata to exercise its options, and currently is working with Xstrata to execute all necessary documents to exercise the options.

The Company's 100% interest in the TNB properties is subject to a back-in right whereby should the Company outline a threshold deposit or deposits, each of which exceed 500,000,000 pounds of nickel in measured and indicated resources, Xstrata has the right to back-in for a 50% interest and become the operator of the threshold deposit or deposits by incurring expenditures on the property in an amount equal to two times the aggregate of all expenditures which were incurred by the Company in carrying out mining operations on the property prior to the back-in, provided that if Xstrata exercises more than one back-in right, then in calculating the required back-in expenditures for each subsequent back-in right, expenditures relating to any previously exercised back-in right are excluded from such expenditure calculation.
The properties are also subject to underlying agreements, specifically i) a 2% net smelter return ("NSR"); and ii) a 10% net proceeds of production royalty payable to Xstrata.

(b) Bucko Lake Mine

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

During the year ended December 31, 2013, the Company disposed of four pieces of equipment with a net book value of $3,207,000 for a total proceed of $3,207,000 and no gain or loss was recognized for the disposal. For the year ended December 31, 2012, the Company disposed of two pieces of equipment with a net book value of $983,302 for a total proceed of $997,680 and a gain of $14,378 was recognized for the disposal.

Express in Canadian Dollars, except share data and otherwise stated

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

The Company reassessed the recoverable value of Bucko Lake Mine as at December 31, 2013 and determined that its recoverable value was lower than its carrying value. Consequently, a total of $850,706 (2012 - $20,732,839) impairment charges to the assets used at Bucko Lake Mine was recorded for the year ended December 31, 2013. Fair market value less cost to sell ("FVLCS") was used for the recoverable value estimates as value in use and discounted cash flow technique approaches were determined not appropriate due to the uncertainty of the timing to resume the mining operation at Bucko Lake Mine. In calculating the FVLCS, the Company referred to open market or publications for similar used equipment and plant to estimate the recoverable value of each piece of property, plant and equipment.

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

9. OTHER NON-CURRENT ASSETS

Other non-current assets comprised restricted cash of $543,177 (2012 - $543,165).

Restricted cash includes $5,803 (2012 - $5,750) as deposit for the Company's corporate credit card and $537,374 (2012 - $537,415) reclamation deposit in accordance with statutory requirements for reclamation provisions to be incurred at the end of the mine life of the Company's Bucko Lake Mine. These funds are not available to finance the Company's day-to-day operations and therefore have been excluded from cash for the purposes of the statement of cash flows.

Subsequent to December 31, 2013, the Company cancelled the corporate credit card, and the deposit of $5,803 was released and available for use.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2013		December 31, 2012
Amounts due to non-related parties	**$**	**2,377,916**	$	3,030,696
Amounts due to related parties		**7,423,010**		5,025,200
	$	**9,800,926**	$	8,055,896

Amounts due to related parties are further disclosed on Note 11 and 15.

During the year ended December 31, 2013, the Company retired some accounts payables at significantly discounted amounts, and a total of $410,025 gain arising from the settlement of such obligations were realized and recorded as portion of other income and expense on the Statements of Comprehensive Loss.

Express in Canadian Dollars, except share data and otherwise stated

11. LOANS PAYABLE

		December 31, 2013		December 31, 2012
Loan facility with Hebei Wenfeng Industrial Company Limited	**$**	**6,767,149**	$	5,753,510
Loan facility with Luckyup Investment Limited		**34,054,970**		28,488,111
	$	**40,822,119**	$	34,241,621

In May 2011, the Company arranged a one year term unsecured debt facility of up to US$5,000,000 (the "Loan") with Hebei Wenfeng (see Note 15). The Loan may be drawn down at the option of the Company and bears interest at 10% per annum. The Company will also pay 2% of any funds drawn down under the Loan as a structuring fee to Hebei Wenfeng. Principal, interest and structure fees are payable upon maturity. In March 2012, the Company entered into an amended agreement with Hebei Wenfeng to extend the maturity date of the loan from one year term to three years term expiring May 28, 2014. As at December 31, 2013, the outstanding balance including interest accretion was $6,767,149.

During the year ended December 31, 2012, the Company proposed to increase the debt facility with Hebei Wenfeng from US$5,000,000 to US$15,000,000. The Company has obtained all regulatory approval, but has not yet reached a final agreement with Hebei Wenfeng. While pending the final agreement, Hebei Wenfeng advanced $7,423,010 (see Note 10) to the Company as of December 31, 2013. Subsequent to December 31, 2013, Hebei Wenfeng further advanced $700,000 to the Company. The advance bears no interest and is due on demand and included as part of accounts payable and accrued liabilities on the statements of financial position.

The Company entered into an unsecured debt facility of up to US$15 million in July 2011 with Luckyup Investment Limited ("Luckyup"), an arm's-length party based in Hong Kong. In December 2011, this debt facility was increased to US$25 million. This debt facility was drawn down at the option of the Company and bears interest of 12% per annum. Principal and interest are payable upon maturity. In March 2012, the Company entered into an amended agreement with Luckyup to extend the maturity date from one year term to three years term expiring July 22, 2014. As at December 31, 2013, the outstanding balance including interest accretion was $34,054,970.

During the year ended December 31, 2013, the Company incurred borrowing costs of $4,085,435 (2012 - $3,514,085) on loans payable, of which a total of $nil (2012- $364,277) was capitalized in the mineral property, plant and equipment. The capitalized amount represented approximately 0% (2012 – 10%) of total borrowing cost for the year ended December 31, 2013. As Bucko Lake Mine was placed on care and maintenance since July 2012 and subject to impairment charges, the Company stopped capitalizing the borrowing cost starting July 2012.

A foreign exchange loss of $2,495,063 (2012 – gain of $695,500) was recorded on US dollar denominated loans arising from the fluctuation of US dollars against Canadian dollars during the year ended December 31, 2013.

Express in Canadian Dollars, except share data and otherwise stated

12. OBLIGATIONS UNDER CAPITAL LEASES

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

	December 31, 2013	December 31, 2012
Balance, beginning of period	**$ 1,713,111**	$ 3,080,712
Interest accrual	**45,019**	169,351
Discharge	**(1,450,959)**	(1,536,952)
Balance, ending of period	**$ 307,171**	$ 1,713,111
Less: Current portion of lease obligations	**(307,171)**	(1,165,122)
Long-term portion of lease obligations	**$ -**	$ 547,989

In 2013, the Company disposed of three pieces of leased mining equipment and retired a total of $697,166 lease obligations.

13. SITE CLOSURE AND RECLAMATION PROVISIONS

	December 31, 2013	December 31, 2012
Balance, beginning of year	**$ 2,041,736**	$ 2,272,249
Accretion	**36,751**	44,082
Change in estimates	**(172,181)**	(274,595)
Balance, end of year	**$ 1,906,306**	$ 2,041,736

The site closure and reclamation provisions represent the present value of reclamation costs related to Bucko Lake Mine, which are expected to be incurred up to 2031. These provisions have been created based on the Company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual reclamation costs will ultimately depend upon future market prices for the necessary reclamation works required that will reflect market conditions at the relevant time.

The undiscounted value of these obligations was $3,117,361 as at December 31, 2013 (December 31, 2012 - $2,814,878), calculated using inflation rate of 2.00% (December 31, 2012 - 1.50 %). The expected timing of the reclamation activities also changed from 2030 to 2031. Using a discount rate of 2.77% (2012-1.8%), the present value of the site closure and reclamation provisions was reduced by $172,181 to $1,906,306 (December 31, 2012 - $2,041,736).

Express in Canadian Dollars, except share data and otherwise stated

14. SHARE CAPITAL

(a) Authorized

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

(b) Share Consolidation and Equity Financing

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

There was no equity financing activity conducted during the years ended December 31, 2013 and 2012.

(c) Warrants

The continuity of warrants issued and outstanding is as follows:

	December 31, 2013			December 31, 2012		
	Number of Warrants		**Weighted Average Price**	Number of Warrants		Weighted Average Price
Balance, beginning of period	**7,500,000**	**$**	**4.40**	8,000,000	$	4.40
Expired	**(7,500,000)**		**4.40**	(500,000)		0.96
Balance, end of period	**-**		**-**	7,500,000		4.40

(d) Stock Options

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

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

	Number of Options		Weighted Average Price
Outstanding, January 1, 2012	1,272,250	$	3.60
Cancelled/Forfeited	(1,162,500)		3.47
Outstanding, December 31, 2012	109,750		2.78
Cancelled/Forfeited	(56,375)		2.73
Outstanding, December 31, 2013	**53,375**	**$**	**2.83**

Express in Canadian Dollars, except share data and otherwise stated

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

Number of Options	Number of Options Exercisable as at December 31, 2013		Exercise Price	Expiry Date
125	125	$	8.00	March 20, 2014
375	375	$	9.60	May 6, 2014
375	375	$	8.40	August 19, 2014
1,250	1,250	$	6.40	March 15, 2015
46,250	46,250	$	2.60	January 10, 2016
5,000	5,000	$	3.00	June 22, 2016
53,375	**53,375**			

The weighted average exercise price of stock options that are exercisable as at December 31, 2013 is $2.83 with weighted average contractual life of 2.02 years.

Subsequent to December 31, 2013, a total of 125 options expired unexercised.

15. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Related party transactions with Hebei Wenfeng, the largest beneficial shareholder of the Company, are disclosed in note 11 above. Related party transactions not disclosed elsewhere include the following:

(a) Transactions with LJ Resources Co. Ltd.

LJ Resources Co. Ltd ("LJ"), is a private entity controlled by relatives of a director of the Company. During the year ended December 31, 2013, the Company incurred a total of $30,622 rental expenses LJ paid on behalf of the Company, and a total of $134,400 payable to LJ was forgiven by LJ during the year ended December 31, 2013. As at December 31, 2013, $nil (December 31, 2012 - $134,400) was payable to LJ.

(b) Transactions with key management

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

	Year ended December 31			
		2013		2012
Salaries and fees	**$**	**167,400**	$	619,805
Share based compensation		**1,841**		(438,549)
	$	**169,241**	$	181,256

16. CAPITAL MANAGEMENT AND COMMITMENTS

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

Express in Canadian Dollars, except share data and otherwise stated

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

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets, but systemic quantity measurements have not yet employed.

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

	December 31, 2013	December 31, 2012
Shareholders' equity	**$ (18,870,730)**	$ (6,529,191)
Loans payable	**40,822,119**	34,241,621
Advances from related parties	**7,423,010**	5,025,200
	29,374,399	27,712,430
Less: cash and cash equivalents	**(57,833)**	(251,797)
	$ 29,316,566	$ 27,460,633

The Company is not exposed to any other additional commitments.

17. FAIR VALUE MEASUREMENT

The following table provides the quantitative disclosures of fair value measurement hierarchy of the Company's assets and liabilities.

	December 31, 2013			December 31, 2012		
	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	**$ 57,833**	**$ -**	**$ -**	$ 251,797	$ -	$ -
Mineral Property, plant and equipment used at Bukco Lake Mine (Note 8)	**-**	**-**	**12,692,212**	-	-	19,050,633
Assets and liabilities for which fair value are disclosed						
Loans payable	**-**	**38,287,173**	**-**	-	34,212,239	-
Obligations under capital leases	**-**	**314,181**	**-**	-	1,785,623	-
Site closure and reclamation provisions	**-**	**-**	**1,906,306**	-	-	2,041,736

Also see Note 18(a) for financial assets and financial liabilities for which fair values are disclosed and fair values approximate to carrying values

There was no asset categorized as level 2 and level 3 in the fair value hierarchy, no liability categorized as level 1, and no transfer between fair value levels during the reporting period.

Express in Canadian Dollars, except share data and otherwise stated

18. FINANCIAL INSTRUMENTS

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

a) Fair value

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

Set out below, is a comparison by class of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	Financial instrument	**Carrying amount**		**Fair value**	
As at		**December 31, 2013**	December 31, 2012	**December 31, 2013**	December 31, 2012
Financial liabilities					
Loans payable	Amortized cost	**$ 40,822,119**	$ 34,241,621	**$ 38,287,173**	$ 34,212,239
Obligations under capital leases	Amortized cost	**$ 307,171**	$ 1,713,111	**$ 314,181**	$ 1,785,623

Fair values of the Company's loans payable are determined by using discounted cash flow method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The fair value of obligations under capital leases is estimated by discounting future cash flow using rates currently available for capital leases on similar terms, credit risk and remaining maturities.

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, and arises principally from the Company's trade receivables. The carrying value of financial assets represents the maximum credit exposure.

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

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2013, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $7,423,010 advances from related parties and $40,822,119, was in a deficit position of $1,864,070.

Accordingly, additional financing is required for the Company to continue as a going concern. Based on the contractual obligations of the Company as at December 31, 2013, cash outflow of those obligations from December 31, 2013 to the maturity dates 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 5 years	Total
Loans payable	$ 40,297,269	$ -	$ -	$ 40,297,269
Finance lease obligations	314,181	-	-	314,181
Accounts payable and accrued liabilities	9,800,926	-	-	9,800,926
Total Contractual Obligations	**$ 50,412,376**	**$ -**	**$ -**	**$ 50,412,376**

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 loans and borrowings, deposits, accounts receivable, accounts payable and accrued liabilities, and derivative financial instruments.

i) Interest rate risk

The Company has cash subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposits issued by financial institutions. As at December 31, 2013, the Company had $40.8 million loans payable bearing fixed coupon rates of 10% to 12% per annum, therefore change of interest rate has no effect on the Company's comprehensive loss. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the debt facility interest rates and balances advanced under the facilities. Currently, the Company does not hedge against interest rate risk.

ii) Foreign currency risk

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

Expressed in Canadian dollar equivalents	**December 31, 2013**	December 31, 2012
Financial assets denominated in US Dollars		
Cash	**$ 202**	$ 10,537
Accounts receivable	**-**	38,981
	202	49,518
Financial liabilities denominated in US Dollars		
Accounts payables and accured liabilities	**5,115,773**	4,890,800
Loans payable	**40,822,120**	34,241,621
	$ 45,937,893	$ 39,132,421

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2013, every 1% strengthening in Canadian dollars would decrease net loss by $459,377 (2012 - $390,829). Every 1% weakening in

Canadian dollars would increase net loss by $459,377 (2012 - $390,829). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

iii) Commodity price risk

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

In July 2012, the Company suspended its mining operation due to unfavourable nickel prices. The timing to resume mining operations would mainly depend on the nickel prices. As at December 31, 2013, the Company has no nickel sales receivable, forward sales contracts, or call options outstanding. Change of commodity prices would not have any significant impact on the financial position of the Company.

19. CONTINGENCIES AND LEGAL MATTERS

Since the mining operation was suspended in July 2012, the Company has been encountering difficulties in retiring some outstanding accounts payables in accordance with terms provided by vendors, and therefore expects that some liens will be placed and legal actions will be initiated. As at December 31, 2013, there was one lien placed against Bucko Lake Mine for $377,086. The two statements of claims for a total of approximately $154,000 were received, which have been recorded and included in the accounts payable and accrued liabilities on the statement of financial position.

Subsequent to December 31, 2013, the Company received another statement of claim for $377,806 from the same contractor who placed the lien against Bucko Lake Mine as at December 31, 2013. The Company believed that it has fulfilled its contracted obligations to make payment to the contractor and the claim has no base; accordingly, legal counsels has been engaged to defend this claim and to file a counter claim for refund of overpayment for services not delivered and damages to be determined by court. No provision has been provided for this claim.

Subsequent to December 31, 2013, the Company was subjected to a 5 year Retail Sales Tax ("RST") audit by Manitoba Finance in relation to the Company's purchases and expenditures incurred in Manitoba. The final amount in relation to the 5 year RST is not finalized yet by Manitoba Finance. The Company, however, has recorded a provision of $546,398 proposed by Manitoba Finance based on Manitoba Finance's latest assessment as of the date of the financial statements. Management is currently in the process of working with Manitoba Finance to evaluate the final amount in relation to the audit.

20. SEGMENTED INFORMATION

The Company currently operates in a single reportable segment and is focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. All assets of the Company are located in Canada, and Bucko Lake Mine was the only operational mine, which the Company has an off-take agreement with Xstrata over its mine life. Therefore, the Company only has one customer, which accounted for all the Company's revenue.

Bucko Lake Mine has been placed into care and maintenance since July 2012. Expenditures incurred during the care and maintenance period are expensed or capitalized if the expenditures are capital in nature and determined to be recoverable in the future operation.

Express in Canadian Dollars, except share data and otherwise stated

The operation results from Bucko Lake Mine for the year ended December 31, 2013 and 2012 are summarized as follows:

		2013		2012
Revenue	$	-	$	(9,615,211)
Cost of goods sold				
Cash cost		-		12,059,832
Non - cash cost		-		2,076,004
Care and maintenance costs		**4,555,879**		4,642,241
Loss from mine operations	$	**4,555,879**	$	9,162,866

Care and maintenance costs included a total of $2,113,373 depletion and depreciation expenses for the year ended December 31, 2013 (2012 - $1,242,705).

21. FINANCE COSTS

Finance costs comprise the following:

		2013		2012
Accretion for site closure and reclamation provision	$	**36,751**	$	44,083
Foreign exchange (gain) loss		**2,825,578**		(695,500)
Interest expense and bank charges		**4,141,644**		3,380,250
Interest income		**(1,412)**		(1,043)
	$	**7,002,561**	$	**2,727,790**

22. INCOME TAXES

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

		2013		2012
Accounting loss before income taxes		**(12,341,596)**		(33,067,441)
Canadian federal and provincial income tax rates		**26.97%**		26.92%
		(3,328,950)		(8,901,755)
Non-deductible expenses		**32**		(228,880)
Temporary income tax differences not recognized		**(98,040)**		(152,541)
Mining tax impact on impairment		**(216,311)**		(1,564,934)
Change in estimates and other		**(1,347,649)**		1,059,759
Change in unrecognized deferred tax assets		**4,990,918**		9,788,351
	$	**-**	$	-

Effective April 1, 2013, the corporate tax rate of British Columbia increased from 10% to 11%, which resulted in an increase of combined federal and provincial tax rates of the Company to 26.97%.

Express in Canadian Dollars, except share data and otherwise stated

The significant components of deferred income tax liabilities are as follows:

	December 31, 2013	December 31, 2012
Deferred income tax asset		
Unused non-capital losses	$ **28,469,308**	$ 25,334,927
Resource properties	**21,995,961**	20,068,958
Mining tax asset	**13,884,620**	13,668,309
Finance cost	**343,789**	566,853
Federal Pre-production mining Income Tax Credit	**1,472,998**	1,374,958
Change in estimate and others	**141,570**	(23,054)
	66,308,246	60,990,951
Unrecognized deferred tax asset	**(66,308,246)**	(60,990,951)
	$ -	$ -

The Company has approximately $105.5 million (2012 - $94.1 million) non-capital losses, which have not been recognized but could be utilized to reduce the taxable income of future years under certain circumstances, expire as follows:

Expire Date	Amount
2029	$24,890,947
2030	32,937,803
2031	23,540,753
2032	12,688,652
2033	11,487,657
Total	**$105,545,812**

The Company also has $49.8 million (2012 - $48.1 million) of Canadian exploration and development expenditures and $60.3 million (2012 - $60.3 million) capital cost allowance as at December 31, 2013 which under certain circumstances could be utilized to reduce the taxable income of future years as well.

Based on the Mining Tax Act (Manitoba, Canada), the Company has a mining tax asset of approximately $13.9 million (2012 - $13.7 million) for which there is a full valuation allowance for the year ended December 31, 2013.

23. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31,	
	2013	2012
Net change in non-cash working capital		
(Increase) decrease in receivables and prepaid expenses	$ **(23,720)**	$ 3,433,948
Decrease in inventory	**295,352**	2,412,806
Increase in restricted cash	**(12)**	-
Decrease in accounts payable and accrued liabilities	**(277,637)**	(2,696,523)
	$ **(6,017)**	$ 3,150,231

As at December 31, 2013, $210,685 (2012 - $391,391) was included in account payable and accrued liabilities to acquire mineral properties, plant and equipment.

CaNickel Mining Limited

www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the year ended December 31, 2013

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

This MD&A is prepared as at March 25, 2014 and all figures are in Canadian dollars unless otherwise indicated. Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained therein.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

HIGHLIGHTS

- Loss for the year ended December 31, 2013 amounted to $12,341,596 (2012 – loss of $33,067,441), which including an impairment charge of $850,706(2012 - $20,732,839) against Bucko Lake Mine, $7,002,561 (2012 - $2,727,790) finance costs, and $2,128,534 (2012 - $3,356,557) depreciation, depletion, and amortization expenses.

- Completed 3,078 meters diamond drilling program at Bowden Lake Deposit and 8,682 meters diamond drilling program at Bucko Lake North Deposit

- Fulfilled the option expenditure obligation and elected to earn in Xstrata’s 100% interest in Thompson Nickel Belt properties.

DESCRIPTION OF BUSINESS

CaNickel is a Canadian mining company focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. In September 2012, the Company consolidated its common share on the basis of one (1) post-consolidated common share for forty (40) pre-consolidated common shares. References to common shares, per share data, and other securities, including stock options and warrants, have been retroactively restated.

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. In July 2012, due to the unfavourable nickel price, the Company placed its 100% owned and the only operational mine, Bucko Lake Mine, on care and maintenance. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. Please refer to further discussion on going concern issue under the section of Critical Accounting Policies and Estimates.

OPERATION REVIEW

Since the Company placed its only operational and 100% owned mine, Bucko Lake Mine, on care and maintenance in July 2012 as a result of the unfavorable nickel price, the Company has been looking at alternatives to minimize cost while to safeguard assets and running the care and maintenance program to ensure the safety at Bucko Lake Mine, physically and environmentally. Excluding the non-cash costs, the costs to run the care and maintenance program in 2013 was $2,442,506.

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 reassessed the recoverable value of Bucko Lake Mine as at December 31, 2013 and determined that its recoverable value was lower than its carrying value. Consequently, a total of $850,706 (2012 - $20,732,839) impairment charges to the assets used at Bucko Lake Mine was recorded for the year ended December 31, 2013. Fair market value less cost of disposal (“FVLCD”) was used for the recoverable value estimates as value in use and discounted cash flow technique approaches were determined not appropriate due to the uncertainty of the timing to resume the mining operation at Bucko Lake Mine. In calculating the FVLCD, the Company referred to open market or publications for similar used equipment and plant to estimate the recoverable value of each piece of property, plant and equipment.

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

EXPLORATION

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

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

In October 2012, the Company completed and released the CaNickel 2012 Technical Report which provided an updated resources estimate covering Bucko Lake Mine and its satellite properties, including M11A, Apex, Halfway Lake, and Bowden Lake projects. The updated reserves and resources estimates have included all drillings from the 1960's to 2012. With additional drilling conducted at M11A projects in 2012, the Company was able to bring the confidence level of some resources estimates at M11A project to indicated category. For detailed resources estimates, please review our press release "CaNickel Announces Updated Mineral Reserves and Resources For the Bucko Lake Nickel Project" dated October 26, 2012" and the CaNickel 2012 Technical Report, which is available on SEDAR at www.sedar.com and on the Company's website at www.canickel.com.

During the year ended December 31, 2013, the Company completed 3,078 meters drilling program at Bowden Lake Deposit and 669 samples were assayed in this four holes drilling program. The assay results were disclosed on the Company`s press release dated July 12, 2013.

In addition, the Company also completed a 17-hole 8,682 diamond drilling program at Bucko North property and 1,033 samples were assayed. The assay results were disclosed on the Company's press release dated September 23 2013. The above press releases are available on SEDAR at www.sedar.com and on the Company's website at www.canickel.com.

A total of $1,341,539 expenditures were incurred at TNB properties during the year ended December 31, 2013 and the carrying value of the TNB properties as at December 31, 2013 was $19,909,386.

Pursuant to terms of the agreements with Xstrata, the Company has fulfilled its obligations to earn in Xstrata's 100% interest in TNB properties. The Company has submitted the exercise notice to Xstrata to exercise its options, and currently is working with Xstrata to execute all necessary documents to exercise the options.

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

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

RESULTS OF OPERATIONS

Year ended December 31, 2013 vs. Year ended December 31, 2012

Net loss for the year ended December 31, 2013 was $12,341,596 (2012 - $33,067,441), which mainly comprised of $4,555,879 (2012 - $9,162,866), $7,002,561 (2012 - $2,727,790) finance costs, and impairment charges of $850,707 ($20,732,839) impairment charges. .

Revenue for the year ended December 31, 2013 was $nil (2012 - $9,615,211) as Bucko Lake Mine, the Company's only operational mine, had been placed on care and maintenance in July 2012 due to unfavourable nickel prices. In 2012, a total of 1,445,523 pounds of nickel sold at an average price of $7.94 per pound.

Cost of sales for the year ended December 31, 2013 was $nil (2012 - $14,135,836) as no revenue was realized in 2013. The cost of sales in 2012 consisted of cash cost of $12,059,832 and non-cash cost of $2,076,004. Non cash cost included amortization, depletion, and depreciation of mineral property, plant and equipment as well as stock based compensation expenses.

Care and maintenance costs for the year ended December 31, 2013 were $4,555,879 (2012 - $4,642,241). The care and maintenance costs represented cost incurred at Bucko Lake Mine since its operation was suspended in July 2012. It includes cash costs of $2,442,506 (2012 - $3,399,536) and non-cash costs of $2,113,373 (2012 - $1,242,705). Since Bucko Lake was placed in care and maintenance, the Company has been taking various alternatives to minimize the cash outlays.

Finance costs for the year ended December 31, 2013 were $7,002,561(2012- $2,727,790). Finance costs primarily included foreign exchange loss of $2,825,578 (2012 – gain of $695,500), interest and bank charges of $4,141,644 (2012 - $3,380,250), and accretion of site closure and reclamation provisions of $36,751 (2012 - $44,083). The foreign exchange gain or loss was mainly the effect on the translation of the outstanding balance of US dollar denominated loans payable at the period end due to the appreciation of the US dollar relative to the Canadian dollar. The increase of interest was mainly due to the increase in the amount and the duration of the outstanding loans payable.

General and administration for the year ended December 31, 2013 was $76,265 (2012 - $594,605). Since the mining operations were suspended in July 2012, the Company has taken various measures to minimize all expenditures.

Impairment of mineral property, plant, and equipment for the year ended December 31, 2013 were $850,706 (2012 - $20,732,839). As Bucko Lake Mine was placed on care and maintenance and the timing to resume its operation was uncertain, the Company estimates its recoverable value using fair value less cost to sell approach, the majority of FVLCD is based on salvage value of equipment and plant.

Inventory write down for the year ended December 31, 2013 was $74,915 (2012 - $nil) as the Company determined that the carrying value of some inventories was more than its replacement value.

Legal and professional fees for the year ended December 31, 2013 were $69,443 (2012 - $181,636), which comprised of audit and accounting fees of $62,700 ($2012 - $73,655) and legal fee of $6,743 (2012 - $107,981).

Gain on disposal of property, plant and equipment for the year ended December 31, 2013 were $nil (2012 - $514,378). The gain in 2012 mainly arose from the farmout agreement related to AER Kidd property for $500,000 and the disposition of mining equipment for a gain of $14,378.

Net gain on derivative instrument for the year ended December 31, 2013 was $nil (2012 - $49,668). No forward nickel sale contracts was entered in 2013 while the gain in 2012 was related to the change of the fair value of the forward nickel sales contracts.

Other income and expenses for the year ended December 31, 2013 was income of $519,650 (2012 - $171,255). The $519,650 other income in 2013 was mainly comprised of $80,071 gain on the sale of material and supplies and $410,025 forgiven amount on accounts payable while the income of $171,255 in 2012 was the net refunded amount of a prepayment which was expensed in prior years.

Salaries, consulting and management fees for the year ended December 31, 2013 were $188,183 (2012 - $225,015). The decrease was mainly due to less consulting activities during the care and maintenance period.

Shareholder communication and investor relations for the year ended December 31, 2013 were $43,293 (2012 - $177,991). In 2013, the Company did not attend any shows or carryout any promotion activities. This $43,293 mainly represent, the cost of news wire services, filing fees, transfer agent services, and annual listing fee.

<u>Fourth quarter 2013 (“Q4 2013”) vs. Fourth quarter 2012 (“Q4 2012”)</u>

Net loss in Q4 2013 was $6,837,252 (Q4 2012- $16,052,201), which was mainly comprised of $3.185,885 (Q4 2012 - $1,415,702) loss from mine operations, $2,823,552 (Q4 2012 - $1,368,807) finance costs, and $850,707 (Q4 2012 - $14,449,839) impairment charges.

Revenue in Q4 2013 was $nil (Q4 2012 - $200,397) as the only operational mine, Bucko Lake Mine has been on care and maintenance since July 2012. The revenue in Q4 2012 was mainly the pricing adjustment associated to the concentrates sold in prior periods.

Cost of sales in Q4 2013 was $nil (Q4 2012 - $5,075) as no revenue was realized. The cost of sales in Q4 2012 was mainly the additional smelter charges associated with the pricing adjustment as there was no production activity during the period.

Care and maintenance costs in Q4 2013 were $3,188,885 (Q4 2012 – $1,611,024). The increase was mainly due to a total of $2,113,373 depletion and depreciation expenses were adjusted and recorded in Q4 2013.

Finance costs in Q4 2013 were $2,823,552 (Q4 2012 - $1,368,807), which mainly comprised of foreign exchange loss of $1,718,910 (Q4 2012 – $408,043) and interest expense of $1,095,467 (Q4 2012 - $949,784). The foreign exchange loss was mainly the effect on the translation of the outstanding balance of US dollar denominated loans payable at the period end due to the fluctuation of US dollars. The increase of interest was mainly due to the increase in the amount and outstanding dates of loans payable.

Impairment of mineral property, plant, and equipment in Q4 2013 was $850,706 (Q4 2012 - $14,449,839). As Bucko Lake Mine was placed on care and maintenance and the timing to resume its operation was uncertain, the Company estimates its recoverable value using fair value less cost to sell approach, mainly the sellable value of each equipment and plant employed at Buck Lake Mine. As a result, a further $850,707 impairment charges were taken to against the assets employed at Buck Lake Mine in Q4 2013.

Inventory write down in Q4 2013 was $74,915 (Q4 2012 - $nil) as the Company determined that the carry value of some inventories was more than its replacement value.

Gain on disposal of property, plant and equipment in Q4 2013 was $nil (Q4 2012 - $500,000). The gain in Q4 2012 was arising from a farmout agreement related to AER Kidd property, located in Sudbury Ontario, which was written down by the Company in prior years.

Other income and expenses in Q4 2013 was income of $218,406 (Q4 2012 - $nil), which was the amount of accounts payable forgiven by its vendors.

Salaries, consulting and management fees in Q4 2013 was $46,430 (Q4 2012 – recovery of $762,449). In Q4 2012, recovery was mainly due to a reversal of stock base compensation expenses arising from the forfeiture of stock options granted in prior periods but not yet vested.

Use of proceeds from financing

The Company did not raise any funds through equity financing but advanced a total of $2,203,250 from a related party. All funds advanced from the related party are to run the care and maintenance program at Bucko Lake Mine to carry activities to safeguard assets, and to maintain the listing status of the Company.

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Revenue *	$ -	$ -	$ -	$ -
Cost of goods sold *	-	-	-	-
	-	-	-	-
Care and maintenance costs	(3,185,885)	(337,629)	(407,659)	(624,706)
Other items	(5,710,657)	(88,648)	(228,803)	(1,757,609)
Loss before taxes	(8,896,542)	(426,277)	(636,462)	(2,382,315)
Income tax recovery	-	-	-	-
Net loss	$ (8,896,542)	$ (426,277)	$ (636,462)	$ (2,382,315)
Loss per share - basis and diluted	$ (0.24)	$ (0.01)	$ (0.02)	$ (0.06)

	Quarters ended			
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Revenue *	$ 200,397	$ 282,737	$ 2,748,251	$ 6,383,826
Cost of goods sold *	(5,075)	(273,667)	(6,998,815)	(6,858,279)
	195,322	9,070	(4,250,564)	(474,453)
Care and maintenance cost	(1,611,024)	(1,971,540)	(1,059,677)	-
Other items	(14,636,499)	(140,119)	(8,246,409)	(881,548)
Net loss	$ (16,052,201)	$ (2,102,589)	$ (13,556,650)	$ (1,356,001)
Loss per share - basis and diluted	$ (0.43)	$ (0.06)	$ (0.36)	$ (0.04)

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

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

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

During the quarter ended June 30, 2012, a total of $6.3 million impairment charges were taken to against the assets employed at Bucko Lake Mine, and during the quarter ended December 31, 2012, an additional $14.4 million impairment charges were taken against Bucko Lake Mine.

ANNUAL INFORMATION

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2013, the Company only had cash of $57,833, decreased by $193,964 compared to cash balance as at December 31, 2012. The decrease of cash and cash equivalents on hand was mainly as a result of

$797,310 provided from financing activities and $1,765,943 provided from investing activities offset by $2,757,217 used in operation activities.

Cash used in operating activities for the year ended December 31, 2013 was $2,757,217 compared to a total of $4,262,484 used in 2012. Before net change in non-cash working capital, cash used in operation was $2,751,200 (2012 – used of $77,412,715). Since Buck Lake Mine was place on care and maintenance in July 2012, the Company has been adopting various measures to minimize all cash outlays.

Cash used in operation activities for three months ended December 31, 2013 ("Q4 2013") was $629,031 while a total of $1,255,597 cash was from operating activities in Q4 2012. Before net change in non-cash working capital, cash used in operation in Q4 2013 was $1,435,869 (Q4 2012 - $778,421). Since Buck Lake Mine was place on care and maintenance in July 2012, the Company has been adopting various measures to minimize all cash outlays.

Cash provided from financing activities for the year ended December 31, 2013 was $797,310 (2012 - $10,469,508). In 2013, the Company did not conduct any equity financing and debt financing while a total of $7,045,800 was drawn down from the Company's debt facilities in 2012. In 2013, a total of $2,203,250 was advanced from a related party in 2013 (2012 - $4,791,310) and a total of $1,405,940 capital lease obligations were discharged (2012 - $1,367,602).

Cash provided from financing activities for Q4 2013 was $616,878 (Q4 2012 - $1,873,666), which was mainly the advance of $805,000 (Q4 2012 - $2,226,710) from a related party offset by payments to discharge capital lease obligations of $188,122 (Q4 2012 - $353,044).

Cash from investing activities for the year ended December 31, 2013 was $1,765,943 (2012- used of $7,332,169), which consisted of $3,207,000 cash arising from disposal of equipment (2012 - $1,497,680) offset by payments of $1,441,057 to carry out exploration activities and to maintain mineral claims in good standing.

In Q4 2013, a total of $57,923 cash was from investing activities (Q4 2012 – used of $3,035,234), which was mainly the net effect of cash payment to maintain the mineral claims in good standing and refund of previous payment in lieu of exploration expenditures. In Q4 2012, the Company spent $3.5 million on the acquisition of mineral rights, plant and equipment offset by $0.5 million proceeds from a farmout option agreement regarding the AER-Kidd Property.

Working capital as at December 31, 2013 was a deficit of $50,109,199 compared to the negative working capital of $7,859,490 million as at December 31, 2012. The increase in deficit working capital was primarily due to the reclassification of loans payable from long-term to short-term as they are maturing within 12 months. As at December 31, 2013, the carrying balance of the loans payable was $40,822,119 (2012 - $34,241,621).

Shareholder's equity as at December 31, 2013 was negative $18,870,730, a decrease of $12,341,539 from a negative of $6,529,191 at December 31, 2012, primarily due to a net loss of $12,341,539 recorded in 2013. As at December 31, 2013, the Company had approximately 37.5 million common shares outstanding for a share capital of $186,952,654.

The Company's contractual obligations including payments due for each of the next five years and thereafter as at December 31, 2013 are amounted to $50,412,376 and summarized below under "Risk Management".

Due to the unfavourable nickel price, the Company suspended the milling operations at its 100% own Bucko Lake Mine near Wabowden, Manitoba in May 2013, and in July 2013, the Company decided to put Bucko Lake Mine on care and maintenance. In 2013, the Company incurred a loss of $12,341,596 and the cumulative deficit as at December 31, 2013 amounted to $238,696,729 with working capital in deficiency of $50,109,199, and therefore, the Company needs to raise additional capital to complete its capital expenditures.

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng Industrial Company Limited, the largest beneficial shareholder of the Company. The Company also intends to negotiate with the lenders to extend the loan facilities, but actual outcome of such negotiation is uncertain.

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 Thompson Nickel Belts.

FAIR VALUE MEASUREMENT

The following table provides the quantitative disclosures of fair value measurement hierarchy of the Company's assets and liabilities which fair value are disclosed.

	December 31, 2013			December 31, 2012		
	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	**$ 57,833**	**$ -**	**$ -**	$ 251,797	$ -	$ -
Mineral Property, plant and equipment used at Bukco Lake Mine (Note 8)	**-**	**-**	**12,692,212**	-	-	19,050,633
Assets and liabilities for which fair value are disclosed						
Loans payable	**-**	**38,287,173**	**-**	-	34,212,239	-
Obligations under capital leases	**-**	**314,181**	**-**	-	1,785,623	-
Site closure and reclamation provisions	**-**	**-**	**1,906,306**	-	-	2,041,736

There was no asset categorized as level 2 and level 3 in the fair value hierarchy, no liability categorized as level 1, and no transfer between fair value levels during the reporting period.

There are no financial assets categorized as level 2 in the fair value hierarchy, and no transfers between fair value levels during the reporting period.

FINANCIAL INSTRUMENTS

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

The carrying value of cash are at fair value, while accounts receivable, accounts payable, and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments. Loans payable and obligations under capital leases are initially measured at fair value, net of transactions costs, and subsequently measured at amortized cost using the effective interest method.

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

	Financial instrument	Carrying amount		Fair value	
As at		**December 31, 2013**	December 31, 2012	**December 31, 2013**	December 31, 2012
Financial liabilities					
Loans payable	Amortized cost	**$ 40,822,119**	$ 34,241,621	**$ 38,287,173**	$ 34,212,239
Obligations under capital leases	Amortized cost	**$ 307,171**	$ 1,713,111	**$ 314,181**	$ 1,785,623

Fair values of the Company’s loans payable are determined by using discounted cash flow method using discount rate that reflects the issuer’s borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2013 was assessed to be insignificant. The fair value of obligations under capital leases is estimated by discounting future cash flow using rates currently available for capital leases on similar terms, credit risk and remaining maturities.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

a) Going concern

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

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

As at December 31, 2013, the Company only has $57,833 cash on hand and a negative working capital of approximately $50,109,199, including $40,822,119 if debt repayable from May 2, 2014 to July 22, 2014. The Company will need to raise additional capital in order to fund its exploration expenditures and the care and maintenance program.

The Company has incurred significant losses and negative cash flow from operations in recent years. The cumulative deficit was $238,696,729 as at December 31, 2013, and the mining operations at the Company's Bucko Lake Mine did not achieve its design capacity and experienced a cycle of start-up and suspension, and then restart-up and suspension in recent years. Since July 2012, Bucko Lake Mine was placed on care and maintenance due to the unfavourable nickel prices. Whether and when the Company will resume the mining operation and attain profitability and positive cash flow is uncertain and depends on numerous factors, including but not limited to production level, production cost, ore grade, metallurgy, and nickel price. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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

To address its financing requirements, the Company is currently relying on advances from its related parties, mainly Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), the largest beneficial shareholder of the Company. Subsequent to December 31, 2013, the Company further advanced $700,000 from Hebei Wenfeng, but there is no guarantee that Hebei Wenfeng will continue to fund the Company. The Company also intends to negotiate with the lenders to extend the loan facilities, but actual outcome of such negotiation is uncertain.

b) Mineral reserve and resource estimates

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

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

- The carrying value of mineral property, plant, and equipment may be affected due to change in estimated future cash flows

- Depreciation, depletion, and amortization charges in profit or loss may change where such charges are determined using the unit of production method, or where the useful life of the related assets change

- Site closure and reclamation provisions may change where changes to the reserve estimates affect expectation about when such activities will occur and the associated cost of these activities

c) Exploration and evaluation expenditure

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

d) Depreciation, depletion, and amortization

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

e) Site closure and reclamation provisions

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

f) Impairment of assets

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

g) Share-based compensation

The fair value of stock options is estimated using the Black-Scholes option pricing model, which requires the Company to make certain assumptions and estimates regarding such items as the expected life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. The estimated fair value of stock options is amortized and expensed over the their vesting periods with adjustments to reflect the actual forfeiture rates at each reporting date, and such adjustments are accounted for prospectively.

h) Recovery of deferred tax assets

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sale volumes, commodity prices, reserves, operating costs, closure and reclamation costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differs significantly form estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting data could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

i) Inventories

Net realizable value test is performed at each reporting date and represents the estimated future sales price of the product the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

j) Fair value measurement

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

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

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

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

k) Contingencies

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

Summary of significant accounting policies are disclosed on note 5 to the audited financial statements for the year ended December 31, 2013.

CHANGE IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2013, the Company has applied the following new and amended standards issued by IASB.

IFRS 13, Fair value measure

IFRS 13 provides a single IFRS frame work for measuring fair value and disclosure requirements about fair value measurement. This Standard defines fair value on the basis of exit price notion and use a fair value hierarchy, which results in a market-based, rather than entity-specific measurement. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined (see Note 17).

Amendments to IAS 1, Presentation of Financial Statements

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

Several other amendments and Standards also become effective since January 1, 2013. However, they do not apply to the Company or have no impact on the annual financial statements of the Company.

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

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Company's financial assets but it will not have an impact on classification and measurement of the Company's financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the Interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, with early application permitted. The adoption of IFRIC 21 may have an impact on the Company's accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12. However, the Company is still assessing and quantifying the effect.

RISK MANAGEMENT

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

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

a) Credit risk

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

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

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at December 31, 2013, the Company has limited funds to meet its short term financial liabilities, and the working capital, net of $7,423,010 advances from related parties and $40,822,119, was in a deficit position of $1,864,070. Accordingly, additional financing is required for the Company to continue as a going concern.

Based on the contractual obligations of the Company as at December 31, 2013, cash outflow of those obligations from December 31, 2013 to the maturity dates 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 5 years	Total
Loans payable	$ 40,297,269	$ -	$ -	$ 40,297,269
Finance lease obligations	314,181	-	-	314,181
Accounts payable and accrued liabilities	9,800,926	-	-	9,800,926
Total Contractual Obligations	**$ 50,412,376**	**$ -**	**$ -**	**$ 50,412,376**

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 loans and borrowings, deposits, accounts receivable, accounts payable and accrued liabilities, and derivative financial instruments.

i) Interest rate risk

The Company has cash and cash equivalent subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in short-term deposit issued by financial institutions. As at December 31, 2013, the Company had $40,822,119 loans payable bearing fixed coupon rates of 10% to 12% per annum, therefore change of interest rate has no effect on the Company's comprehensive loss. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the debt facility interest rates and balance advanced under the facilities. Currently, the Company does not hedge against interest rate risk.

ii) Foreign currency risk

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

Expressed in Canadian dollar equivalents	**December 31, 2013**	December 31, 2012
Financial assets denominated in US Dollars		
Cash	**$ 202**	$ 10,537
Accounts receivable	**-**	38,981
	202	49,518
Financial liabilities denominated in US Dollars		
Accounts payables and accured liabilities	**5,115,773**	4,890,800
Loans payable	**40,822,120**	34,241,621
	$ 45,937,893	$ 39,132,421

Based on the financial assets and liabilities denominated in US dollars as at December 31, 2013, every 1% strengthening in Canadian dollars would decrease net loss by $459,377 (2012 - $390,829). The Company currently has not entered into any agreement to hedge the foreign exchange risk.

iii) Commodity price risk

The Company is exposed to price risk with respect to commodity prices, mainly nickel prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken. The Company's future mining operations will be significantly affected by changes in the market prices for nickel. Prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for nickel, the level of interest rates, the rate of inflation, investment decisions by large holders of nickel and stability of exchange rates can all cause significant fluctuations in nickel prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.
In July 2012, the Company suspended its mining operation due to unfavourable nickel prices. The timing to resume mining operations would mainly depend on the nickel prices. As at December 31, 2013, the Company has no nickel sales receivable, forward sales contracts, or call option outstanding. Change of commodity price currently would not have any significant impact on the financial position of the Company.

d) Environmental risk

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

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

RELATED PARTY TRANSACTIONS

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

(a) Transactions with LJ Resources Co. Ltd.

LJ Resources Co. Ltd ("LJ"), is a private entity controlled by relatives of a director of the Company. During the year ended December 31, 2013, the Company incurred a total of $30,622 rental expenses LJ paid on behalf of the Company, and a total of $134,400 payable to LJ was forgiven by LJ during the year ended December 31, 2013. As at December 31, 2013, $nil (December 31, 2012 - $134,400) was payable to LJ.

(b) Transactions with key management

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

	Year ended December 31	
	2013	2012
Salaries and fees	**$ 167,400**	$ 619,805
Share based compensation	**1,841**	(438,549)
	$ 169,241	$ 181,256

(c) Transactions with Hebei Wenfeng

In May 2011, the Company arranged a one year term unsecured debt facility of up to US$5,000,000 (the "Loan") with Hebei Wenfeng Industrial Company Limited ("Hebei Wenfeng"), an affiliated company of King Place Enterprises Limited. The Loan may be drawn down at the option of the Company and bears interest at 10% per annum. The Company will also pay 2% of any funds drawn down under the Loan as a structuring fee to Hebei Wenfeng. Principal, interest and structure fees are payable upon maturity. In March 2012, the Company entered into an amended agreement with Hebei Wenfeng to extend the maturity date of the loan from one year term to three years term expiring May 28, 2014. As at December 31, 2013, the outstanding balance including interest accretion was $6,767,149.

During the year ended December 31, 2012, the Company proposed to increase the debt facility with Hebei Wenfeng from US$5,000,000 to US$15,000,000. The Company has obtained all regulatory approval, but has not yet reached a final agreement with Hebei Wenfeng. While pending the final agreement, Hebei Wenfeng advanced $7,423,010 to the Company as of December 31, 2013. Subsequent to December 31, 2013, Hebei Wenfeng further advanced $700,000 to the Company. The advance bears no interest and is due on demand and included as part of accounts payable and accrued liabilities on the statements of financial position.

LEGAL MATTERS AND CONTINGENCIES

Since the mining operation was suspended in July 2012, the Company has been encountering difficulties in retiring some outstanding accounts payables in accordance with terms provided by vendors, and therefore expects that some liens will be placed and legal actions will be initiated. As at December 31, 2013, there was one lien placed against Bucko Lake Mine for $377,086. The two statements of claims for a total of approximately $154,000 were received, which have been recorded and included in the accounts payable and accrued liabilities on the statement of financial position.

Subsequent to December 31, 2013, the Company received another statement of claim for $377,806 from the same contractor who placed the lien against Bucko Lake Mine as at December 31, 2013. The Company believed that it has fulfilled its contracted obligations to make payment to the contractor and the claim has no base; accordingly, legal counsels has been engaged to defend this claim and to file a counter claim for refund of overpayment for services not delivered and damages to be determined by court. No provision has been provided for this claim.

Subsequent to December 31, 2013, the Company was subjected to a 5 year Retail Sales Tax ("RST") audit by Manitoba Finance in relation to the Company's purchases and expenditures incurred in Manitoba. The final amount in relation to the 5 year RST is not finalized yet by Manitoba Finance. The Company, however, has recorded a provision of $546,398 proposed by Manitoba Finance based on Manitoba Finance's latest assessment as of the date of the financial statements. Management is currently in the process of working with Manitoba Finance to evaluate the final amount in relation to the audit.

OUTSTANDING SHARE DATA

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

As at the date of this report, a total of 37,520,668 common shares of the Company were issued and outstanding. Of the options to purchase common shares issued to directors, officers, employees, and consultants of the Company under the share option plan, 53,250 remain outstanding with exercise prices ranging from $2.60 to $9.60, with expiry dates ranging from May 6, 2014 to June 22, 2016.

OFF BALANCE SHEET ITEMS

There are no off balance sheet items.

PROPOSED TRANSACTIONS

There are no proposed assets or business acquisition or disposition.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management's Report on Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

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

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

Limitations of Controls and Procedures

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