ROYAL NICKEL CORPORATION

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

Royal Nickel Corporation

Table of Contents

Management's Responsibility for Financial Reporting 2

Independent Auditor's Report 3

Balance Sheets 4

Statements of Comprehensive Loss 5

Statements of Cash Flows 6

Statements of Changes in Equity 7

Notes to Financial Statements 8

Royal Nickel Corporation

Management’s Responsibility for Financial Reporting

The accompanying financial statements for Royal Nickel Corporation are the responsibility of Management. The financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions that were complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards applicable to the preparation of financial statements.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced. Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Corporation and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Corporation. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Corporation for issuance to the shareholders.

Management recognizes its responsibility for conducting the Corporation’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

/s/ Tyler Mitchelson

Tyler Mitchelson
President and Chief Executive Officer

/s/ Fraser Sinclair

Fraser Sinclair
Chief Financial Officer

Toronto, Canada

March 26, 2013

March 26, 2013

Independent Auditor's Report

To the Shareholders of Royal Nickel Corporation

We have audited the accompanying financial statements of Royal Nickel Corporation, which comprise the balance sheets as at December 31, 2012 and 2011 and the statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Royal Nickel Corporation as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

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Royal Nickel Corporation

Balance Sheets

(Expressed in thousands of Canadian dollars)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	**$ 10,760**	$ 19,741
Amounts receivable and prepaids	**479**	855
Tax credits receivable	**7,340**	10,450
	18,579	31,046
Non-current assets		
Tax credits receivable	**2,401**	630
Deposits and prepaids	**206**	-
Property, plant and equipment (note 3)	**967**	1,000
Intangible assets (note 4)	**144**	153
Mineral property interests (note 5)	**56,750**	53,539
Total assets	**$ 79,047**	$ 86,368
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,773**	$ 2,420
Deferred share units (note 8)	**554**	699
Restricted share units (note 8)	**881**	808
Current portion of finance lease obligation (note 6)	**20**	46
	3,228	3,973
Non-current liabilities		
Deferred share units (note 8)	**-**	1
Restricted share units (note 8)	**-**	2
Share appreciation rights (note 8)	**2**	-
Finance lease obligation (note 6)	**-**	20
Deferred income tax liability (note 14)	**7,804**	5,631
Total Liabilities	**11,034**	9,627
EQUITY		
Share capital (note 7)	**95,922**	95,045
Contributed surplus	**22,823**	23,266
Deficit	**(50,732)**	(41,570)
Total equity	**68,013**	76,741
Total liabilities and equity	**$ 79,047**	$ 86,368

The notes to the financial statements are an integral part of these financial statements.

Royal Nickel Corporation

Statements of Comprehensive Loss

(Expressed in thousands of Canadian dollars, except share and per share numbers)

	Year ended December 31,	
	2012	2011
Expenses		
General and administrative (note 10)	**$ 7,506**	$ 6,354
Operating Loss	**(7,506)**	(6,354)
Interest income	**224**	445
Loss before income tax	**(7,282)**	(5,909)
Deferred income tax expense (note 14)	**1,880**	1,842
Loss and comprehensive loss for the year	**$ (9,162)**	$ (7,751)
Loss per share		
Basic and diluted (note 11)	**$ (0.10)**	$ (0.09)

The notes to the financial statements are an integral part of these financial statements.

Royal Nickel Corporation

Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Year ended December 31, 2012	2011
Cash flow provided by (used in)		
OPERATING ACTIVITIES		
Loss	**$ (9,162)**	$ (7,751)
Items not involving cash:		
Depreciation and amortization	**123**	128
Deferred income tax expense	**1,880**	1,842
Share-based payments (note 8)	**248**	(506)
	(6,911)	(6,287)
Changes in working capital:		
Amounts receivable, prepaids and deposits	**170**	(269)
Tax credit receivable	**59**	-
Accounts payable and accrued liabilities	**(83)**	(1,266)
	(6,765)	(7,822)
INVESTING ACTIVITIES		
Expenditures on mineral property interests	**(16,621)**	(26,157)
Net tax credits and mining duties received (paid)	**2,513**	(186)
Sale of NSR and interest, net of transaction costs (note 5)	**11,783**	-
Acquisition of intangible assets (note 4)	**(43)**	(40)
Acquisition of property, plant and equipment (note 3)	**(89)**	(208)
Proceeds from disposal of property, plant and equipment (note 3)	**8**	-
	(2,449)	(26,591)
FINANCING ACTIVITIES		
Issuance of shares, net of issue costs	**-**	5,947
Exercise of options and warrants for cash	**279**	761
Principal payments on finance leases	**(46)**	(36)
	233	6,672
Change in cash and cash equivalents	**(8,981)**	(27,741)
Cash and cash equivalents, beginning of period	**19,741**	47,482
Cash and cash equivalents, end of period	**$ 10,760**	$ 19,741
Components of cash and cash equivalents are as follows:		
Cash	**$ 9**	$ 117
Cash equivalents	**10,751**	19,624
	$ 10,760	$ 19,741
SUPPLEMENTAL INFORMATION		
Interest paid	**$ 28**	$ 30
Share-based payments in mineral property interests	**126**	151
Depreciation of property, plant and equipment in mineral property interests	**64**	53
Mining property interest included in accounts payable and accrued liabilities	**1,167**	1,750
Additions to property, plant and equipment included in accounts payable and accrued liabilities	**9**	-
Property, plant and equipment recorded pursuant to a finance lease	**-**	45

The notes to the financial statements are an integral part of these financial statements.

Royal Nickel Corporation

Statements of Changes in Equity

(Expressed in thousands of Canadian dollars, except share numbers)

	Share Capital		Contributed		
	Number	Amount	Surplus	Deficit	Total Equity
Balance as at January 1, 2012	**88,876,618**	**$ 95,045**	**$ 23,266**	**$ (41,570)**	**$ 76,741**
Exercise of warrants for cash	800,000	280	-	-	280
Exercise of warrants on a cashless basis (note 9)	127,648	-	-	-	-
Fair value of warrants exercised	-	482	(482)	-	-
Shares issued for redemption of restricted share units	3,000	2	-	-	2
Shares issued for redemption of deferred share units	262,666	113	-	-	113
Share-based payments	-	-	332	-	332
Tax effect of warrant expiry (note 14)	-	-	(293)	-	(293)
Loss and comprehensive loss for the period	-	-	-	(9,162)	(9,162)
Balance as at December 31, 2012	**90,069,932**	**$ 95,922**	**$ 22,823**	**$ (50,732)**	**$ 68,013**
Balance as at January 1, 2011	**84,231,203**	**$ 88,600**	**$ 22,029**	**$ (33,819)**	**$ 76,810**
Shares issued for exercise of over-allotment option	2,925,000	6,581	-	-	6,581
Share issue costs of over-allotment option, net of deferred income taxes of $163	-	(391)	(81)	-	(472)
Warrant valuation of over-allotment option	-	(812)	812	-	-
Broker warrant valuation of over-allotment option	-	(121)	121	-	-
Exercise of stock options	600,000	210	-	-	210
Fair value of stock options exercised	-	164	(164)	-	-
Exercise of warrants	1,103,750	552	-	-	552
Fair value of warrants exercised	-	244	(244)	-	-
Shares issued for redemption of restricted share units	16,665	18	-	-	18
Share-based payments	-	-	793	-	793
Loss and comprehensive loss for the year	-	-	-	(7,751)	(7,751)
Balance as at December 31, 2011	**88,876,618**	**$ 95,045**	**$ 23,266**	**$ (41,570)**	**$ 76,741**

The notes to the financial statements are an integral part of these financial statements.

Notes to Financial Statements

(Expressed in thousands of Canadian dollars, except share and per share numbers)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Royal Nickel Corporation (the "Corporation" or "RNC") was incorporated on December 13, 2006 under the Canada Business Corporations Act. The Corporation's registered office is located at 220 Bay Street, Suite 1200, Toronto, Ontario, Canada.

The principal business of the Corporation is the acquisition, exploration, evaluation and development of mineral property interests. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for mineral property interests is dependent upon the development of economically recoverable reserves, confirmation of the Corporation's interest in the underlying mineral claims, the ability of the Corporation to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such property at a profit. Changes in future conditions could require material write downs of the carrying values of mineral property interests.

Although the Corporation has taken steps to verify title to the property on which it is conducting exploration and in which it is acquiring an interest, in accordance with industry standards for the current stage of exploration and evaluation of such property, these procedures do not guarantee the Corporation's title. Property title may be subject to unregistered prior agreements, aboriginal claims and noncompliance with regulatory requirements.

As at December 31, 2012, the Corporation had a working capital of $15,351, including cash and cash equivalents of $10,760, an accumulated deficit of $50,732 and incurred a loss of $9,162 for the year then ended.

Management of the Corporation believes that it has sufficient funds to pay its ongoing general and administrative expenses, to pursue exploration and evaluation activities and to meet its liabilities, obligations and existing commitments for the ensuing twelve months as they fall due, provided that the Corporation receives the tax credits receivable from the Quebec government in a timely manner (or secures financing against the tax credit) or is able to secure other forms of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Corporation's ability to continue future operations beyond December 31, 2013 and fund its exploration and evaluation expenditures is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways including but not limited to, the issuance of new debt or equity instruments. Management will pursue such additional sources of financing when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Corporation or that they will be available on terms which are acceptable to the Corporation.

The financial statements were authorized for publication by the Board of Directors on March 26, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The significant accounting policies used in the preparation of these financial statements are described below.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies set out below have been applied consistently to both years presented in these financial statements.

(b) Basis of measurement

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(c) Financial Instruments

Financial assets:

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(ii) Other financial liabilities: Financial liabilities at amortized cost include accounts payable and accrued liabilities and capital lease obligation. Accounts payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. Accounts payables and accrued liabilities are measured at amortized cost using the effective interest method. Capital lease obligation are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as

current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Corporation's financial instruments consist of the following:

Financial assets:	**Classification:**
Cash and cash equivalents	Loans and receivables
Amounts receivable	Loans and receivables

Financial liabilities:	**Classification:**
Accounts payable and accrued liabilities	Other financial liabilities
Finance lease obligation	Other financial liabilities

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

(d) Property, plant and equipment

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Repairs and maintenance costs are charged to the statement of comprehensive loss during the period in which they are incurred.Depreciation is recognized based on the cost of an item of PPE, less its estimated residual value, over its estimated useful life at the following rates:

Detail	Percentage	Method
Land	nil	none
Building	5%	Declining balance
Vehicles	30%	Declining balance
Furniture and equipment	20%	Declining balance
Computer equipment	30%	Declining balance

An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

An item of PPE is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of comprehensive loss.

Where an item of PPE consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(e) Identifiable intangible assets

The Corporation’s intangible assets include computer software with finite useful lives. These assets are capitalized and amortized at a 30% declining balance basis in the statement of comprehensive loss.

(f) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of comprehensive loss in the period in which they are incurred.

(g) Mineral property interest

The Corporation is in the exploration and evaluation stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration and evaluation of mineral claims and crediting all proceeds received for farm-out arrangements, recovery of costs, and sale of a royalty against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling.

The Corporation recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Upon transfer of “Exploration and evaluation expenses” into “Mine Development”, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within “Mine development”. After production starts, all assets included in “Mine development” are transferred to “Producing Mines”. At such time as commercial production commences, these costs will be charged to operations on a unit of production method based on proven and probable reserves.

(h) Impairment of non-financial assets

Property, plant and equipment, intangible assets and mineral property interests are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset

does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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 for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

(i) Flow-through shares

The Corporation may finance some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Corporation recognizes a deferred tax liability for flow-through shares and a deferred tax expense, at the moment the eligible expenditures are incurred. The difference between the quoted price of the common shares or the amount recognized in common shares and the amount the investors pay for the shares (the "premium") is recognized as an other liability which is reversed as a deferred tax recovery when eligible expenditures have been made.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and highly liquid investments, including high interest savings accounts with monthly distribution of interest, having maturity dates of three months or less from the date of purchase, which are readily convertible to known amounts of cash.

(k) Provisions

A provision is recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Share-based payment transactions

Stock options:

The fair value of share options granted to employees is recognized as an expense, or capitalized to mineral property interest over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Corporation.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Deferred and restricted share units and share appreciation rights:

A liability for deferred share units, restricted share units, and share appreciation rights is measured at fair value on the grant date and is subsequently adjusted at each financial position reporting date for changes in fair value. The liability is recognized over the vesting period or using management's best estimate when contractual provisions restrict vesting until formal approval by the Compensation Committee, with a corresponding charge as an expense or capitalized to mineral property interests.

(m) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or in equity, in which case it is recognized in other comprehensive income or in equity, respectively.

Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes since such taxes are based on a percentage of mining profits.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are not recognized where the temporary difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that does not affect either accounting or taxable profit or loss, other than where the initial recognition of such an asset or liability arises in a business combination. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as non-current. Assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities or deferred tax assets against deferred tax liabilities and the respective assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(n) Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, evaluation, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of a plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The Corporation also records a corresponding asset amount which is amortized over the remaining service life of the asset.

(o) Loss per share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, compensation warrants, options, deferred and restricted share units outstanding that may add to the total number of common shares.

(p) Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs.

(q) Refundable tax credits for mining exploration expenses

The Corporation is entitled to a refundable tax credit on qualified mining exploration expenses incurred in the province of Quebec. The credit is accounted for against the related exploration and evaluation expenses incurred in mineral property interests.

(r) Segment disclosures

The Corporation currently operates in a single segment - the acquisition, exploration, evaluation and development of mineral properties. All of the Corporation's activities are conducted in Quebec, Canada.

(s) Significant judgments in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements require management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the financial statements.

Areas of significant judgment and estimates affecting the amounts recognized in the financial statements include:

1. Impairment of non-financial assets

   The recoverable amounts with respect to non-financial assets are based on numerous assumptions and may differ significantly from actual recoverable amounts. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Corporation's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The Corporation's recoverable amount estimates are based on numerous assumptions. The recoverable amount estimates may differ from actual recoverable amounts and these differences may be significant and could have a material impact on the Corporation's financial position and result of operations. Assets are reviewed for an indication of impairment at each balance sheet date or when a triggering event is identified. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, an expiry of the right to explore in the specific area during the period or will expire in the near future, and is not expected to be renewed; substantive exploration and evaluation expenditures in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Corporation has decided to discontinue such activities in the specific area; sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale; significant negative industry or economic trends; interruptions in exploration and evaluation activities; and a significant drop in current or future nickel prices.

   A number of judgments were made in the determination of our asset groups. If a different conclusion had been reached for any one of those assumptions, it could have resulted in the identification of asset groups different from those actually identified.

2. Recognition of deferred income tax assets and the measurement of income tax expense

   Management continually evaluates the likelihood that it is probable that its deferred tax assets will be realized. This requires Management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, Management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

3. Valuation of share-based payments

   The Corporation records all share-based payments using the fair value method. The Corporation uses the Black-Scholes model to determine the fair value of stock options, share appreciation rights, warrants and broker warrants. The main factor affecting the estimates of the fair value of stock options, share appreciation rights, warrants, and broker warrants is the expected volatility of the stock price. The Corporation currently estimates the expected volatility of its common shares based on comparable information derived from the trading history of guideline public companies which are in a similar situation to the Corporation taking into consideration the expected life of the share-based payment arrangement.

4. Cash and cash equivalents

The Corporation holds investments in highly liquid money market investment funds (i.e. high interest savings funds). The determination of whether a money market fund qualifies as a cash equivalent requires significant judgment. In determining whether such investments qualify as cash equivalents, the Corporation considers the following criteria: whether all investments held by the fund qualify individually as cash equivalents, the fund's management and investment policies, and any position papers issued by the associated financial institution or others.

5. Income mining taxes and refundable tax credits

The Corporation is subject to income and mining taxes in some jurisdictions. Significant judgement is required in determining the total provision for income taxes. Refundable tax credits for mining exploration expenses for the current and prior periods are measured at the amount expected to be recovered from the tax authorities as at the balance sheet date. Uncertainties exist with respect to the interpretation of tax regulations, including mining duties for losses and refundable tax credits, and the amount and timing of collection. The determination of whether expenditures qualify for exploration tax credits requires significant judgment involving complex technical matters which makes the ultimate tax collection uncertain. As a result, there can be a material difference between the actual tax credits received following final resolution of these uncertain interpretation matters with the relevant tax authority and the recorded amount of tax credits. This difference would necessitate an adjustment to tax credits for mining exploration expenses in future periods. The resolution of issues with the relevant tax authority can be lengthy to resolve. As a result, there can be a significant delay in collecting tax credits for mining exploration expenses. Tax credits for mining exploration expenses that are expected to be recovered beyond one year are classified as non-current assets. The amounts recognized in the financial statements are derived from the Company's best estimation and judgment as described above. However, the inherent uncertainty regarding the ultimate approval by the relevant tax authority means that the ultimate amount collected in tax credits and timing thereof could differ materially from the accounting estimates and therefore impact the Corporation's balance sheet and cash flow.

6. Going Concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital and exploration and evaluation activities involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. An area of significant judgment in assessing whether the going concern assumption is appropriate relates to the expected timing of collecting the tax credits receivable from the Quebec government or to secure its financing on a timely basis.

(t) New accounting standards not yet adopted

Unless otherwise noted, the following revised standards and amendments that currently have relevance to the Corporation are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IAS 1, Presentation of Financial Statements, ("IAS 1")
IAS 1 was amended to change the disclosure of items presented in Other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be reclassified to profit or loss in the future. This amendment is required to be applied for years beginning on or after July 1, 2012. The Corporation does not expect any impact from this amendment.

IFRS 9, Financial Instruments ("IFRS 9")
IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010, and they mainly carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for years beginning on or after January 1, 2015. The Corporation has not yet assessed the impact of this standard or determined whether it will early adopt it.

IFRS 10, Consolidated Financial Statements, ("IFRS 10")
IFRS 10 replaces parts of IAS 27, Consolidated and Separate Financial Statements and all of SIC-12, Consolidation – Special Purpose Entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Corporation. The remainder of IAS 27, Separate Financial Statements, now contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates only when an entity prepares separate financial statements and is therefore not currently applicable in the Corporation's financial statements.

IFRS 11, Joint Arrangements, ("IFRS 11")
IFRS 11 replaces IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 requires a single method, known as the equity method, to account for interests in jointly controlled entities which is consistent with the accounting treatment currently applied to investments in associates. IAS 28, Investments in Associates and Joint Ventures, was amended as a consequence of the issuance of IFRS 11. In addition to prescribing the accounting for investment in associates, it now sets out the requirements for the application of the equity method when accounting for joint ventures. The Corporation does not currently have any joint ventures as at December 31, 2012.

IFRS 12, Disclosure of Interest in Other Entities, ("IFRS 12")
IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11. The Corporation has not yet assessed the impact of this standard.

IFRS 13, Fair Value Measurement, ("IFRS 13")
IFRS 13 provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The Corporation has not yet assessed the impact of this standard.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, ("IFRIC 20")
On October 19, 2011, the IFRS Interpretation Committee published IFRIC 20 that applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 clarifies the requirements for accounting for stripping costs in the production phase of a surface mine. It provides guidance on when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Corporation has not incurred stripping costs as at December 31, 2012.

3. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Vehicles	Furniture and equipment	Computer equipment	Total
Year ended December 31, 2012						
Opening net book amount	$ 102	$ 575	$ 90	$ 182	$ 51	**$ 1,000**
Additions	-	18	-	63	27	**108**
Disposals	-	-	(6)	-	-	**(6)**
Depreciation for the year	-	(41)	(26)	(48)	(20)	**(135)**
Closing net book amount	**$ 102**	**$ 552**	**$ 58**	**$ 197**	**$ 58**	**$ 967**
At December 31, 2012						
Cost	$ 102	$ 779	$ 182	$ 368	$ 134	**$ 1,565**
Accumulated depreciation	-	(227)	(124)	(171)	(76)	**(598)**
Net book amount	**$ 102**	**$ 552**	**$ 58**	**$ 197**	**$ 58**	**$ 967**
Year ended December 31, 2011						
Opening net book amount	$ 102	$ 563	$ 51	$ 106	$ 50	$ 872
Additions	-	59	64	112	18	253
Depreciation for the year	-	(47)	(25)	(36)	(17)	(125)
Closing net book amount	$ 102	$ 575	$ 90	$ 182	$ 51	$ 1,000
At December 31, 2011						
Cost	$ 102	$ 761	$ 218	$ 305	$ 107	$ 1,493
Accumulated depreciation	-	(186)	(128)	(123)	(56)	(493)
Net book amount	$ 102	$ 575	$ 90	$ 182	$ 51	$ 1,000

The carrying value of property, plant and equipment held under finance leases at December 31, 2012 was $27 (2011: $85). Additions during the year include $nil (2011: $45) of property, plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

4. INTANGIBLE ASSETS

		Computer Software
Year ended December 31, 2012		
Opening net book amount	$	153
Additions		43
Amortization for the period		(52)
Closing net book amount	**$**	**144**
At December 31, 2012		
Cost	$	405
Accumulated amortization		(261)
Net book amount	**$**	**144**
Year ended December 31, 2011		
Opening net book amount	$	171
Additions		40
Amortization for the year		(58)
Closing net book amount	$	153
At December 31, 2011		
Cost	$	362
Accumulated amortization		(209)
Net book amount	$	153

5. MINERAL PROPERTY INTERESTS

Exploration and evaluation expenses	Dumont	Jefmar	Marbridge	Total
Balance January 1, 2012	**$ 51,969**	**$ 475**	**$ 1,095**	**$ 53,539**
Property acquisition costs	302	-	-	**302**
Depreciation	64	-	-	**64**
Drilling	4,222	-	10	**4,232**
Engineering	3,906	-	-	**3,906**
Environmental	1,575	-	-	**1,575**
Geological	2,047	-	4	**2,051**
Site activities and metallurgical testing	3,980	-	-	**3,980**
Share-based payments	126	-	-	**126**
Option payment received	-	(10)	-	**(10)**
Sale of NSR and interest, net of transaction costs	(11,783)	-	-	**(11,783)**
Quebec refundable tax credits	(1,232)	-	-	**(1,232)**
Balance December 31, 2012	**$ 55,176**	**$ 465**	**$ 1,109**	**$ 56,750**
Balance January 1, 2011	$ 32,935	$ 469	$ 1,085	$ 34,489
Property acquisition costs	40	-	-	40
Depreciation	53	-	-	53
Drilling	14,370	-	-	14,370
Engineering	3,505	-	-	3,505
Environmental	1,049	-	-	1,049
Geological	1,303	26	10	1,339
Site activities and metallurgical testing	6,494	-	-	6,494
Share-based payments	151	-	-	151
Option payment received	-	(20)	-	(20)
Quebec refundable tax credits	(7,931)	-	-	(7,931)
Balance December 31, 2011	$ 51,969	$ 475	$ 1,095	$ 53,539

(a) Dumont Property

The Dumont Property consists of contiguous mineral claims. Specifically, the property is located primarily in Launay and partly in Trecesson townships in the Abitibi Region in the province of Quebec.

(i) Griffis International Mineral Claims:

The Griffis International Ltd. ("Griffis") mineral claim block was originally held by Griffis, but a 100% interest in the claims was sold and transferred to the Corporation under an agreement dated January 15, 2007. The agreement with Griffis was not subject to any further future consideration, work commitment requirement or Net Smelter Return royalty ("NSR").

(ii) Marbaw International Nickel Corporation Mineral Claims:

The Marbaw International Nickel Corporation ("Marbaw") mineral claim block was held by Marbaw and was sold and transferred to the Corporation, for consideration that included future consideration, under an agreement dated March 8, 2007.

The future consideration is the issuance of 7 million shares in the Corporation to Marbaw upon the property being placed into commercial production or upon transfer (including through a merger, consolidation or asset purchase) of the property to a third party.

The Corporation also committed to incurring a minimum expenditure of $8,000 on the property prior to ceasing operations, which commitment has been completed. The Marbaw mineral claims are also subject to a 3% NSR royalty payable to Marbaw and the Corporation has the right to buy back half of the 3% NSR for $10,000 at any time.

(iii) Sheridan-Ferderber Mineral Claims:

The Sheridan-Ferderber mineral claim block comprises contiguous claims that were originally held on a 50% basis by Terrence Coyle and 50% basis by Michel Roby, but they were optioned to Patrick Sheridan and Peter Ferderber under an agreement dated October 26, 2006. The option agreement was subsequently assigned to the Corporation through an agreement dated May 4, 2007.

Royal Nickel exercised its option to acquire 100% interest during 2008.

These claims are subject to a 2% NSR royalty payable to Terrence Coyle (1%) and Michel Roby (1%). The Corporation has the right to buy back half of this 2% NSR for $1,000 at any time. An advance royalty of $5 per year, which began on October 26, 2011, is also payable to Coyle and Roby.

If the Corporation decides not to continue with the claims, it must reassign the claims in good standing to Sheridan-Ferderber.

(iv) Frigon-Robert Mineral Claims

The Frigon-Robert mineral claim block comprises two contiguous claims totalling 83.84 hectares. The claims were originally held 50% by Jacques Frigon and 50% by Gérard Robert. They were transferred to RNC through a purchase agreement dated November 1, 2010.

These claims are subject to a 2% NSR royalty payable to Jacques Frigon (1%) and Gérard Robert (1%). The Corporation has the right to buy back half of this 2% NSR for $1,000 at any time.

(v) Ressources Québec Claims

On August 1, 2012, the Corporation entered into a $12 million investment agreement with Ressources Québec. Pursuant to the agreement between the Corporation and Ressources Québec, the Corporation received $12 million and Ressources Québec is entitled to receive 0.8% of the NSR from the sale of minerals produced from Dumont and received a 2% undivided co-ownership interest in the property. The Corporation has the right to repurchase, at any time after the fifth anniversary, all or any portion of

Ressources Québec's interest for $10 million for each 0.2% of the NSR, to a maximum consideration of $40 million for the entire interest (including the 2% interest in the property). The investment was recorded as a reduction to Dumont's mineral property interest.

(b) Jefmar Property

On March 26, 2008, the Corporation acquired from Jefmar Inc. ("Jefmar") a 100% interest in 14 mining claims ("Jefmar Property") in the La Motte Township in the province of Quebec. These claims are subject to a 2% NSR payable to Jefmar Inc. The Corporation has the right to buy back half of this 2% NSR for $1,000 at any time with a minimum of 60 days notice to Jefmar.

On April 26, 2011, the Corporation finalized an agreement with Glen Eagle Resources Inc. ("Glen Eagle"). Under the terms of the agreement, the Corporation granted an option and established the terms of a joint venture agreement regarding a 70% of an undivided specific claim included in the Corporation's Jefmar property. The Corporation received cash option payments of $20. The agreement requires Glen Eagle to pay additional option payments totalling $40 and to spend $450 in exploration expenses over three years to earn its 70% in the claim.

(c) Marbridge property

On April 22, 2009, the Corporation finalized an agreement to acquire a 100% ownership interest in the Marbridge property, from Xstrata Nickel for a total cash consideration of $1,000, comprised of two mining concessions in the La Motte Township in the province of Quebec.

6. FINANCE LEASE LIABILITIES

		2012		2011
Gross finance lease liabilities – minimum lease payments				
Within one year	**$**	**21**	$	50
Between two and five years		**-**		21
		21		71
Future finance charges on finance leases		**(1)**		(5)
Present value of finance lease liabilities		**20**		66
Present value of finance lease liabilities are repayable as follows:				
Within one year		**20**		46
Between one and five years		**-**		20

7. SHARE CAPITAL

(a) Over-Allotment Issuance

On January 13, 2011, pursuant to the underwriting agreement dated December 9, 2010, the Corporation issued 2,925,000 units (the “Units”) at a price of $2.25 per Unit for gross proceeds of $6,581. Each Unit consisted of one common share and one-half of one common share purchase warrant, pursuant to the exercise of the Over-Allotment Option by a syndicate of underwriters. Each whole warrant entitled the holder to acquire one common share at a price of $3.00 until December 15, 2012. The fair value of the 1,462,500 warrants issued was estimated at $812 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield 0%; expected volatility 75%; risk free rate of return 1.77% and expected maturity of two years.

The Corporation granted the underwriters non-transferable warrants to purchase such number of common shares equal to 6% of the aggregate number of securities sold pursuant to the Over-Allotment Option at a price of $2.25 per common shares, for a period of 18 months from the date of closing. The fair value of the 175,500 warrants was estimated at $121 using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield 0%, expected volatility 60%, risk free rate of return 1.67% and an expected maturity of 1.5 years.

8. SHARE INCENTIVE PLAN

In June 2010, the shareholders adopted a new share incentive plan (the "Plan"), replacing the previous share incentive plan. The Plan provides for granting of share options and other share-based awards for the purpose of advancing the interests of the Corporation through the motivation, attraction and retention of key officers, directors, employees and consultants of the Corporation. The maximum number of common shares made available pursuant to the share option and other share-based awards plans (such as share appreciation rights, restricted share units, deferred share units, restricted shares, performance shares and performance share units and other equity based or equity related awards) shall not exceed 15% and 10% respectively of the issued and outstanding common shares at the date of grant.

Annually, up to $125 (prior to April 2011, up to $225) of the fees otherwise payable to a director can be taken in the form of deferred share units, subject to limits under the Plan.

Share purchase options

The maximum number of common shares made available as option shares under the Plan will not exceed 15% of the issued and outstanding shares at the time of the grant. The normal vesting under the Plan, unless otherwise determined by the Compensation Committee of the Board of Directors, is the following: 33.33% at the first anniversary of the grant, 33.33% on the second anniversary of the grant, and 33.34% on the third anniversary of the grant. Under the Plan the expiry date of stock options may not exceed ten years from the date of grant.

In 2012, 957,000 options were granted (2011: 740,000) and the weighted average fair value of share purchase options granted during the year, as estimated at the time of grant, was $0.30 (2011: $0.54). This was calculated using the Black-Scholes option pricing model, using the following weighted average assumptions:

	Year ended December 31,	
	2012	2011
Share price	**$0.46**	$0.80
Exercise price	**$0.50**	$0.80
Risk free interest rate	**1.4%**	1.6%
Expected life	**6 years**	6 years
Expected forfeiture rate	**5%**	3%
Expected volatility	**75%**	76%
Expected dividends	**nil**	nil

The following table reflects the continuity of share purchase options for the years ended December 31, 2012 and 2011:

	Number of Options	Weighted Average Exercise Price
Balance January 1, 2012	7,241,583	$ 1.73
Granted	957,000	0.50
Forfeited	(130,000)	2.12
Expired	(108,333)	2.46
Balance December 31, 2012	**7,960,250**	**$ 1.56**
Balance at January 1, 2011	8,297,583	$ 1.78
Granted	740,000	0.80
Exercised	(600,000)	0.35
Forfeited	(121,332)	2.03
Expired	(1,074,668)	2.24
Balance December 31, 2011	7,241,583	$ 1.73

The weighted average share price at the date of the exercise in 2011 was $1.93 per share. There were no options exercised in 2012.

As at December 31, 2012, the Corporation had the following share purchase options outstanding:

	Options Outstanding			Options Exercisable		
Exercise Price Range	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
$0.35–$0.99	2,722,000	7.01	$0.42	1,910,667	5.91	$0.40
$1.00–$1.99	525,000	5.71	$1.04	475,000	5.42	$1.03
$2.00–$2.50	4,713,250	6.18	$2.28	4,713,250	6.18	$2.28
	7,960,250	**6.43**	**$1.56**	**7,098,917**	**6.05**	**$1.69**

Deferred share units

Under the Plan, a participant is only entitled to payment in respect of the deferred share units when the participant ceases to be an employee or director of the Corporation or any affiliate thereof for any reason. Upon termination, the Corporation shall on such date as determined by the Corporation redeem each vested deferred share unit for, at the option of the participant, (i) one common share of the Corporation or (ii) an amount in cash equal to the fair market value of a common share of the Corporation on the date of redemption. The expense is recorded in the statement of comprehensive loss in general and administrative expenses or capitalized to mineral property interests and credited to liabilities under deferred share units since the payment in cash or common shares is at the option of the participant.

In 2012, 178,570 deferred share units were granted all of which were in lieu of director fees and vested immediately. In 2011, 306,387 deferred share units were granted, 181,387 of which vested immediately, and the remaining vests 33.33% on the first anniversary and 33.34% on the second anniversary. Included in the deferred share units which vested immediately in 2011 were 118,887 units that were granted in lieu of director fees.

In 2012, 262,666 deferred share units (2011: nil) were redeemed for 262,666 common shares of the Corporation.

The following table reflects the continuity of deferred share units for the years ended December 31, 2012 and 2011:

	Number of Deferred Share Units
Balance January 1, 2012	1,385,554
Granted	178,570
Redeemed	(262,666)
Forfeited	(31,334)
Balance December 31, 2012	**1,270,124**
Balance January 1, 2011	1,079,167
Granted	306,387
Balance December 31, 2011	1,385,554

As at December 31, 2012, 1,215,959 deferred share units are vested.

Restricted share units
Under the Plan, redemption of vested restricted share units shall take place no later than the third anniversary of the date of grant. Upon redemption of vested units, the participant has the option to receive (i) the number of underlying common shares of the Corporation or (ii) cash equal to the multiple obtained if the number of vested restricted units is multiplied by the fair market value of a common share of the Corporation on the redemption date, or iii) a combination of common shares of the Corporation and cash. The expense is recorded in the statement of comprehensive loss in general and administrative expenses or capitalized to mineral property interests and credited to liabilities under restricted share units since the payment in cash or common shares is at the option of the participant.

In 2012, 593,188 restricted share units were granted all of which vested immediately pursuant to management's election to receive restricted share units in lieu of a portion of an annual cash bonus. In 2011, 764,239 restricted share units were granted, 707,572 of which vested immediately, and the remaining vests 33.33% on the first anniversary and 33.34% on the second anniversary. Included in the restricted share units which vested immediately in 2011 were 679,239 units that management elected to receive in lieu of a portion of an annual cash bonus.

In 2012, 3,000 restricted share units (2011: 16,665) were redeemed for 3,000 (2011: 16,665) common shares of the Corporation.

The following table reflects the continuity of restricted share units for the years ended December 31, 2012 and 2011:

	Number of Restricted Share Units
Balance January 1, 2012	1,510,239
Granted	593,188
Redeemed	(3,000)
Balance December 31, 2012	**2,100,427**
Balance January 1, 2011	802,000
Granted	764,239
Redeemed	(16,665)
Forfeited	(39,335)
Balance December 31, 2011	1,510,239

As at December 31, 2012, the weighted average remaining contractual life of the outstanding restricted share units is 1.81 years and 2,088,761 restricted share units are vested.

Share Appreciation Rights

Under the Plan, participants have the potential right to receive a cash payment on the redemption of a vested share appreciation right which shall not be later than the tenth anniversary of the date of grant. Such cash payment will be equal to the amount if any, by which the fair market value of a common share of the Corporation on the date of redemption exceeds the fair market value of a common share of the Corporation on the date of grant (the "Base Price).

In December 2012, 837,000 share appreciation rights were granted (2011: nil) with the following vesting conditions:

(i) 499,000 share appreciation rights vest if: A) the Corporation completes a strategic or equity partner transaction that provides for a significant portion of the equity component of the overall financing for the Dumont nickel project, provided that such transaction occurs on or before December 14, 2015; and (B) the Compensation Committee approves of the redemption of the SARs having regard to the Corporation's financial condition, project status and overall market conditions. Vested SARs shall be redeemed on the redemption date specified by the Compensation Committee.

(ii) The remaining 338,000 share appreciation rights vest if the Compensation Committee passes a resolution approving the redemption of the SARs having regard to the Corporation's financial condition, project status and overall market conditions, provided that the number of SARs to vest will be dependent upon the length of service of the director as follows: one-third will not be dependent on the length of service and shall vest subject to the Committee approval referred to above, one-third will only vest subject to the Committee approval referred to above if the director is still serving as a director on the first anniversary of the date of grant and the remaining one-third will only vest subject to the Committee approval referred to above if the director is still serving as a director on the second anniversary of the date of grant. Vested SARs shall be redeemed on the redemption date specified by the Compensation Committee.

The fair value of share appreciation rights outstanding at the end of the period, as estimated as at December 31, 2012, was $0.23 (2011: nil). This was calculated using the Black-Scholes option pricing model, using the following assumptions:

	Year ended December 31,	
	2012	2011
Share price	**$0.42**	-
Base Price	**$0.40**	-
Risk free interest rate	**1.3%**	-
Expected life	**3.7 years**	-
Expected forfeiture rate	**5%**	-
Expected volatility	**75%**	-
Expected dividends	**nil**	-

The following table reflects the continuity of share appreciation rights for the year ended December 31, 2012:

	Number of Share Appreciation Rights	Weighted Average Base Price
Balance January 1, 2012	-	$ -
Granted	837,000	0.40
Balance December 31, 2012	**837,000**	**$ 0.40**

As at December 31, 2012, the weighted average remaining contractual life of the outstanding share appreciation rights is 9.95 years and nil share appreciation rights are exercisable.

The expense (recovery) recognized from share-based transactions for employee services received during the year is shown in the following table:

	2012	2011
Equity settled share-based payment transactions		
Share purchase options	**$ 213**	$ 551
Total equity settled share-based payment transactions	**213**	551
Cash settled share-based payment transactions		
Deferred share units	**175**	530
Restricted share units	**240**	615
Share appreciation rights	**2**	-
Mark-to-market adjustment for deferred and restricted share units and share appreciation rights	**(382)**	(2,202)
Total cash settled share-based payment transactions	**35**	(1,057)
Total expense (recovery) arising from share-based payment transactions	**$ 248**	$ (506)

The carrying amounts of the liabilities relating to deferred and restricted share units and share appreciation rights at December 31, 2012, are $554, $881 and $2 respectively (2011: $700, $810, and $nil respectively).

9. WARRANTS AND COMPENSATION WARRANTS

On June 29, 2012, the Corporation amended the terms of 1,300,000 unlisted warrants, exercisable at $0.35 per share until July 19, 2012 and held by a corporation controlled by a former director of the Corporation, to add a cashless exercise feature. On July 16, 2012, 150,000 of these warrants were exercised for cash proceeds of $52 and the remaining 1,150,000 warrants were exercised using the cashless exercise feature. A total of 277,648 common shares were issued in connection with the exercise of these warrants.

The following table reflects the continuity of warrants and compensation warrants for the year ended December 31, 2012 and 2011:

	Number of Warrants	Number of Compensation Warrants	Weighted Average Exercise Price
Balance January 1, 2012	15,282,027	35,555	$ 2.53/2.25
Exercised for cash	(800,000)	-	0.35/-
Exercised on a cashless basis	(1,150,000)	-	0.35/-
Expired	(13,332,027)	(35,555)	2.85/2.25
Balance December 31, 2012	-	-	$ -
Balance January 1, 2011	15,793,627	199,291	$ 2.38/2.25
Issued pursuant to initial public offering over-allotment (note 7)	1,462,500	-	3.00/-
Issued as payments of agent fees pursuant to initial public offering (note 7)	175,500	-	2.25/-
Exercised	(1,103,750)	-	0.50/-
Expired	(1,045,850)	(163,736)	3.00/2.25
Balance December 31, 2011	15,282,027	35,555	$ 2.53/2.25

The weighted average share price at the date of the exercise was $0.47 per share (2011: $1.91).

10. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2012	2011
Expense by nature:		
Salaries, wages and benefits	**$ 2,396**	$ 2,390
Share-based payments (note 8)	**248**	(506)
Professional fees	**681**	960
Consulting fees	**1,257**	393
Public company expenses	**133**	122
Office and general	**1,109**	1,172
Conference and travel	**305**	290
Investor relations	**726**	1,061
Business development	**528**	344
Depreciation and amortization	**123**	128
	$ 7,506	$ 6,354

11. LOSS PER SHARE

	Year ended December 31,	
	2012	2011
Loss available to common shareholders	**$ (9,162)**	$ (7,751)
Weighted average number of common shares	**89,770,478**	88,507,830
Loss per share – basic and diluted	**$ (0.10)**	**$** (0.09)

The effect of potential issuances of shares under share options, warrants, compensation warrants, deferred share units and restricted share units would be anti-dilutive for the years ended December 31, 2012 and 2011, and accordingly, basic and diluted loss per share are the same.

12. RELATED PARTY TRANSACTIONS

Remuneration of key management (includes the Corporation's directors and executive team).

	Year ended December 31,	
	2012	2011
Management salaries and benefits	**$ 1,564**	$ 1,535
Directors fees	**255**	274
Share-based payments – Management	**508**	1,380
Share-based payments - Directors	**153**	508
Mark-to-market adjustment for share-based payments	**(438)**	(2,435)
	$ 2,042	$ 1,262
Administrative and general expenses:		
Consulting fees paid to a director and officer	**$ 11**	$ 142

A director elected to take director fees of $94 (2011: $150) in deferred share units which were accounted for as share-based payments.

Termination and Change of Control Provisions

Certain employment agreements between the executive team and the Corporation contain termination without cause and change of control provisions. Assuming that all members of the executive team had been terminated without cause on December 31, 2012, the total amounts payable to the executive team in respect of severance and accelerated vesting of share-based awards that are redeemable in cash would have totaled $3,015 and $4 respectively. If a change of control had occurred on December 31, 2012, the total amounts payable to the executive team in respect of severance, if elected by each executive team member, and accelerated vesting of share-based awards that are redeemable in cash would have totaled $3,015 and $10 respectively.

13. CONTINGENCIES AND COMMITMENTS

The Corporation is committed to minimum amounts under operating lease agreements primarily for office and warehouse space. As at December 31, 2012, minimum commitments remaining under these leases were approximately $1,400 over the following years:

	2012
2013	$ 404
2014	376
2015	354
2016	266
	$ 1,400

Under the agreement dated March 8, 2007 to acquire the 100% interest of Marbaw mineral claims in the Dumont Property, the Corporation will issue 7 million shares to Marbaw upon the property being placed into commercial production or upon transfer of the property to a third party.

14. INCOME TAX

The major components of income tax expense are as follows:

	2012	2011
Tax expense applicable to:		
Current Taxes	**$ -**	$ -
Deferred Taxes		
Income taxes – origination and reversal of temporary differences	**(1,169)**	630
Mining taxes – origination and reversal of temporary differences	**1,606**	1,036
Relating to change in tax rates/imposition of new tax laws	**(244)**	1,050
Relating to unrecognized temporary differences	**1,687**	302
Relating to amortization of flow through share premium	**-**	(1,176)
	1,880	1,842
Total tax expense	**$ 1,880**	$ 1,842

A reconciliation between tax expense and the product of accounting loss multiplied by the Corporation's domestic tax rate is as follows:

	2012	2011
Statutory tax rate	**26.07%**	27.37%
Tax benefit of statutory rate	**$ (1,898)**	$ (1,617)
Expenses not deductible/(taxable) for income tax purposes	**509**	(178)
Tax effect of renounced flow through share expenditures	**-**	2,445
Amortization of flow through share premiums	**-**	(1,176)
Quebec mining duties, net of tax	**1,606**	1,036
Impact of change in provincial deferred income tax rate	**(244)**	(29)
Impact of change in Quebec mining duties rate, net of tax	**-**	1,079
Tax effect of unrecognized temporary difference and tax losses	**1,979**	302
Benefit of loss recognized against expired warrants	**(292)**	-
Other	**220**	(20)
Total tax expense	**$ 1,880**	$ 1,842

The 2012 statutory tax rate of 26.07% differs from the 2011 statutory tax rate of 27.37% because of enacted federal tax rate reductions.

The Corporation offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefits of the following temporary differences have been recognized in the financial statements:

	Balance January 1, 2012	Recognized in Profit and Loss	Recognized in Equity	Balance December 31, 2012
Deferred tax assets/(liabilities):				
Loss carry-forward	$ 5,649	$ 3,490	$ (293)	**$ 8,846**
Property, plant and equipment	(14)	(2)	-	**(16)**
Financing costs	891	(279)	-	**612**
Mining property interests	(12,169)	(5,083)	-	**(17,252)**
Other	12	(6)	-	**6**
Net deferred tax assets/(liabilities)	**$ (5,631)**	**$ (1,880)**	**$ (293)**	**$ (7,804)**

	Balance January 1, 2011	Recognized in Profit and Loss	Recognized in Equity	Balance December 31, 2011
Deferred tax assets/(liabilities):				
Loss carry-forward	$ 2,676	$ 2,973	$ -	$ 5,649
Property, plant and equipment	81	(95)	-	(14)
Financing costs	1,105	(377)	163	891
Mining property interests	(6,657)	(5,512)	-	(12,169)
Other	19	(7)	-	12
Net deferred tax assets/(liabilities)	$ (2,776)	$ (3,018)	$ 163	$ (5,631)

The tax benefits of the following unused tax losses and deductible temporary differences have not been recognized in the financial statements:

	2012	2011
Tax loss carry-forwards		
Expire 2032	**$ 13,461**	$ 5,914

The Corporation is subject to federal income taxes, provincial income taxes, and provincial mining taxes. Tax laws are complex and can be subject to different interpretations. Uncertainties exist with respect to the interpretation of tax regulations, including the determination of which mining exploration expenditures are eligible for refundable tax credits, and the amount and timing of collection. The Corporation has prepared its tax provision based on the interpretations of tax laws which it believes represent the probable outcome. The Corporation may be required to change its provision for income taxes if the tax authorities ultimately are not in agreement with the Corporation's interpretation.

15. FINANCIAL RISK FACTORS

Financial Instruments

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. The Corporation's management manages financial risks. The Corporation does not enter into financial instruments agreements, including derivative financial instruments for speculative purposes. The Corporation’s main financial risks exposure and its financial policies are as follows:

Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Corporation's credit risk is primarily attributable to amounts receivable and cash and cash equivalents. Amounts receivable mainly consists of interest receivable from Canadian chartered banks, goods and services tax due from the Federal and Quebec governments, and mining tax credits due from the Quebec government. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is

minimal. The Corporation reduces its risk by maintaining its cash and cash equivalents investments in financial instruments, held with major Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Corporation will not have sufficient cash resources to meet its financial obligations as they come due. The Corporation’s liquidity and operating results may be adversely affected by delays in receiving the tax credits receivable from the Quebec government and if the Corporation’s access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation. The Corporation generates cash flow primarily from its financing activities. As at December 31, 2012, the Corporation had cash and cash equivalents of $10,760 to settle current liabilities of $3,228. All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms with the exception of obligations under capital lease. The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates.

Interest rate risk

The Corporation has cash balances and the Corporation's current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of December 31, 2012, the Corporation had $10,760 invested with various Canadian chartered banks bearing interest at variable rates. Sensitivity to a plus or minus 1% change in the rates would affect the reported net income by approximately $108.

Fair value risk

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and obligations under capital lease approximate their fair values due to their relatively short periods to maturity.

16. CAPITAL MANAGEMENT

The capital of the Corporation consists of items included in shareholder's equity of $68,013 as at December 31, 2012 (2011: $76,741). The properties in which the Corporation currently has an interest are in the exploration and the evaluation stage. As such the Corporation is dependent on external financing to fund its activities. In order to carry out the planned exploration and evaluation program and pay for administrative costs, the Corporation will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions and manages its capital with the following objectives by:

(i) maintaining a liquidity cushion in order to address any potential disruptions or industry downturns;

(ii) minimizing discretionary disbursements;

(iii) reducing or eliminating exploration and evaluation expenditures which are of limited strategic value; and

(iv) exploring alternate sources of liquidity with an objective to minimize cost of capital.

In light of the above, the Corporation will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is appropriate.

There were no changes in the Corporation's approach to capital management during year ended December 31, 2012. The Corporation is not subject to externally imposed capital requirements. Changes in capital are described in the Statement of Changes in Equity.

17. Subsequent Event

On March 7, 2013 the Corporation closed a private placement of 4,000,000 flow-through shares at a price of $0.50 per flow-through share for gross proceeds of $2,000. Marquest Capital Markets and Casimir Capital Ltd. acted as the agents for the placement. The Corporation paid Marquest and Casimir a cash commission of $120 and issued 240,000 broker warrants exercisable for one year to acquire up to 240,000 common shares at a price of $0.50 per share.