



ROYAL NICKEL CORPORATION

AUDITED FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012



Royal Nickel Corporation

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Royal Nickel Corporation

Management's Responsibility for Financial Reporting

The accompanying financial statements for Royal Nickel Corporation are the responsibility of the 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/ Mark Selby

/s/ Fraser Sinclair

Mark Selby
Interim President and Chief Executive Officer

Fraser Sinclair
Chief Financial Officer

Toronto, Canada
February 27, 2014



February 27, 2014

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, 2013 and 2012 and the statements of comprehensive loss, cash flows and changes in equity for the years ended December 31, 2013 and 2012, 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, 2013 and 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, permit No. A122718



Royal Nickel Corporation

Balance Sheets

(Expressed in thousands of Canadian dollars)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$11,908	\$10,760
Amounts receivable and prepaids	385	479
Tax credits receivable (note 15)	3,329	7,340
	15,622	18,579
Non-current assets		
Collateral investment (note 14)	2,000	-
Tax credits receivable (note 15)	192	2,401
Deposits and prepaids	174	206
Property, plant and equipment (note 3)	943	967
Intangible assets (note 4)	101	144
Mineral property interests (note 5)	55,805	56,750
Total assets	\$74,837	\$79,047
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$1,078	\$1,773
Deferred share units (note 8)	384	554
Restricted share units (note 8)	643	881
Current portion of finance lease obligation (note 6)	23	20
	2,128	3,228
Non-current liabilities		
Share appreciation rights (note 8)	25	2
Finance lease obligation (note 6)	47	-
Deferred income tax liability (note 15)	10,019	7,804
Total liabilities	12,219	11,034
EQUITY		
Share capital (note 7)	98,164	95,922
Contributed surplus	21,926	22,823
Deficit	(57,472)	(50,732)
Total equity	62,618	68,013
Total liabilities and equity	\$74,837	\$79,047

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,	
	2013	2012
Expenses		
General and administrative (note 10)	\$5,271	\$7,506
Mineral property interests write-down (note 5)	163	-
Operating loss	(5,434)	(7,506)
Finance income	189	224
Loss before income tax	(5,245)	(7,282)
Deferred income tax expense (note 15)	1,495	1,880
Loss and comprehensive loss for the period	\$(6,740)	\$(9,162)
Loss per share		
Basic and diluted (note 11)	\$(0.07)	\$(0.10)

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)

Cash flow provided by (used in)	Year ended December 31,	
	2013	2012
OPERATING ACTIVITIES		
Loss for the period	\$(6,740)	\$(9,162)
Items not involving cash		
Depreciation and amortization	88	123
Deferred income tax expense	1,495	1,880
Mineral property interests write-down (note 5)	163	-
Share-based payments (note 8)	13	248
	(4,981)	(6,911)
Changes in non-cash working capital		
Amounts receivable, prepaids and deposits	123	170
Redemption of restricted share units	(165)	-
Tax credit receivable	39	59
Accounts payable and accrued liabilities	(209)	(83)
	(5,193)	(6,765)
INVESTING ACTIVITIES		
Net expenditures on mineral property interests	(12,206)	(16,621)
Collateral investment (note 14)	(2,000)	-
Net tax credits and mining duties received	4,230	2,513
Sale of NSR, net of transaction costs (note 5)	14,540	11,783
Proceeds from disposal of property, plant and equipment	21	8
Acquisition of intangible assets (note 4)	-	(43)
Acquisition of property, plant and equipment	(9)	(89)
	4,576	(2,449)
FINANCING ACTIVITIES		
Issuance of shares, net of issue costs (note 7)	1,806	-
Exercise of options and warrants for cash	-	279
Principal payments on finance leases	(41)	(46)
	1,765	233
Change in cash and cash equivalents	1,148	(8,981)
Cash and cash equivalents, beginning of period	10,760	19,741
Cash and cash equivalents, end of period	\$11,908	\$10,760
Components of cash and cash equivalents:		
Cash	\$150	\$9
Cash equivalents	11,758	10,751
	\$11,908	\$10,760
SUPPLEMENTAL INFORMATION		
Interest paid	\$33	\$28
Share-based payments in mineral property interests	67	126
Depreciation of property, plant and equipment in mineral property interests	63	64
Property, plant and equipment recorded pursuant to a finance lease	91	-
Additions to property, plant and equipment included in accounts payable and accrued liabilities	-	9
Mineral property interests included in accounts payable and accrued liabilities	693	1,167

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 Surplus	Deficit	Total Equity
	Number	Amount			
Balance as at January 1, 2013	90,069,932	\$95,922	\$22,823	\$(50,732)	\$68,013
Private placement — flow through common shares	4,000,000	2,000	-	-	2,000
Flow-through share premium on issuance	-	(720)	-	-	(720)
Private placement issue costs	-	(194)	-	-	(194)
Warrant valuation — private placement	-	(12)	12	-	-
Exercise of stock options on a cashless basis (note 8)	42,379	-	-	-	-
Fair value of share purchase options exercised (note 8)	-	1,141	(1,141)	-	-
Shares issued for redemption of restricted share units	100,000	27	-	-	27
Share-based payments	-	-	232	-	232
Loss and comprehensive loss for the period	-	-	-	(6,740)	(6,740)
Balance as at December 31, 2013	94,212,311	\$98,164	\$21,926	\$(57,472)	\$62,618
Balance as at January 1, 2012	88,876,618	\$95,045	\$23,266	\$(41,570)	\$76,741
Exercise of warrants	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 15)	-	-	(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

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



Royal Nickel Corporation

Notes to Financial Statements

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

1. NATURE OF OPERATIONS AND LIQUIDITY

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 several factors including, but not limited to, completion of the acquisition of the mineral property interests, the discovery of economically recoverable reserves, confirmation of the Corporation's interest in the underlying mineral claims, obtaining the necessary development permits, and 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, 2013, the Corporation had working capital of \$13,494, had an accumulated deficit of \$57,472 and incurred a loss of \$6,740 for the year then ended. Working capital included current tax credits receivable of \$3,329 and cash and cash equivalents of \$11,908.

Management believes that the Corporation has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. 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 and fund its exploration, evaluation and development activities 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, a combination of strategic partnerships, joint venture arrangements, project debt finance, offtake financing, royalty financing and other capital markets alternatives. 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 February 27, 2014.



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2. BASIS OF PREPARATION AND ADOPTION OF NEW ACCOUNTING STANDARDS

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 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:

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.

Other financial liabilities: Financial liabilities at amortized cost include accounts payable and accrued liabilities and finance 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. Finance lease obligations 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 and deposits	Loans and receivables
Collateral investment	Loans and receivables

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

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.

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 comprise 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, 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 limited 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 another 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 high interest savings accounts with monthly distribution of interest, which can be withdrawn at any time without any penalty.

(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

Share options:

The fair value of share options granted to employees is recognized as an expense, or capitalized to mineral property interests, 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.



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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 each period for the unwinding of the discount rate, and if required, for changes to the current market based discount rate, amount and 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 that the transaction occurs.

(q) Refundable tax credits for mining exploration expenses

The Corporation is entitled to a refundable tax credit on eligible mining exploration expenses incurred in the province of Quebec. The tax 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:

(i) 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 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 results of operations. Asset groups 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 forecast nickel prices.

A number of judgments were made in the determination of 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.

(ii) 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.

(iii) Valuation of share-based payments

The Corporation records all share-based payment transactions at fair value which is estimated by using the Black–Scholes model. The Black–Scholes option pricing model requires the input of highly subjective assumptions that can materially affect the fair value estimate. These inputs involve estimates of interest rates, expected life of the share-based payment arrangements, and share price volatility. The expected volatility is determined by calculating the average historical volatility of the Corporation's, and a group of comparable companies', common share price over the most recent period that is generally commensurate with the expected life of the share-based payment arrangement. In addition, the Corporation is required to estimate the forfeiture rate, which impacts the timing of amounts being recorded.

(iv) 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, based on management's best estimate and judgment, from the tax authorities as at the balance sheet date. Uncertainties exist with respect to the interpretation of tax regulations, including credit on mining duties refundable for losses and refundable tax credits for eligible exploration expenses, 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



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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 Corporation'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.

(v) Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital and exploration, evaluation and development 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 amount and timing of collecting the tax credits receivable from the Quebec government or to secure its financing on a timely basis.

(t) Changes in accounting policies and disclosures

The Corporation adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

The Corporation adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Corporation to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments.

The Corporation adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

(u) Recent accounting pronouncements not yet adopted

IFRS 9, "Financial Instruments," was issued in November 2009 and early adoption is permitted. This standard will replace IAS 39, "Financial Instruments: Recognition and Measurement." This standard presents two measurement categories: amortized cost and fair value. The standard specifies which kind of financial instruments are measured at amortized cost or at fair value. Guidance on financial liabilities and de-recognition of financial instruments is also included. The Corporation is in the process of assessing the impact of this new standard on its consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

**3. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Vehicles	Furniture and equipment	Computer equipment	Total
Year ended December 31, 2013						
Opening net book amount	\$102	\$552	\$58	\$197	\$58	\$967
Additions	-	91	-	-	-	91
Disposals	-	-	(7)	-	-	(7)
Depreciation for the year	-	(30)	(15)	(46)	(17)	(108)
Closing net book amount	\$102	\$613	\$36	\$151	\$41	\$943
At December 31, 2013						
Cost	\$102	\$870	\$125	\$368	\$134	\$1,599
Accumulated depreciation	-	(257)	(89)	(217)	(93)	(656)
Net book amount	\$102	\$613	\$36	\$151	\$41	\$943
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

The carrying value of property, plant and equipment held under finance leases at December 31, 2013 was \$89 (2012: \$27). Additions during the year include \$91 (2012: \$nil) of property, plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease liabilities.



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4. INTANGIBLE ASSETS

	Computer Software
Year ended December 31, 2013	
Opening net book amount	\$144
Additions	-
Amortization for the period	(43)
Closing net book amount	\$101
At December 31, 2013	
Cost	\$405
Accumulated amortization	(304)
Net book amount	\$101
Year ended December 31, 2012	
Opening net book amount	\$153
Additions	43
Amortization for the year	(52)
Closing net book amount	\$144
At December 31, 2012	
Cost	\$405
Accumulated amortization	(261)
Net book amount	\$144



5. MINERAL PROPERTY INTERESTS

The current principal asset of the Corporation is the Dumont Nickel Project (“Dumont”) where a mineral reserve has been delineated. The Corporation has other exploration assets, consisting of (i) the Jefmar property and (ii) the Marbridge property. It has not yet been determined whether these other properties contain an economic mineral reserve or resource.

Exploration and evaluation expenses	Dumont	Jefmar	Marbridge	Total
Balance as at January 1, 2013	\$55,176	\$465	\$1,109	\$56,750
Property acquisition costs	476	-	-	476
Depreciation	63	-	-	63
Drilling	1,235	-	1	1,236
Engineering	4,266	-	-	4,266
Environmental	501	-	-	501
Geological	2,010	-	17	2,027
Site activities and metallurgical testing	3,178	2	-	3,180
Share-based payments	67	-	-	67
Cash option payments received	-	(10)	-	(10)
Sale of NSR, net of transaction costs	(14,540)	-	-	(14,540)
Net Quebec refundable tax credits	1,952	-	-	1,952
Write down for expired claims	-	(163)	-	(163)
Balance as at December 31, 2013	\$54,384	\$294	\$1,127	\$55,805
Balance as at 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
Cash option payments received	-	(10)	-	(10)
Sale of NSR, net of transaction costs	(11,783)	-	-	(11,873)
Quebec refundable tax credits	(1,232)	-	-	(1,232)
Balance as at December 31, 2012	\$55,176	\$465	\$1,109	\$56,750

(a) Dumont property

The Dumont property is located primarily in Launay and partly in Trecesson townships in the Abitibi Region in the province of Quebec and consists of 233 contiguous mineral claims totalling 9,306.5 hectares. The mineral properties comprising Dumont are all mineral claims. RNC holds 100% beneficial interest in five claims. Beneficial interest in the remaining 228 claims is held 98% by RNC and 2% by Ressources Québec Inc., a subsidiary of Investissement Québec, and held under the terms of the agreement entered into by the Corporation and Ressources Québec Inc. on August 1, 2012. The Dumont mineral claims are subject to various royalty agreements arising from terms of the property acquisitions by the Corporation or through the sale of royalties. The details of the underlying agreements are described below.

(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



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dated January 15, 2007. The agreement with Griffis was not subject to any further future consideration, work commitment requirement or Net Smelter Return ("**NSR**") royalty.

(ii) Marbaw royalty

The Marbaw International Nickel Corporation ("**Marbaw**") property comprises an area totalling 2,639.0 hectares. This area originally consisted of 65 claims. Thirty-four of these claims were ground-staked claims that were converted to map-staked claims by the Quebec Ministry of Natural Resources ("**MNR**") in 2013. This property was originally held by Marbaw, but a 100% interest in the claims was sold and transferred to the Corporation for future consideration under an agreement dated March 8, 2007, that included future consideration.

Future consideration consisted of the following: (1) issuance of seven million shares in the Corporation to Marbaw upon the property being placed into commercial production or upon transfer of the property to a third party; (2) payment of \$1,250 to Marbaw on March 8, 2008. This amount has been paid by the Corporation.

The Corporation also committed to incurring a minimum expenditure of \$8,000 on the property prior to ceasing operations. This commitment was met in 2008. The Marbaw property is subject to a 3% NSR royalty payable to Marbaw. The Corporation has the right to buy back half of the 3% NSR royalty for \$10,000 at any time.

This property is subject to the Ressources Québec royalty and RK Mine Finance ("**Red Kite**") royalty.

(iii) Coyle–Roby royalty

The Sheridan–Ferderber property comprises an area of 256.47 hectares corresponding to six historical contiguous ground-staked claims. The claims corresponding to the Sheridan–Ferderber property were converted to map-staked claims by the MNR in 2013.

The property was originally held 50% by Terrence Coyle and 50% 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.

The Corporation's option to acquire 100% interest in this property was exercised by the completion of \$75 in work on the property before October 26, 2008 and by paying \$10 to Coyle–Roby by October 26, 2007 and \$30 to Coyle–Roby by October 26, 2008. The claims were transferred 100% to the Corporation on August 25, 2008.

The property is 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 royalty for \$1,000 at any time. An advance royalty of \$5 per year is also payable to Coyle–Roby beginning in 2011. Advance royalty payments up to and including October 2013 have been made.

These claims are subject to the Ressources Québec royalty and Red Kite royalty.



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(iv) Frigon–Robert royalty

The Frigon–Robert property 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 the Corporation through a purchase agreement dated November 1, 2010.

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

These claims are subject to the Ressources Québec royalty and Red Kite royalty.

(v) Pershimco claims (Pershimco royalty)

The Pershimco mineral claim block comprises five claims totalling 195.64 hectares. The claims were originally held 100% by Pershimco Resources. The Corporation purchased these claims for \$30 pursuant to an agreement dated March 18, 2013. These claims are subject to a 3% NSR royalty payable to Pershimco Resources. The Corporation has the option to buy back the NSR royalty in stages at any time by paying \$1,000 for the first percent, \$3,000 for the second percent and \$6,000 for the third percent.

As these claims were acquired after the Ressources Québec agreement, they are not subject to the Ressources Québec royalty but are subject to the Red Kite royalty.

(vi) Ressources Québec royalty

On August 1, 2012, the Corporation entered into an investment agreement with Ressources Québec. Pursuant to the agreement, the Corporation received \$12 million and Ressources Québec became entitled to receive 0.8% of the net smelter return from the sale of minerals produced from Dumont and acquired 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 net smelter return, 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. The Ressources Québec royalty applies to all Dumont claims except the five Pershimco claims that were acquired after the Ressources Québec agreement.

(vii) Red Kite royalty

On May 10, 2013, the Corporation closed a royalty financing with RK Mine Finance (Red Kite). Under the terms of the financing, Red Kite acquired (through 8248567 Canada Limited) a 1% NSR royalty in the Dumont project for a purchase price of US\$15 million. The investment was recorded as a reduction to Dumont's mineral property interest. The Red Kite royalty applies to all Dumont claims.

(b) Jefmar property

On March 26, 2008, the Corporation signed a formal property acquisition agreement (the "**Jefmar Agreement**") with Jefmar Inc. ("**Jefmar**") relating to the acquisition of a 100% interest in 14 mining claims totalling 586 hectares (the "**Jefmar Property**") in the La Motte and Figuery townships, in the province of Quebec.

Pursuant to the terms of the Jefmar Agreement, the Corporation gave the following consideration for the acquisition of the Jefmar Property:



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- (i) Payment of \$70 to Jefmar;
- (ii) Issuance of 150,000 common shares to Jefmar; and
- (iii) A 2% NSR royalty granted to Jefmar. The Corporation has the right and option to buy back 1% of the NSR royalty for a price equal to \$1,000 with a minimum of 60 days prior written notice to Jefmar.

On September 10, 2010, the Corporation entered into a letter agreement with Glen Eagle Resources Inc. (“**Glen Eagle**”) on Jefmar property claim number 2116146 Lot 8, Range 6, La Motte township whereby Glen Eagle can earn 70% interest in this claim by completing exploration expenditures and making option payments to Royal Nickel over a three year period. The Option and Joint Venture agreement was finalized in April 2011. On September 1, 2013, the option period to complete \$450 in exploration expenditures was extended to September 10, 2015. Glen Eagle has completed a total of approximately \$343 in exploration expenditures to date, and has made the required option payment of \$10 by the September 10, 2013, anniversary date of the agreement to keep the option in good standing. Glen Eagle has completed a NI 43-101 Preliminary Economic Assessment dated January 22, 2013, for a lithium deposit that occurs partly on claim 2116146.

In 2013, five mining claims in the Jefmar Property claims group were allowed to expire as they were considered to have limited geological prospectivity for nickel and maintaining these claims was not consistent with the Corporation’s strategic objectives. As a result, the Corporation reduced its investment in the Jefmar Property by \$163 which represents the write-down of the acquisition costs for the five expired mining claims.

- (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. The Marbridge property is located 60 kilometres by road southeast of Dumont and 40 kilometres northwest of Val-d’Or. The Marbridge property comprises two mining concessions totalling 240 hectares in La Motte township in the province of Quebec.

6. FINANCE LEASE LIABILITIES

	2013	2012
Gross finance lease liabilities — minimum lease payments		
Within one year	\$28	\$21
Between two and five years	47	-
	75	21
Future finance charges on finance leases	(5)	(1)
Present value of finance lease liabilities	\$70	\$20
Present value of finance lease liabilities are repayable as follows:		
Within one year	\$23	\$20
Between one and five years	47	-
Total	\$70	\$20



7. SHARE CAPITAL

On March 7, 2013, the Corporation closed a brokered 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 (the “Offering”). In connection with the Offering, the Corporation recorded a \$720 flow-through share premium liability calculated as the difference between the share issuance price and the market price at the time of closing. The expenses of the Offering consisted of cash issue costs of \$194 and 240,000 broker warrants exercisable for one year to acquire up to 240,000 common shares at a price of \$0.50 per share. The fair value of the 240,000 warrants granted was estimated at \$12 using the Black–Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 75%, risk free rate of return 0.96% and an expected maturity date of one year.

8. SHARE INCENTIVE PLAN

The Corporation’s 2010 share incentive plan (the “Plan”), as amended and restated on March 26, 2013, provides for the granting of equity-based compensation securities, including options and 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 Plan provides for the issuance of share options and other equity-based awards including share appreciation rights, restricted shares, restricted share units, deferred share units, performance shares and performance share units. The Plan provides that the maximum number of common shares issuable upon the exercise of share options and made available as other equity-based awards, in aggregate, shall not exceed 15% of the issued and outstanding common shares from time to time.

Share Options

At the time of grant or thereafter, the Compensation Committee (the “Committee”) of the Board of Directors may determine when a share option will vest and become exercisable and may determine that the share option shall be exercisable in instalments on such terms as to vesting or otherwise as the Committee deems advisable subject to the rules of the Toronto Stock Exchange, if any. Unless otherwise determined by the Committee, share options will vest and become exercisable, as to one third of the share options granted, on each of the first, second and third anniversaries of the date of grant, provided that the participant is an eligible employee, eligible director, consultant or other participant at the time of vesting. Under the Plan, the expiry date of share options may not exceed ten years from the date of grant.

In 2013, 1,409,500 (2012: 957,000) share options were granted and the weighted average fair value of share options granted during the year, as estimated at the time of grant, was \$0.15 (2012: \$0.30). This was calculated using the Black–Scholes option pricing model, using the following weighted average assumptions:

	Year ended December 31,	
	2013	2012
Share price	\$0.27	\$0.46
Exercise price	\$0.27	\$0.50
Risk free interest rate	1.5%	1.4%
Expected life	4 years	6 years
Expected forfeiture rate	5%	5%
Expected volatility	75%	75%
Expected dividends	nil	nil



Under the terms of the Plan, the aggregate number of common shares issuable to insiders (comprising the officers and directors of the Corporation) and any other share compensation arrangement shall not exceed 10% of the common shares issued and outstanding at any time. As the Corporation has no source of operating income, resulting in limited cash resources, equity-based incentive compensation is a critical component of the compensation offered to directors and officers of the Corporation. Following an assessment of the equity-based awards held by insiders, the Corporation concluded that the pool of available share options was insufficient to provide insiders with the appropriate incentives to realize on the Company's business plans and to ultimately deliver value to the shareholders. As a result, the Corporation offered each insider to voluntarily cancel, for no consideration and effective December 31, 2013, their share options with an exercise price equal to or greater than \$2.00. All insiders elected to cancel all of their share options pursuant to the offer. As a result, 3,571,250 share options were cancelled effective December 31, 2013. There was no financial impact relating to the cancellation of these share options because all of the share options were fully vested at the time of cancellation.

In March 2013, the Corporation amended the terms of 600,000 share options, exercisable at \$0.35 per share until March 31, 2013, and held by a former director of the Corporation, to add a cashless exercise feature. On March 27, 2013, all 600,000 of these share options were exercised using the cashless exercise feature. The closing share price on the day prior to the exercise of these 600,000 share options was \$0.37 per share. A total of 42,379 common shares were issued in connection with the exercise of these share options.

The following table reflects the continuity of share options for the years ended December 31, 2013 and 2012:

	Number of Options	Weighted Average Exercise Price
Balance as at January 1, 2013	7,960,250	\$1.56
Granted	1,409,500	0.27
Cancelled	(3,571,250)	2.26
Exercised	(600,000)	0.35
Expired	(725,000)	2.15
Balance as at December 31, 2013	4,473,500	\$0.67

	Number of Options	Weighted Average Exercise Price
Balance as at January 1, 2012	7,241,583	\$1.73
Granted	957,000	0.50
Forfeited	(130,000)	2.12
Expired	(108,333)	2.46
Balance as at December 31, 2012	7,960,250	\$1.56



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As at December 31, 2013, the Corporation had the following share 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	
\$0.27–\$0.99	3,431,500	6.2	\$0.37	2,162,830	6.3	\$0.41	
\$1.00–\$1.99	525,000	4.7	\$1.04	525,000	4.7	\$1.04	
\$2.00–\$2.50	517,000	5.5	\$2.24	517,000	5.5	\$2.24	
	4,473,500	5.9	\$0.67	3,204,830	5.9	\$0.81	

Deferred Share Units

Under the Plan, a participant is only entitled to payment in respect of a deferred share unit when the participant ceases to be an employee or director of the Corporation or any affiliate thereof for any reason. Upon redemption of a vested unit, the participant has the option to receive (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 2013, 76,219 (2012: 178,570) deferred share units were granted all of which were in lieu of director fees and vested immediately.

In 2013, nil (2012: 262,666) deferred share units were redeemed for nil (2012: 262,666) common shares of the Corporation.

The following table reflects the continuity of deferred share units for the years ended December 31, 2013 and 2012:

	Number of Deferred Share Units
Balance as at January 1, 2013	1,270,124
Granted	76,219
Balance as at December 31, 2013	1,346,343

	Number of Deferred Share Units
Balance as at January 1, 2012	1,385,554
Granted	178,570
Redeemed	(262,666)
Forfeited	(31,334)
Balance as at December 31, 2012	1,270,124

As at December 31, 2013, all 1,346,343 deferred share units were 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. The Corporation has granted the following two types of restricted share units: i) cash settled units, and ii) units settled in cash and/or shares at the option of the participant. Upon redemption of vested units, the participant will either receive 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 for restricted share units with an option, the participant may choose to receive (i) the number of underlying common shares of the Corporation or ii) a combination of common shares of the Corporation and cash. The expense for both types of restricted share units 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 some units will settle for cash only, while other units will settle for cash or common shares at the option of the participant.

In 2013, 976,124 (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 2013, 819,000 (2012: 3,000) restricted share units were redeemed, 719,000 (2012: nil) of which were redeemed for cash at a weighted average redemption price of \$0.28 per restricted share unit for a total cash payment of \$204; and the remaining 100,000 (2012: 3,000) restricted share units were redeemed for 100,000 (2012: 3,000) common shares of the Corporation.

The following table reflects the continuity of restricted share units for the years ended December 31, 2013 and 2012:

	Number of Restricted Share Units
Balance as at January 1, 2013	2,100,427
Granted	976,124
Redeemed	(819,000)
Balance as at December 31, 2013	2,257,551

	Number of Restricted Share Units
Balance as at January 1, 2012	1,510,239
Granted	593,188
Redeemed	(3,000)
Balance as at December 31, 2012	2,100,427

Included in the 2,257,551 restricted share units outstanding as at December 31, 2013 are 976,124 units that can only be settled for cash.

As at December 31, 2013, the weighted average remaining contractual life of the outstanding restricted share units was 1.9 years and all restricted share units were vested.

Share Appreciation Rights

Under the Plan, participants have the potential right to receive a cash payment on the redemption of a share appreciation right provided that such share appreciation right has vested. 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



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the date of redemption exceeds the fair market value of a common share of the Corporation on the date of grant (the “**Base Price**”). The expense for share appreciation rights is recorded in the statement of comprehensive loss in general and administrative expenses or capitalized to mineral property interests, and credited to liabilities under share appreciation rights since these instruments will settle for cash only.

In 2013, 1,120,000 (2012: 837,000) share appreciation rights were granted. The vesting requirements for the share appreciation rights outstanding as at December 31, 2013 are as follows:

- (i) 499,000 share appreciation rights (the “**Performance SARs**”) 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 (the “**Performance Condition**”); and (B) the Committee approves of the redemption of the Performance SARs having regard to the Corporation’s financial condition, project status and overall market conditions (“**Performance SARs Approval Condition**”). Vested Performance SARs shall be redeemed on the redemption date specified by the Committee. If the Performance SARs have not become vested and been redeemed by the tenth anniversary (“**Expiry Date**”) of the date of grant, and the Performance Condition has been satisfied, such Performance SARs shall be automatically redeemed on the Expiry Date notwithstanding that the Performance SARs Approval Condition has not been met.
- (ii) The remaining 1,458,000 share appreciation rights (the “**Service Condition SARs**”) vest if the Committee passes a resolution approving the redemption of the Service Condition SARs having regard to the Corporation’s financial condition, project status and overall market conditions (“**Approval Condition**”), provided that the number of Service Condition SARs to vest will be dependent upon the length of service of the participant as follows: one-third will not be dependent on the length of service and shall vest upon the Approval Condition being met, a further one-third will vest upon the Approval Condition being met, provided that the participant is still serving as a director or employee of the Corporation on the first anniversary of the date of grant, and the remaining one-third will vest upon the Approval Condition being met, provided that the participant is still serving as a director or employee of the Corporation on the second anniversary of the date of grant. Vested Service Condition SARs shall be redeemed on the redemption date specified by the Committee. If the Service Condition SARs have not become vested and been redeemed by the expiry date, such Service Condition SARs shall be automatically redeemed on the expiry date notwithstanding that the Approval Condition has not been met. The expiry date for 1,120,000 Service Condition SARs is the fifth anniversary of the date of grant, while the expiry date for the remaining 338,000 Service Condition SARs is the tenth anniversary of the date of grant.

The weighted average fair value of each share appreciation right outstanding at the end of the period, as estimated as at December 31, 2013, was \$0.13 (2012: \$0.23). This was calculated using the Black–Scholes option pricing model, using the following assumptions:



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	Year ended December 31,	
	2013	2012
Share price	\$0.28	\$0.42
Base price	\$0.33	\$0.40
Risk free interest rate	1.18%	1.3%
Expected life	2.7 years	3.7 years
Expected forfeiture rate	5%	5%
Expected volatility	75%	75%
Expected dividends	nil	nil

The following table reflects the continuity of share appreciation rights for the years ended December 31, 2013 and 2012:

	Number of Share Appreciation Rights	Weighted Average Base Price
Balance January 1, 2013	837,000	\$0.40
Granted	1,120,000	0.27
Balance December 31, 2013	1,957,000	\$0.33

	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, 2013, the weighted average remaining contractual life of the outstanding share appreciation rights is 6.7 years and nil share appreciation rights were vested.

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

	Year ended December 31,	
	2013	2012
Equity settled share-based payment transactions		
Share options	\$155	\$213
Total equity settled share-based payment transactions	155	213
Cash settled share-based payment transactions		
Deferred share units	7	175
Restricted share units	216	240
Share appreciation rights	29	2
Mark-to-market adjustment for deferred and restricted share units and share appreciation rights	(394)	(382)
Total cash settled share-based payment transactions	(142)	35
Total expense arising from share-based payment transactions	\$13	\$248



The carrying amounts of the liabilities relating to deferred and restricted share units and share appreciation rights at December 31, 2013, are \$384, \$643 and \$25 respectively (2012: \$554, \$881 and \$2 respectively).

9. WARRANTS AND COMPENSATION WARRANTS

In 2013, nil (2012: 1,950,000) warrants were exercised and the share price at the date of the exercise was \$nil (2012: \$0.47). 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 for the year ended December 31, 2013 and 2012:

	Number of Warrants	Exercise Price
Balance as at January 1, 2013	-	\$-
Granted (note 7)	240,000	0.50
Balance as at December 31, 2013	240,000	\$0.50

	Number of Warrants	Compensation Warrants	Weighted Average Exercise Price
Balance as at 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 as at December 31, 2012	-	-	\$-

As at December 31, 2013, the remaining contractual life of the outstanding warrants was 0.2 years.

10. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2013	2012
Expense by nature		
Salaries, wages and benefits	\$2,397	\$2,396
Share-based payments (note 8)	13	248
Professional fees	587	681
Consulting fees	64	1,257
Public company expenses	108	133
Office and general	1,018	1,109
Conference and travel	270	305
Investor relations	423	726
Business development	303	528
Depreciation and amortization	88	123
	\$5,271	\$7,506

**11. LOSS PER SHARE**

	Year ended December 31,	
	2013	2012
Loss attributable to common shares	\$(6,740)	\$(9,162)
Weighted average number of common shares	93,383,970	89,770,478
Loss per share — basic and diluted	\$(0.07)	\$(0.10)

The effect of potential issuances of shares under share options, warrants, deferred share units and restricted share units would be anti-dilutive for the years ended December 31, 2013, and 2012, and accordingly, basic and diluted loss per share are the same.

12. RELATED PARTY TRANSACTIONS

The following table reflects the remuneration of key management, which consists of the Corporation's directors and executive officers, and other related party transactions:

Remuneration of key management	Year ended December 31,	
	2013	2012
Management salaries and benefits	\$1,564	\$1,564
Share-based payments — Management	428	508
Directors fees	356	255
Share-based payments — Directors	34	153
Mark-to-market adjustment for cash settled share-based payments	(464)	(438)
	\$1,918	\$2,042
Administrative and general expenses		
Consulting fees paid to a director	\$-	\$11

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, 2013, 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 \$3 respectively. If a change of control had occurred on December 31, 2013, 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 \$8 respectively.



13. COMMITMENTS

The Corporation is committed to minimum amounts under operating lease agreements primarily for office and warehouse space. As at December 31, 2013, minimum commitments remaining under these leases were approximately \$1,056 over the following years:

	2013
2014	\$457
2015	391
2016	208
	\$1,056

14. COLLATERAL INVESTMENT

On September 25, 2013, the Corporation entered into an agreement with Hydro-Québec for the construction of a high voltage power transmission line to connect the Corporation's planned Dumont Nickel Project to Hydro-Québec's existing electricity distribution network (the "**Power Line Project**"). The estimated cost of the work involved is \$25,600, which is required to be financed and secured by the Corporation with eight irrevocable letters of credit as follows: (i) \$2,000 was issued on September 10, 2013, for which a collateral investment of \$2,000, in the form of a one year fixed-rate non-redeemable guaranteed investment certificate bearing interest at the rate of 1.30% was made to secure the outstanding letter of credit; (ii) \$1,600 by April 1, 2014; (iii) \$1,600 by June 1, 2014; (iv) \$4,200 by August 1, 2014; (v) \$4,300 by November 1, 2014; (vi) \$3,400 by February 1, 2015; (vii) \$3,400 by May 1, 2015 and (viii) \$5,100 by August 1, 2015. Hydro-Québec is required to progressively release the letters of credit as the Corporation fulfills its power consumption commitment over a ten-year commitment period. Upon entering into this agreement, Hydro-Québec reimbursed the Corporation a guarantee deposit of \$1,250, which the Corporation provided to Hydro-Québec under a prior agreement related to the Power Line Project.

Under the agreement, the Corporation has the ability to suspend any additional work and postpone, up to 12 months, the issue date of all unissued letters of credit. During the suspension period, the Corporation is required to pay Hydro-Québec a regulated rate of return on the value of the expenses incurred and committed from the start of the Power Line Project up to the date work is resumed, plus any additional costs resulting directly from the suspension of work. The Corporation also has the ability under the agreement to abandon the Power Line Project and cancel its obligation to issue any additional letters of credit. In the event of abandonment, the Corporation is required to reimburse Hydro-Québec for the cost of all the work that it has completed and committed as at the date of abandonment, a regulated rate of return on such costs, and any additional costs directly related to the abandonment including dismantling and site restoration costs where applicable.

**15. INCOME TAX**

The major components of income tax expense are as follows:

	2013	2012
Tax expense applicable to:		
Current Taxes	\$-	\$-
Deferred Taxes		
Income taxes — origination and reversal of temporary differences	(1,084)	(1,169)
Mining taxes — origination and reversal of temporary differences	1,637	1,606
Relating to change in tax rates/imposition of new tax laws	-	(244)
Relating to unrecognized temporary differences	1,662	1,687
Relating to amortization of flow through share premium	(720)	-
Total tax expense	\$1,495	\$1,880

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

	2013	2012
Statutory tax rate	26.07%	26.07%
Tax benefit of statutory rate	\$(1,367)	\$(1,898)
Expenses not deductible/(taxable) for income tax purposes	(17)	509
Tax effect of renounced flow through share expenditures	521	-
Amortization of flow-through share premiums	(720)	-
Quebec mining duties, net of tax	1,637	1,606
Impact of change in provincial deferred income tax rate	-	(244)
Tax effect of unrecognized temporary difference and tax losses	1,662	1,979
Benefit of loss recognized against expired warrants	-	(292)
Other	(221)	220
Total tax expense	\$1,495	\$1,880

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.



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

	Balance January 1, 2013	Recognized in Profit and Loss	Recognized in Equity	Balance December 31, 2013
Deferred tax assets/(liabilities):				
Loss carry-forward	\$8,846	\$(440)	\$-	\$8,406
Property, plant and equipment	(16)	41	-	25
Financing costs	612	(258)	-	354
Mining property interests	(17,252)	(1,629)	-	(18,881)
Other	6	71	-	77
Net deferred tax liabilities	\$(7,804)	\$(2,215)	\$-	\$(10,019)

	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 liabilities	\$(5,631)	\$(1,880)	\$(293)	\$(7,804)

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

	2013	2012
Tax loss carry-forwards Expire 2032–2033	\$20,315	\$13,461

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.



16. 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, cash and cash equivalents and collateral investment (note 14). 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 credit risk by diversifying its cash and cash equivalents investments with several 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 associated with financial liabilities 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 (or securing financing against the tax credit) and if the Corporation's access to the capital market or other alternative forms of financing is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation. The Corporation has historically generated cash flow primarily from its financing and investing activities. As at December 31, 2013, the Corporation had cash and cash equivalents of \$11,908 to settle current financial liabilities of \$1,101. 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 finance leases. The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

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, 2013, the Corporation had \$11,758 invested with various Canadian chartered banks bearing interest at variable rates. The collateral investment is held with a major Canadian bank and bears a fixed-rate of interest of 1.3%. Sensitivity to a plus or minus 1% change in the rates would affect the reported annual finance income by approximately \$118.

Fair Value Risk

The carrying values of cash and cash equivalents, amounts receivable, collateral investment, accounts payable and accrued liabilities and obligations under finance leases approximate their fair values due to their relatively short periods to maturity.



17. CAPITAL MANAGEMENT

The capital of the Corporation consists of items included in shareholder's equity of \$62,618 as at December 31, 2013 (2012: \$68,013). The properties in which the Corporation currently has an interest are in the exploration and 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, 2013. The Corporation is not subject to externally imposed capital requirements. Changes in capital are described in the Statement of Changes in Equity.