



CaNickel Mining Limited

formerly Crowflight Minerals Inc.

www.canickel.com

CONDENSED INTERIM

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(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 nine months ended September 30, 2011 (“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, 2010 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 September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
			(Note 4)		(Note 4)
Revenue		\$ 5,488,101	\$ 8,496,918	\$ 5,725,683	\$ 19,370,308
Cost of goods sold					
Cash cost		8,864,081	19,432,607	8,864,081	35,550,962
Non - cash cost		2,342,994	2,476,821	2,342,994	5,154,275
		(5,718,974)	(13,412,510)	(5,481,392)	(21,334,929)
Temporary shutdown costs	5	-	-	(8,462,759)	(5,828,308)
Loss from mine operations		(5,718,974)	(13,412,510)	(13,944,151)	(27,163,237)
Finance costs	18	(1,436,784)	(560,908)	(2,778,322)	(523,117)
General and administration		(119,784)	(207,810)	(420,143)	(736,611)
Impairment of mineral property, plant and equipment	9	-	-	(504,498)	-
Legal and professional fees		(79,599)	(170,323)	(232,256)	(341,533)
Loss on disposal of equipment	9	(112,289)	-	(112,289)	-
Net gain (loss) on derivative instruments	12	48,599	(583,571)	275,377	102,683
Other income and expenses		207,534	-	155,920	(101,771)
Salaries, consulting and management fees		(400,490)	(973,057)	(969,351)	(3,418,051)
Shareholder communications and investor relations		(9,359)	(75,389)	(137,554)	(277,895)
Loss before income taxes		(7,621,146)	(15,983,568)	(18,667,267)	(32,459,532)
Income tax recovery		-	1,378,539	-	4,763,925
Net loss and Comprehensive loss for the period		(7,621,146)	(14,605,029)	(18,667,267)	(27,695,607)
Loss per share - basic & diluted		\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.05)
Weighted average number of shares - basic & diluted		1,500,826,712	583,563,106	1,271,037,535	570,426,682

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

CANICKEL MINING LIMITED
(formerly Crowflight Minerals Inc.)

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

	Notes	September 30, 2011	December 31, 2010 (Note 4)	January 1, 2010 (Note 4)
ASSETS				
<i>Current</i>				
Cash and cash equivalents	6	\$ 2,065,170	\$ 4,068,019	\$ 10,040,475
Receivables and prepaid expenses	7	3,303,361	2,143,277	1,426,977
Inventory	8	3,763,683	1,464,839	1,031,734
		9,132,214	7,676,135	12,499,186
<i>Non-Current</i>				
Mineral property, plant and equipment	9	119,995,082	109,385,763	153,091,031
Other non-current assets	10	1,686,194	1,659,890	534,709
		\$ 130,813,490	\$ 118,721,788	\$ 166,124,926
LIABILITIES				
<i>Current</i>				
Accounts payable and accrued liabilities		\$ 3,425,425	\$ 10,466,215	\$ 9,282,060
Convertible debentures	11	-	20,554,989	-
Loans payable	13	18,111,675	-	-
Current portion of obligations under capital leases	14	911,253	294,336	45,371
Derivative liabilities	12	-	956,063	-
		22,448,353	32,271,603	9,327,431
<i>Non-Current</i>				
Obligations under capital leases	14	1,209,258	18,915	61,281
Site closure and reclamation provisions	15	896,017	823,575	736,014
Deferred income tax liability		-	-	6,000,200
		24,553,628	33,114,093	16,124,926
SHAREHOLDERS' EQUITY				
Share capital	16	186,952,654	153,253,255	138,758,903
Contributed surplus		33,225,012	27,604,977	25,845,412
Accumulated deficit		(113,917,804)	(95,250,537)	(14,604,315)
		106,259,862	85,607,695	150,000,000
		\$ 130,813,490	\$ 118,721,788	\$ 166,124,926

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

Contingencies (Note 21)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

“Michal 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		Contributed Surplus	Accumulated Deficit	Total Equity
	Share issued	Amount			
	No.	\$	\$	\$	\$
As at January 1, 2011	641,988,262	153,253,255	27,604,977	(95,250,537)	85,607,695
Private placement (Note 16(b))	600,000,000	30,000,000	-	-	30,000,000
Share issue costs	-	(2,552,665)	(571,205)	-	(3,123,870)
Conversion of convertible debentures (Note 11,12)	258,819,703	11,736,026	-	-	11,736,026
Stock based compensation - shares (Note 16(c))	18,747	1,593	-	-	1,593
Stock based compensation - options (Note 16(e))	-	-	705,685	-	705,685
Fair value of warrants issued (Note 16(d))	-	(5,485,555)	5,485,555	-	-
Loss for the period	-	-	-	(18,667,267)	(18,667,267)
As at September 30, 2011	1,500,826,712	\$ 186,952,654	\$ 33,225,012	\$ (113,917,804)	\$ 106,259,862

	Common Shares		Contributed Surplus	Accumulated Deficit	Total Equity
	Share issued	Amount			
	No.	\$	\$	\$	\$
As at January 1, 2010	509,523,552	138,758,903	25,845,412	(14,604,315)	150,000,000
Private placement	72,200,000	11,552,000	-	-	11,552,000
Share issue costs	-	(125,000)	-	-	(125,000)
Stock based compensation - shares	319,980	48,353	-	-	48,353
Stock based compensation - options	-	-	1,312,725	-	1,312,725
Exercise of warrants	1,588,259	317,652	-	-	317,652
Fair value of warrants exercised	-	95,295	(95,295)	-	-
Tax effect of cost of issue	-	37,625	-	-	37,625
Loss for the period	-	-	-	(27,695,607)	(27,695,607)
As at September 30, 2010	583,631,791	\$ 150,684,828	\$ 27,062,842	\$ (42,299,922)	\$ 135,447,748

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
(Unaudited - Expressed in Canadian Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
OPERATING ACTIVITIES:					
Net loss for the period		\$ (7,621,146)	\$ (14,605,029)	\$ (18,667,267)	\$ (27,695,607)
Items not affecting cash:					
Accretion of site closure and reclamation provisions		24,829	22,190	72,442	64,760
Depreciation, depletion and amortization		2,232,262	2,477,022	4,183,813	6,502,295
Impairment on mineral properties, plant and equipment		-	-	504,498	-
Loss on disposal of assets		112,289	-	112,289	-
(Gain) loss on derivative instruments		(48,599)	634,770	(275,377)	(51,484)
Stock-based compensation expense		281,011	307,491	707,278	1,361,078
Unrealized foreign exchange loss		1,314,666	-	1,314,666	-
Income tax recovery		-	(1,378,539)	-	(4,763,925)
Settlement of derivative instrument		48,599	-	(350,916)	-
Net change in non-cash working capital	22	(515,633)	80,636	(8,904,121)	(5,592,186)
		(4,171,722)	(12,461,459)	(21,302,695)	(30,175,069)
FINANCING ACTIVITIES:					
Private placement					
Common shares issued		-	-	30,000,000	11,552,000
Issue costs		-	-	(3,123,870)	(125,000)
Proceeds from debt financing		11,623,191	-	16,445,690	-
Proceeds from convertible debentures		-	13,000,000	-	13,000,000
Shares issued from exercise of warrants		-	-	-	317,652
Repayment of convertible debentures financing		-	-	(10,000,000)	-
Payment and discharge of capital leases		(458,813)	(11,628)	(746,846)	(34,112)
		11,164,378	12,988,372	32,574,974	24,710,540
INVESTING ACTIVITIES:					
Payment to acquire mineral properties, plant and equipment		(5,981,859)	(446,438)	(13,275,128)	(8,436,528)
Decrease in accounts payable attributable to property development and exploration		-	(222,156)	-	5,509,459
		(5,981,859)	(668,594)	(13,275,128)	(2,927,069)
CHANGE IN CASH AND CASH EQUIVALENTS		1,010,797	(141,681)	(2,002,849)	(8,391,598)
CASH AND CASH EQUIVALENTS, beginning of period		1,054,373	1,790,558	4,068,019	10,040,475
CASH AND CASH EQUIVALENTS, end of period		\$ 2,065,170	\$ 1,648,877	\$ 2,065,170	\$ 1,648,877
Cash and cash equivalents consist of:					
Cash		1,950,170	1,574,119	1,950,170	1,574,119
Cash equivalents (short-term investments)		115,000	74,758	115,000	74,758
		\$ 2,065,170	\$ 1,648,877	\$ 2,065,170	\$ 1,648,877
SUPPLEMENTAL INFORMATION					
Interest paid		\$ -	\$ 368,669	\$ -	\$ 466,016
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. 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 and the Sudbury Basin, Ontario. 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, and currently is still in the ramp up stage.

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.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

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.

2. BASIS OF PRESENTATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The Company has adopted International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”).

IFRS represents standards and interpretations approved by IASB, and are comprised of IFRSs, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”) or the former Standing Interpretations Committee (“SICs”). These unaudited condensed interim consolidated financial statements ("Financial Statements") have been prepared in compliance with *IAS 34 – Interim Financial Reporting*, and *IFRS 1 – First-time Adoption of International Financial Reporting Standards* has been applied.

These Financial Statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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("Canadian GAAP" or "CGAAP"). The basis of preparation of these Financial Statements is different to that of the Company's most recent annual consolidated financial statements due to the first-time adoption of IFRS. An explanation of how the transition to IFRS with a transition date of January 1, 2010 has affected the reported financial position and financial performance of the Company is provided in Note 4. Note 4 includes reconciliations of the Company's consolidated statements of financial position and statements of comprehensive loss for comparative periods prepared from Canadian GAAP to IFRS.

IFRS 1 in general requires accounting policies under IFRS to be applied retrospectively to determine the opening balance sheet of the Company as of the transition date of January 1, 2010, and allows certain exemptions which the Company has elected to apply. Elections made by the Company were to:

- (a) use the written-down carrying amount ("Fair Value") of the Company's Bucko Lake Mine, which included the acquisition costs and development costs of Bucko Lake Mine and plant and equipment used at Bucko Lake Mine as measured under Canadian GAAP at December 31, 2009, as the deemed cost of Bucko Lake Mine on January 1, 2010;
- (b) apply the principles of IAS 23 – Borrowing costs for the capitalization of borrowing costs incurred prospectively from January 1, 2010;
- (c) not apply the recognition and measurement principles of IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1") for changes in such liabilities that occurred before January 1, 2010; and instead elect to measure the Company's reclamation and closure cost obligations in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets at January 1, 2010, and to estimate the amounts that would have been included in the costs of the related mining properties by discounting the obligation back to inception of the obligation using the best estimates of the historical discount rates and to recalculate the accumulated depreciation and depletion for such assets at January 1, 2010;
- (d) not apply the recognition and measurement requirements of IFRS 2 – Share-based Payments to equity instruments granted after November 7, 2002 and vested prior to January 1, 2010, the transition date to IFRS. This election allows all vested options prior to the transition date to be accounted for under CGAAP. IFRS 2 has been applied to unvested options from the transition date onwards.

The Company is required to use the following mandatory exemption:

- Estimates cannot be created or revised using hindsight. The estimates previously made by the Company under CGAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

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 November 3, 2011.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies adopted by the Company for the Company's first IFRS annual consolidated financial statements will be determined as at December 31, 2011. In the event that accounting policies adopted at December 31, 2011 or expected to be adopted at December 31, 2011 differ materially from the accounting policies used in the preparation of these Financial Statements, these Financial Statements will be

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

restated to retrospectively account for the application of those policies adopted at December 31, 2011 or expected to be adopted at December 31, 2011 in the period accounting policies are determined or a prior period when the expectation of accounting policies to be adopted changes.

The significant accounting policies used in the preparation of these unaudited Condensed Interim consolidated financial statements are as follows:

(a) Going concern uncertainties

These Financial Statements have been prepared on a going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. These Financial Statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. The Company has not been able to generate positive cash flow from its operations and incurred a loss of \$18,667,267 for the nine months ended September 30, 2011, and a cumulative deficit of \$113,917,804 (December 31, 2010 - \$95,250,537). As at September 30, 2011, the Company has \$2,065,170 cash and cash equivalent on hand and a negative working capital of \$13,316,139. As such, the Company's ability to continue as a going concern is in significant doubt. The continuing operations of the Company are dependent on its ability to generate future cash flows from its mining operation or obtain additional financing. Management is of the opinion that production level can be ramped up to sustainable level to generate positive cash flow from operations in the fourth quarter of 2011 and thereafter and the Company is able to secure additional external financing to meet the Company's liabilities and commitments as they become due and to fund capital projects.

Since the mining operation at the Company's Bucko Lake Mine resumed in April 2011, the restart process was affected by issues left over from prior years' operation and the late delivery of mining equipment. With all mining equipment now in place and the issues left over substantially addressed, the management team believe that the production at Bucko Lake Mine will be further increased and the likelihood to generate positive cash flow in the fourth quarter of 2011 and thereafter is high.

During the nine months ended September 30, 2011, the Company raised gross proceeds of \$30 million through an equity financing, and arranged US\$20 million debt facilities, of which a total of US\$17 million was drawn down as at September 30, 2011. In September 2011, the Company entered into an equity financing agreement with Haverstock Master Fund, Ltd. ("Haverstock"), a fund managed by Haverstock Manager, LLC., to secure access to funds on an as-needed basis for up to \$20 million through a Committed Equity Facility ("CEF"), which enables the Company, at its sole discretion, over a period of 36 months after the activation of the CEF, to receive proceeds for the amount not to exceed to 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 distribution of any common shares of the Company under the CEF must be qualified by a prospectus, and the activation of the CEF is subject to the filing of a final shelf base short form prospectus and a prospectus supplement and the receipt of exemptive relief related to the prospectus from related regulatory authorities.

Positive cash flows generated from its operation is dependent 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. The procurement of additional financing through equity or debt market is dependent on a robust nickel market, investor confidence in nickel equities and in the Company, and the receipt of regulatory approval. In the event that Company is not able to

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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.

(b) Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for derivative financial instruments, and financial instruments which are measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information. All financial information in these Financial Statements is presented in Canadian dollars, except as otherwise stated.

(c) Basis of consolidation

The Company's accounting policy is to include the accounts of the Company and its proportionate share of the accounts of the joint venture in which the Company has an interest.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in applying the Company's accounting policies. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may differ from the amounts included in the financial statements.

Areas of judgment that have the most significant effect on the amounts recognized in the financial statements include:

Depreciation, depletion and amortization of mineral properties, plant and equipment - Mineral properties, plant and equipment comprise a large component of the Company's assets and as such, the depreciation, depletion and amortization of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company amortizes the mineral property and mining equipment over the life of the mine based on the depletion of the mine's proven and probable reserves.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

Valuation of mineral properties, plant and equipment - The Company undertakes a review of the carrying values of mineral properties, plant, and equipment whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is

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required to make significant estimates of, amongst other things, mineral reserves, future production and sales volumes, unit sales prices, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties, plant and equipment and related expenditures.

Income taxes - Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases and tax losses carried forward. The determination of the ability of the Company to utilize tax loss carry - forwards to offset deferred tax payable requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior tax losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Stock - based compensation - The Company grants stock options to employees of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black - Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. Assumption details are discussed in the notes to these Financial Statements.

Site closure and reclamation provisions - The Company has obligations for site restoration and decommissioning related to its Bucko Lake Mine. The future obligations for mine closure activities are estimated by the Company using mine closure plan or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and governmental regulations, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions.

The Company's policy for recording site closure and reclamation provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to operating costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements, and those differences may be material.

(e) Interest in joint venture

A portion of the Company's exploration activities were conducted jointly with others wherein the Company enters into agreements that provide for a specified percentage interest in exploration properties. Expenditures on these properties were capitalized to exploration and development properties. Joint venture accounting, which reflects the Company's proportionate interest in exploration properties, is applied by the Company only when the parties have earned their respective interests and enter into a formal comprehensive agreement for joint ownership and exploration participation.

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(f) Foreign currency translation

The Company's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at average rates throughout the reporting period. Gains and losses on translation of foreign currencies are included in the consolidated statements of comprehensive loss.

(g) Revenue recognition

Revenue from the sale of nickel concentrates is recognized when the significant risks and rewards of ownership have passed to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the sale price can be measured reliably, the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably. In circumstances where title is retained to protect the financial security interests of the Company, revenue is recognized when the significant risks and rewards of ownership have passed to the buyer. The value of nickel contained in concentrates is recorded in revenue, while the value of other metals contained in concentrates are treated as by-products and recorded as credits to the cost of goods sold.

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

(h) Loss per share

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

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

(i) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and deposits that mature within 90 days from the date of acquisition. Deposits are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

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

(j) Inventory

Concentrate, concentrate in transit, and ore stockpile inventory are valued at the lower of cost and net realizable value. The cost of stockpile ore includes direct labour, material and contractors expenses related to mining activities, allocation of mine site overhead cost and amortization of property, plant, and equipment. The cost of concentrate includes the costs of stockpile ore milled, direct labour, material and contractors expenses related to milling process, allocation of mine site overhead cost and amortization of property, plant, and equipment. The cost of concentrate in transit includes the costs of concentrate shipped and the freight charges. Net realizable value is the estimated selling price for inventories less costs of completion, transportation cost from the mill to smelter, refining and treatment charges, other selling costs. The cost of inventories is determined using the average cost method. Write-downs of inventory to net realizable value are recorded as a cost of goods sold in the Consolidated Statements of Comprehensive Income. If there is a subsequent increase in the value of inventories, the previous write-downs to net realizable value may be reversed up to the amount previously written down.

Materials and supplies are valued at the lower of purchase cost and net realizable value and recorded as a current asset. Replacement costs of supplies are generally used as the best measure of net realizable value.

(k) Mineral properties, plant and equipment

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

Recognition and measurement

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

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

Exploration and evaluation costs include the costs to acquire exploration and evaluation assets, payments to maintain the assets in good standing, costs of conducting geological surveys, exploratory drilling, and sampling, and administrative and other general overhead costs associated with finding specific mineral resources. Exploration and evaluation costs are capitalized provided that there is an expectation that the costs will be recoverable in exploitation or sale. Expenditures incurred prior to the Company obtaining legal rights to explore an area are recognized as an expense in the period. Upon completion of a technical feasibility study and

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

when commercial viability is demonstrated, capitalized exploration and evaluation costs are transferred to and classified as mineral property acquisition and development costs.

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

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

Depreciation, depletion and amortization

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

Plant and equipment are amortized to their estimated residual value on a straight line basis over the shorter of their estimated useful lives and economic lives, generally three to twenty years. Upon adoption of IFRS as at January 1, 2010, the Company changed the amortization method on plant and equipment used at its Bucko Lake Mine to a straight line basis from the unit of production as per IAS 16, and the change was considered a change in estimates and accounted prospectively and the impact of the change was further disclosed in Note 4.

Exploration and evaluation costs are not depreciated, but subject to impairment review when there are indicators of impairment, and at least annually.

Depreciation, depletion and amortization related to production activities is initially recorded in inventory and then recognized in cost of goods sold in the Consolidated Statements of Comprehensive Loss in the same period as the revenue from the sale of the inventory.

The Company's management conducts an annual assessment of the estimated residual values, useful lives, and depreciation methods used for mineral property, plant and equipment. Any material changes in estimates are applied prospectively.

(I) Impairment of mineral properties, plant, and equipment

The carrying value of mineral properties, plant, and equipment is reviewed regularly for events or changes in circumstances which indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized if the carrying value of an asset exceeds the estimated recoverable amount. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Fair value less cost to sell is the amount obtainable from the sale of the asset or cash generating unit in an arm's length transaction between knowledgeable and willing parties less the cost of disposal. Value in use is the estimated future cash flows expected to be received through continued use and subsequent disposal of the asset discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in the Consolidated

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Statements of Comprehensive Loss based on the amount by which the carrying amount of the asset exceeds the recoverable amount.

Estimated future cash flows are based on estimates of future metal prices, proven and probable reserves, estimated value beyond proven and probable reserves, and future operating cost assumptions.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ("Cash Generating Units"). This generally results in the Company evaluating its non-financial assets on a mine-specific basis. For the purposes of impairment testing, exploration and evaluation assets are allocated to the Cash Generating Unit to which the exploration activities relate.

Impairment losses for other assets or Cash Generating Units recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If so, an impairment loss is reversed only to the extent that the related asset or Cash Generating Unit's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and other income tax deductions. Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The extent to which deductible temporary differences, unused tax losses and other income tax deductions are expected to be realized is reassessed at the end of each reporting period.

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the related assets are realized or the liabilities are settled. The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover and settle the carrying amounts of its assets and liabilities, respectively. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period in which the change is substantively enacted.

Current and deferred income tax expense or recovery are recognized in net loss except when they arise as a result of items recognized in other comprehensive income or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or equity, respectively.

(n) Provisions

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

- (i) The Company has a present obligation (legal or constructive) as a result of a past event;

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- (ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and,
- (iii) A reliable estimate can be made of the amount of the obligation.

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

- (i) By an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and,
- (ii) As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in the Consolidated Statements of Comprehensive Loss.

Site closure and reclamation provisions

The Company records a provision for the estimated future costs of reclamation and closure of its Bucko Lake Mine, which are discounted to net present value using the risk free interest rate applicable to the future cash outflows. Estimates of future costs represent management's best estimate which incorporate assumptions on the effects of inflation, movements in foreign exchange rates and the effects of country and other specific risks associated with the related liabilities. The provision for the Company's reclamation and closure cost obligations is accreted over time to reflect the unwinding of the discount with the accretion expense included in finance costs in the Consolidated Statements of Comprehensive Loss.

The provision for reclamation and closure cost obligations is re-measured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Reclamation and closure cost obligations relating to operating mines and development projects are initially recorded with a corresponding increase to the carrying amounts of related mining properties. Changes to the obligations are also accounted for as changes in the carrying amounts of related mining properties, except where a reduction in the obligation is greater than the capitalized reclamation and closure costs, in which case, the capitalized reclamation and closure costs is reduced to nil and the remaining adjustment is included in production costs in the Consolidated Statements of Comprehensive Loss. Reclamation and closure cost obligations related to inactive mines are included in production costs in the Consolidated Statements of Comprehensive Loss on initial recognition and subsequently when re-measured.

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(o) Financial instruments

Financial instruments are recognized on the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods is dependent upon the classification of the financial instrument as fair value through profit or loss (“FVTPL”), available-for-sale (“AFS”), loans and receivable, held-to-maturity, or other financial liabilities.

Classified as fair value through profit or loss

Financial assets and liabilities classified as FVTPL are measured at fair value with changes in fair value recognized in profit or loss. Financial assets and liabilities are classified as FVTPL when they have been acquired principally for the purpose of selling it in the near term or they are derivatives that are not designated and effective as hedging instruments. A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if the financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis by management.

The Company has designated derivatives which do not qualify for hedge accounting as FVTPL. Transaction costs for FVTPL assets are expensed.

Classified as loans and receivables

Financial assets designated as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are comprised of cash and cash equivalents and accounts receivables, and are initially measured at fair value and subsequently at amortized cost using effective interest rate method less any impairment. When these assets are impaired, the carrying amount of the financial asset is reduced by the impairment loss directly, except for receivables. The carrying amount of receivables is reduced through the use of an allowance account and changes to the carrying amount of this account are recognized in the Consolidated Statements of Comprehensive Loss.

Classified as Available-for-sale financial assets

Financial assets are classified as available-for-sale when (i) they are not classified as loans and receivables, held-to-maturity investments or FVTPL; (ii) they are designated as available-for-sale on initial recognition. Available-for-sale financial assets are measured at fair value with mark-to-market gains and losses recognized in other comprehensive income, unless such assets are determined to be impaired in which case the impairment loss is reclassified out of other comprehensive income and recognized in the Consolidated Statements of Comprehensive Loss for the period. The reversal of previously recognized impairment losses are recognized directly in equity and not reversed through the Consolidated Statements of Comprehensive Loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company classifies accounts payable and accrued liabilities, convertible debentures, loans payable, and obligation on capital lease as other financial liabilities.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that financial assets are impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows of the financial assets that can be reliably estimated.

Compound instruments

The Company recognizes separately the components of a financial instrument that (a) creates a financial liability of the Company and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the Company (provided the conversion option meets the definition of equity). An option to convert into an equity instrument is classified as a financial liability when either the holder or the issuer of the option has a choice over how it is settled or the conversion option does not meet the definition of equity. Transaction costs of a compound instrument are allocated to the components of the instrument in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to the debt component are deducted from the carrying amount of the debt and included in the determination of the effective interest rate used to record interest expense during the period to maturity of the debt. Transaction costs allocated to the derivative liability component are expensed on initial recognition as with all other financial assets and liabilities classified as FVTPL. Transaction costs allocated to the equity component are deducted from equity as share issue costs.

(p) Stock-based compensation

The Company grants stock options to employees of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the life of options, volatility, and forfeiture rates. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

(q) Leases

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

(r) Share capital

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(s) Borrowing costs

Interest and financing costs on debt or other liabilities that are directly attributed to the acquisition, construction, and development of a qualifying asset are capitalized to the asset. All other borrowing costs are expensed as incurred.

(t) New accounting pronouncements

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Consolidation

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* (“IFRS 10”), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 - *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor’s power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor’s returns through its power over the investee.

In addition, the IASB issued IFRS 12 - *Disclosure of Interests in Other Entities* (“IFRS 12”) which combines and enhances the disclosure requirements for the Company’s subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company’s interests in other entities, and the effects of those interests on the Company’s consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 - *Investments in Associates* (“IAS 28”) were revised and reissued as IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* to align with the new consolidation guidance.

The Company does not anticipate the application of IFRS 10 to have a material impact on its consolidated financial statements.

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Joint ventures

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements* ("IFRS 11"), which supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

The Company's only joint venture partnership, Pure Nickel Joint Venture, was dissolved during the nine months ended September 30, 2011, and therefore, IFRS 11 should have no impact on its consolidated financial statements.

Fair value measurement

In May 2011, as a result of the convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 - *Fair Value Measurement* ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

The Company does not anticipate the application of IFRS 13 to have a material impact on its consolidated financial statements.

Financial statement presentation

In June 2011, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

Financial instruments

The IASB intends to replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety with IFRS 9 - *Financial Instruments* ("IFRS 9") in three main phases. IFRS 9 will be the new standard

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. The complete IFRS 9 is anticipated to be issued during the second half of 2011. On July 22, 2011, the IASB tentatively agreed to defer the mandatory effective date of IFRS 9 from annual periods beginning on or after January 1, 2013 (with earlier application permitted) to annual periods beginning on or after January 1, 2015 (with earlier application still permitted). The IASB will propose the deferral of IFRS 9 in an exposure draft with a 60 day comment period.

The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

4. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

These Financial Statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Company is required to establish its IFRS accounting policies and apply these retrospectively to determine the IFRS opening balance sheet as at the transition date of January 1, 2010.

IFRS 1, the standard dealing with the first time adoption of IFRS permits a number of optional exemptions and requires some mandatory exemptions from full retrospective application. The mandatory exemptions used and the optional exemptions elected to be used by the Company have been disclosed in Note 2 above.

Impact of IFRS accounting policies on the Preparation of the Company's January 1, 2010 financial Statements

The discussion below explains the key transitional adjustments between the preparation of financial statements under previous CGAAP and the current IFRS.

Impact of first - time application of IFRS

In compliance with IFRS 1, the Company has prepared reconciliations for 2010 on the impact of the transition to IFRS from CGAAP. There was no material impact on the statements of cash flow at the transition date, September 30, 2010 or December 31, 2010.

CANICKEL MINING LIMITED
(formerly Crowflight Minerals Inc.)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Reconciliations from Canadian GAAP to IFRS
Statement of Financial Position

	Note	At January 1, 2010			
		CGAAP	Effect of Transition to IFRS	Reclassification 4(f)	IFRS
ASSETS					
<i>Current</i>					
Cash and cash equivalents		\$ 10,040,475	\$ -	\$ -	\$ 10,040,475
Receivables and prepaid expenses		-	-	1,426,977	1,426,977
Amounts receivable		1,291,687	-	(1,291,687)	-
Inventory		1,031,734	-	-	1,031,734
Prepaid expenses and deposits		135,290	-	(135,290)	-
		12,499,186	-	-	12,499,186
<i>Non-Current</i>					
Mineral property, plant and equipment		-	-	153,091,031	153,091,031
Property, plant and equipment	4(a)	138,568,967	(182,373)	(138,386,594)	-
Exploration and development property and deferred expenditures		14,704,437	-	(14,704,437)	-
Other non-current assets		534,709	-	-	534,709
		\$ 166,307,299	\$ (182,373)	\$ -	\$ 166,124,926
LIABILITIES					
<i>Current</i>					
Accounts payable and accrued liabilities		\$ 9,282,060	\$ -	\$ -	\$ 9,282,060
Current portion of obligations under capital leases		45,371	-	-	45,371
		9,327,431	-	-	9,327,431
<i>Non-Current</i>					
Obligations under capital leases		61,281	-	-	61,281
Site closure and reclamation provisions	4(a)	918,387	(182,373)	-	736,014
Deferred income tax liability		6,000,200	-	-	6,000,200
		16,307,299	(182,373)	-	16,124,926
SHAREHOLDERS' EQUITY					
Share capital		138,758,903	-	-	138,758,903
Contributed surplus	4(b)	25,894,525	(49,113)	-	25,845,412
Accumulated deficit	4(b)	(14,653,428)	49,113	-	(14,604,315)
		150,000,000	-	-	150,000,000
		\$ 166,307,299	\$ (182,373)	\$ -	\$ 166,124,926

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**Consolidated Reconciliations from Canadian GAAP to IFRS
Statement of Financial Position**

							At December 31, 2010	
Note	CGAAP	Effect of Transition to IFRS	Accounting Changes	4(e)	Reclassification 4(f)	IFRS		
ASSETS								
<i>Current</i>								
	\$ 4,068,019	\$ -	\$ -	\$ -	\$ -	\$ 4,068,019		
	-	-	-	-	2,143,277	2,143,277		
	1,716,424	-	-	-	(1,716,424)	-		
	1,464,839	-	-	-	-	1,464,839		
	426,853	-	-	-	(426,853)	-		
	7,676,135	-	-	-	-	7,676,135		
<i>Non-Current</i>								
	-	-	-	-	109,385,763	109,385,763		
	143,534,339	(44,236,034)	(5,389,668)	-	(93,908,637)	-		
	15,477,126	-	-	-	(15,477,126)	-		
	1,659,890	-	-	-	-	1,659,890		
	\$ 168,347,490	\$ (44,236,034)	\$ (5,389,668)	\$ -	\$ -	\$ 118,721,788		
LIABILITIES								
<i>Current</i>								
	\$ 10,466,215	\$ -	\$ -	\$ -	\$ -	\$ 10,466,215		
	20,705,694	(150,705)	-	-	-	20,554,989		
	294,336	-	-	-	-	294,336		
	373,190	582,873	-	-	-	956,063		
	31,839,435	432,168	-	-	-	32,271,603		
<i>Non-Current</i>								
	18,915	-	-	-	-	18,915		
	997,690	(174,115)	-	-	-	823,575		
	3,062,081	(1,617,650)	(1,444,431)	-	-	-		
	35,918,121	(1,359,597)	(1,444,431)	-	-	33,114,093		
SHAREHOLDERS' EQUITY								
	153,308,546	(55,291)	-	-	-	153,253,255		
	28,000,121	(395,144)	-	-	-	27,604,977		
	(48,879,298)	(42,426,002)	(3,945,237)	-	-	(95,250,537)		
	132,429,369	(42,876,437)	\$ (3,945,237)	-	-	85,607,695		
	\$ 168,347,490	\$ (44,236,034)	\$ (5,389,668)	\$ -	\$ -	\$ 118,721,788		

CANICKEL MINING LIMITED
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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated Reconciliations from Canadian GAAP to IFRS
Interim Statements of Comprehensive Loss

Three Months Ended September 30, 2010						
Note	CGAAP	Effect of Transition to IFRS	Accounting Changes 4(e)	Reclassification 4(f)	IFRS	
Revenue	\$ 8,496,918	\$ -	\$ -	\$ -	\$ -	\$ 8,496,918
Cost of goods sold						
Cash cost	19,432,607	-	-	-	-	19,432,607
Non-cash cost	4(e) 1,416,476	-	1,060,345	-	-	2,476,821
	(12,352,165)	-	(1,060,345)	-	-	(13,412,510)
Temporary shutdown costs	-	-	-	-	-	-
Loss from mine operations	(12,352,165)	-	(1,060,345)	-	-	(13,412,510)
Accretion	4(a) (19,826)	(2,363)	-	22,189	-	-
Amortization	(201)	-	-	201	-	-
Finance costs	4(d) -	(91,536)	-	(469,372)	(560,908)	-
Foreign exchange loss	(79,002)	-	-	79,002	-	-
General and administration	(182,527)	-	-	(25,283)	(207,810)	-
Interest expenses and bank charges	(368,669)	-	-	368,669	-	-
Interest income	488	-	-	(488)	-	-
Legal and professional fees	-	-	-	(170,323)	(170,323)	-
Professional, consulting and management fees	(1,143,380)	-	-	1,143,380	-	-
Salaries, consulting and management fees	-	-	-	(973,057)	(973,057)	-
Shareholder communications and investor relations	(75,389)	-	-	-	(75,389)	-
Travel	(25,082)	-	-	25,082	-	-
Gain (loss) on derivative instruments	4(d) (826,204)	242,633	-	-	-	(583,571)
Loss before income taxes	(15,071,957)	148,734	(1,060,345)	-	-	(15,983,568)
Income tax recovery	4(e) 1,095,000	-	283,539	-	-	1,378,539
Net loss and Comprehensive loss for the period	(13,976,957)	148,734	(776,806)	-	-	(14,605,029)

CANICKEL MINING LIMITED
(formerly Crowflight Minerals Inc.)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

**Consolidated Reconciliations from Canadian GAAP to IFRS
Interim Statements of Comprehensive Loss**

Nine Months Ended September 30, 2010						
Note	CGAAP	Effect of Transition to IFRS	Accounting Changes	4(e)	Reclassification 4(f)	IFRS
Revenue	\$ 19,370,308	\$ -	\$ -	\$ -	\$ -	\$ 19,370,308
Cost of goods sold						
Cash cost	35,550,962	-	-	-	-	35,550,962
Non-cash cost	4(e) 3,033,584	-	2,120,691	-	-	5,154,275
	(19,214,238)	-	(2,120,691)	-	-	(21,334,929)
Temporary shutdown costs	4(e) (4,480,891)	-	(1,347,417)	-	-	(5,828,308)
Loss from mine operations	(23,695,129)	-	(3,468,108)	-	-	(27,163,237)
Accretion	4(a) (59,477)	(5,283)	-	-	64,760	-
Amortization	(603)	-	-	-	603	-
Finance costs	4(d) -	(91,536)	-	-	(431,581)	(523,117)
Foreign exchange gain	48,924	-	-	-	(48,924)	-
General and administration	(668,155)	-	-	-	(68,456)	(736,611)
Interest expenses and bank charges	(429,634)	-	-	-	429,634	-
Interest income	13,889	-	-	-	(13,889)	-
Legal and professional fees	-	-	-	-	(341,533)	(341,533)
Other expenses	(101,771)	-	-	-	-	(101,771)
Professional, consulting and management fees	4(b) (3,771,862)	12,278	-	-	3,759,584	-
Salaries, consulting and management fees	-	-	-	-	(3,418,051)	(3,418,051)
Shareholder communications and investor relations	(277,895)	-	-	-	-	(277,895)
Travel	(67,853)	-	-	-	67,853	-
Unrealized loss on derivative instruments	4(d) (139,950)	242,633	-	-	-	102,683
Loss before income taxes	(29,149,516)	158,092	(3,468,108)	-	-	(32,459,532)
Income tax recovery	4(e) 3,835,575	-	928,350	-	-	4,763,925
Net loss and Comprehensive loss for the period	(25,313,941)	158,092	(2,539,758)	-	-	(27,695,607)

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

Consolidated Reconciliations from Canadian GAAP to IFRS

Interim Statements of Comprehensive Loss

	Note	Year ended December 31, 2010				IFRS
		CGAAP	Effect of Transition to IFRS	Accounting Changes 4(e)	Reclassification 4(f)	
Revenue		\$ 22,966,206	\$ -	\$ -	\$ -	\$ 22,966,206
Cost of goods sold						
Cash cost		38,324,959	-	-	-	38,324,959
Non-cash cost		3,568,633	-	2,120,691	-	5,689,324
		(18,927,386)	-	(2,120,691)	-	(21,048,077)
Temporary shutdown costs		(9,101,782)	-	(3,268,977)	-	(12,370,759)
Loss from mine operations		(28,029,168)	-	(5,389,668)	-	(33,418,836)
Accretion	4(a)	(79,303)	(8,258)	-	87,561	-
Amortization		(603)	-	-	603	-
Finance costs		-	-	-	(1,631,331)	(1,631,331)
Gain (loss) on derivative instrument	4(d)	(323,806)	232,056	-	-	(91,750)
General and administration		(501,391)	-	-	(99,131)	(600,522)
Impairment charges of long live assets	4(c)	-	(44,053,661)	-	-	(44,053,661)
Interest expenses and bank charges	4(d)	(894,234)	(213,789)	-	1,108,023	-
Interest income		9,253	-	-	(9,253)	-
Legal and professional fees		-	-	-	(492,922)	(492,922)
Loss on disposal of property, plant and equipment		(445,000)	-	-	445,000	-
Other expenses		(151,771)	-	-	-	(151,771)
Professional, consulting and management fees	4(b)	(6,308,059)	(49,113)	-	6,357,172	-
Salaries, consulting and management fees		-	-	-	(5,864,250)	(5,864,250)
Shareholder communications and investor relations		(341,379)	-	-	-	(341,379)
Travel		(98,528)	-	-	98,528	-
Loss before income taxes		(37,163,989)	(44,092,765)	(5,389,668)	-	(86,646,422)
Income tax recovery	4(c),(e)	2,938,119	1,617,650	1,444,431	-	6,000,200
Net loss and Comprehensive loss for the year		(34,225,870)	(42,475,115)	(3,945,237)	-	(80,646,222)

Consolidated Reconciliations from Canadian GAAP to IFRS

Interim Consolidated Statements of Changes in Equity

	Note	December 31, 2010	September 30, 2010	January 1, 2010
Total equity - CGAAP		\$ 132,429,369	\$ 139,373,549	\$ 150,000,000
<i>Transitional adjustments</i>				
Share Capital	4(d)	(55,291)	-	-
Contributed surplus	4(b), (d)	(395,144)	(1,544,435)	(49,113)
Accumulated deficit		(46,371,239)	(2,381,666)	49,113
Total equity - IFRS		\$ 85,607,695	\$ 135,447,448	\$ 150,000,000

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Site closure and reclamation provisions

Significant changes from the CGAAP method of accounting for site closure and reclamation provisions in comparison to IAS 37 include the periodic re-assessment of discount rates and inflation rates in the measurement of decommissioning and site restoration. In addition, the layer approach under CGAAP is no longer applied. The effect of these changes on the transition date is a reduction of \$182,373 to both of the site closure and reclamation provisions and the value of mineral property, plant and equipment. During the three months and nine months ended September 30, 2010, the increase in accretion expense recorded based on the restated site closure and reclamation provisions was \$2,363 and \$5,283 respectively, and the increase in accretion expense recorded based on the restated mineral property associated with the adjustments to the site closure and reclamation provisions was \$8,258 for the year ended December 31, 2010.

(b) Stock based compensation

In accordance with IFRS 2, the Company now recognizes a forfeiture rate in its initial recognition of the stock option grant. Applied retroactively the effect of this change reduced the amount of contributed surplus by \$49,113 as at the date of transition. The impact of this change resulted in a decrease of \$nil and \$12,278, respectively on comprehensive loss for the three months and nine months ended September 30, 2010, and an increase of \$49,113 on comprehensive loss for the year ended December 31, 2010.

(c) Impairment of mineral properties, plant and equipment

Under Canadian GAAP, impairment of a non-current asset is initially assessed on an undiscounted cash flow basis. If the carrying value exceeds the aggregate undiscounted cash flows, an impairment loss is measured as the amount by which the carrying value exceeds fair value. Under IFRS, impairment testing and loss recognition is based on discounted cash flows. Impairment losses are recognized when the carrying value exceeds the recoverable amount.

The Company elected, under IFRS 1, to use the written-down carrying amount ("Fair Value") of the Company's Bucko Lake Mine, which including the acquisition costs and development costs of Bucko Lake Mine and plant and equipment used at Bucko Lake Mine as measured under Canadian GAAP at December 31, 2009 as the deemed cost of Bucko Lake Mine on January 1, 2010. During the year ended December 31, 2010, the Company temporarily suspended the operation at Bucko Lake Mine in order to facilitate the introduction of its own mining equipment and mining crew and make readjustments to address certain operation issues. Accordingly, the Company performed an impairment assessment as at December 31, 2010 in accordance with IFRS and as a result an impairment charge of \$44,053,661 was recognized for the year ended December 31, 2010. The impairment charge was determined by discounting estimated future cash flows using a discount rate of 10%. The tax effect of this impairment was a creation of a tax asset of approximately \$11.8 million, but only \$1.6 million of the tax asset was recognized to bring the deferred tax liabilities to zero. An allowance for the remaining amount of \$10.2 million was recorded, thus the deferred tax asset on the statement of financial position is \$nil.

(d) Convertible Debenture

Under IFRS, the conversion feature of convertible financial instrument is presumed to be classified as financial liabilities unless it meets all the criteria to recognize as equity instrument under IAS 32, and the conversion feature must be separately accounted for at fair value on initial recognition. The carrying amount of the debt component, on initial recognition, is recalculated as the difference between the proceeds of the convertible

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

debentures as a whole and the fair value of the conversion feature. Transaction costs are allocated to the debt and derivative components in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to the derivative component are expensed, while cost allocated to the debt component are offset against the carrying amount of the liability and included in the determination of the effective interest rate. Subsequent to initial recognition, the derivative component is re-measured at fair value at the end of each reporting period while the debt component is accreted to the face value of the debt using the effective interest method.

In 2010, the Company issued three convertible debenture notes, which had conversion features to allow the holder of the debentures to convert the debentures into common shares of the Company based on five-business-day-volume-weighted-average price prior to the election of conversion less 25% discount. Given the conversion price is not fixed on the inception date and the number of shares the Company may deliver vary depending on the trading prices around the date of conversion, the conversion feature does not meet the criteria to be recognized as equity instrument, and accordingly, the Company recorded adjustments to

- i) Reclassify the conversion feature of the notes from equity to derivative liabilities;
- ii) Re-measure the proceeds allocated to the debt and derivative components on initial recognition;
- iii) Expense the transaction costs allocated to the derivative component;
- iv) Capitalize the transaction costs allocated to the debt component against the carrying amount of the liabilities; and,
- v) Re-measure the derivative component at fair value at each reporting dates.

The impact of these adjustments as at September 30, 2010 and for the three months and nine months ended were to increase derivative liabilities by \$318,580, decrease convertible debentures by \$1,062,180, decrease contributed surplus by \$1,531,857, increase interest expenses, which was included in finance costs on the consolidated statements of comprehensive loss, by \$91,536, and increase gain on derivative instruments by \$242,633. The impacts of the adjustments as at December 31, 2010 were to increase derivative liabilities by \$582,873, decrease convertible debentures by \$150,705, decrease share capital by \$55,291, decrease contributed surplus by \$395,144, increase interest expense by \$213,789 and decrease loss on derivative instruments by \$232,056.

(e) Accounting Changes

Upon conversion to IFRS, the Company reviewed the amortization method of the mineral property, plant and equipment in accordance with IAS 16 and decided to change the amortization method of the plant and equipment used at the Bucko Lake Mine to straight line method from unit of production method effective January 1, 2010. The change was accounted for as a change in estimate and applied prospectively in accordance with IAS 8. The impact of this change in amortization method was that additional \$1,060,345 and \$3,468,108 amortization expenses were recorded for the three months and nine months ended September 30, 2010 respectively and \$5,389,668 for the year ended December 31, 2010. The tax effect of this adjustment was that tax recoveries of \$283,539 and \$928,350 were recorded for the three months and nine months ended September 30, 2010 respectively and \$1,444,431 for the year ended December 31, 2010.

(f) Reclassification

Certain accounts and figures presented under CGAAP have been regrouped and reclassified to conform to the current presentation under IFRS.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

5. TEMPORARY SUSPENSION OF BUCKO LAKE MINE OPERATION

On October 1, 2010, the Company announced the temporary suspension of ore mining operation at Bucko Lake Mine to facilitate the introduction of its own underground mining equipment and team and to make adjustments to address certain operational issues. In April 2011, mining operation resumed.

Expenses incurred during the temporary shutdown were recorded either as capital or, if they were determined to be maintenance or support expenses, as temporary shutdown costs included in the statement of comprehensive loss. For the nine months ended September 30, 2011, temporary shutdown costs were \$8.5 million (same period last year - \$5.8 million).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	September 30, 2011		December 31, 2010		January 1, 2010
Cash	\$ 1,950,170	\$	3,993,228	\$	2,259,673
Short term investments	115,000		74,791		7,780,802
	\$ 2,065,170	\$	4,068,019	\$	10,040,475

7. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses comprised of the following:

	September 30, 2011		December 31, 2010		January 1, 2010
Trade receivable	\$ 2,397,906	\$	1,486,915	\$	1,172,430
Taxes receivable	348,971		229,509		119,257
Prepaid expenses	556,484		426,853		135,290
	\$ 3,303,361	\$	2,143,277	\$	1,426,977

8. INVENTORY

Inventory comprised of the following:

	September 30, 2011		December 31, 2010		January 1, 2010
Materials and supplies	\$ 1,774,661	\$	1,464,839	\$	666,037
Ore stockpile	454,463		-		-
Nickel concentrate	159,298		-		41,336
Nickel concentrate in transit	1,375,261		-		324,361
	\$ 3,763,683	\$	1,464,839	\$	1,031,734

For the nine months ended September 30, 2011, the cost of goods sold on the Consolidated Statements of Comprehensive Loss included \$1,502,469 (same period last year - \$3,544,370) write down on the ore stockpile, nickel concentrate, and nickel concentrate in transit to reflect their realizable value as at September 30, 2011 due to weakened nickel prices and the high production cost due to low production output.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

9. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Cost	Exploration and evaluation expenditure	Mineral property acquisition and development	Plant, building and equipment	Equipment under capital lease	Total
As at January 1, 2010	\$ 14,704,437	\$ 79,019,660	\$ 60,698,408	\$ 125,817	\$ 154,548,322
Additions	848,894	7,002,242	1,105,212	523,538	9,479,886
Disposal and other	(76,205)	-	-	(457,500)	(533,705)
Impairment	-	(26,775,695)	(17,277,966)	-	(44,053,661)
As at January 1, 2011	\$ 15,477,126	\$ 59,246,207	\$ 44,525,654	\$ 191,855	\$ 119,440,842
Additions	1,545,988	3,905,289	6,030,746	4,782,948	16,264,971
Disposal	-	-	(585,683)	-	(585,683)
Impairment	(504,498)	-	-	-	(504,498)
As at September 30, 2011	\$ 16,518,616	\$ 63,151,496	\$ 49,970,717	\$ 4,974,803	\$ 134,615,632

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, 2010	\$ -	\$ 591,027	\$ 866,264	\$ -	\$ 1,457,291
Depreciation, depletion and amortization	-	1,796,275	6,763,142	38,371	8,597,788
As at January 1, 2011	\$ -	\$ 2,387,302	\$ 7,629,406	\$ 38,371	\$ 10,055,079
Depreciation, depletion and amortization	-	957,922	3,390,783	262,760	4,611,465
Disposal	-	-	(45,994)	-	(45,994)
As at September 30, 2011	\$ -	\$ 3,345,224	\$ 10,974,195	\$ 301,131	\$ 14,620,550

Net book value	Exploration and evaluation expenditure	Mineral property acquisition and development	Plant, building and equipment	Equipment under capital lease	Total
As at January 1, 2010	\$ 14,704,437	\$ 78,428,633	\$ 59,832,144	\$ 125,817	\$ 153,091,031
As at December 31, 2010	\$ 15,477,126	\$ 56,858,905	\$ 36,896,248	\$ 153,484	\$ 109,385,763
As at September 30, 2011	\$ 16,518,616	\$ 59,806,272	\$ 38,996,522	\$ 4,673,672	\$ 119,995,082

During the three months ended September 30, 2011, the Company traded in of two pieces of equipment with a net book value of \$539,689 for two new equipment measured at fair value of \$602,400. As a result, a loss of \$112,289 was recorded in the consolidated statement of comprehensive losses. The difference was paid by cash and included in the payment on mineral property, plant and equipment on the consolidated statement of cash flow.

As at December 31, 2010, four vendors of the Company had placed liens on Bucko Lake Mine against the Company. During the period ended June 30, 2011, the Company settled the claims with these four vendors and the liens have been discharged. As at September 30, 2011, there was no claim against the Company.

In June 2011, the Company and Pure Nickel Inc. ("Pure Nickel") mutually agreed to dissolve the joint venture partnership between the two companies. All mineral claims Pure Nickel put into the joint venture ("Pure Nickel Claims") were returned to Pure Nickel, and the Company retains the mineral claims the Company put into the joint venture ("Joint Venture Claims"). The Joint Venture Claims are considered non-core assets of the Company and the Company has no plan to conduct any exploration activities on those mineral claims in the next two or three years. As a result, upon dissolution of the joint venture partnership, the Company wrote off the carrying value of the Joint Venture Claims and the proportion shares of the carrying value of the joint venture, and a total of \$504,498 impairment charges were recorded on the statements of comprehensive loss for the nine months period ended September 30, 2011.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

10. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

	September 30, 2011	December 31, 2010	January 1, 2010
Reclamation closure bond	\$ 501,500	\$ 501,500	\$ 501,500
Deposit on mineral properties, plant and equipment	1,184,694	1,158,390	33,209
	\$ 1,686,194	\$ 1,659,890	\$ 534,709

11. CONVERTIBLE DEBENTURES

During the year ended December 31, 2010, the Company completed three debt financing transactions with King Place Enterprises Limited. ("King Place"), a related party and the largest shareholder of the Company, by issuing a total of \$23,050,000 convertible promissory notes ("convertible debentures") as follows:

- i) On August 26, 2010, the Company issued convertible debentures to King Place in the principal amount of \$10,050,000 with maturity date on February 28, 2011;
- ii) On September 23, 2010, the Company issued convertible debentures to King Place in the principal amount of \$3,000,000 with maturity date on March 23, 2011; and,
- iii) On December 2, 2010, the Company issued convertible debentures to King Place in the principal amount of \$10,000,000 with maturity date on May 2, 2011.

All debentures bear coupon rates of 10% per annum and entitle King Place to convert any amounts owing, including accrued interest, under the convertible debentures into common shares of the Company at a price equal to the five-day volume weighted average price at the time of conversion less the maximum discount allowed under the regulation of Toronto Stock Exchange (the "TSX"). However, King Place may not convert any portion of the amounts outstanding hereunder in excess of the amount that would result in the obligation to issue an aggregate number of shares exceeding 58,356,471 common shares without prior approval of disinterested shareholders and TSX.

On December 29, 2010, King Place elected to convert \$2,617,288 of its outstanding convertible debentures issued on August 26, 2010 into 58,356,471 common shares of the Company, which represent the maximum conversion shares allowed before obtaining the approval of disinterested shareholders of the Company, at a price of \$0.04485 per share.

During the quarter ended March 31, 2011, the Company repaid \$10,000,000 convertible debentures. In April 2011, the Company received disinterested shareholder approval and TSX approval to allow King Place to convert all outstanding convertible debentures and its associated interest into 258,819,703 common shares of the Company, at a conversion price of \$0.0437. Upon conversion of the debentures, a total of \$11,406,256, the carrying value of the convertible debentures was credited to the share capital.

As at September 30, 2011, the Company has no convertible debentures outstanding.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

12. DERIVATIVE INSTRUMENTS

In 2010, the Company entered into forward sales contracts to sell approximately 2.0 million pounds of nickel between US\$8.50/lb and US\$12.20/lb. As at December 31, 2010, a total of 105,822 pounds of nickel forward sales contract remained outstanding. Management estimated that a liability of \$373,190, being the fair value of the contract, would be realized if the contract was terminated on December 31, 2010.

During the quarter ended March 31, 2011, the Company recorded a loss of \$26,325 on the forward sales contract position of 105,822 pounds of nickel and a gain of \$253,103 arising from the change of the fair value of the conversion feature of the Company's convertible debentures. Upon conversion of the debentures into common shares of the Company in April 2011, a total of \$329,770, the value of the conversion features of the convertible debentures, was transferred to share capital from derivative liabilities.

During the three months period ended September 30, 2011, the Company sold a call option to sell 200,000 pounds of nickel at US\$13.00 per pound for a premium of US\$50,400, which expired unexercised, and the Company recorded a gain of \$48,599 arising from this call option.

No forward sales contract and call option remained outstanding as at September 30, 2011.

13. LOANS PAYABLE

In 2009, the Company entered into an agreement with Auramet Trading, LLC ("Auramet") to maintain a US\$5,000,000 In-Process Working Capital Facility (the "IPWCF") for the nickel concentrate produced by the Company from the Bucko Lake Mine whereby the Company can draw up to 75% of the prevailing spot price of the estimated quantity of nickel contained in each shipment. The IPWCF is renewable every year based on mutual agreement and bears an interest rate of Libor + 6.75% and a fee of 2.5% in any funds drawn down under the IPWCF. No funds were withdrawn from the IPWCF during the nine months ended September 30, 2011 and the outstanding balance being drawn down from the IPWCF was \$nil as at September 30, 2011 (December 31, 2010 - \$nil).

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. 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. As at September 30, 2011, the outstanding balance being drawn down from the Loan was \$5,330,297 (US\$5,000,000).

In July 2011, the Company entered into an unsecured debt facility of up to US\$15.0 million with Luckyup Investment Limited, 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. As at September 30, 2011, the outstanding balance being drawn down from this facility was \$12,781,378 (US\$12,000,000). Subsequent to September 30, 2011, the Company withdrew the remaining US\$3,000,000 from this debt facility.

During the three and nine months ended September 30, 2011, the Company incurred borrowing costs of \$336,544 and \$373,473 (same period last year - \$nil) on loans payable, respectively, of which a total of \$64,462 (same period last year - \$nil), was capitalized in the mineral properties, plant and equipment, which represented 17% of total borrowing cost.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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14. CAPITAL LEASE OBLIGATIONS

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

	September 30, 2011	December 31, 2010	January 1, 2010
Balance, beginning of period	\$ 313,251	\$ 106,652	\$ 155,415
Additions	2,554,105	629,038	-
Interest accrual	77,903	42,000	1,909
Discharge	(824,748)	(464,439)	(50,672)
Balance, ending of period	\$ 2,120,511	\$ 313,251	\$ 106,652
Less: Current portion of lease obligations	(911,253)	(294,336)	(45,371)
Long term portion of lease obligations	\$ 1,209,258	\$ 18,915	\$ 61,281

15. 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:

	September 30, 2011	December 31, 2010	January 1, 2010
Balance, beginning of period	\$ 823,575	\$ 736,014	\$ 359,000
Additions	-	-	616,803
Accretion	72,442	79,303	(57,416)
Change in estimates	-	8,258	(182,373)
Balance, end of period	\$ 896,017	\$ 823,575	\$ 736,014

The closure cost estimates are subject to change based on amendments to laws and regulations. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future. The expected timing of payment for settlement of the obligations will be in 2020.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

16. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

Unlimited class A preference shares with a par value of \$10 each, issuable in series, cumulative dividends

Unlimited class B preference shares with a par value of \$50 each, issuable in series, cumulative dividends

(b) Equity Financing

On February 22, 2011, King Place transferred 103,500,000 common shares to Hebei Wenfeng, an affiliated company of King Place.

On March 7, 2011, the Company completed a private placement financing by issuing an aggregate of 600 million units at a price of \$0.05 for gross proceeds of \$30 million. Each unit consists of one common share and one half of one share purchase warrant and each whole warrant entitles the holder to acquire one additional common share for a period of two years at a price of \$0.10.

On April 4, 2011, the Company issued 258,819,703 common shares to King Place to retire the remaining convertible debentures and accrued interest for a total of \$11,406,256 at conversion price of \$0.0437 per share.

(c) Share Compensation Plan

The Company has a Share Compensation Plan, approved by the shareholders of the Company, designed to advance the interest of the Company by rewarding performance without the use of cash resources. The Share Compensation Plan is in addition to the Company's stock option plan, and provides that shares issued under the plan since inception together with the number of options outstanding under the stock option plan at that time do not exceed 10% of the Company's issued and outstanding shares. The common shares issued under the plan cannot be sold for a period of twelve months from the date of issue.

The Company has authorized and reserved 2,500,000 common shares to be issued through the Share Compensation Plan in twelve equal instalments at quarterly intervals over a period of three years. During the nine months ended September 30, 2011, a total of 18,747 common shares were issued to three employees.

(d) Warrants

The continuity of warrants issued and outstanding is as follows:

	September 30, 2011		December 31, 2010	
	Number of Warrants	Weighted Average Price (\$)	Number of Warrants	Weighted Average Price (\$)
Balance, beginning of period	89,877,623	0.24	93,846,682	0.24
Granted, private placements	300,000,000	0.10	-	-
Exercised	-	-	(1,588,259)	0.20
Expired	(69,877,623)	0.24	(2,380,800)	0.36
Balance, end of period	320,000,000	0.11	89,877,623	0.24

CANICKEL MINING LIMITED
(formerly Crowflight Minerals Inc.)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Warrants remained outstanding as at September 30, 2011 are summarized as follows:

Estimated Grant Date	Fair Value (\$)	Number of Warrants	Exercise Price (\$)	Expiry Date
	\$ 4,569,188	20,000,000	0.21	January 16, 2012
	5,485,555	300,000,000	0.10	March 4, 2013
	\$ 10,054,743	320,000,000		

The fair value of warrants is measured using the Black-Scholes pricing model and recognized as an adjustment to share capital. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the life of warrants and volatility. Changes in the assumptions used to estimate fair value could result in materially different results. During the nine months ended September 30, 2011, the Company recorded \$5,485,555 for the 300,000,000 units of warrants issued in March 2011. The fair value of warrants issued was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.76%
Expected life of warrants	2 years
Volatility	99.96%
Dividend	nil

(e) 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.

During the first quarter ended March 31, 2011, a total of 10,925,000 (same period last year - 5,650,000) stock option exercisable at \$0.065 per share over a period of five years were granted to directors, officers, and employees of the Company. These options vest semi-annually in four equal instalments over a two-year period with the first instalment vesting six months after the date of grant.

During the second quarter ended June 30, 2011, a total of 3,500,000 (same period last year - 650,000) options exercisable at \$0.075 per share over a period of five years were granted to employees. These options vest semi-annually in four equal instalments over a two-year period with the first instalment vesting six months after the date of grant.

During the three months ended September 30, 2011, a total of 40,000,000 (same period of 2010 – 150,000) stock options exercisable at \$0.08 per share over a period of five years were granted to a director and officer of the Company. These options are vesting annually in two instalments over a two-year period.

Subsequent to September 30, 2011, a total of 880,000 stock options were cancelled.

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

The continuity of stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Price (\$)
Outstanding, January 1, 2010	33,530,000	0.400
Granted	6,525,000	0.160
Cancelled	(4,758,750)	0.310
Outstanding, December 31, 2010	35,296,250	0.320
Granted	54,425,000	0.080
Cancelled	(34,031,250)	0.310
Outstanding, September 30, 2011	55,690,000	0.090

The Company uses the fair value method of accounting for all stock-based payments to employees, directors and officers. Under this method, the Company recorded a stock compensation expense of \$281,011 and \$705,685 respectively for the three and nine months ended September 30, 2011 (same period of 2010 - \$292,450 and \$1,325,003) with a corresponding credit to contributed surplus. The weighted average grant date fair value of options granted during the nine months ended September 30, 2011 was \$0.08 (2010 - \$0.16). The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	For nine months ended September 30,	
	2011	2010
Weighted average risk-free interest rate	1.820%	2.800%
Weighted average expected life of options	4 years	5 years
Weighted average volatility	103%	82%
Weighted average estimated forfeiture rate	2.5%	10.9%
Dividend	nil	nil

CANICKEL MINING LIMITED
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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

As of September 30, 2011, 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
31,005	65,000	65,000	\$ 0.710	November 21, 2012
12,180	35,000	35,000	\$ 0.520	February 1, 2013
52,555	115,000	115,000	\$ 0.690	May 26, 2013
2,450	25,000	25,000	\$ 0.150	October 31, 2013
8,905	65,000	65,000	\$ 0.200	January 31, 2014
19,180	140,000	140,000	\$ 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
55,411	365,000	365,000	\$ 0.210	August 19, 2014
53,005	500,000	500,000	\$ 0.160	January 15, 2015
59,047	600,000	600,000	\$ 0.160	March 15, 2015
50,789	350,000	350,000	\$ 0.215	April 12, 2015
1,063	25,000	25,000	\$ 0.100	October 15, 2015
391,822	9,700,000	2,425,000	\$ 0.065	January 10, 2016
158,517	3,500,000	-	\$ 0.075	June 22, 2016
1,896,332	40,000,000	-	\$ 0.080	September 13, 2016
\$ 2,884,980	55,690,000	4,915,000		

The weighted average exercise price of stock options that are exercisable as at September 30, 2011 is \$0.17 with weighted average contractual life of 2.58 years.

17. 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 transaction with King Place, the largest shareholder of the Company, and its affiliated company, Hebei Wenfeng, are disclosed in note 11, 13, and 16(b) above. Related party transactions not disclosed elsewhere include the following:

(a) Transactions with Dumas

Dumas Contracting Ltd. ("Dumas"), was a related party of the Company as Dumas is a subsidiary of Pala Investments Holdings Limited ("Pala"), who was a major shareholder and had two representatives on the Board of Directors of the Company. In June 2010, Pala disposed all its interest in the Company to King Place and Dumas ceased to be a related party of the Company. During the period from January 2010 to June 2010, the Company paid \$8,716,086 to Dumas for its mining contracting work provided to the Company. During the year ended December 31, 2010, the Company had transactions with Dumas amounted to \$21,036,249 (2009 - \$15,551,799). In December 2010, Dumas commenced legal action against the Company for the amount outstanding and in question, and on March 16, 2011, the Company reached a settlement agreement with Dumas to settle the claims and the legal action and the lien were discharged during the period ended March 31, 2011. No other transaction with Dumas was conducted during the period ended September 30, 2011.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Transactions with LJ Resources Limited

LJ Resources Limited, a private entity associated to 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 nine months ended September 30, 2011, the Company paid \$45,000 (three months ended September 30, 2010 - \$nil) and \$135,000 (nine months ended September 30, 2010 - \$nil), respectively to LJ Resources Limited for their services provided.

(c) 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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Salaries and fees	\$ 187,126	\$ 646,251	\$ 425,626	\$ 1,406,588
Stock based compensation	198,349	248,928	339,683	653,457
	\$ 385,475	\$ 895,179	\$ 765,309	\$ 2,060,045

18. FINANCE COSTS

Finance costs comprise the following:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Accretion for site closure and reclamation provisions	\$ 24,829	\$ 22,189	\$ 72,442	\$ 64,760
Foreign exchange (gain) loss	1,151,177	79,002	1,431,931	(48,924)
Interest expenses and bank charges	260,778	460,205	1,272,471	521,170
Interest income	-	(488)	(45)	(13,889)
Loss on sale of short term investment	-	-	1,523	-
	\$ 1,436,784	\$ 560,908	\$ 2,778,322	\$ 523,117

19. MANAGEMENT OF CAPITAL

The Company's objective when managing its capital is to maintain its ability to continue as a going concern while at the same time maximizing the growth of its business and providing returns to its shareholders. The Company's capital structure consists of share capital and contributed surplus with a balance of \$220.2 million as at September 30, 2011 (December 31, 2010 - \$180.9 million). The Company has US\$20 million in debt facilities which a total of US\$17 million has been withdrawn as of September 30, 2011, and a US\$5 million In-Process Working Capital Facility which has not been drawn.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertises of the Company's management to sustain future development of business. The Company's overall strategy with respect to the capital risk management remains unchanged from the year ended December 31, 2010.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Pursuant to the option agreement related to the Company's Thompson Nickel Belts Exploration properties (the "TNB"), in order to earn 100% interest in TNB, the Company is required to spend \$2.1 million option expenditures in 2011, and additional \$1.5 million for each of calendar year 2012 and 2013. During the nine months periods ended September 30, 2011, the Company incurred option expenditures of approximately \$1.5 million, leaving approximately \$700,000 to be spent in the fourth quarter of 2011.

20. FINANCIAL INSTRUMENTS

The Company manages its exposure to financial risk, including liquidity risk, foreign exchange rate risk, interest rate risk, metal price risk, and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a) Fair value

The carrying value of cash and cash equivalent is 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 instrument. 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. The conversion features of the Company's convertible debentures, under IFRS, are classified as financial liabilities and measured at their fair value with changes in fair value reported in the consolidated statement of comprehensive loss as gain/loss on derivative instruments. The changes in the valuation of these conversion features create a permanent difference for tax purposes and may result in significant volatility on the effective tax rate.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. Those financial assets and liabilities are reclassified in their entirety based on the level of input that is significant to the fair value measurement.

	Fair value as at September 30, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 2,065,170	\$ -	\$ -	\$ 2,065,170

b) Credit risk

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

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

CANICKEL MINING LIMITED
(formerly Crowflight Minerals Inc.)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure. As at September 30, 2011, the Company has limited funds to meet its short term financial liabilities, and the working capital was in a deficit position of \$13.3 million. Accordingly, additional financing is required to maintain the Company to continue as a going concern. The Company's contractual obligations as at September 30, 2011 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	\$ 18,111,675	\$ -	\$ -	\$ -	\$ 18,111,675
Finance lease obligations	257,413	1,831,187	216,549	-	2,305,149
Exploration option obligations	700,000	3,000,000	-	-	3,700,000
Accounts payable and accrued liabilities	3,425,425	-	-	-	3,425,425
Total Contractual Obligations	\$ 22,494,513	\$ 4,831,187	\$ 216,549	\$ -	\$ 27,542,249

d) 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 September 30, 2011, the Company also had \$18.1million loans payable bearing coupon rates of 10% to 12% per annum. 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.

e) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign exchange risk as a result of sales transactions and financing activities being denominated in US dollars. As at September 30, 2011, the following financial assets and liabilities are denominated in US Dollars.

Expressed in Canadian dollar equivalents	As at September 30, 2011
Financial assets denominated in US Dollars	
Cash and cash equivalent	\$ 400,783
Accounts receivables	2,397,906
	2,798,689
Financial liabilities denominated in US Dollars	
Loans payable	(18,111,675)
	\$ (15,312,986)

Based on the financial assets and liabilities denominated in US dollars as at September 30, 2011, every 1% strengthening in Canadian dollars would increase net loss by \$153,130. The Company currently has not entered into any agreement to hedge the foreign exchange risk.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

f) 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 September 30, 2011, the Company did not have any forward sales contracts or call options outstanding to manage the Company's commodity price risk.

21. CONTINGENCIES

- a) Met-Chem Canada Inc. ("Met-Chem") has made a claim against the Company for amount of \$260,000, plus interest at the Royal Bank of Canada Prime Rate + 2% from March 2009 to date of payment. No formal action has been commenced by Met-Chem to enforce a claim for payment.
- b) During the nine months September 30, 2011, the Company commenced a legal action against Total Equipment Services and Total Electric System Inc for their breach of contract and claimed a refund of \$0.3 million prepayment and a loss of damage to be determined by the court.

22. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net change in non-cash working capital				
Increase in receivables and prepaid expenses	\$ (2,512,339)	\$ (1,149,028)	\$ (1,084,426)	\$ (4,477,838)
Decrease (increase) in inventory	1,440,141	(70,416)	(1,841,369)	(2,550,665)
Increase (decrease) in accounts payable and accrued liabilities	556,565	1,300,080	(5,978,326)	1,436,317
	\$ (515,633)	\$ 80,636	\$ (8,904,121)	\$ (5,592,186)

23. 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, which accounted for all the Company's revenue.



CaNickel Mining Limited

formerly Crowflight Minerals Inc.

www.canickel.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations
for the three and nine months ended September 30, 2011

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 nine months ended September 30, 2011 should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 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, 2010, 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 October 31, 2011 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

- Net loss for the three months ended September 30, 2011 ("Q3 2011") was \$7.6 million or (\$0.01) per share compared to net loss of \$14.6 million or (\$0.03) per share in same period last year ("Q3 2010"). Net loss for the nine months ended September 30, 2011 was \$18.7 million or (\$0.01) per share (same period last year - net loss of \$27.7 million or (\$0.05) per share);
- Mining operation at Bucko Lake Mine resumed in April, 2011 and milling operation resumed in June 2011 after the operation suspended in October 2010. In Q3 2011, the Company mined 38,846 tonnes of ores and milled 37,035 tonnes of ore to produce 661,394 pounds of nickel compared to a total of 53,518 tonnes of ore mined and a total of 58,605 tonnes of ore milled to produce a total of 989,265 pounds of nickel in Q3 2010;
- Arranged additional US\$15.0 million debt facility in Q3 2011 and a total of US\$20.0 million debt facility was arranged during the nine months ended September 30, 2011. As of September 30, 2011, a total of US\$17.0 million debts were advanced.
- Granted by the Manitoba government a revised Environment Act Licence to construct and operate a land based tailing management area which could store all tailings from the Company's Bucko Lake Mine over its existing mine life; and,
- Working capital was in a deficit position of \$13.3 million with cash and cash equivalent of \$2.1 million on hand as at September 30, 2011 compared to working capital of deficit of \$24.6 million with cash and cash equivalent of \$4.1 million on hand as at December 31, 2010.

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. CaNickel currently has one operational nickel mine, Bucko Lake Mine near Wabowden, Manitoba, and holds nickel, copper, and platinum group mineral projects in the Thompson Nickel Belts, Manitoba and the Sudbury Basin, Ontario.

Mining operation at Bucko Lake Mine resumed in April 2011 after the operation suspended in October 2010.

In April 2011, the Company proposed to its shareholders to change its name to “Canada Nickel Mining Corp” or other name that is approved by directors and the applicable regulatory authorities, continuance from the Province of Ontario to the Province of British Columbia, and a consolidation of its issued and outstanding common shares on the basis of either one post-consolidated shares for thirty pre-consolidation shares or one post-consolidation share for forty pre-consolidation shares.

All proposals were approved by the shareholders of Company during the annual general and special meeting on May 16, 2011. In June 2011, the Company completed all necessary application process and obtained regulatory approval to change its name to “CaNickel Mining Limited” from “Crowflight Minerals Inc.” and to continue to the Province of British Columbia from the Province of Ontario. The Company’s shares commenced trading on the Toronto Stock Exchange under the new name on June 23, 2011. The trading symbol of the Company remains as “CML”.

As to the Company’s share consolidation proposal (“Consolidation”), the Consolidation was approved by the shareholders of the Company at the annual general and special meeting on May 16, 2011, and the Directors of the Company are hereby authorized and empowered, without further approval or authorization of the shareholders of the Company, to determine the timing and ratio of the Consolidation or to revoke the Consolidation at its sole discretion at any time to their being acted upon. The Directors of the Company have been reviewing the nickel and equity market condition as well as the operation at Bucko Lake Mine to determine the timing for the Consolidation for the best interest of the Company and shareholders, but no decision has been made as of date of this report.

OUTLOOK

Due to several design issues and the delay of equipment delivery, the commissioning of the paste backfill plant is expected to be in first quarter of 2012. The completion of the construction of the new tailing facility phase I is expected to be in the first half of 2012.

With all mining equipment now in place, the Company expects that the operation at Bucko Lake Mine can be ramped up to reach 78,000 tonnes of ore for the fourth quarter of 2011. The operation unit cost will be further reduced due to the improved production rate.

OPERATION REVIEW

Bucko Lake Mine, currently the only operational mine of the Company, was temporarily suspended in October 2010. Since the change of board of directors and management in December 2010, the Company has been devoting substantial efforts and financial resources to address the operational issues at Bucko Lake Mine. During the quarter ended March 31, 2011, the Company raised gross proceeds of \$30.0 million through equity financing to discharge liens on Bucko Lake Mine, acquire approximately \$10.2 million in mining equipment, and hire its mining crew in order to bring the Bucko Lake Mine into efficient and viable operations.

In April 2011, the Company resumed its mining operation at Bucko Lake Mine. However, the restart was affected by mining equipment delivery delays and issues left over from previous operations on backfill and equipment maintenance. The production remained unstable and behind the planned schedule. In Q3 2011, the Company mined 38,846 tonnes of ore (Q3 2010 - 53,518 tonnes) with an average head grade of 1.23% (Q3 2010 - 1.20%), and milled 37,035 tonnes of ore (Q3 2010 - 58,605 tonnes) with an average recovery rate of 65.86% (Q3 2010 - 70.79%). For the nine months ended September 30, 2011, the Company mined 53,038 tonnes of ore (same period last year - 131,884 tonnes) with an average head grade of 1.34% (same period last year - 1.24%), and milled 46,758 tonnes of ore (same period last year - 126,641 tonnes) with an average recovery rate of 67% (same period last year - 69.87%)

In Q3 2011, a total of 643,761 pounds of payable nickel was sold at a cash cost of \$15.35 per pound and a total cost of \$18.99 per pound compared to a total of 911,092 pounds of payable nickel sold in Q3 2010 at a cash cost of \$21.33 per pound and a total cost of \$22.88 per pound. For the nine months ended September 30, 2011, a total of 643,761 pounds of payable nickel sold at a cash cost of \$15.35 per pound and a total cost of \$18.99 per pound compared to a total of 1,946,669 pounds of payable nickel sold in the same period last year at a cash cost of \$18.26 per pound and a total cost of \$19.82 per pound. By using our own mining crew and mining equipment, the Company is confident that the operation costs at Bucko Lake Mine will be substantially reduced through improved productivity and cost cutting initiatives. The higher unit cost of payable nickel sold was partially due to the \$1.5 million write down to the inventory charged to cost of goods sold as a result of the recent decrease of nickel price.

The following is a summary of the operation results at Bucko Lake Mine for the three and nine months ended at September 30, 2011 and 2010.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Production data				
Ore mined (tonne) ⁽¹⁾	38,846	53,518	53,038	131,884
Ore milled (tonne) ⁽¹⁾	37,035	58,605	46,758	126,641
Nickel produced (pound)	661,394	989,265	851,698	2,308,803
Head grade	1.23%	1.20%	1.34%	1.24%
Metallurgical recovery	65.86%	70.79%	67.00%	69.87%
Cost per pound of payable nickel sold				
On site cash cost (\$/pound) \$	13.77	\$ 19.24	13.77	\$ 16.46
Off site cash cost, net of by-product credit (\$/pound) \$	1.58	\$ 2.09	1.58	\$ 1.80
Cash cost \$	15.35	\$ 21.33	15.35	\$ 18.26
Non cash cost (\$/pound) \$	3.64	\$ 1.55	3.64	\$ 1.56
Total cost ⁽²⁾ \$	18.99	\$ 22.88	18.99	\$ 19.82
Sales Data				
Payable Nickel Sold (pound)	643,761	911,092	643,761	1,946,669
Revenue (\$) ⁽³⁾ \$	5,488,101	\$ 8,496,918	5,725,683	\$ 19,370,308
Average selling price (\$/pound) \$	8.53	\$ 9.33	8.89	\$ 9.95

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

2. Including inventory write down of \$1.5 million or \$2.33 per pound of payable nickel sold

3. Includes pricing/volume adjustments on concentrate sold in prior period

DEVELOPMENT AND EXPLORATION

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. The paste plant was targeted to be commissioned in the middle of October 2011, but due to several design issues and equipment delivery delays, commissioning now is estimated in the first quarter of 2012.

As of September 30, 2011, a total of \$2.4 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 will be carried in two phases and the phase I construction is underway and expected to be completed in the first half of 2012.

THOMPSON NICKEL BELT EXPLORATION PROPERTIES (THE "TNB") - MANITOBA

In January 2011, the Company carried out a winter drilling program at two deposits, M11A North Deposits and Gonlin Deposits, of the TNB, to explore further potential in satellite deposits surrounding the Bucko Lake Mine. A total of 13 holes were completed, and a total of 5,889 meters was drilled throughout the program with 1,548 samples taken at a cost of approximately \$1.4 million. There was no significant result from the hole drilled at Gonlin Deposits, and a total of 5,202 meters in 12 diamond drill holes were completed at M11A North Deposits, of which 11 holes reached their planned depth with 1,548 samples assayed while one hole was abandoned. This successful winter drilling program demonstrates that the M11A North Deposit can be extended at depth, to the northeast and southwest tying the deposit to mineralization intersected in drill hole M09-17 with several intervals of potentially mineable widths and grades. Hole M11-08 with 14.25 metres grading 1.60% nickel and hole M11-07 with 14.85 metres grading 1.19% nickel and another intersection of 6.40 metres grading 1.80% nickel have extended the deposit to the northeast. The previously discovered high grade mineralization in hole M08-03 and hole M09-12 has been extended further at depth by hole M11-01 with an intersection of 9.98 metres grading 2.35% nickel. For detailed and complete drilling results of the winter drilling program at the M11A Deposits, please refer to our press release dated June 29, 2011. No exploration activity was carried during the summer season, but the Company is planning to conduct another exploration program in the fourth quarter of 2011.

During the nine months ended September 30, 2011, the Company incurred exploration expenditures of \$1.5 million. As of September 30, 2011 the Company has incurred a total of approximately \$18.8 million at the TNB.

PURE NICKEL JOINT VENTURE – MANITOBA

In Q3 2011, the Company and Pure Nickel Inc. ("Pure Nickel") mutually agreed to dissolve their joint venture partnership between the two companies. All claims Pure Nickel put into the joint venture ("Pure Nickel Claims") were returned to Pure Nickel, and the Company retains the mineral claims the Company put into the joint venture ("Joint Venture Claims"). The Joint Venture Claims are considered non-core assets of the Company and the Company has no plan to conduct any exploration activities on those mineral claims in the next two or three years. Upon dissolution of the joint venture partnership, the Company wrote off the carrying value of the Joint Venture Claims and the proportion share of the carrying value of the joint venture, and a total of \$0.5 million impairment charges were recorded on the Consolidated Statements of Comprehensive Loss.

SUDBURY PROPERTIES – ONTARIO

In the Sudbury Basin, the Company maintains an interest in approximately 75.4 square kilometres of mining property which includes: (1) the AER Kidd Property; and (2) the Peter's Roost Property. No exploration activity was carried out during the nine months ended September 30, 2011, and the Company is reviewing some partnership proposals to advance the AER Kidd Property, but no decision has been made as the date of the report.

RESULTS OF OPERATIONS

Three months ended September 30, 2011

Net loss in Q3 2011 was \$7.6 million a decrease of \$7.0 million, compared to the net loss of \$14.6 in Q3 2010. It was primarily due to the significant drop in cash cost of \$10.6 million and decreases of \$3.0 million in revenue recognized in the current quarter.

Revenue in Q3 2011 was \$5.5 million compared to revenue of \$8.5 million in Q3 2010. The decrease of \$3.0 million was mainly due to less nickel produced and sold and the decrease of nickel price in Q3 2011. In Q3 2011, the Company sold 643,761 (Q3 2010 - 911,092) pounds of nickel at an average price of \$8.53 (Q3 2010 - \$9.33) per pound of nickel.

Cost of sales in Q3 2011 was \$11.2 million, which comprised of \$8.9 million cash cost and 2.3 million non cash cost, a decrease of \$10.7 million, compared to the cost of sales of \$21.9 million in Q3 2010, which consisted of \$19.4 million cash cost and \$2.5 million non cash cost. Non cash cost included amortization, depletion, and depreciation of mineral property, plant and equipment as well as stock based compensation expenses. The cost of goods sold also included an inventory write down of \$1.5 million (Q3 2010 - \$2.3 million) as a result of the carrying value of the inventory exceeded their estimated realizable value based on the nickel price at the end of reporting periods.

Finance costs in Q3 2011 were \$1.44 million, an increase of \$0.88 million, compared to the finance costs of \$0.56 million in Q3 2010. The increase was mainly due to the increase of \$1.1 million in foreign exchange loss offset by a decrease of \$0.2 million in interest expense accrual on the debt facilities and interest expenses on capital lease obligations. Finance costs primarily included interest and bank charges of \$0.3 million (Q3 2010 - \$0.5 million), accretion of site closure and reclamation provisions of \$0.02 million (Q3 2010 - \$0.02 million), and foreign exchange loss of \$1.2 million (Q3 2010 - \$0.08 million).

General and administration in Q3 2011 was \$0.1 million, a decrease of \$0.1 million, compared to the general and administration cost of \$0.2 million in Q3 2010. The decrease was mainly due to the capital tax adjustment for the year ended December 31, 2010.

Legal and professional fees in Q3 2011 were \$0.1 million, a decrease of \$0.1 million, compared to the legal and professional fees of \$0.2 million in Q3 2010. The decrease was mainly due to fewer legal affairs in the current quarter.

Loss on disposal of assets in Q3 2011 were \$0.1 million (Q3 2010 - \$nil) arising from trade-in of two pieces of equipment. No asset was disposed in Q3 2010.

Net gain on derivative instrument in Q3 2011 was \$0.05 million comparing to a loss of \$0.6 million in Q3 2010. The gain in Q3 2011 was related to a call option unexercised while the loss in Q3 2010 was related to the change of the fair value of the forward nickel sales contracts and the conversion features of the Company's convertible debentures.

Salaries, consulting and management fees in Q3 2011 were \$0.4 million, a decrease of \$0.6 million, compared to the salaries, consulting and management fees of \$1.0 million in Q3 2010. The decrease was mainly because the Company eliminated some management positions and reduced the compensation to senior management and directors.

Income tax recovery in Q3 2011 was \$nil as full allowances to the tax benefits were recorded, while a total of income tax recovery of \$1.4 million was recorded in Q3 2010.

Nine months ended September 30, 2011

Net loss for the nine months ended September 30, 2011 was \$18.7 million, a decrease of \$9.0 million compared to the same period last year. It was primarily due to the significantly drop in cost of goods sold of \$29.5 million, decrease of \$13.6 million in revenue, decrease of \$4.8 million in income tax recovery and increase of \$2.6 million in temporary shutdown costs.

Revenue for the nine months ended September 30, 2011 was \$5.7 million, a decrease of \$13.6 million, compared to the revenue of \$19.3 million in the same period last year. Less revenue recognized for the nine months ended September 30, 2011 was mainly due to less nickel produced and sold and lower nickel price. For the nine months ended September 30, 2011, a total of 643,761 pounds of nickel were sold at an average price of \$8.89 while a total of 1,946,669 pounds of nickel were sold at an average price of \$9.95 for the same period last year.

Cost of sales for the nine months ended September 30, 2011 was \$11.2 million, compared to the cost of sales of \$40.7 million recorded for the same period last year. Cost of sales included cash cost of \$8.9 million (same period last year - \$35.6 million) and non cash cost of \$2.3 million (same period last year - \$5.2 million). The decrease in cash cost was mainly as a result of cost reduction by using our own mining crew and mining equipment in the current period while a mining contractor was used in same period last year. The cost of goods sold also included an inventory write-down of \$1.5 million (same period last year - \$3.5 million) as a result of the carrying value of the inventory exceeded their estimated realizable value based on the nickel price at the end of reporting periods.

Temporary shutdown costs for the nine months ended September 30, 2011 were \$8.5 million, an increase of \$2.6 million, compared to the temporary shutdown costs of \$5.8 million for the same period last year, and the increase was mainly due to longer care and maintenance period at Bucko Lake Mine.

Finance costs for the nine months ended September 30, 2011 were \$2.8 million, an increase of \$2.3 million, compared to the finance costs of \$0.5 million for the same period last year. The increase was mainly due to the increase in foreign exchange loss and interest expenses on the convertible debenture, debt facilities, and the capital lease obligations. Finance costs primarily included foreign exchange loss of \$1.4 million (same period last year - gain of \$0.05 million), interest and bank charges of \$1.3 million (same period last year - \$0.5 million), and accretion of site closure and reclamation provisions of \$0.07 million (same period last year - \$0.06 million).

General and administration for the nine months ended September 30, 2011 was \$0.4 million, a decrease of \$0.3 million, compared to the general and administration cost of \$0.7 million for the same period last year. The decrease was mainly due to capital tax paid in the same period last year.

Impairment of mineral property, plant, and equipment for the nine months ended September 30, 2011 were \$0.5 million compared to the impairment charge of \$nil for the same period last year. The Company wrote off the carrying value of the Joint Venture Claims and its proportionate share of the carrying value of the Pure Nickel Joint Venture as a result of the dissolution of the joint venture partnership.

Legal and professional fees for the nine months ended September 30, 2011 were \$0.2 million, a decrease of \$0.1 million, compared to the legal and professional fees of \$0.3 million for the same period last year.

Net gain on derivative instrument for the nine months ended September 30, 2011 was \$0.3 million comparing to a net gain of \$0.1 million for the same period last year. The gain for the current period was mainly related to the change of the fair value of the conversion feature of the Company's convertible debentures and a call option unexercised while the gain for the same period last year was mainly related to the change of the fair value of the forward nickel sales contracts and the conversion feature of the convertible debentures.

Salaries, consulting and management fees for the nine months ended September 30, 2011 were \$1.0 million, a decrease of \$2.4 million compared to the salaries, consulting and management fees of \$3.4 million for the same period last year. The decrease was mainly because the Company eliminated some management positions and reduced the compensation to senior management and directors.

Shareholder communication and investor relations for the nine months ended September 30, 2011 were \$0.1 million, a decrease of \$0.2 million, compared to \$0.3 million for the same period last year as less investor relation activities were conducted in the current period.

Income tax recovery for the nine months ended September 30, 2011 was \$nil as full allowances to the tax benefits was recorded, while a total of income tax recovery of \$4.8 million was recorded in same period last year.

QUARTERLY FINANCIAL RESULTS

	IFRS basis			
	Quarters ended			
	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Revenue	\$ 5,488,101	\$ -	\$ 237,582	\$ 3,595,898
Cost of goods sold	(11,207,075)	-	-	(3,309,046)
	(5,718,974)	-	237,582	286,852
Temporary shutdown costs	-	(3,562,910)	(4,899,849)	(6,542,451)
Other items	(1,902,172)	(1,528,152)	(1,292,792)	(47,780,194)
Loss before taxes	(7,621,146)	(5,091,062)	(5,955,059)	(54,035,793)
Income tax recovery	-	-	-	1,236,275
Net loss	\$ (7,621,146)	\$ (5,091,062)	\$ (5,955,059)	\$ (52,799,518)
Loss per share - basis and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.09)

	IFRS basis			Canadian GAAP basis
	Quarters ended			Quarters ended
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Revenue	\$ 8,496,918	\$ 9,675,368	\$ 1,198,022	\$ 2,438,944
Cost of goods sold	(21,909,428)	(14,891,555)	(3,904,254)	(4,749,922)
	(13,412,510)	(5,216,187)	(2,706,232)	(2,310,978)
Temporary shutdown costs	-	-	(5,828,308)	(2,561,917)
Other items	(2,571,058)	(988,107)	(1,737,130)	(35,959,861)
Loss before taxes	(15,983,568)	(6,204,294)	(10,271,670)	(40,832,756)
Income tax recovery	1,378,539	307,704	3,077,682	18,500,059
Net loss	\$ (14,605,029)	\$ (5,896,590)	\$ (7,193,988)	\$ (22,332,697)
Loss per share - basis and diluted	\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ (0.06)

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.

During the quarter ended December 31, 2010 ("Q4 2010"), the Company suspended the operations at Bucko Lake Mine and incurred temporary shutdown costs of \$6.5 million. In Q4 2010, the Company also incurred a change of control payout of approximately \$2.4 million, and impairment charges of \$44.1 million to the mineral property, plant and equipment at Bucko Lake Mine.

The net loss for the quarter ended March 31, 2010 was mainly a result of costs incurred at Bucko Lake Mine during its temporary shutdown period as the operation at Bucko Lake Mine was suspended since October 2009.

During the quarter ended December 31, 2009 (“Q4 2009”), the Company suspended the operations at Bucko Lake Mine and incurred temporary shutdown costs of \$2.6 million. In Q4 2009, the Company also incurred impairment charges of \$30.6 million to the mineral property, plant and equipment.

ANNUAL INFORMATION

	Years ended December 31		
	2010	2009**	2008**
Total assets	\$ 118,721,788	\$ 166,307,299	\$ 177,875,471
Shareholders' equity	85,607,695	150,000,000	130,047,448
Dividend declared	-	-	-
Revenue	22,966,206	6,730,887	-
Gross margin	(21,048,077)	(3,951,598)	-
Temporary shutdown costs	(12,370,759)	(4,943,000)	-
Other items	(53,227,586)	(39,089,418)	52,955,399
Income tax recovery (expense)	6,000,200	21,003,129	(18,476,000)
Net income (loss)	(80,646,222)	(26,980,887)	34,479,399
Earning (loss) per share - basis & diluted	\$ (0.14)	\$ (0.07)	\$ 0.13

** 2008 and 2009 annual results were recorded in accordance with Canadian GAAP.

The \$34.5 million net income recorded in 2008 was mainly due to a gain on derivative instruments of \$70.6 million recorded in 2008.

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 of 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.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2011, the Company had cash and cash equivalents of \$2.1 million, decreased by \$2.0 million compared to cash and cash equivalents balance as at December 31, 2010. The decrease of cash and cash equivalents on hand was mainly as a result of \$32.6 million generated from financing activities, \$21.3 million used in operating activities and \$13.3 million used in investing activities as described below.

Cash used in operating activities for the nine months ended September 30, 2011 was \$21.3 million compared to a total of \$30.2 million used in the same period last year. Before net change in non-cash working capital, which used cash of \$8.9 million (same period last year - \$5.6 million), cash used in operation was \$12.4 million (same period last year - \$24.6 million). Less cash used in operation was because the Company was able to control and reduce the operation costs at the Company's Bucko Lake Mine through the use of the Company's own mining crew and

equipment instead of a mining contractor. However, the Company has not yet achieved positive operating cash flow as the production at Bucko Lake Mine has not been ramped up to the projected production level since its restart in April 2011.

In Q3 2011, cash used in operating activities was \$4.2 million (Q3 2010 - \$12.5 million). Before net change in non-cash working capital, which used cash of \$0.5 million (Q3 2010 - \$0.1 million), cash used in operations was \$3.7 million (Q3 2010 - \$12.4 million). Less cash used in operation activities was because the Company was able to control and reduce the operation costs at the Company's Bucko Lake Mine through the use of the Company's own mining crew and mining equipment instead of a mining contractor. Negative cash flow from operations in Q3 2011 was mainly because the operation at Bucko Lake Mine has not reached the projected production level and the recent decrease of nickel price.

Cash provided from financing activities for the nine months ended September 30, 2011 was \$32.6 million compared to a total of \$24.7 million cash generated from financing activities in the same period last year. During the nine months ended September 30, 2011, the Company raised \$26.9 million (same period last year - \$11.4 million) through equity financing and \$16.4 million (same period last year - \$13.0 million) through debt financing. The Company also used \$10.0 million (same period last year - \$nil) to retire convertible debentures and \$0.7 million (same period last year - \$0.03 million) to make payments on capital leases.

In Q3 2011, cash provided by financing activities was \$11.2 million (Q3 2010 - \$13.0 million) through debt financing. The Company also used \$0.5 million (same period last year - \$0.01 million) for payments on capital leases.

Cash used in investing activities for the nine months ended September 30, 2011 was \$13.3 million compared to a total of \$2.9 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 acquisition of mining equipment and the increase of mine development and exploration activities during the current period.

In Q3 2011, a total of \$6.0 million (Q3 2011 - \$0.7 million) cash was used in investing activities. The increase of cash used in investing activities was mainly due to a total of \$1.6 million (Q3 2010 - \$nil) cash paid to acquire mining equipment, \$2.8 million (Q3 2010 - \$nil) for the construction of the backfill paste plant and the new tailing facility, and \$1.6 million (Q3 2010 - \$0.7 million) for mine development and exploration.

Working capital as at September 30, 2011 was negative \$13.3 million, an improvement of \$11.3 million compared to the negative working capital of \$24.6 million as at December 31, 2010. The improvement of working capital was primarily because during nine months ended September 30, 2011 the Company raised \$43.3 million in equity and debt to reduce the accounts payable by \$7.0 million, discharge loans and other obligations by \$2.8 million.

Shareholder's equity as at September 30, 2011 was \$106.3 million, an increase of \$20.7 million from \$85.6 million at December 31, 2010, primarily as a result of \$26.9 million net proceeds from a private equity financing and \$11.7 million debt converted into common shares of the Company offset by a net loss of \$18.7 million during the period. As at September 30, 2011, the Company had approximately 1,500.8 million common shares outstanding for a share capital of \$186.9 million.

CaNickel Mining Limited
(formerly Crowflight Minerals Inc.)

The Company is required to spend approximately \$2.1 million option expenditures at TBN in 2011 to maintain its option in good standing, of which approximately \$1.5 million spent during the nine month period ended September 30, 2011, leaving approximately \$0.7 million to be spent in the fourth quarter of 2011. The Company also plans to spend approximately \$6.0 million to complete the construction of backfill paste plant and the new tailing facility over the next twelve months, and the Company's contractual obligations including payments due for each of the next five years and thereafter as summarized as follows:

Contractual Obligations	Payment Due by Period				
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Loans payable	\$ 18,111,675	\$ -	\$ -	\$ -	\$ 18,111,675
Finance lease obligations	257,413	1,831,187	216,549	-	2,305,149
Exploration option obligations	700,000	3,000,000	-	-	3,700,000
Accounts payable and accrued liabilities	3,425,425	-	-	-	3,425,425
Total Contractual Obligations	\$ 22,494,513	\$ 4,831,187	\$ 216,549	\$ -	\$ 27,542,249

The Company's financial position as at September 30, 2011, given the negative operating cash flow as of September 30, 2011 and the ongoing capital expenditures and lease obligation payments for the next twelve months, leads management to believe that there is significant doubt about the Company's ability to continue as a going concern, and the continuation of the Company as a going concern is dependent on its ability to reach profitable levels of operation and to obtain adequate financing.

With all new mining equipment now in place, the Company is confident to ramp up the operation at Bucko Lake Mine and generate positive cash flow from its operation in the fourth quarter of 2011 and thereafter. However, the profitability and cash flow of its operation are directly related and sensitive to the market price of nickel and the cash cost of production. The cash cost of the production is closely affected by a number of factors, such as ore grade, metallurgy, cost of supplies and services (for example, electricity and fuel) and the exchange rate in the case of supplies and services denominated in foreign currencies. If these cash costs were to increase significantly, and remain at such levels for a substantial period, the Company's cash flows from operations may be negatively affected. Although the Company prepares and monitors the estimates of future production and unit cash costs of production monthly, no assurance can be given that such estimates will be achieved. Failure to achieve production or cost estimates or material increases in operating or capital costs could have an adverse impact on the Company's future cash flows, profitability, results of operations and financial condition. Metal prices fluctuate widely and are affected by numerous factors beyond the Company's control, including global supply and demand, expectations with respect to the rate of inflation, the exchange rates of the United States dollar to other currencies, interest rates, forward selling by producers, production and cost levels in major producing regions, global or regional political, economic or financial situations and a number of other factors such as the sale or purchase of commodities by various commodity traders, production costs of major mineral producing countries and the cost of substitutes. If the market price of nickel continue to drop, the Company's ability to generate positive cash flow from its operation would be adversely impacted.

The Company does not have unlimited capital resources and has incurred significant losses from its mine operation, but has successfully financed its project and operations so far through either equity financing or debt financing. During the nine months ended September 30, 2011, the Company raised gross proceeds of \$30.0 million through an equity financing, and arranged a total of US\$20.0 million in debt facilities, of which a total of US\$17.0 million was drawn as at September 30, 2011. Also, the Company entered into an equity financing agreement with Haverstock Master Fund, Ltd. ("Haverstock") to secure access to funds on an as-needed basis for up to \$20 million through a Committed Equity Facility ("CEF"). Pursuant to the CEF, the Company, in its sole discretion, is able to exercise draw downs (each a "Draw Down") for the amount not to exceed the greater of \$500,000 and the average daily trading dollar volume for the five days preceding a draw down notice issued by the Company, subject to the amount remaining on the CEF, over a period of 36 months after the activation of the CEF. The distribution of any

common shares under the CEF is subject to regulatory approval and must be qualified by a prospectus, and therefore, the activation of the CEF is subject to the filing of a shelf base short form prospectus, a prospectus supplement describing the CEF, and the receipt of exemptive relief from related regulators, which are expected to be completed in the fourth quarter of 2011.

Management believes that the likelihood to generate positive cash flow from its operations and to activate the CEF in the fourth quarter of 2011 is high and the cash flows from its operation plus the funds from the CEF is sufficient to finance its operation and capital expenditures over the next twelve months. However, there is no assurance that the CEF will be approved by related regulators. If the CEF is not able to be activated, 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, the Company would have no way to generate positive cash flow from its operations, as a result, 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 instrument. 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. The conversion features of the Company's convertible debentures, under IFRS, are classified as financial liabilities and measured at their fair value with changes in fair value reported in the statement of comprehensive loss as gain/loss on derivative instruments. The changes in the valuation of these conversion features create a permanent difference for tax purposes and may result in significant volatility of the effective tax rate.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates.

Management constantly monitors and assesses the fluctuation of nickel price and US dollars, but has not hedged the nickel price and foreign exchange rate related to its concentrate sales in 2011. 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 consolidated financial statements and the related notes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in applying the Company's accounting policies. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may differ from the amounts included in the financial statements.

Areas of judgment that have the most significant effect on the amounts recognized in the financial statements include:

Depreciation, depletion and amortization of mineral properties, plant and equipment - Mineral properties, plant and equipment comprise a large component of the Company's assets and as such, the depreciation, depletion and

amortization of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company amortizes the mineral property and mining equipment over the life of the mine based on the depletion of the mine's proven and probable reserves.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

Valuation of mineral properties, plant and equipment - The Company undertakes a review of the carrying values of mineral properties, plant, and equipment whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, mineral reserves, future production and sales volumes, unit sales prices, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties, plant and equipment and related expenditures.

Income taxes - Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases and tax losses carried forward. The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax payable requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior tax losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Stock-based compensation - The Company grants stock options to employees of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions and estimates regarding such items as the life of options, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results. Assumption details are discussed in the notes to the condensed interim consolidated financial statements.

Site closure and reclamation provisions - The Company has obligations for site restoration and decommissioning related to its Bucko Lake Mine. The future obligations for mine closure activities are estimated by the Company using mine closure plan or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and governmental regulations, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The site closure and reclamation provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording site closure and reclamation provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the

related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to operating costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements, and those differences may be material.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

The Accounting Standards Board adopted IFRS for publicly accountable enterprises for fiscal beginning on or after January 1, 2011. As such, the Company is reporting its third condensed interim consolidated financial statements in accordance with IAS 34, Interim Financial Reporting, for the three and nine months ended September 30, 2011, with comparative figures for the corresponding periods for 2010. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010.

Our IFRS conversion team identified three phases to our conversion: scoping and diagnostics, analysis and development, implementation and review. All three phases have now been completed. The adoption of IFRS did not have a significant impact on our information systems for the convergence periods.

We assessed the changes necessitated to maintain the integrity of internal control over financial reporting and disclosure controls and procedures. The extent of the impact on these controls was immaterial. We applied our existing control framework to the IFRS changeover process. All accounting policy changes and financial statement impacts were reviewed by senior management and the Audit Committee of the Board of Directors.

We have assessed the impact of the adoption of IFRS on our key performance indicators. The transition to IFRS did not have a significant impact on our key performance indicators, which include gross profit margin, loss per share, cash flow from operations, and cash costs. All analysis and conclusions are based on the IFRSs effective at September 30, 2011. As the IASB currently has various projects on its work plan that might affect our decisions for the financial year 2011, we continue to monitor and assess the impact of these changes.

The Company's IFRS accounting policies are disclosed in Note 3 to the condensed interim consolidated financial statements for the three and nine months ended September 30, 2011, and Note 4 provides further details on our Canadian GAAP to IFRS differences. The impacts of IFRS on the comparatives as at and for the three and nine months ended September 30, 2010 are summarized as follows:

CaNickel Mining Limited
(formerly Crowflight Minerals Inc.)

Consolidated Statements of Financial Positions

		As at September 30, 2010				
Note	CGAAP	Effect of Transition to IFRS	Accounting Changes 4(e)	Reclassification 4(f)	IFRS	
ASSETS						
<i>Current</i>						
	\$	\$	\$	\$	\$	
Cash and cash equivalents	1,648,877	-	-	-	1,648,877	
Receivables and prepaid expenses	-	-	-	2,143,277	2,143,277	
Amounts receivable	5,486,005	-	-	(1,716,424)	3,769,581	
Inventory	3,582,399	-	-	-	3,582,399	
Prepaid expenses and deposits	418,810	-	-	(426,853)	(8,043)	
	11,136,091	-	-	-	11,136,091	
<i>Non-Current</i>						
Mineral property, plant and equipment	-	-	-	155,869,295	155,869,295	
Property, plant and equipment	4(a),(c),(e) 144,042,650	(182,373)	(3,468,108)	(140,392,169)	-	
Exploration and development property and deferred expenditures	14,970,550	-	-	(15,477,126)	(506,576)	
Other non-current assets	534,709	-	-	-	534,709	
	\$ 170,684,000	\$ (182,373)	\$ (3,468,108)	\$ -	\$ 167,033,519	
LIABILITIES						
<i>Current</i>						
Accounts payable and accrued liabilities	\$ 15,268,927	\$ -	\$ -	\$ -	\$ 15,268,927	
Convertible debentures	4(d) 12,672,971	1,062,180	-	-	13,735,151	
Current portion of obligations under capital leases	48,598	-	-	-	48,598	
Derivative liabilities	4(d) 191,149	318,580	-	-	509,729	
	28,181,645	1,380,760	-	-	29,562,405	
<i>Non-Current</i>						
Obligations under capital leases	23,942	-	-	-	23,942	
Site closure and reclamation provisions	4(a) 977,864	(177,090)	-	-	800,774	
Future income tax liability	4(c),(e) 2,127,000	-	(928,350)	-	1,198,650	
	31,310,451	1,203,670	(928,350)	-	31,585,771	
SHAREHOLDERS' EQUITY						
Share capital	4(d) 150,684,828	-	-	-	150,684,828	
Contributed surplus	4(d) 28,656,090	(1,544,135)	-	-	27,111,955	
Accumulated deficit	(39,967,369)	158,092	(2,539,758)	-	(42,349,035)	
	139,373,549	(1,386,043)	(2,539,758)	-	135,447,748	
	\$ 170,684,000	\$ (182,373)	\$ (3,468,108)	\$ -	\$ 167,033,519	

CaNickel Mining Limited
(formerly Crowflight Minerals Inc.)

Consolidated Statements of Comprehensive Loss

Three Months Ended September 30, 2010						
Note	CGAAP	Effect of Transition to IFRS	Accounting Changes (d)	Reclassification (e)	IFRS	
Revenue	\$ 8,496,918	\$ -	\$ -	\$ -	\$ 8,496,918	
Cost of goods sold						
Cash cost	19,432,607	-	-	-	19,432,607	
Non-cash cost	(d) 1,416,476	-	1,060,345	-	2,476,821	
	(12,352,165)	-	(1,060,345)	-	(13,412,510)	
Temporary shutdown costs	-	-	-	-	-	
Loss from mine operations	(12,352,165)	-	(1,060,345)	-	(13,412,510)	
Accretion	(a) (19,826)	(2,363)	-	22,189	-	
Amortization	(201)	-	-	201	-	
Finance costs	(c) -	(91,536)	-	(469,372)	(560,908)	
Foreign exchange loss	(79,002)	-	-	79,002	-	
General and administration	(182,527)	-	-	(25,283)	(207,810)	
Interest expenses and bank charges	(368,669)	-	-	368,669	-	
Interest income	488	-	-	(488)	-	
Legal and professional fees	-	-	-	(170,323)	(170,323)	
Professional, consulting and management fees	(1,143,380)	-	-	1,143,380	-	
Salaries, consulting and management fees	-	-	-	(973,057)	(973,057)	
Shareholder communications and investor relations	(75,389)	-	-	-	(75,389)	
Travel	(25,082)	-	-	25,082	-	
Gain (loss) on derivative instruments	(c) (826,204)	242,633	-	-	(583,571)	
Loss before income taxes	(15,071,957)	148,734	(1,060,345)	-	(15,983,568)	
Income tax recovery	1,095,000	-	283,539	-	1,378,539	
Net loss and Comprehensive loss for the period	(13,976,957)	148,734	(776,806)	-	(14,605,029)	

Consolidated Statements of Comprehensive Loss

Nine Months Ended September 30, 2010						
Note	CGAAP	Effect of Transition to IFRS	Accounting Changes (d)	Reclassification (e)	IFRS	
	\$ 19,370,308	\$ -	\$ -	\$ -	\$ 19,370,308	
Revenue						
Cost of goods sold						
Cash cost	35,550,962	-	-	-	35,550,962	
Non-cash cost	3,033,584	-	2,120,691	-	5,154,275	
	(19,214,238)	-	(2,120,691)	-	(21,334,929)	
Temporary shutdown costs	4,480,891	-	1,347,417	-	5,828,308	
Loss from mine operations	(23,695,129)	-	(3,468,108)	-	(27,163,237)	
Accretion	(a) (59,477)	(5,283)	-	64,760	-	
Amortization	(603)	-	-	603	-	
Finance costs	(c) -	(91,536)	-	(431,581)	(523,117)	
Foreign exchange gain	48,924	-	-	(48,924)	-	
General and administration	(668,155)	-	-	(68,456)	(736,611)	
Interest expenses and bank charges	(429,634)	-	-	429,634	-	
Interest income	13,889	-	-	(13,889)	-	
Legal and professional fees	-	-	-	(341,533)	(341,533)	
Other expenses	(101,771)	-	-	-	(101,771)	
Professional, consulting and management fees	(b) (3,771,862)	12,278	-	3,759,584	-	
Salaries, consulting and management fees	-	-	-	(3,418,051)	(3,418,051)	
Shareholder communications and investor relations	(277,895)	-	-	-	(277,895)	
Travel	(67,853)	-	-	67,853	-	
Gain (loss) on derivative instruments	(c) (139,950)	242,633	-	-	102,683	
Loss before income taxes	(29,149,516)	158,092	(3,468,108)	-	(32,459,532)	
Income tax recovery	(d) 3,835,575	-	928,350	-	4,763,925	
Net loss and Comprehensive loss for the period	(25,313,941)	158,092	(2,539,758)	-	(27,695,607)	

(a) Site closure and reclamation provisions

Significant changes from Canadian generally accepted accounting principles (CGAAP) method of accounting for site closure and reclamation provisions in comparison to IAS 37 include the periodic re-assessment of discount rates and inflation rates in the measurement of decommissioning and site restoration. In addition, the layer approach under CGAAP is no longer applied. The effect of these changes on the transition date is a reduction of \$182,373 to both of the site closure and reclamation provisions and the value of mineral property, plant and equipment. During the three months and nine months ended September 30, 2010, the increase in accretion expense recorded based on the restated site closure and reclamation provisions was \$2,363 and \$5,283 respectively. Accretion expenses were included in financial cost on the consolidated statements of comprehensive loss.

(b) Stock based compensation

In accordance with IFRS 2, the Company now recognizes a forfeiture rate in its initial recognition of the stock option grant. The effect of this change, applied retroactively, reduced the amount of contributed surplus by \$49,113 as at the date of transition. The impact of this change resulted in a decrease of \$nil and \$12,278, respectively on comprehensive loss for the three months and nine months ended September 30, 2010. Stock based compensation expenses were first included in professional, consulting and management, and then

reclassified to financial costs on the consolidated statements of comprehensive loss.

(c) Convertible Debenture

Under IFRS, the conversion feature of convertible financial instrument is presumed to be classified as financial liabilities unless it meets all the criteria to recognize as equity instrument under IAS 32, and the conversion feature must be separately accounted for at fair value on initial recognition. The carrying amount of the debt component, on initial recognition, is recalculated as the difference between the proceeds of the convertible debentures as a whole and the fair value of the conversion feature. Transaction costs are allocated to the debt and derivative components in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to the derivative component are expensed, while cost allocated to the debt component are offset against the carrying amount of the liability and included in the determination of the effective interest rate. Subsequent to initial recognition, the derivative component is re-measured at fair value at the end of each reporting period while the debt component is accreted to the face value of the debt using the effective interest method.

In 2010, the Company issued three convertible debenture notes, which had conversion features to allow the holder of the debentures to convert the debentures into common shares of the Company based on five-business-day-volume-weighted-average price prior to the election of conversion less 25% discount. Given the conversion price is not fixed on the inception date and the number of shares the Company may deliver vary depending on the trading prices around the date of conversion, the conversion feature does not meet the criteria to be recognized as equity instrument, and accordingly, the Company recorded adjustments to

- i) Reclassify the conversion feature of the notes from equity to derivative liabilities;
- ii) Re-measure the proceeds allocated to the debt and derivative components on initial recognition;
- iii) Expense the transaction costs allocated to the derivative component;
- iv) Capitalize the transaction costs allocated to the debt component against the carrying amount of the liabilities; and,
- v) Re-measure the derivative component at fair value at each reporting dates.

The impact of these adjustments as at September 30, 2010 and for the three months and nine months ended were to increase derivative liabilities by \$318,580, decrease convertible debentures by \$1,062,180, decrease contributed surplus by \$1,531,857, increase interest expenses, which was included in finance costs on the consolidated statements of comprehensive loss, by \$91,536, and increase gain on derivative instruments by \$242,633.

(d) Accounting Changes

Upon conversion to IFRS, the Company reviewed the amortization method of the mineral property, plant and equipment in accordance with IAS 16 and decided to change the amortization method of the plant and equipment used at the Bucko Lake Mine to straight line method from unit of production method effective January 1, 2010. The change was accounted for as a change in estimate and applied prospectively in accordance with IAS 8. The impact of this change in amortization method was that additional \$1,060,345 and \$3,468,108 amortization expenses were recorded for the three months and nine months ended September 30, 2010, respectively. The tax effect of this adjustment was that income tax recoveries of \$283,539 and \$928,350 were recorded for the three months and nine months ended September 30, 2010 respectively and \$1,444,431 for the year ended December 31, 2010.

(e) Reclassification

Certain accounts and figures presented under CGAAP have been regrouped and reclassified to conform to the

current presentation under IFRS.

NEW ACCOUNTING PRONOUNCEMENTS

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 – Income taxes that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Joint ventures

In May 2011, the IASB issued IFRS 11 - Joint Arrangements (“IFRS 11”), which supersedes IAS 31 - Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (“joint operators”) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (“joint venturers”) have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

The Company's only joint venture partnership, Pure Nickel Joint Venture, was dissolved during the nine months ended September 30, 2011, and therefore, IFRS 11 should have no impact on its consolidated financial statements.

Consolidation

In May 2011, the IASB issued IFRS 10 - Consolidated Financial Statements (“IFRS 10”), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 - Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor’s power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor’s returns through its power over the investee.

In addition, the IASB issued IFRS 12 - Disclosure of Interests in Other Entities (“IFRS 12”) which combines and enhances the disclosure requirements for the Company’s subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company’s interests in other entities, and the effects of those interests on the Company’s consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 - Investments in Associates (“IAS 28”) were

revised and reissued as IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures to align with the new consolidation guidance.

The Company does not anticipate the application of IFRS 10 to have a material impact on its consolidated financial statements.

Fair value measurement

In May 2011, as a result of the convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 - Fair Value Measurement ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

The Company does not anticipate the application of IFRS 13 to have a material impact on its consolidated financial statements.

Financial statement presentation

In June 2011, the IASB issued amendments to IAS 1 - Presentation of Financial Statements ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

Financial instruments

The IASB intends to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 - Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at Fair Value Through Profit or Loss (FVTPL), financial guarantees and certain other exceptions. The complete IFRS 9 is anticipated to be issued during the second half of 2011. On July 22, 2011, the IASB tentatively agreed to defer the mandatory effective date of IFRS 9 from annual periods beginning on or after January 1, 2013 (with earlier application permitted) to annual periods beginning on or after January 1, 2015 (with earlier application still permitted). The IASB will propose the deferral of IFRS 9 in an exposure draft with a 60 day comment period.

The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

RISK MANAGEMENT

The Company is exposed to many risks in conducting its business, including but not limited to: metal price risk as the Company derives its revenue from the sale of nickel and credits from the sale of cobalt, copper, and platinum; credit risk in the normal course of dealing with other companies; foreign exchange risk as all revenue of the Company is in US dollars; the inherent risk of uncertainties in estimating mineral reserves and mineral resources; political risks; and environmental risks and risks related to its relations with employees. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. For a complete discussion of the risks, refer to the Company's annual management discussion and analysis for the year ended December 31, 2010 and its 2010 Annual Information Form, available on the SEDAR website, www.sedar.com.

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 King Place and Hebei Wenfeng

King Place Enterprises Ltd. ("King Place") is currently one of the major shareholders of the Company, and Hebei Wenfeng Industrial Group Limited ("Hebei Wenfeng") is affiliated party of King Place. During the three and nine months ended September 30, 2010, the Company completed two convertible debt financing with King Place in the aggregated amount of \$13.5 million which carrying a coupon rate of 10% and entitled King Place to convert any amounts owing including accrued interest into common shares of the Company at a price equal to five-day volume weighted average price at the time of conversion less the maximum discount allowed under the regulation of Toronto Stock Exchange (the "TSX"). However, King Place may not convert any portion of the amounts outstanding hereunder in excess of the amount that would result in the obligation to issue an aggregate number of shares exceeding 58,356,471 common shares without prior approval of disinterested shareholders and TSX.

During the quarter ended March 31, 2011, the Company repaid \$10.0 million convertible debentures. In April 2011, the Company received approvals from disinterested shareholders of the Company as well as from TSX and issued 258,819,703 common shares to King Place to retire the remaining convertible debentures and accrued interest with a total amount of \$11.4 million at conversion price of \$0.0437 per share, which was the price equal to 75% of the volume weighted average price of the Company shares on five trading days (from March 15 to March 21, 2011) pursuant to the terms of the convertible debentures notes. As at September 30, 2011, the outstanding balance of the convertible debentures was \$nil (December 31, 2010 - \$20.6 million).

In May 2011, the Company arranged one year term debt facility of up to US\$5.0 million (the "Loan") with Hebei Wenfeng. The Loan may be drawn down in 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 structuring fee to Hebei Wenfeng. As at September 30, 2011, the outstanding balance being drawn down from the Loan was US\$5.0 million (December 31, 2010 - \$nil).

(b) Transactions with Dumas

Dumas Contracting Ltd. ("Dumas"), was a related party of the Company as Dumas is a subsidiary of Pala Investments Holdings Limited ("Pala"), who was a major shareholder and had two representatives on the Board of Directors of the Company. In June 2010, Pala disposed all its interest in the Company to King Place and Dumas

ceased to be a related party of the Company. During the period from January 2010 to June 2010, the Company paid \$8.7 million to Dumas for its mining contracting work provided to the Company. During the year ended December 31, 2010, the Company had transactions with Dumas amounted to \$21.0 million. In December 2010, Dumas commenced legal action against the Company for the amount outstanding and in question, and on March 16, 2011, the Company reached a settlement agreement with Dumas to settle the claims from Dumas and the legal action and the lien were discharged during the period ended March 31, 2011. No other transaction with Dumas was conducted during the period ended September 30, 2011.

(c) Transactions with LJ Resources Limited

LJ Resources Limited ("LJ"), a private entity associated to 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 nine months ended September 30, 2011, the Company paid \$45,000 (three months ended September 30, 2010 - \$nil) and \$135,000 (nine months ended September 30, 2010 - \$nil), respectively to LJ for their services provided.

(d) 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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Salaries and fees	\$ 187,126	\$ 646,251	\$ 425,626	\$ 1,406,588
Stock based compensation	198,349	\$ 248,928	339,683	653,457
	\$ 385,475	\$ 895,179	\$ 765,309	\$ 2,060,045

CONTINGENCIES

- a) Met-Chem Canada Inc. ("Met-Chem") has made a claim against the Company for amount of \$260,000, plus interest at the Royal Bank of Canada Prime Rate + 2% from March 2009 to date of payment. No formal action has been commenced by Met-Chem to enforce a claim for payment. The Company claims for damages and/or set-off to Met-Chem debt is currently under review by counsel.
- b) During the nine months September 30, 2011, the Company commenced a legal action against Total Equipment Services and Total Electric System Inc for their breach of contract and claimed a refund of \$0.3 million prepayment and a loss of damage to be determined by the court. The actual results are not determinable as at the date of this report.

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, 54,810,000 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 320,000,000 share purchase warrants were outstanding with an exercise prices ranging from \$0.10 to \$0.21 expiring between January 16, 2012 and 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

Disclosure controls and procedures have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of disclosure controls and internal control over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the three and nine months ended September 30, 2011.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. However, the Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud or on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There have been no changes in the Company's internal control over financial reporting during the three and nine month period ended September 30, 2011 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 development potential of the Company's properties; the future price of nickel and other minerals; foreign exchange rates; the estimation of mineral reserves and mineral resources; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; 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 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.