CaNickel Mining Limited

formerly Crowflight Minerals Inc.

www.canickel.com

CONDENSED INTERIM

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Unaudited)

NOTES TO READER

These unaudited condensed interim consolidated financial statements of CaNickel Mining Limited, formerly Crowflight Minerals Inc. (the “Company”), for the three months ended March 31, 2012 (“Financial Statements”) have been prepared by management of the Company. The Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2011 which are available at SEDAR website at www.sedar.com.

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Condensed Interim Consolidated Statements of Comprehensive Loss
For the three months ended March 31,
(Unaudited - Expressed in Canadian Dollars, except share data)

	Notes		2012		2011
Revenue		**$**	**7,839,087**	$	237,582
Cost of goods sold					
Cash cost			**7,262,795**		-
Non - cash cost			**1,050,745**		-
			(474,453)		237,582
Temporary shutdown costs			**-**		(4,899,849)
Loss from mine operations			**(474,453)**		(4,662,267)
Finance costs	13		**(256,998)**		(1,041,972)
General and administration			**(179,321)**		(118,816)
Legal and professional fees			**(38,574)**		(79,878)
Net gain on derivative instruments			**49,668**		226,778
Other income and expenses			**215,173**		(1,612)
Salaries, consulting and management fees			**(630,934)**		(239,473)
Shareholder communications and investor relations			**(40,562)**		(37,819)
Net loss and Comprehensive loss for the period			**(1,356,001)**		(5,955,059)
Loss per share - basic & diluted		**$**	**(0.00)**	$	(0.01)
Weighted average number of shares - basic & diluted			**1,500,826,712**		828,654,929

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

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Notes		**March 31, 2012**		December 31, 2011
ASSETS					
Current					
Cash and cash equivalents	3	**$**	**691,315**	$	1,376,942
Receivables and prepaid expenses	4		**4,348,252**		3,538,057
Inventory	5		**4,522,558**		3,418,428
			9,562,125		8,333,427
Non-Current					
Mineral property, plant and equipment	6		**59,322,602**		56,281,967
Other non-current assets	7		**794,874**		985,523
		$	**69,679,601**	$	65,600,917
LIABILITIES					
Current					
Accounts payable and accrued liabilities		**$**	**6,944,796**	$	8,963,455
Loans payable	8		-		24,307,374
Current portion of obligations under capital leases	9		**1,328,575**		1,353,061
			8,273,371		34,623,890
Non-Current					
Loans payable	8		**31,671,897**		-
Obligations under capital leases	9		**1,406,003**		1,727,651
Site closure and reclamation provisions	10		**2,283,269**		2,272,249
			43,634,540		38,623,790
SHAREHOLDERS' EQUITY					
Share capital	11		**186,952,654**		186,952,654
Contributed surplus			**33,736,100**		33,312,165
Accumulated deficit			**(194,643,693)**		(193,287,692)
			26,045,061		26,977,127
		$	**69,679,601**	$	65,600,917

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

Nature of Operation (Note 1)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Michael Hibbitts" , Director

"Dianmin Chen" , Director

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Condensed Interim Consolidated Statements of Changes in Equity

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

	Common Shares								
	Share issued		Amount		Contributed Surplus		Accumulated Deficit		Total Equity
	No.		$		$		$		$
As at January 1, 2012	**1,500,826,712**		**186,952,654**		**33,312,165**		**(193,287,692)**		**26,977,127**
Share based compensation - options	**-**		**-**		**423,935**		**-**		**423,935**
Loss for the period	**-**		**-**		**-**		**(1,356,001)**		**(1,356,001)**
As at March 31, 2012	**1,500,826,712**	**$**	**186,952,654**	**$**	**33,736,100**	**$**	**(194,643,693)**	**$**	**26,045,061**

	Common Shares								
	Share issued		Amount		Contributed Surplus		Accumulated Deficit		Total Equity
	No.		$		$		$		$
As at January 1, 2011	641,988,262		153,253,255		27,604,977		(95,250,537)		85,607,695
Private placement	600,000,000		30,000,000		-		-		30,000,000
Share issue costs	-		(3,100,150)		-		-		(3,100,150)
Share based compensation - options	-		-		127,251		-		127,251
Fair value of warrants issued	-		(5,485,555)		5,485,555		-		-
Loss for the period	-		-		-		(5,955,059)		(5,955,059)
As at March 31, 2011	1,241,988,262	$	174,667,550	$	33,217,783	$	(101,205,596)	$	106,679,737

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

CANICKEL MINING LIMITED

(formerly Crowflight Minerals Inc.)

Condensed Interim Consolidated Statements of Cash Flow
For the three months ended March 31,
(Unaudited - Expressed in Canadian Dollars)

	Notes		**2012**		2011
OPERATING ACTIVITIES:					
Net loss for the period		**$**	**(1,356,001)**	$	(5,955,059)
Items not affecting cash:					
Accretion of site closure and reclamation provisions	10		**11,020**		23,472
Depreciation, depletion and amortization			**1,035,920**		1,170,737
Gain on derivative instruments			**(49,668)**		(626,293)
Stock-based compensation expense			**423,935**		127,251
Unrealized foreign exchange gain			**(412,991)**		-
Interest accretion			**604,877**		743,758
Net change in non-cash working capital	15		**(2,829,933)**		(6,424,678)
			(2,572,841)		(10,940,812)
FINANCING ACTIVITIES:					
Private placement					
Common shares issued			**-**		30,000,000
Issue costs			**-**		(3,100,150)
Proceeds from debt financing			**7,045,800**		**-**
Proceeds from convertible debentures			**-**		**-**
Repayment of convertible debentures financing			**-**		(10,000,000)
Payment and discharge of capital leases			**(346,134)**		(811,143)
			6,699,666		16,088,707
INVESTING ACTIVITIES:					
Payment to acquire mineral properties, plant and equipment			**(4,812,452)**		(3,775,989)
CHANGE IN CASH AND CASH EQUIVALENTS			**(685,627)**		1,371,906
CASH AND CASH EQUIVALENTS, beginning of period			**1,376,942**		4,068,019
CASH AND CASH EQUIVALENTS, end of period		**$**	**691,315**	$	5,439,925
Cash and cash equivalents consist of:					
Cash			**633,815**		5,439,925
Cash equivalents (short-term investments)			**57,500**		**-**
		$	**691,315**	$	5,439,925
SUPPLEMENTAL INFORMATION					
Interest paid		$	-	$	-
Income taxes paid			-		-

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

1. NATURE OF OPERATIONS

CaNickel Mining Limited ("CaNickel" or "the Company"), formerly Crowflight Minerals Inc., is a Canadian mining company focused on nickel mining and related activities, including exploration and the extraction and processing of nickel-containing ore. The Company changed its name from Crowflight Minerals Inc. to CaNickel Mining Limited and continued to the Province of British Columbia from the Province of Ontario on June 23, 2011. Commencing on the same date, the Company is traded on the Toronto Stock Exchange under the new name and the trading symbol remains as "CML". The trading symbol on the Frankfurt Stock Exchange was changed to "CMIC" from "CMI". 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.

CaNickel currently has one nickel mine operation, Bucko Lake Mine near Wabowden, Manitoba, and holds nickel, copper and platinum group minerals projects in the Thompson Nickel Belts, Manitoba. Bucko Lake Mine was declared commercial production in June 2009, but its operation was suspended in October 2009 and 2010. Mining operation at Bucko Lake Mine resumed in April 2011 by using the Company's own mining equipment and mining crew.

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 the event that Company is not able to ramp up its production in timely manner to generate positive cash flows from its operation and is unable 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.

2. BASIS OF PRESENTATION

These Unaudited Condensed Interim Financial Statements ("Financial Statements") have been prepared in accordance with IAS 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted and these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

The accounting policies applied in preparation of these Financial Statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2011, with the exception of certain amendments to accounting standards issued by the ISAB, which were applicable from January 1, 2012. These amendments did not have a significant impact on the Company's Financial Statements.

The Company's management makes judgements in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgements and estimates applied in the preparation of the Company's Financial Statements are consistent with those applied and disclosed in note 3 to the Company's consolidated financial statements for the year ended December 31, 2011.

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

The Company's interim results are not necessarily indicative of its results for a full year.

The Board of Directors approved these Financial Statements on May 10, 2012.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

		March 31, 2012		December 31, 2011
Cash	**$**	**633,815**	$	1,319,442
Short-term investments		**57,500**		57,500
	$	**691,315**	$	1,376,942

4. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised of the following:

		March 31, 2012		December 31, 2011
Trade receivable	**$**	**4,155,415**	$	3,040,075
Taxes receivable		**-**		218,744
Prepaid expenses		**192,837**		279,238
	$	**4,348,252**	$	3,538,057

No trade receivable is past due and the Company does not have any allowance for doubtful accounts. The fair value of the embedded derivative arising from provisionally priced traded receivable is valued using quoted market prices based on forward LME prices. During the three months ended March 31, 2012, the Company recognized a positive price adjustment of $305,297 (same period last year - $237,582).

5. INVENTORY

Inventory comprised of the following:

		March 31, 2012		December 31, 2011
Materials and supplies	**$**	**1,809,891**	$	1,824,673
Ore stockpile		**965,280**		365,568
Nickel concentrate		**213,355**		283,343
Nickel concentrate in transit		**1,534,031**		944,844
	$	**4,522,557**	$	3,418,428

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

6. MINERAL PROPERTY, PLANT AND EQUIPMENT

Cost		Exploration and evaluation expenditure (a)		Mineral property acquisition and development (b)		Plant, building and equipment (b)		Equipment under capital lease (b)		Total
As at January 1, 2011	$	15,477,126	$	86,021,902	$	61,803,620	$	191,855	$	163,494,503
Additions		2,163,884		8,593,291		8,657,575		7,322,448		26,737,198
Disposal		-		-		(585,683)		-		(585,683)
As at December 31, 2011	$	17,641,010	$	94,615,193	$	69,875,512	$	7,514,303	$	189,646,018
Additions		575,617		2,231,313		1,279,751		-		4,086,681
As at March 31, 2012	**$**	**18,216,627**	**$**	**96,846,506**	**$**	**71,155,263**	**$**	**7,514,303**	**$**	**193,732,699**

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, 2011	$	-	$	29,162,997	$	24,907,372	$	38,371	$	54,108,740
Depreciation, depletion and amortization		-		2,140,573		4,574,072		443,581		7,158,226
Disposal		-		-		(45,994)		-		(45,994)
Impairment / Write-down		1,160,482		40,802,597		25,709,000		4,471,000		72,143,079
As at December 31, 2011	$	1,160,482	$	72,106,167	$	55,144,450	$	4,952,952	$	133,364,051
Depreciation, depletion and amortization		-		316,803		648,364		80,879		1,046,046
As at March 31, 2012	**$**	**1,160,482**	**$**	**72,422,970**	**$**	**55,792,814**	**$**	**5,033,831**	**$**	**134,410,097**

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, 2011	$	16,480,528	$	22,509,026	$	14,731,062	$	2,561,351	$	56,281,967
As at March 31, 2012	**$**	**17,056,145**	**$**	**24,423,536**	**$**	**15,362,449**	**$**	**2,480,472**	**$**	**59,322,602**

7. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

		March 31, 2012		December 31, 2011
Reclamation closure bond	**$**	**537,374**	$	537,374
Deposit on mineral properties, plant and equipment		**200,000**		390,649
Guaranteed investment certificate		**57,500**		57,500
	$	**794,874**	$	985,523

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

8. LOANS PAYABLE

Loans payable comprised the following:

		March 31, 2012		December 31, 2011
Loan facility with Hebei Wenfeng Industrial Company Limited	**$**	**5,371,839**	$	5,325,975
Loan facility with Luckyup Investment Limited		**26,300,058**		18,981,399
	$	**31,671,897**	$	24,307,374

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 rate 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, and the loan was reclassified to non-current liabilities on the balance sheet. As at March 31, 2012, the outstanding balance including interest accretion was $5,371,839.

The Company entered into an unsecured debt facility of up to US$15 million in July 2011 and increased to US$25 million in December 2011 with Luckyup Investment Limited ("Luckyup"), an arm's-length party based in Hong Kong. This debt facility may be drawn down at the option of the Company and bears interest rate 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, and the loan was reclassified to non-current liabilities on the balance sheet. As at March 31, 2012, the outstanding balance including interest accretion was $26,300,058.

During the three months ended March 31, 2012, the Company incurred borrowing costs of $799,016 (the same period 2011 - $nil) on loans payable, of which a total of $194,140 (same period last year - $nil) was capitalized in the mineral property, plant and equipment. The capitalized amount represented 24% of total borrowing cost for the three months ended March 31, 2012.

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

9. CAPITAL LEASE OBLIGATIONS

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

		March 31, 2012		December 31, 2011
Balance, beginning of period	$	**3,080,712**	$	313,251
Additions		**-**		3,831,470
Interest accrual		**50,488**		130,839
Discharge		**(396,622)**		(1,194,848)
Balance, ending of period	$	**2,734,578**	$	3,080,712
Less: Current portion of lease obligations		**(1,328,575)**		(1,353,061)
Long-term portion of lease obligations	$	**1,406,003**	$	1,727,651

Minimum lease payments for the next five years as at March 31, 2012:

2012		1,124,451
2013		1,260,252
2014		560,585
Total		2,945,288
Less: Interest portion		(210,710)
	$	2,734,578

10. SITE CLOSURE AND RECLAMATION PROVISIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the site closure and reclamation provisions associated with the retirement of the Company's mineral property, plant and equipment at its Bucko Lake Mine:

		March 31, 2012		December 31, 2011
Balance, beginning of period	$	**2,272,249**	$	823,575
Accretion		**11,020**		39,077
Change in estimates		**-**		1,409,597
Balance, end of period	$	**2,283,269**	$	2,272,249

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

11. SHARE CAPITAL

(a) Authorized

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

(b) Warrants

The continuity of warrants issued and outstanding is as follows:

	March 31, 2012		December 31, 2011	
	Number of Warrants	**Weighted Average Price ($)**	Number of Warrants	Weighted Average Price ($)
Balance, beginning of period	**320,000,000**	**0.11**	89,877,623	0.24
Granted, private placements	**-**	**-**	300,000,000	0.10
Expired	**(20,000,000)**	**0.21**	(69,877,623)	0.24
Balance, end of period	**300,000,000**	**0.10**	320,000,000	0.11

(c) Stock Options

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

No option was granted during the three months ended March 31, 2012, and the continuity of stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Price ($)
Outstanding, January 1, 2011	35,296,250	0.32
Granted	54,425,000	0.08
Expired	(34,502,500)	0.31
Forfeited	(4,328,750)	0.07
Outstanding, December 31, 2011	50,890,000	0.09
Expired	(757,500)	0.21
Forfeited	(440,000)	0.07
Outstanding, March 31, 2012	**49,692,500**	**0.08**

Subsequent to March 31, 2012, 125,000 stock options were forfeited and 190,000 stock options were expired.

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

As of March 31, 2012, the following stock options were outstanding:

Estimated Grant Date Fair Value	Number of Options	Number of Options Exercisable	Exercise Price		Expiry Date
80,250	125,000	125,000	$	0.940	June 28, 2012
7,155	15,000	15,000	$	0.710	November 21, 2012
5,220	15,000	15,000	$	0.520	February 1, 2013
27,420	60,000	60,000	$	0.690	May 26, 2013
2,450	25,000	25,000	$	0.150	October 31, 2013
2,055	15,000	15,000	$	0.200	January 31, 2014
12,330	90,000	90,000	$	0.200	March 20, 2014
10,418	65,000	65,000	$	0.240	May 6, 2014
2,051	15,000	15,000	$	0.200	June 30, 2014
34,916	230,000	230,000	$	0.210	August 19, 2014
41,825	425,000	425,000	$	0.160	March 15, 2015
21,767	150,000	150,000	$	0.215	April 12, 2015
240,345	5,950,000	2,975,000	$	0.065	January 10, 2016
113,793	2,512,500	628,125	$	0.075	June 22, 2016
1,896,332	40,000,000	-	$	0.080	September 13, 2016
$ 2,498,327	**49,692,500**	**4,833,125**			

The weighted average exercise price of stock options that are exercisable as at March 31, 2012 is $0.13 with weighted average contractual life of 4.31 years.

12. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Related party transactions with Hebei Wenfeng, the largest shareholder of the Company, are disclosed in note 8 above. Related party transactions not disclosed elsewhere include the following:

(a) Transactions with LJ Resources Co. Ltd.

LJ Resources Co. Ltd ("LJ"), a private entity associated with a director of the Company, provides office space, office equipment, and administration services to the Company for a fee of $15,000 per month. During the three months ended March 31, 2012, the Company paid $50,400 (same period last year - $50,400) to LJ for their services provided. Included in accounts payable as at March 31, 2012 is $84,000 (December 31, 2011 - $33,600) owed to LJ. The balance with LJ is unsecured, interest-free and repayable on demand.

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

(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:

	Three months ended March 31,			
		2012		2011
Salaries and fees	**$**	**215,873**	$	119,250
Stock based compensation		**389,721**		83,863
	$	**605,594**	$	203,113

13. FINANCE COSTS

Finance costs comprise the following:

	Three months ended March 31,			
		2012		2011
Accretion for site closure and reclamation provisions	**$**	**11,020**	$	23,472
Foreign exchange (gain) loss		**(428,704)**		251,801
Interest expenses and bank charges		**674,682**		765,215
Interest income		**-**		(39)
Loss on sale of short-term investment		**-**		1,523
	$	**256,998**	$	1,041,972

14. LEGAL SETTLEMENT

During the year ended December 31, 2011, the Company commenced a legal action against Total Equipment Services (“Total Equipment”) and Total Electric System Inc. for their breach of contract and claimed a refund of $0.3 million prepayment and a loss of damage of $1.2 million. Total Equipment made a counterclaim in the amount of $0.4 million. In March 2012, Total Equipment reached an agreement with the Company to settle the legal suit by paying a sum of $251,728 inclusive of interest, costs and taxes in full to the Company. As a result, a net gain of $215,173 was recorded on the consolidated statements of comprehensive loss for the three months ended March 31, 2012.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,			
		2012		2011
Net change in non-cash working capital				
(Increase) decrease in receivables and prepaid expenses	**$**	**(877,497)**	$	1,435,309
Increase in inventory		**(1,094,004)**		(91,978)
Decrease in accounts payable and accrued liabilities		**(858,432)**		(7,768,009)
	$	**(2,829,933)**	$	(6,424,678)

As at March 31, 2012, $1,833,178 (December 31, 2011 - $3,393,737) was included in account payable and accrued liabilities to acquire mineral properties, plant and equipment.

16. 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. The Company has only one customer, Xstrata Nickel Inc., which accounted for all the Company's revenue. Management does not consider operations to be of a significant seasonal or cyclical nature.

CaNickel Mining Limited
formerly Crowflight Minerals Inc.
www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

for the three months ended March 31, 2012

The Management's Discussion and Analysis ("MD&A") focuses on significant factors that affected the performance of CaNickel Mining Limited, formerly Crowflight Minerals Inc., ("we", "our", "us", "CaNickel", or the "Company") and such factors may also affect future performance. The MD&A for the three months ended March 31, 2012 should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2012 and 2011 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the following should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended December 31, 2011, the related MD&A, and CaNickel's Annual Information Form, which are available on SEDAR at www.sedar.com.

This MD&A is prepared as at May 10, 2012 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.

HIGHLIGHTS

- Achieved positive EBITDA[1]of $0.4 million for the three months ended March 31, 2012 ("Q1 2012"). Net loss for Q1 2012 was $1.36 million, or ($0.00) per share compared to net loss of $5.96million, or ($0.01) per share in the same period last year;

- Mined 60,518 tonnes of ores and milled 54,034 tonnes of ore to produce 1,062,056 pounds of nickel. For the same period last year, the Company had no mining and milling operations;

- Sold 905,855 pounds of payable nickel at average selling price of $8.65 per pound for $7.8 million at an average cash cost of $8.02 per pound of payable nickel sold;

- Completed the phase I tailing management area construction;

- Achieved positive operating cash flow before changes in non-cash working capital[1] and positive working capital of $1.3 million as at March 31, 2012 (December 31, 2011 - negative $26.3 million).

[1]Non-GAAP Performance Measures

The Company uses certain performance measures in its analysis. These performance measures have no meaning within generally accepted accounting principles under IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The following are non-GAAP measures that the Company uses as key performance indicators.

i) EBITDA

EBITDA is a non-GAAP performance and defined as earnings (loss) before interest expenses, taxes, and depreciation, depletion and amortization. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, the Company and certain investors use this information to evaluate the Company's performance. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of *performance prepared in accordance with GAAP. Refer to page 6 for a reconciliation of EBITDA to reported net loss attributable to shareholders of the Company.*

ii) Cash cost per pound of payable nickel

Cash cost per pound of payable nickel is a non-GAAP performance measure that management uses to monitor performance. The Company reports cash cost per pound of payable nickel on sales basis. In the mining industry, this is a common performance measure but does not have any standardized meaning. Management uses this statistic to assess how well the Company's producing mine is performing compared to plan and to assess overall efficiency and effectiveness of the mining operations. CaNickel provides cash cost information as it is a key performance indicator required by users of the Company's financial information in order to assess the Company's profit potential and performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining operations after the deduction of credits in respect of by-product sales and royalties. Cash cost is not an IFRS measure and, although it is calculated according to accepted industry practice, the Company's disclosed cash costs may not be directly comparable to other base metal producers. By-product credits are an important factor in determining the cash costs. The cost per pound experienced by the Company will be positively affected by rising prices for by-products and adversely affected when prices for these metals are falling. Refer to page 7 for a reconciliation of cash cost per pound of nickel to cost of goods sold.

iii) Operating cash flows before changes in non-cash working capital

Operating cash flows before changes in non-cash working capital changes is a non-GAAP performance measure which the Company believes provides additional information about the Company's ability to generate cash flow its mining operations.

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 June 2011, the Company changed its name from Crowflight Minerals Inc. to CaNickel Mining Limited and continued to the Province of British Columbia from the Province of Ontario. Commencing on June 23, 2011, the Company is traded on the Toronto Stock Exchange under the new name and the trading symbol remains as "CML". The trading symbol on the Frankfurt Stock Exchange was changed to "CMIC" from "CMI". 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.

CaNickel currently has one nickel mine operation, Bucko Lake Mine near Wabowden, Manitoba, and holds nickel, copper and platinum group minerals projects in the Thompson Nickel Belts, Manitoba. Bucko Lake Mine was declared commercial production in June 2009, but its operation was suspended in October 2009 and 2010. Mining operation at Bucko Lake Mine resumed in April 2011 by using the Company's own mining equipment and mining crew.

OPERATION REVIEW

In order to increase productivity and reduce production costs, the Company started to try the combination of cut and fill mining and long hole stoping mining at its Bucko Lake Mine in January 2012. The preliminary results of the long hole stoping mining was positive and the improved ore quality from the long hole stopes also helped the processing plant achieve better recovery rates. For the three months ended March 31, 2012, the Company mined 60,518 tonnes of ore at an average cash mining cost of $64.88 per tonne, and milled 54,034 tonnes of ore at an average cash milling cost of $36.54 with an average recovery rate of 75.2% to produce 1,062,056 pound of nickel. Operations at Bucko Lake Mine were suspended during the same period last year.

During the three months ended March 31, 2012, a total of 905,855 pounds of payable nickel were sold at a cash cost of $8.02 per pound while during the same period last year, the Company suspended its mining and milling operations.

The following is a summary of the operation results at Bucko Lake Mine for three months ended at March 31, 2012 and 2011.

		Three months ended March 31	
		2012	2011
Production data			
Ore mined (tonne)[1]		**60,518**	-
Ore milled (tonne)[1]		**54,034**	-
Nickel produced (pound)		**1,062,056**	-
Head grade		**1.18%**	-
Metallurgical recovery		**75.2%**	-
Production Costs			
Cash mining cost ($)	**$**	**3,926,229**	-
Cash milling cost ($)	**$**	**1,974,558**	-
Cash administration overhead cost ($)	**$**	**558,570**	-
Non cash cost ($)	**$**	**1,060,871**	-
Unit mining cost ($/tonne)	**$**	**64.88**	-
Unit milling cost ($/tonne)	**$**	**36.54**	-
Cost per pound of payable nickel sold			
On site cash cost ($/pound)	**$**	**5.88**	-
Off site cash cost, net of by-product credit ($/pound)	**$**	**2.13**	-
Cash cost	**$**	**8.02**	-
Non cash cost ($/pound)	**$**	**1.15**	-
	$	**9.16**	-
Sales Data			
Payable Nickel Sold (pound)		**905,855**	-
Revenue ($) [2]		**7,839,087**	237,582
Average selling price ($/pound)		**8.65**	-

1. The tonnage of ore mined and milled refers to wet metric ton

2. Including pricing/volume adjustments on concentrate sold in prior periods

DEVELOPMENT ANDEXPLORATION

BACKFILL PASTE PLANT

To reduce the backfill costs and to increase the quality of backfill, the Company is underway to construct a paste backfill plant at its Bucko Lake Mine. Although the construction was affected by several design issues and late delivery of equipment, all surface contracture and equipment installation were now completed and waiting for the final engineering and electrical certification. Commissioning of the paste backfill plant will be commenced immediately once the underground piping construction completed in the second quarter 2012 and the receipt of governmental approval.

As of March 31, 2012, a total of $5.4 million expenditures were incurred in the construction of the paste backfill plant.

TAILING MANAGEMENT AREA ("TMA")

In September 2011, the Company was granted by the Manitoba government a revised Environment Act License to construct and operate a land based tailing management area at its Bucko Lake Mine. The TMA is an expansion of the existing Interim Tailing Storage Facility and has a foot print of approximately 65.5 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 the environmental impact, eliminating the need for sub-aqueous deposition of the tailing into Bucko Lake. The construction of the TMA is carried in two phases and the phase I construction was completed and put in used in March 2012.

As of March 31, 2012, a total of $4.2 million expenditures were incurred in the construction of the TMA.

EXPLORATION - THOMPSON NICKEL BELT EXPLORATION PROPERITES (“TNB”)

The Company’s exploration program was mainly focus on M11A North Deposits (“M11A”) of the TNB. The 12 holes winter diamond drilling program at M11A is now completed. Assay results on three holes with a total of 1,973 meters drilled were released in March 2012, and the Company is currently waiting for the assays results of the remaining 9 holes.

The Company plans to review results from the drilling program and update the resource calculations at M11A in 2012. The Company is advancing the M11A North Deposit with the expectation that it could eventually provide a source of supplemental ore feed for Bucko Lake Mine.

During the three months ended March 31, 2012, the Company incurred exploration expenditures of $0.6 million at TNB. As of March 31, 2012, the cumulative exploration expenditures incurred at TNB was approximately $17.1 million.

RESULTS OF OPERATIONS

First quarter 2012 (“Q1 2012”) vs. First quarter 2011 (“Q1 2011”)

Net loss in Q1 2012 was $1.4 million, a decrease of $4.6 million, compared to the net loss of $6.0 in Q1 2011. In Q1 2012, the Company achieved positive EBITDA of $0.4 million, which was mainly due to the increase of production level and improvement of mill recovery rate as well as the decrease in production cost.

Revenue in Q1 2012 was $7.8 million compared to revenue of $0.2 million in Q1 2011. The increase of $7.6 million was mainly due to the increase of nickel concentrate sold in Q1 2012. No production for the same period last year as the operations at Bucko Lake Mine was suspended.

Cost of sales in Q1 2012 was $8.3 million, which comprised of $7.3 million cash cost and $1.0 million non-cash cost. During the same period last year, Bucko Lake Mine was temporarily suspended and a total of $4.9 million was recorded as temporary shutdown costs.

Finance costs in Q1 2012 were $0.3 million, a decrease of $0.8 million, compared to the finance costs of $1.1 million in Q1 2011. The decrease was mainly due to the increase of $0.7 million in foreign exchange gain on the loans payable denominated in US dollars as a result of weaker US dollars in Q1 2012. Finance costs primarily included interest and bank charges of $0.7 million (Q1 2011 - $0.8 million), and foreign exchange gain of $0.4 million (Q1 2011–loss of $0.3 million).

Legal and professional fees in Q1 2012 were $0.04 million, a decrease of $0.04 million, compared to the legal and professional fees of $0.08 million in Q1 2011. The decrease was mainly due to fewer legal affairs in the current quarter.

Net gain on derivative instrument for the three months ended March 31, 2012 was $0.05 million comparing to a net gain of $0.23 million for the same period last year. The gain for Q1 2012 was related to the change of the fair value of the forward nickel sales contracts.

Salaries, consulting and management fees in Q1 2012 were $0.6 million, an increase of $0.4 million, compared to the salaries, consulting and management fees of $0.2 million in Q1 2011. The increase was mainly due the increase of mine operation activities while Bucko Lake Mine was temporarily shut down during the same period last year.

Shareholder communication and investor relations for the three months ended March 31, 2012 were $0.04 million, which was consistent with the same period last year.

Use of proceeds from financing

During the three months ended March 31, 2012, the Company drawn down additional US$7.0 million from the debt facilities. All proceeds were used as planned to fund the operations and development at its Bucko Lake Mine.

Reconciliation of Non-GAAPPerformance Measures

The followings summarize the reconciliation from IFRS measures to non-GAAP performance measures used by the Company.

(a) EBITDA

	Three months ended March 31,			
		2012		2011
Net loss for the period	**$**	**(1,356,001)**	$	(5,955,059)
Adjusted by:				
Amortization, deprecation and depletion		**1,035,920**		1,170,737
Interest Expense		**670,816**		759,678
EBITDA	**$**	**350,735**	$	(4,024,644)

(b) Cash cost per pound of payable nickel

	Three months ended March 31,	
	2012	2011
Cost of goods sold - cash cost	**$ 7,262,795**	$ -
Payable nickel sold (pounds)	**905,855**	-
Cash cost per pound of payable nickel	**$ 8.02**	$ -

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Revenue	$ 7,839,087	$ 5,743,254	$ 5,488,101	$ -
Cost of goods sold	(8,313,540)	(12,718,989)	(11,207,075)	-
	(474,453)	(6,975,735)	(5,718,974)	-
Temporary shutdown costs	-	-	-	(3,562,910)
Other items	(881,548)	(72,394,153)	(1,902,172)	(1,528,152)
Loss before taxes	(1,356,001)	(79,369,888)	(7,621,146)	(5,091,062)
Income tax recovery	-	-	-	-
Net loss	$ (1,356,001)	$ (79,369,888)	$ (7,621,146)	$ (5,091,062)
Loss per share - basis and diluted	$ (0.00)	$ (0.05)	$ (0.01)	$ (0.00)

	Quarters ended			
	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Revenue	$ 237,582	$ 3,595,898	$ 8,496,918	$ 9,675,368
Cost of goods sold	-	(3,309,046)	(21,909,428)	(14,891,555)
	237,582	286,852	(13,412,510)	(5,216,187)
Temporary shutdown costs	(4,899,849)	(6,542,451)	-	-
Other items	(1,292,792)	(47,931,291)	(2,571,058)	(988,107)
Loss before taxes	(5,955,059)	(54,186,890)	(15,983,568)	(6,204,294)
Income tax recovery	-	1,236,275	1,378,539	307,704
Net loss	$ (5,955,059)	$ (52,950,615)	$ (14,605,029)	$ (5,896,590)
Loss per share - basis and diluted	$ (0.01)	$ (0.09)	$ (0.03)	$ (0.01)

The net loss for Q4 2011 was mainly due to an impairment charge of $71.6 million were charge to mineral property, plant and equipment.

The net loss for Q3 2011 was due to low nickel price and high operation costs.

The net loss for quarters ended March 31 and June 30, 2011 was mainly a result of costs incurred during the temporary shutdown at Bucko Lake Mine. Mining operation at Bucko Lake Mine resumed in April 2011 and mill operation resumed in June 2011.

ANNUAL INFORMATION

	Years ended December 31		
	2011	2010	2009**
Total assets	**$ 65,600,917**	$ 118,721,788	$ 166,307,299
Shareholders' equity	**26,977,127**	85,607,695	150,000,000
Dividend declared	**-**	-	-
Revenue	**11,468,937**	22,966,206	6,730,887
Gross margin	**(12,457,127)**	(21,048,077)	(3,951,598)
Temporary shutdown costs	**(8,462,759)**	(12,370,759)	(4,943,000)
Other items	**(77,117,269)**	(53,227,586)	(39,089,418)
Income tax recovery	**-**	6,000,200	21,003,129
Net loss	**(98,037,155)**	(80,646,222)	(26,980,887)
Loss per share - basis & diluted	**$ (0.07)**	$ (0.14)	$ (0.07)

** 2009 annual results were recorded in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "CGAAP").

In June 2009, the commercial production at Bucko Lake Mine was declared, but the operation was suspended in October 2009 and incurred a loss of $27.0 million from its operation. The loss in 2009 also included an impairment charge of $30.6 million to the mineral property, plant and equipment.

In April 2010 operations at Bucko Lake Mine resumed, but were suspended again in October 2010 due to the high cost of the operations. The loss of 2010 also included an impairment charge of $44.1 million to the mineral property, plant and equipment related to Bucko Lake Mine.

Operations at Bucko Lake Mine were re-commenced in April 2011. The loss in 2011 included an impairment charge of $72.1 million to the mineral property, plant and equipment.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012, the Company had cash and cash equivalents of $0.7 million, decreased by $0.7 million compared to cash and cash equivalents balance as at December 31, 2011. The decrease of cash and cash equivalents on hand was mainly as a result of $6.7 million provided from financing activities offset by $2.6 million used in operation activities and $4.8 million used in investing activities.

Cash used in operating activities for the three months ended March 31, 2012 was $2.6 million compared to a total of $10.9 million used in the same period last year. Before net change in non-cash working capital, cash from operation was $0.3 million (Q1 2011 – use of $4.5 million). The improvement of cash flow from operations were mainly due to increase of production level, improvement of mill recovery rate and the decrease in production cost while there was no production in Q1 2011.

Cash provided from financing activities for the three months ended March 31, 2012 was $6.7 million compared to a total of $16.1 million cash generated from financing activities in the same period last year. During the three months ended March 31, 2012, the Company raised $7.1 million (Q1 2011- $nil) through debt financing. The Company also used $0.4 million (Q1 2011- $0.8 million) to make payments on capital leases.

Cash used in investing activities for the three months ended March 31, 2012 was $4.8 million compared to a total of $3.8 million cash used in investing activities in the same period last year. The increase of cash used in investing activities was mainly due to the construction of tailing management area and the paste backfill plant as well as the increase of exploration activities in Q1 2012.

Working capital as at March 31, 2012 was $1.3 million compared to the negative working capital of $26.3 million as at December 31, 2011. The increase of working capital was primarily due to the reclassification of loans payable from short-term to long-term as the Company entered into amended agreements to extend the loan facilities from one year term to three year terms and now they are expiring in 2014. As of March 31, 2012, the Company withdrew a total of US$30 million from the loan facilities and all remained outstanding as at March 31, 2012.

Shareholder's equity as at March 31, 2012 was $26.0 million, a decrease of $1.0 million from $27.0 million at December 31, 2011, primarily due to a net loss of $1.4 million during the quarter. As at March 31, 2012, the Company had approximately 1.5 billion common shares outstanding for a share capital of $186.9 million.

The Company's contractual obligations including payments due for each of the next five years and thereafter as at March 31, 2012 are summarized as follows:

	Payment Due by Period				
Contractual Obligations	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Loans payable	$ -	$ 31,671,897	$ -	$ -	$ 31,671,897
Finance lease obligations	1,328,575	1,406,003	-	-	2,734,578
Exploration option obligations	1,500,000	1,500,000	-	-	3,000,000
Site closure and reclamation obligations	-	-	-	2,753,608	2,753,608
Accounts payable and accrued liabilities	6,944,796	-	-	-	6,944,796
Total Contractual Obligations	**$ 9,773,371**	**$ 34,577,900**	**$ -**	**$ 2,753,608**	**$ 47,104,879**

To fulfill the obligation under the option agreement with Xstrata Nickel Inc. to earn in 100% interest in TNB, the Company is required to incur approximately $1.5 million option expenditures in 2012 and another $1.5 million in 2013.

The Company has incurred significant losses and negative cash flow from operations in recent years. As of December 31, 2011, the cumulative deficit was $193.3 million. During the quarter ended March 31, 2012, the Company incurred additional loss of $1.4 million but achieved positive cash flow from operations before net change in non-cash working capital through improvement of production efficiency and cost control. As at March 31, 2012, the Company has only approximately $0.7 million cash and cash equivalent on hand (December 31, 2011 - $1.4 million) and working capital of $1.3 million (December 31, 2011 – negative $26.3 million), and therefore needs to raise additional capital to complete its capital expenditures.

However, there is no assurance that the Company will continue to secure additional funds in a favourable terms. Whether the Company could attain positive cash flow is still uncertain and depends on the Company reaching its planned production level, controlling the cost of production which is subject to great variation due to a number of factors, such as ore grade, metallurgy, and cost of supplies and services etc., and the market price of nickel, which fluctuates widely and is affected by numerous factors beyond the Company's control. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

To address its financing requirements, in February 2012, the Company filed a preliminary shelf base short form prospectus with related regulatory authorities with the intention to activate the $20 million Committed Equity Facility ("CEF"), which the Company entered into with Haverstock Master Fund, Ltd. in September 2011 and enables the Company, at its discretion over a period of 36 months after its activation, to receive proceeds for the amount not to exceed the greater of $500,000 and the average daily trading dollar volume for the five days preceding to a draw down notice for each drawn down, subject to the amount remaining on the CEF. The Company is addressing the comments from British Columbia Security Commission, mainly to prepare a updated technical report, which is in compliance with the requirements of NI 43-101, to address the disclosure deficiencies released in 2008 and 2007 on the mineral resources of the Company exploration projects.

However, the timing the Company completes the required technical report, the actual outcome of the related regulatory authorities' review on technical report and amended preliminary prospectus, if any, and the actual timing of the filing of a final shelf base short form prospectus are uncertain. In the event that shelf base short form prospectus was not accepted by the related regulatory authorities, the Company may have to terminate the CEF and seek alternatives, such as through flow-through equity financing and rights offering to existing shareholders, to secure additional funds to meet the needs of operation and capital expenditures. The outcome of these matters cannot be predicted at this time.

Subsequent to March 31, 2012, Hebei Wenfeng, the largest shareholder of the Company, has agreed to increase its current loan facility from US$5 million to US$15 million. Although the proposed loan facility increase is not required minority shareholders' approval pursuant to Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions,* the Company decided to present the proposed loan facility increase to the Company's minority shareholders for approval during the annual general and special meeting, which is to be held on June 11, 2012. Upon receipt of minority shareholders' approval, the Company will formalize the loan facility amending agreement with Hebei Wenfeng.

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. To effectively manage its requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

Based on the financing arrangements in place and the current operation conditions at Bucko Lake Mine, the Company expects that its capital resources and projected future cash flows from the existing loan facility arrangements and committed equity line and continuing operations could support its normal operating requirements on an ongoing basis and planned development and exploration of its mineral properties. However, there is no assurance that the CEF will be approved by related regulators and the proposed loan facility increase will be approved by minority shareholders. If the CEF is not able to be activated and the proposed loan facility increase is not approved by minority shareholders, the Company may have to look for other alternative financings. Without further financings, the Company may be forced to delay, limit, or eliminate all or part of capital developments, which, in return, will have adverse impact on the operation. Furthermore if the market price of nickel continues to drop to the level that the Company would have no way to generate positive cash flow from its operations, the Company may be forced to put the mine in care and maintenance.

FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents 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. Convertible debentures, loans payable, and obligation on capital leases are initially measured at fair value, net of transactions costs, and subsequently measured at amortized cost using the effective interest method.

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.

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 unaudited consolidated condensed financial statements and the related notes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company has prepared its unaudited consolidated condensed interim financial statements in accordance with International Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS represents standards and interpretations approved by the IASB and are comprised of IFRS, International Accounting Standards, ("IAS's"), and interpretations issued by the IFRS Interpretations Committee ("IFRIC's") and the former Standing Interpretations Committee ("SIC's"). The unaudited consolidated condensed interim financial statements have been prepared in accordance with IFRS standards and interpretations effective as of May 10, 2012, the date of this report. Note 3 to the audited consolidated financial statements for the year ended December 31, 2011 provides details of significant areas that have an impact on the Company's financial statements or may have an impact in future periods.

There were no changes to the accounting policies applied by the Company to the unaudited consolidated condensed financial statements for the three months ended March 31, 2012 from those applied to the audited consolidated financial statements for the year ended December 31, 2011.

The preparation of these unaudited consolidated condensed interim financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities, as well as revenue and expenses, at the end of the reporting period.

There have been no changes to the Company's critical accounting estimates since December 31, 2011. Readers are encouraged to refer to the critical accounting policies and estimates as described in the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2011.

RISK MANAGEMENT

The Company manages its exposure to financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and price risk, in accordance with its Risk Management Policy. The Company's Board of Directors oversees management's risk management practices by setting trading parameters and reporting requirements. The Risk Management Policy provides a framework for the Company to manage the risks it is exposed to in various markets and to protect itself against adverse price movements. All transactions undertaken are to support the Company's ongoing business. The Company does not acquire or issue derivative financial instruments for trading or speculative purposes.

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 Nickel over the mine life of the Company's Bucko Lake Mine to sell all concentrates produced from Bucko Lake Mine to Xstrata Nickel, 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 March 31, 2012, the Company has limited funds to meet its short-term financial liabilities, and the working capital was in a position of $1.3 million. Accordingly, additional financing is required to maintain the Company to continue as a going concern. The Company's contractual obligations as at March 31, 2012 are summarized as follows:

	Payment Due by Period				
Contractual Obligations	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Loans payable	$ -	$ 31,671,897	$ -	$ -	$ 31,671,897
Finance lease obligations	1,328,575	1,406,003	-	-	2,734,578
Exploration option obligations	1,500,000	1,500,000	-	-	3,000,000
Site closure and reclamation obligations	-	-	-	2,753,608	2,753,608
Accounts payable and accrued liabilities	6,944,796	-	-	-	6,944,796
Total Contractual Obligations	**$ 9,773,371**	**$ 34,577,900**	**$ -**	**$ 2,753,608**	**$ 47,104,879**

c) 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 March 31, 2012, the Company had $31.7 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 balance advanced under the facilities. Currently, the Company does not hedge against interest rate risk.

d) Foreign currency risk

The Company's functional currency is Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions and financing activities being denominated in US dollars. As at March 31, 2012, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents		As at March 31, 2012
Financial assets denominated in US dollars		
Cash and cash equivalent	$	45,377
Accounts receivables		3,903,687
		3,949,064
Financial liabilities denominated in US dollars		
Loans payable	$	(31,671,897)

Based on the financial assets and liabilities denominated in US dollars as at March 31, 2012, every 1% strengthening in Canadian dollars would decrease net loss by $272,228. The Company currently has not entered into any agreement to hedge the foreign exchange risk.

e) Commodity price risk

The Company is exposed to price risk with respect to commodity prices, specifically 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.

As at March 31, 2012, the Company did not have any forward sales contracts or call options outstanding to manage the Company's commodity price risk.

f) Environmental risk

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

Challenges with the federal permitting process to allow disposal of tailings in Bucko Lake and the unlikelihood that Environment Canada will recommend authorization caused the Company to consider alternative solution for tailings disposal. A Notice of Alteration (NOA) to its original Environmental Act License Proposal in December 2007 to include the provision for an interim (land-based) tailings storage facility (ITSF) was submitted and approved. The Company 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 will be carried in two phases and the phase I construction was completed in March 2012.

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"), a private entity associated with a director of the Company, provides office space, office equipment, and administration services to the Company for a fee of $15,000 per month. During the three months ended March 31, 2012, the Company paid $50,400 (same period last year - $50,400) to LJ for their services provided. Included in accounts payable as at March 31, 2012 is $84,000 (December 31, 2011 - $33,600) owed to LJ. The balance with LJ is unsecured, interest-free and repayable on demand.

(b) Transactions with key management

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

	Three months ended March 31,	
	2012	2011
Salaries and fees	**$ 215,873**	$ 119,250
Stock based compensation	**389,721**	83,863
	$ 605,594	$ 203,113

LEGAL SETTLEMENT

During the year ended December 31, 2011, the Company commenced a legal action against Total Equipment Services ("Total Equipment") and Total Electric System Inc for their breach of contract and claimed a refund of $0.3 million prepayment and a loss of damage of $1.2 million. Total Equipment made a counterclaim in the amount of $0.4 million. In March 2012, Total Equipment reached an agreement with the Company to settle the legal suit by paying asum of $251,728 inclusive of interest, costs and taxes in full to the Company. As a result, a net gain of $215,173 was recorded on the consolidated statements of comprehensive loss for the three months ended March 31, 2012.

OUTSTANDING SHARE DATA

As at the date of this report, a total of 1,500,826,712 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, 49,377,000 remain outstanding with exercise prices ranging from $0.065 to $0.94, with expiry dates ranging between June 28, 2012 and September 13, 2016.

As at the date of this report, a total of 300,000,000 share purchase warrants were outstanding with an exercise price of $0.10 expiring March 4, 2013.

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.

There has been no change in the Company's internal control over financial reporting during the three months ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as March 31, 2012 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.

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 commissioning of the paste backfill plant; reduction rate and positive cash flow from operations at Bucko Lake Mine in 2012; the future price of nickel and other minerals; the activation of the committed equity line; foreign exchange rates; 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.