



CaNickel Mining Limited

formerly Crowflight Minerals Inc.

www.canickel.com

CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 and six months ended June 30, 2012 (“Financial Statements”) have been prepared by management of the Company and have not been reviewed by the Company’s independent auditors. 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.

Condensed Interim Consolidated Statements of Comprehensive Loss

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Revenue	3	\$ 2,748,251	\$ -	\$ 9,132,077	\$ 237,582
Cost of goods sold		-	-		
Cash cost	3	6,007,219	-	11,814,753	-
Non - cash cost		991,596	-	2,042,341	-
		(4,250,564)	-	(4,725,017)	237,582
Temporary shutdown costs		(1,059,677)	(3,562,910)	(1,059,677)	(8,462,759)
Loss from mine operations		(5,310,241)	(3,562,910)	(5,784,694)	(8,225,177)
Finance costs	14	(1,303,239)	(192,057)	(1,560,237)	(1,234,029)
General and administration		(174,312)	(181,543)	(353,633)	(300,359)
Impairment of mineral property, plant and equipment	7	(6,283,000)	(504,498)	(6,283,000)	(504,498)
Legal and professional fees		(134,933)	(72,779)	(173,507)	(152,657)
Net gain on derivative instruments		-	472,242	49,668	699,020
Other income and expenses		(43,918)	(50,002)	171,255	(51,614)
Salaries, consulting and management fees		(228,393)	(329,388)	(859,327)	(568,861)
Shareholder communications and investor relations		(78,614)	(90,376)	(119,176)	(128,195)
Net loss and Comprehensive loss for the period		(13,556,650)	(4,511,311)	(14,912,651)	(10,466,370)
Loss per share - basic & diluted		\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of shares - basic & diluted		1,500,826,712	1,489,431,275	1,500,826,712	1,154,238,616

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

Condensed Interim Consolidated Statements of Financial Position
(Unaudited - Expressed in Canadian Dollars)

	Notes	June 30, 2012	December 31, 2011
ASSETS			
<i>Current</i>			
Cash and cash equivalents	4	\$ 496,190	\$ 1,376,942
Receivables and prepaid expenses	5	1,667,872	3,538,057
Inventory	6	2,005,487	3,418,428
		4,169,549	8,333,427
<i>Non-Current</i>			
Mineral property, plant and equipment	7	54,303,575	56,281,967
Other non-current assets	8	543,124	985,523
		\$ 59,016,248	\$ 65,600,917
LIABILITIES			
<i>Current</i>			
Accounts payable and accrued liabilities		\$ 8,626,089	\$ 8,963,455
Loans payable	9	-	24,307,374
Current portion of obligations under capital leases	10	1,395,825	1,353,061
		10,021,914	34,623,890
<i>Non-Current</i>			
Loans payable	9	33,174,361	-
Obligations under capital leases	10	1,028,200	1,727,651
Site closure and reclamation provisions	11	2,294,289	2,272,249
		46,518,764	38,623,790
SHAREHOLDERS' EQUITY			
Share capital	12	186,952,654	186,952,654
Contributed surplus		33,745,173	33,312,165
Accumulated deficit		(208,200,343)	(193,287,692)
		12,497,484	26,977,127
		\$ 59,016,248	\$ 65,600,917

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

Nature of Operation (Note 1)

Legal matters (Note 15)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

“Raymond Lai”, Director

“Wenfeng Liu”, 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	-	-	433,008	-	433,008
Loss for the period	-	-	-	(14,912,651)	(14,912,651)
As at June 30, 2012	1,500,826,712	\$ 186,952,654	\$ 33,745,173	\$ (208,200,343)	\$ 12,497,484

	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	-	(3,123,870)	-	-	(3,123,870)
Conversion of convertible debentures	258,819,703	11,156,275	-	-	11,156,275
Share based compensation - shares	18,747	1,593	-	-	1,593
Share based compensation - options	-	-	424,674	-	424,674
Fair value of warrants issued	-	(7,156,356)	7,156,356	-	-
Loss for the period	-	-	-	(10,466,370)	(10,466,370)
As at June 30, 2011	1,500,826,712	\$ 184,130,897	\$ 35,186,007	\$ (105,716,907)	\$ 113,599,997

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

CANICKEL MINING LIMITED

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Condensed Interim Consolidated Statements of Cash Flow

(Unaudited - Expressed in Canadian Dollars)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
OPERATING ACTIVITIES:					
Net loss for the period		\$ (13,556,650)	\$ (4,511,311)	\$ (14,912,651)	\$ (10,466,370)
Items not affecting cash:		-	-	-	-
Accretion of site closure and reclamation provisions	11	11,020	24,141	22,040	47,613
Depreciation, depletion and amortization		1,260,920	1,534,071	2,296,840	2,704,808
Gain on derivative instruments		-	(472,242)	(49,668)	(699,020)
Stock-based compensation expense		9,073	299,016	433,008	426,267
Unrealized foreign exchange gain		533,247	-	120,256	-
Interest accretion		741,212	94,967	1,346,089	838,725
Impairment on mineral properties, plant and equipment	7	6,283,000	504,498	6,283,000	504,498
Settlement of derivative instrument		-	-	-	399,515
Net change in non-cash working capital	16	5,112,489	(2,910,046)	2,282,556	(9,334,724)
		394,311	(5,436,906)	(2,178,530)	(15,578,688)
FINANCING ACTIVITIES:					
Private placement		-	-	-	30,000,000
Common shares issued		-	-	-	30,000,000
Issue costs		-	(23,720)	-	(3,123,870)
Proceeds from debt financing		-	4,822,500	7,045,800	4,822,500
Proceeds from convertible debentures		-	-	-	-
Repayment of convertible debentures financing		-	-	-	(10,000,000)
Payment and discharge of capital leases		(310,553)	(229,162)	(656,687)	(288,033)
		(310,553)	4,569,618	6,389,113	21,410,597
INVESTING ACTIVITIES:					
Payment to acquire mineral properties, plant and equipment		(328,551)	(3,518,264)	(5,141,003)	(8,046,525)
Proceeds from disposal of derivative instruments		49,668	-	49,668	-
		(278,883)	(3,518,264)	(5,091,335)	(8,046,525)
CHANGE IN CASH AND CASH EQUIVALENTS		(195,125)	(4,385,552)	(880,752)	(2,214,616)
CASH AND CASH EQUIVALENTS, beginning of period		691,315	5,439,925	1,376,942	4,068,019
CASH AND CASH EQUIVALENTS, end of period		\$ 496,190	\$ 1,054,373	\$ 496,190	\$ 1,853,403
Cash and cash equivalents consist of:					
Cash		633,815	996,873	496,190	996,873
Cash equivalents (short-term investments)		-	57,500	-	57,500
		\$ 633,815	\$ 1,054,373	\$ 496,190	\$ 1,054,373
SUPPLEMENTAL INFORMATION					
Interest paid		\$ 73,359	\$ -	\$ 139,298	\$ -
Income taxes paid		-	-	-	-

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. Due to the unfavourable nickel price, the Company suspended the milling operations at its 100% own Bucko Lake Mine near Wabowden, Manitoba in May 2012, and in July 2012, the Company decided to put Bucko Lake Mine on care and maintenance. During the six months ended June 30, 2012, the Company incurred a loss of \$14.9 million and the cumulative deficit as at June 30, 2012 amounted to \$208.2 million with working capital in deficiency of \$5.9 million. The Company will need to raise additional capital in order to fund its operations and capital expenditures and is in the process to negotiate with its largest shareholder, Hebei Wenfeng Industrial Group Limited, to increase its debt facility from US\$5 million to US\$15 million and to update a NI 43-101 technical report on its Bucko Lake Mine and the adjacent properties in Thompson Nickel Belt, Manitoba and then file a short form prospectus to activate its existing \$20 million committed equity facility. However, there is no assurance that either of the above financing effort will be successful and such uncertainties cast significant doubt upon 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.

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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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 August 8, 2012.

3. COMPARABLE FIGURES AND ACCOUNTS RECLASSIFICATION

During the three months ended June 30, 2012, the Company reclassified smelter charges and by-product credit from costs of goods sold to net of revenue. Such reclassification has no impact on the loss from mine operation and net loss and comprehensive loss for the period affected, but resulted in decreases in both revenue and costs of goods sold of \$1,455,261 for the three months ended March 31, 2012.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	June 30, 2012		December 31, 2011	
Cash	\$	496,190	\$	1,319,442
Short-term investments		-		57,500
	\$	496,190	\$	1,376,942

5. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised of the following:

	June 30, 2012		December 31, 2011	
Trade receivable*	\$	1,628,879	\$	3,040,075
Taxes receivable		-		218,744
Prepaid expenses		38,993		279,238
	\$	1,667,872	\$	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

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based on forward LME prices. During the three months and six months ended June 30, 2012, the Company recognized price adjustments of negative of \$15,437 and positive of \$305,297, respectively (same period last year - \$nil and \$237,582, respectively).

6. INVENTORY

Inventory comprised of the following:

	June 30, 2012		December 31, 2011	
Materials and supplies	\$	1,752,021	\$	1,824,673
Ore stockpile		-		365,568
Nickel concentrate		-		283,343
Nickel concentrate in transit		253,130		944,844
	\$	2,005,151	\$	3,418,428

7. 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	1,282,868	3,123,184	1,844,770	-	6,250,822
As at June 30, 2012	\$ 18,923,878	\$ 97,738,377	\$ 71,720,282	\$ 7,514,303	\$ 195,896,840

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	-	488,795	1,295,661	161,758	1,946,214
Impairment / Write-down	-	3,922,000	2,361,000	-	6,283,000
As at June 30, 2012	\$ 1,160,482	\$ 76,516,962	\$ 58,801,111	\$ 5,114,710	\$ 141,593,265

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 June 30, 2012	\$ 17,763,396	\$ 21,221,415	\$ 12,919,171	\$ 2,399,593	\$ 54,303,575

During the three months ended June 30, 2012, the Company suspended the operations at Bucko Lake Mine due to the unfavourable nickel price, and a total of impairment charges of \$6,283,000 (same period last year - \$nil) were recorded against the carrying value of assets used at Bucko Lake Mine.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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8. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

	June 30, 2012	December 31, 2011
Reclamation closure bond	\$ 537,374	\$ 537,374
Deposit on mineral properties, plant and equipment	-	390,649
Guaranteed investment certificate	5,750	57,500
	\$ 543,124	\$ 985,523

9. LOANS PAYABLE

Loans payable comprised the following:

	June 30, 2012	December 31, 2011
Loan facility with Hebei Wenfeng Industrial Company Limited	\$ 5,620,037	\$ 5,325,975
Loan facility with Luckyup Investment Limited	27,554,324	18,981,399
	\$ 33,174,361	\$ 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 statements of financial position. As at June 30, 2012, the outstanding balance including interest accretion was \$5,620,037.

During the three months ended June 30, 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 \$2,500,000 to the Company during the three months ended June 30, 2012. The advanced bears no interest and 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 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 statements of financial position. As at June 30, 2012, the outstanding balance including interest accretion was \$27,554,324.

During the three and six months ended June 30, 2012, the Company incurred borrowing costs of \$885,063 and \$1,684,080, respectively (the same period 2011 - \$138,969 and \$904,184, respectively) on loans payable, of which a total of \$228,004 and \$422,144, respectively, (same period last year - \$nil) was capitalized in the mineral

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property, plant and equipment. The capitalized amount represented 26% and 25% of total borrowing cost for the three and six months ended June 30, 2012.

10. 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.

	June 30, 2012	December 31, 2011
Balance, beginning of period	\$ 3,080,712	\$ 313,251
Additions	-	3,831,470
Interest accrual	98,687	130,839
Discharge	(755,374)	(1,194,848)
Balance, ending of period	\$ 2,424,025	\$ 3,080,712
Less: Current portion of lease obligations	(1,395,825)	(1,353,061)
Long-term portion of lease obligations	\$ 1,028,200	\$ 1,727,651

Minimum lease payments for the next five years as at June 30, 2012:

2012	765,699
2013	1,260,252
2014	560,585
Total	<u>2,586,536</u>
Less: Interest portion	<u>(162,511)</u>
	<u>\$ 2,424,025</u>

11. 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:

	June 30, 2012	December 31, 2011
Balance, beginning of period	\$ 2,272,249	\$ 823,575
Additions	-	-
Accretion	22,040	39,077
Change in estimates	-	1,409,597
Balance, end of period	\$ 2,294,289	\$ 2,272,249

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

12. 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:

	June 30, 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 and six months ended June 30, 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
Cancelled/Forfeited	(4,328,750)	0.07
Outstanding, December 31, 2011	50,890,000	0.09
Expired	(837,750)	0.21
Cancelled/Forfeited	(1,867,250)	0.07
Outstanding, June 30, 2012	48,185,000	0.08

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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As of June 30, 2012, the following stock options were outstanding:

Estimated Grant Date	Number of Options	Number of Options	Exercise Price	Expiry Date
Fair Value	Number of Options	Exercisable		
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
490	5,000	5,000	\$ 0.150	October 31, 2013
2,055	15,000	15,000	\$ 0.200	January 31, 2014
7,535	55,000	55,000	\$ 0.200	March 20, 2014
2,404	15,000	15,000	\$ 0.240	May 6, 2014
2,051	15,000	15,000	\$ 0.200	June 30, 2014
27,326	180,000	180,000	\$ 0.210	August 19, 2014
17,222	175,000	175,000	\$ 0.160	March 15, 2015
21,767	150,000	150,000	\$ 0.215	April 12, 2015
208,029	5,150,000	2,575,000	\$ 0.065	January 10, 2016
105,753	2,335,000	583,750	\$ 0.075	June 22, 2016
1,896,332	40,000,000	20,000,000	\$ 0.080	September 13, 2016
\$ 2,330,760	48,185,000	23,858,750		

The weighted average exercise price of stock options that are exercisable as at June 30, 2012 is \$0.08 with weighted average contractual life of 4.1 years.

Subsequent to June 30, 2012, a total of 40,000,000 options were cancelled.

13. 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 and six months ended June 30, 2012, the Company incurred \$50,400 and \$100,800, respectively, (same period last year - \$50,400 and \$100,800, respectively) payable to LJ for their services provided. Included in accounts payable as at June 30, 2012 is \$134,400 (December 31, 2011 - \$33,600) owed to LJ. The balance with LJ is unsecured, interest-free and repayable on demand.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Salaries and fees	\$ 198,750	\$ 119,250	\$ 414,623	\$ 238,500
Stock based compensation	(21,194)	108,428	368,527	192,291
	\$ 177,556	\$ 227,678	\$ 783,150	\$ 430,791

14. FINANCE COSTS

Finance costs comprise the following:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Accretion for site closure and reclamation provisions	\$ 11,020	\$ 24,141	\$ 22,040	\$ 47,613
Foreign exchange (gain) loss	482,514	28,953	53,810	280,754
Interest expenses and bank charges	810,705	138,969	1,485,387	904,184
Interest income	(1,000)	(6)	(1,000)	(45)
Loss on sale of short-term investment	-	-	-	1,523
	\$ 1,303,239	\$ 192,057	\$ 1,560,237	\$ 1,234,029

15. LEGAL MATTERS

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 six months ended June 30, 2012.

During the period ended June 30, 2012, there were one contractors and one suppliers of the Company placed lien against Bucko Lake Mine. The total amount of the liens against Bucko Lake Mine was approximately \$1.8 million as at June 30, 2012.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net change in non-cash working capital				
(Increase) decrease in receivables and prepaid expenses	\$ 2,680,380	\$ (7,396)	\$ 1,802,883	\$ 1,427,913
Decrease (increase) in inventory	2,156,319	(3,189,532)	1,062,315	(3,281,510)
Increase (decrease) in accounts payable and accrued liabilities	275,790	286,882	(582,642)	(7,481,127)
	\$ 5,112,489	\$ (2,910,046)	\$ 2,282,556	\$ (9,334,724)

As at June 30, 2012, \$1,496,703 (December 31, 2011 - \$3,393,737) was included in account payable and accrued liabilities to acquire mineral properties, plant and equipment.

17. 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 and six months ended June 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations
for the three and six months ended June 30, 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 and six months ended June 30, 2012 should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 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 August 8, 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

- Due to the unfavourable nickel price, the Company suspended the operations at its 100% Bucko Lake Mine and put the mine on care and maintenance;
- Loss for the three and six months ended June 30, 2012 amounted of \$13.6 million and \$14.9 million, respectively, compared to the loss of \$4.5 million and \$10.5 million, respectively, for the same periods last year. The loss included an impairment charge of \$6.3 million to Bucko Lake Mine;
- Mined 11,738 tonnes and 72,256 tonnes of ore for the three and six months ended June 30, 2012 at an average cost of \$177.88 and \$83.23 per tonne of ore mined, respectively. The higher mining cost was affected by the stop work orders received as less ore mined in the second quarter of 2012;
- Milled 22,616 tonnes and 76,650 tonnes of ore for the three and six months ended June 30, 2012 at average milling cost of \$61.36 and \$43.86 tonnes of ore, respectively. The high milling cost was affected by the stop work order received as less ore available in the second quarter of 2012. A record mill recovery was achieved and the average mill recovery was 76.98% and 75.65% for the three and six months ended June 30, 2012;
- Sold 511,497 pounds and 1,417,352 pounds of payable nickel at average selling price, after price/volume adjustments on concentrates sold in prior periods, of \$6.78 and \$7.98 per pound for the three and six months ended June 30, 2012, respectively; and,
- Completed the phase I tailing management area construction and paste backfill plant, which the commissioning is put on hold due to the operation suspension at Bucko Lake Mine.

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.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. Due to the unfavourable nickel price, the Company suspended the milling operations at its 100% own Bucko Lake Mine near Wabowden, Manitoba in May 2012, and in July 2012, the Company decided to put Bucko Lake Mine on care and maintenance. During the six months ended June 30, 2012, the Company incurred a loss of \$14.9 million and the cumulative deficit as at June 30, 2012 amounted to \$208.2 million with working capital in deficiency of \$5.9 million. The Company will need to raise additional capital in order to fund its operations and capital expenditures and is in the process to negotiate with its largest shareholder, Hebei Wenfeng Industrial Group Limited, to increase its debt facility from US\$5 million to US\$15 million and to update a NI 43-101 technical report on its Bucko Lake Mine and the adjacent properties in Thompson Nickel Belt, Manitoba and then file a short form prospectus to activate its existing \$20 million committed equity facility. However, there is no assurance that either of the above financing effort will be successful and such uncertainties cast significant doubt upon 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.

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 first quarter 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 per tonne with an average recovery rate of 75.2% to produce 1,062,056 pounds of nickel. However, the operations was affected by the stop work orders the Company received in the second quarter ended June 30, 2012, and as a result of the unfavorable nickel price, the Company suspended the mill operation in May 2012 and put Bucko Lake Mine on care and maintenance in July 2012.

During the second quarter ended June 30, 2012, a total of 11,738 tonnes (same period last year – 14,192 tonnes) of ore mined and a total of 22,616 tonnes (same period last year – 9,723 tonnes) of ore milled with an average recovery rate of 76.98% (same period last year – 54.21%). The average mining cost and milling cost increased by \$113.0 and \$24.81 from last quarter, respectively, to \$177.88 and \$61.36 per tonne (same period last year - \$186.86 and \$22.84 per tonne), respectively, as a result of less production due to impact arising from the stop work orders the Company received in the second quarter ended June 30, 2012.

During the three and six months ended June 30, 2012, a total of 511,497 and 1,417,352 pounds of payable nickel were sold at an average selling price of \$6.78 and \$7.98, respectively, after price/volume adjustment on the concentrate sold in prior periods. The cash cost per pound of payable nickel sold increased to \$13.15 and \$9.78 per

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pound, respectively, from the cash cost of \$8.02 per pound in the first quarter of 2012 as the Company adsorbed the same fixed cost while the production was substantially lower the production level in the first quarter of 2012.

The following is a summary of the operation results at Bucko Lake Mine for three and six months ended at June 30, 2012 and 2011.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Production data				
Ore mined (tonne)	11,738	14,192	72,256	14,192
Ore milled (tonne)	22,616	9,723	76,650	9,723
Nickel produced (pound)	487,765	190,304	1,549,821	190,304
	-	-	-	-
Head grade	0.98%	1.74%	1.12%	1.74%
Metallurgical recovery	76.98%	54.21%	75.65%	54.21%
Production Costs				
Mining cost (\$)	\$ 2,087,902	\$ 2,651,875	\$ 6,014,131	\$ 2,651,875
Milling cost (\$)	\$ 1,387,647	\$ 222,056	\$ 3,362,205	\$ 222,056
Administration overhead cost (\$)	\$ 391,764	\$ 334,954	\$ 950,334	\$ 334,954
Unit mining cost (\$/tonne)	\$ 177.88	\$ 186.86	\$ 83.23	\$ 186.86
Unit milling cost (\$/tonne)	\$ 61.36	\$ 22.84	\$ 43.86	\$ 22.84
Cost per pound of payable nickel sold**				
Cost of goods sold	\$ 6,998,815	\$ -	\$ 13,857,094	\$ -
Deduct: Non-cash cost	\$ 991,596	\$ -	\$ 2,042,341	\$ -
Cost of goods sold - cash cost	\$ 6,007,219	\$ -	\$ 11,814,753	\$ -
Add: smelter charges, net of byproduct credit (\$)	\$ 719,273	\$ -	\$ 2,174,534	\$ -
Cash cost of payable nickel sold (\$)	\$ 6,726,492	\$ -	\$ 13,989,287	\$ -
Cash cost per pound of nickel sold (\$/pound)**	\$ 13.15	\$ -	\$ 9.78	\$ -
Non cash cost per pound of payable nickel sold (\$/pound) **	\$ 1.94	\$ -	\$ 1.44	\$ -
Cost per pound of payable nickel sold (\$/pound)**	\$ 15.09	\$ -	\$ 11.22	\$ -
Sales Data				
Payable Nickel Sold (pound)	511,497	-	1,417,352	-
Revenue (\$) *	\$ 2,748,251	\$ -	\$ 9,132,077	\$ -
Add: Smelter charges, net of byproduct credit (\$)	\$ 719,273	\$ -	\$ 2,174,534	\$ -
Revenue from payable nickel sold (\$) *	\$ 3,467,524	\$ -	\$ 11,306,611	\$ -
Average selling price (\$/pound)	\$ 6.78	\$ -	\$ 7.98	\$ -

*Including pricing/volume adjustments on concentrate sold in prior periods

**Cost per pound of payable nickel is non-GAAP performance measure that management uses to monitor performance. The Company reports cost per pound of payable nickel or 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 operation.

DEVELOPMENT AND EXPLORATION

BACKFILL PASTE PLANT

To reduce the backfill costs and to increase the quality of backfill, the Company was underway to construct a paste backfill plant at its Bucko Lake Mine in 2011. Although the construction was affected by several design issues and late delivery of equipment, all surface contracture and equipment installation were completed in the first quarter of 2012. However, the operation at Bukco Lake Mine was now suspended, the Company decided to put the commissioning of the paste backfill plant on hold.

As of June 30, 2012, a total of \$5.9 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 June 30, 2012, a total of \$4.3 million expenditures were incurred in the construction of the TMA.

EXPLORATION - THOMPSON NICKEL BELT EXPLORATION PROPERITES ("TNB")

During the six months ended June 30, 2012, the Company completed 12 holes, 7157 meters, diamond drilling program at M11A North Deposit ("M11A") of TNB. 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 nine holes. The Company plans to review results from the drilling program and update the resource calculations at M11A in 2012. The Company expects that M11A could eventually provide a source of supplemental ore feed for Bucko Lake Mine.

The Company also planned to carry out 2,800 meter drilling program at Bowden Lake deposit of TNB in the third quarter of 2012. All applications to conduct the drilling program at Bowden Lake deposit have been submitted and upon receipt of work permit, the drilling program will start immediately.

During the six months ended June 30, 2012, the Company incurred exploration expenditures of \$1.3 million at TNB. As of June 30, 2012, the cumulative exploration expenditures incurred at TNB was approximately \$17.8 million.

RESULTS OF OPERATIONS

Three months ended June 30, 2012 (“Q2 2012”) vs. Three months ended June 30, 2011 (“Q1 2011”)

Net loss in Q2 2012 was \$13.6 million, an increase of \$9.1 million, compared to the net loss of \$4.5 in Q2 2011. In Q2 2012, the operations at the Company’s only operational mine, Bucko Lake Mine, was affected by the stop work orders the Company received on May 11, 2012, and the Company recorded an impairment charge of \$6.3 million due to the unfavourable nickel price.

Revenue in Q2 2012 was \$2.7 million, a decrease of \$3.6 million, or 132% comparing to the revenue recorded in the first quarter ended March 31, 2012. In Q2, 2012, the mining operations at Bucko Lake Mine were affected by the stop order the Company received on May 11, 2012 and the Company suspended the milling operation on May 18, 2012 as a result of the unfavourable nickel price and no ore available to mill. A total of 511,497 pounds of nickel sold in Q2 2012 at average selling price of \$6.78 per pound after pricing and volume adjustments on concentrate sold, in prior periods while a total of 905,855 pounds of nickel sold at average selling price of \$8.65 per pound in the first quarter of 2012. No revenue was realized during the same period last year.

Cost of goods sold in Q2 2012 was \$7.0 million, which comprised of \$6.0 million cash cost and \$1.0 million non-cash cost. During the same period last year, there was no revenue realized and therefore no cost of goods sold was recorded.

Loss from mine operations in Q2 2012 was \$5.3 million (same period last year - \$3.6 million), which comprised of \$1.0 million of mine temporary shutdown costs (same period last year - \$3.6 million) and \$4.3 million negative profit margin arising from the sales of nickel concentrates (same period last year - \$nil).

Finance costs in Q2 2012 were \$1.3 million, an increase of \$1.1 million, compared to the finance costs of \$0.2 million in Q2 2011. The increase was mainly due to the increase of \$0.4 million in foreign exchange loss on the loans payable denominated in US dollars as a result of weaker Canadian dollars in Q2 2012 and the increase of interest expenses and bank charges of \$0.7 million. Finance costs primarily included interest and bank charges of \$0.8 million (Q2 2011 - \$0.1 million), and foreign exchange loss of \$0.5 million (Q2 2011– \$0.1 million).

Legal and professional fees in Q2 2012 were \$0.1 million, a decrease of \$0.03 million, compared to the legal and professional fees of \$0.08 million in Q2 2011. The increase was mainly because the Company expense the legal fee associated with filing of short form prospectus in February 2012 which was withdrawn in May 2012.

Net gain on derivative instrument in Q2 2012 was \$nil (Q2 2011 - \$0.5 million) as the Company did not hold any derivative in Q2 2012.

Salaries, consulting and management fees in Q2 2012 were \$0.2 million, a decrease of \$0.1 million, compared to the salaries, consulting and management fees of \$0.3 million in Q2 2011. The decrease was mainly due to the reversal of stock base compensation expenses arising from options forfeited in Q2 2012. In Q2 2012, the stock base compensation expenses included in salaries, consulting and management fees was \$nil while a total of \$0.1 million stock based compensation expense included in salaries, consulting and management fee was recorded in Q2 2011.

Shareholder communication and investor relations in Q2 2012 were \$0.1 million, which was consistent with the same period last year.

Six months ended June 30, 2012 vs. Six months ended June 30, 2011

Net loss for the six months ended June 30, 2012 was \$14.9 million, an increase of \$4.4 million, compared to the net loss of \$10.5 for the same period last year. During the first quarter ended March 31, 2012, the Company achieved positive earnings before interest, taxes, and depreciation, but the operations at Bucko Lake Mine in the second

quarter ended June 30, 2012 was affected by the stop work order the Company received on May 11, 2012, and the weakness of nickel price also casted significant impact on our operation. In May 2012, the Company suspended the milling operations as results of unfavourable nickel price and no ore available to mill, and an impairment charges of \$6.3 million was recorded for the six months ended June 30, 2012.

Revenue for the six months ended June 30, 2012 was \$9.1 million compared to revenue of \$0.2 million for the same period last year. The increase of \$8.9 million was mainly due to the increase of nickel concentrate sold for the six months ended June 30, 2012. No concentrate sold in the same period last year and the \$0.2 million recorded in the same period last year was price and volume adjustments to the concentrates sold in prior periods.

Cost of goods sold for the six months ended June 30, 2012 was \$13.8 million, which comprised of \$11.8 million cash cost and \$2.0 million non-cash cost. No cost of goods sold was recorded in the same period last year as there were no sales realized. .

Loss from mine operations for the six months ended June 30, 2012 was \$5.8 million (same period last year - \$8.2 million), which comprised of \$1.0 million of mine temporary shutdown costs (same period last year - \$8.4million) and \$4.2 million negative profit margin arising from the sales of nickel concentrates (same period last year – positive gross margin of \$0.2).

Finance costs for the six months ended June 30, 2012 were \$1.5 million, an increase of \$0.3 million, compared to the finance costs of \$1.2 million for the same period last year. The increase was mainly due to the increase of \$0.6 million interest expense and bank charges offset by a decrease of \$0.2 million foreign exchange loss. Finance costs primarily included interest and bank charges of \$1.5 million (Q1 2011 - \$0.9 million), and foreign exchange loss of \$0.05 million (Q1 2011– \$0.3 million).

Legal and professional fees for the six months ended June 30, 2012 were \$0.2 million which was consistent with the legal and professional fees recorded in the same period last year.

Net gain on derivative instrument for the six months ended June 30, 2012 was \$0.05 million comparing to a net gain of \$0.7 million for the same period last year. The gain for current period was related to the change of the fair value of the forward nickel sales contracts.

Salaries, consulting and management fees for the six months ended June 30, 2012 were \$0.9 million, an increase of \$0.3 million, compared to the salaries, consulting and management fees of \$0.6 million for the same period last year. 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 \$0.1 million, which was consistent with the same period last year.

Use of proceeds from financing

During the six months ended June 30, 2012, the Company drawn down 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.

QUARTERLY FINANCIAL RESULTS

	Quarters ended			
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Revenue *	\$ 2,748,251	\$ 6,383,826	\$ 4,726,883	\$ 4,479,036
Cost of goods sold *	(6,998,815)	(6,858,279)	(11,702,619)	(10,198,010)
	(4,250,564)	(474,453)	(6,975,736)	(5,718,974)
Temporary shutdown costs	(1,059,677)	-	-	-
Other items	(8,246,409)	(881,548)	(72,394,153)	(1,902,172)
Loss before taxes	(13,556,650)	(1,356,001)	(79,369,889)	(7,621,146)
Income tax recovery	-	-	-	-
Net loss	\$ (13,556,650)	\$ (1,356,001)	\$ (79,369,889)	\$ (7,621,146)
Loss per share - basis and diluted	\$ (0.01)	\$ (0.00)	\$ (0.05)	\$ (0.01)

	Quarters ended			
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Revenue *	\$ -	\$ 237,582	\$ 2,766,569	\$ 7,733,549
Cost of goods sold *	-	-	(2,479,717)	(21,146,059)
	-	237,582	286,852	(13,412,510)
Temporary shutdown costs	(3,562,910)	(4,899,849)	(6,542,451)	-
Other items	(1,528,152)	(1,292,792)	(47,931,291)	(2,571,058)
Loss before taxes	(5,091,062)	(5,955,059)	(54,186,890)	(15,983,568)
Income tax recovery	-	-	1,236,275	1,378,539
Net loss	\$ (5,091,062)	\$ (5,955,059)	\$ (52,950,615)	\$ (14,605,029)
Loss per share - basis and diluted	\$ (0.00)	\$ (0.01)	\$ (0.09)	\$ (0.03)

* During the three months ended June 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 net loss for quarter ended December 31, 2011 was mainly due to an impairment charge of \$71.6 million against the mineral property, plant and equipment at Bucko Lake Mine.

The net loss for quarter ended September 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.

The net loss for the quarter ended December 31, 2010 included impairment charge of \$44.1 million and a temporary shutdown cost of \$6.5 million as the operations at Bucko Lake Mine was suspended in October 2010.

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 ***	9,443,501	19,896,542	5,857,258
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").

*** During the three months ended June 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. For the year ended December 31, 2011, 2010, and 2009, revenue presented in the above annual information has been reduced by \$2,025,436, \$3,069,664, and \$873,629 respectively.

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 June 30, 2012, the Company had cash and cash equivalents of \$0.5 million, decreased by \$0.9 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 \$6.4 million provided from financing activities offset by \$2.2 million used in operation activities and \$5.1 million used in investing activities.

Cash provided from operating activities for the three months ended June 30, 2012 was \$0.4 million compared to a total of \$5.4 million used in the same period last year. Before net change in non-cash working capital, cash used in operation was \$4.7 million (same period last year – used of \$2.1 million). The improvement of cash flow from operations were mainly due to the change of non-cash working capital, which included \$2.7 million decrease in ,receivables and prepaid expenses (same period last year – increase of \$0.01 million), \$2.1 million decrease in

inventory (same period last year – increase of \$3.2 million), and \$0.3 million increase in accounts payable and accrued liabilities (same period last year - \$0.3 million).

Cash used in operation activities for the six months ended June 30, 2012 was \$2.2 million (same period last year - \$15.6 million). Before net change in non-cash working capital, cash used in operation was \$4.5 million (same period last year - \$6.2 million). The improvement of cash flow in operating activities was mainly due to the increase of production the Company achieved during the first quarter ended March 31, 2012 while the mining operations was suspended for the same period last year.

Cash used in financing activities for the three months ended June 30, 2012 was \$0.3 million compared to a total of \$4.6 million cash generated from financing activities in the same period last year. During the three months ended June 30, 2012, the Company did not raise any funds (same period last year - \$4.8 million through debt financing) but made \$0.3 million (same period last year - \$0.2 million) payment on capital lease obligation.

Cash provided from financing activities for the six months ended June 30, 2012 was \$6.4 million compared to a total of \$21.4 million cash generated from financing activities in the same period last year. During the six months ended June 30, 2012, the Company raised \$7.0 million through debt financing (same period last year- \$4.8 million generated through debt financing and \$26.9 million through equity financing offset by \$10.0 million repayment to convertible debentures). The Company also used \$0.7 million (same period last year - \$0.3 million) to make payments on capital leases.

Cash used in investing activities for the three months ended June 30, 2012 was \$0.3 million compared to a total of \$3.5 million cash used in investing activities in the same period last year. Less cash used in Q2 2012 was mainly because the tailing facility and paste backfill plant was completed and the operations at Bucko Lake Mine was suspended while the Company was acquiring mining equipment to prepare to resume the operation during the same period last year.

Cash used in investing activities for the six months ended June 30, 2012 was \$5.1 million compared to a total of \$8.0 million cash used in investing activities in the same period last year. The \$5.1 million cash used in the current period was mainly for the construction of tailing facilities and the paste backfill plant while the \$8.0 million used in the same period last year was for the acquisition of mining equipment.

Working capital as at June 30, 2012 was a deficit of \$5.9 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 carrying balance of the loan facilities was \$33.2 million.

Shareholder's equity as at June 30, 2012 was \$12.5 million, a decrease of \$14.9 million from \$27.0 million at December 31, 2011, primarily due to a net loss of \$14.9 million for the six months ended June 30, 2012. As at June 30, 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 June 30, 2012 are summarized as follows:

Contractual Obligations	Payment Due by Period					Total
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years		
Loans payable	\$ -	\$ 33,174,361	\$ -	\$ -	\$ -	\$ 33,174,361
Finance lease obligations	1,395,825	1,028,200	-	-	-	2,424,025
Exploration option obligations	200,000	1,500,000	-	-	-	1,700,000
Site closure and reclamation obligations	-	-	-	2,294,289	-	2,294,289
Accounts payable and accrued liabilities	8,626,089	-	-	-	-	8,626,089
Total Contractual Obligations	\$ 10,221,914	\$ 35,702,561	\$ -	\$ 2,294,289	\$ -	\$ 48,218,764

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, of which a total of \$1.3 million incurred as of June 30, 2012, and another \$1.5 million in 2013.

Due to the unfavourable nickel price, the Company suspended the milling operations at its 100% own Bucko Lake Mine near Wabowden, Manitoba in May 2012, and in July 2012, the Company decided to put Bucko Lake Mine on care and maintenance. During the six months ended June 30, 2012, the Company incurred a loss of \$14.9 million and the cumulative deficit as at June 30, 2012 amounted to \$208.2 million with working capital in deficiency of \$5.9 million, and therefore, the Company needs to raise additional capital to complete its capital expenditures.

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 an 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.

The Company is also in the process to negotiate with the largest shareholder of the Company, Heibei Wenfeng Industrial Group Limited, to increase its current loan facilities from US\$5.0 million to US\$15.0 million. The Company has obtained approvals from minority shareholders and Toronto Stock Exchange and now is pending for the finalization of the agreement.

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, and the timing of finalization of the agreement to increase the debt facilities are uncertain. Such uncertainties cast significant doubt upon the Company's ability to continue as a going concern. In the event that the above financing efforts are not successful, the Company may have to 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. 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.

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.

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 meet 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 June 30, 2012, the Company has limited funds to meet its short-term financial liabilities, and the working capital was in a negative position of \$5.9 million. Accordingly, additional financing is required to maintain the Company to continue as a going concern. The Company's contractual obligations as at June 30, 2012 are summarized as follows:

Contractual Obligations	Payment Due by Period				Total
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	
Loans payable	\$ -	\$ 33,174,361	\$ -	\$ -	\$ 33,174,361
Finance lease obligations	1,395,825	1,028,200	-	-	2,424,025
Exploration option obligations	200,000	1,500,000	-	-	1,700,000
Site closure and reclamation obligations	-	-	-	2,294,289	2,294,289
Accounts payable and accrued liabilities	8,626,089	-	-	-	8,626,089
Total Contractual Obligations	\$ 10,221,914	\$ 35,702,561	\$ -	\$ 2,294,289	\$ 48,218,764

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 June 30, 2012, the Company had US\$5.0 million loans payable bearing a fixed coupon rate of 10% and US\$25.0 million loans payable bearing a fixed coupon rate of 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 Jun 30, 2012, the following financial assets and liabilities are denominated in US Dollars.

<u>Expressed in Canadian dollar equivalents</u>	<u>As at June 30, 2012</u>	
Financial assets denominated in US dollars		
Cash and cash equivalent	\$	4,169
Accounts receivables		1,628,879
		<u>1,633,048</u>
Financial liabilities denominated in US dollars		
Loans payable	\$	(33,174,361)

Based on the financial assets and liabilities denominated in US dollars as at June 30, 2012, every 1% strengthening in Canadian dollars would decrease net loss by \$315,413. 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 June 30, 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 and six months ended June 30, 2012, the Company incurred \$50,400 and \$100,800, respectively, (same period last year - \$50,400 and \$100,800, respectively) payable to LJ for their services provided. Included in accounts payable as at June 30, 2012 is \$134,400 (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 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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Salaries and fees	\$ 198,750	\$ 119,250	\$ 414,623	\$ 238,500
Stock based compensation	(21,194)	108,428	368,527	192,291
	\$ 177,556	\$ 227,678	\$ 783,150	\$ 430,791

(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 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 statements of financial position. As at June 30, 2012, the outstanding balance including interest accretion was \$5,620,037.

During the three months ended June 30, 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 \$2,500,000 to the Company during the quarter ended June 30, 2012. The advanced bears no interest and due on demand and included as part of accounts payable and accrued liabilities on the statements of financial position.

LEGAL MATTERS

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 six months ended June 30, 2012.

During the period ended June 30, 2012, there were one contractors and one suppliers of the Company placed lien against Bucko Lake Mine. The total amount of the liens against Bucko Lake Mine was approximately \$1.8 million as at June 30, 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, 8,185,000 remain outstanding with exercise prices ranging from \$0.065 to \$0.75, with expiry dates ranging from November 21, 2012 to June 22, 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 and six months ended June 30, 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 June 30, 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 ability to continue as going concern; drilling program at Thomson Nickel Belt properties; plans to review the drilling results and update the mineral resources at M11A deposit; expectation that M11A could eventually provide a source of supplementary ore feed to Buck Lake Mine; the activation of the committed equity line; the increase of debt facility with Hebei Wenfeng; 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

CaNickel Mining Limited
(formerly Crowflight Minerals Inc.)

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.