



**ROYAL NICKEL CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
THREE AND SIX MONTHS ENDED JUNE 30, 2013**



Royal Nickel Corporation

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## INTRODUCTION

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The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Royal Nickel Corporation ("RNC", "Royal Nickel" or the "Corporation") constitutes management's review of the factors that affected the Corporation's financial and operating performance for the three and six months ended June 30, 2013. This MD&A, dated August 9, 2013, is intended to supplement and complement the Corporation's unaudited condensed interim financial statements – prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements including IAS 34 Interim Financial Reporting – and related notes for the three and six months ended June 30, 2013 and should be read in conjunction with both the audited financial statements for the year ended December 31, 2012 and the Corporation's most recent Annual Information Form on file with Canadian provincial securities regulatory authorities and available at [www.sedar.com](http://www.sedar.com). Unless otherwise noted, all amounts presented are in Canadian dollars.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to targeted milestones to achieve development of the Dumont Nickel Project, successfully obtaining project financing, the future financial or operating performance of the Corporation and its projects, the future price of and supply and demand for nickel, the estimation of mineral reserves and resources, the realization of mineral reserves and resources estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new and existing deposits, costs and timing of future exploration, requirements for additional capital, management's belief that RNC will have sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months, government regulation of mining operations, environmental risks, reclamation expenses, the success of mining operations, permitting, economic return estimates and potential upside. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate" or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Readers should not place undue reliance on forward-looking statements.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Even with the completion of a positive feasibility study, there are no assurances that the Dumont Nickel Project will be placed into production. Factors that could affect the outcome include, among others: the actual results of development activities; project delays; inability to raise the funds necessary to achieve the milestones or complete development; general business, economic, competitive, political and social uncertainties; future prices of metals; availability of alternative nickel sources or substitutions; actual nickel recovery; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; the future cost of capital to the Corporation; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability, terrorism, insurrection or war; delays in obtaining governmental approvals, necessary permitting or in the completion of development or construction activities, as well as those factors discussed in the section entitled "*Risk Factors*" in the Corporation's most recent Annual Information Form. Such forward-looking statements are also based on a number of material factors and assumptions, including: the availability of financing at rates and on terms and conditions otherwise acceptable to the Corporation; future nickel prices; permitting and development consistent with Royal Nickel's expectations; foreign exchange rates; prices and availability of equipment; that contracted parties provide goods and/or services on the agreed timeframes; that the current tax credit receivable from the Quebec government is collected in a timely manner; that on-going contractual negotiations will be successful and progress and/or be completed in a timely manner; and that no unusual geological or technical problems occur.



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Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Corporation disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

The use of the term “bankable” in this MD&A should not be construed as an indication that RNC has arranged or will be able to arrange project financing.

## **DESCRIPTION OF BUSINESS**

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Royal Nickel is a mineral resource company primarily focused on the exploration, evaluation, development and acquisition of mineral properties. The Corporation is currently considered to be in the exploration and evaluation stage and its current principal asset and sole material property is the Dumont nickel project (the “**Dumont Nickel Project**”), strategically located in the established Abitibi mining camp, 25 kilometres northwest of Amos, Quebec, Canada. In addition to its Dumont Nickel Project the Corporation holds certain other properties, as set out below under “*Mineral Exploration Properties*”. The Corporation’s common shares are traded on the Toronto Stock Exchange (“**TSX**”) (TSX symbol RNX).

Since acquiring the Dumont Nickel Project in 2007, Royal Nickel has undertaken an aggressive exploration and evaluation program to evaluate and develop the mineral resources. The exploration and evaluation work completed to date includes over 171,000 metres of diamond drilling at regularly spaced sections in order to delineate the mineral resource, assess geotechnical properties of the rock and evaluate regional exploration targets on the Dumont property. In addition to the resource definition, several programs intended to characterize the deposit and its environment have been undertaken to support development studies. These include geological interpretation studies, deposit and geotechnical modeling, and sampling for metallurgical testing. Detailed laboratory scale metallurgical testing on representative samples from the Dumont Nickel Project has been undertaken leading to a standard flowsheet design and estimate of nickel recovery and concentrate quality. This work has supported the evaluation of the Dumont Nickel Project and has allowed Royal Nickel to complete the following successive National Instrument 43-101 (“**NI 43-101**”) technical reports:

- Preliminary Economic Assessment – September 3, 2010
- Pre-feasibility Study – December 16, 2011
- Revised Pre-feasibility Study – June 22, 2012
- Feasibility Study – July 25, 2013

### **Feasibility Study**

On June 17, 2013 the Corporation released the results of a bankable feasibility study (“**feasibility study**”) based on a startup scenario of production of 52,500 tonnes per day (“**tpd**”) with a subsequent expansion to production of 105,000 tpd in year 5. A bankable feasibility study is a comprehensive analysis of a project’s economics (to an accuracy of +/- 15%) and is used by the banking industry for financing purposes. The results from the feasibility study demonstrate RNC’s potential to be among the top five nickel sulphide operations globally (by annual nickel production) and the Dumont Project has the third largest nickel reserves in the world. Highlights include:

- After tax net present value (“**NPV**”) of US\$1,137 million at a discount rate of 8% from commencement of construction;
- After tax internal rate of return (“**IRR**”) of 15.2%;
- Simple payback period of 6.1 years;



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- Initial capital expenditure estimate for the 52,500 tpd startup scenario of US\$1,191 million an increase of only 7% compared to the 2012 revised pre-feasibility study (“**revised PFS**”);
- Expansion from 52,500 tpd to 105,000 tpd in year 5 is estimated to require an additional US\$891 million investment;
- Initial nickel production of 73 million pounds (Mlbs) (33 kt) annually, expanding in year 5 to an annual average of 113 Mlbs (51 kt) for the remainder of the 20 year mine life and average production over the 33-year project life of 90 Mlbs (41kt) annually;
- C1 cash costs<sup>1</sup> of US\$4.01/lb (US\$8,840/t) during initial phase and US\$4.31/lb (US\$9,502/t) over 33 year life-of-project (low 2<sup>nd</sup> quartile of cash cost curve);
- Ore reserves of 1.2 billion tonnes at a 0.27% nickel grade containing 6.9 billion pounds of nickel to support a 33-year project life including 1.3 billion pounds of nickel in proven reserve;
- 1 million ounce PGE (platinum + palladium) reserve established;
- Estimated annual average of US\$427 million EBITDA and US\$238 million free cash flow over the 20-year mine life.

During the feasibility study, the Dumont Nickel Project has been significantly de-risked technically, through additional metallurgical, mineralogical, geotechnical and engineering work, and economically through more detailed work on capital and operating cost estimates, compared to the revised PFS dated June 22, 2012. Throughout the feasibility study process, RNC focused on improved project design to reduce risk and to achieve improvements in operational reliability. Some highlights of these decisions were:

- Relocated waste and low-grade storage stockpiles and redesigned pit to minimize potential impact from noise and dust emissions resulting in slightly higher mining operating costs;
- Relocated the mill to a larger rock outcrop helping to reduce geotechnical risk and associated construction costs;
- Replaced single large rope shovel at project start-up with two smaller hydraulic shovels increasing operating flexibility and lowering initial capital cost with a minor increase in initial mining operating costs;
- Reduced mining footprint in first 5 years of operations resulting in lower ramp-up and mining risk;
- Increased size of regrind mill to ensure that sufficient capacity and flexibility is in place;
- Maintained mining rate at approximately twice milling capacity to build ore stockpile providing significant reliability and flexibility benefits.

The revised PFS demonstrated the potential to utilize trolley assist to improve the overall mining costs for the Dumont project by using electricity to replace a portion of the diesel fuel consumed by trucks. The feasibility study pit design allows for the potential to implement trolley assist during the expansion of the mine in year five. The trolley assist option has not been included in the feasibility study but will continue to be evaluated

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<sup>1</sup> C1 cash costs are defined as the cash cost incurred at each processing stage, from mining through to recoverable nickel delivered to the market, net of by-product credits.



and considered depending on oil prices, electricity prices and several other factors at the time of the mine expansion.

### Feasibility Study vs. Revised Pre-feasibility Study

The feasibility study NPV<sub>8%</sub> of US\$1,137 million was reduced by approximately US\$283 million compared to the revised PFS. The table below reconciles the relevant factors:

<b>NPV Reconciliation to Revised PFS (US\$ millions)</b>	<b>Increase/(Decrease) vs. Revised PFS</b>
<b>Revised PFS NPV<sub>8%</sub> - Base Case with Trolley Assist</b>	<b>US\$1,420</b>
5% higher mill throughput	143
Inclusion of PGE by-product credits	88
11% additional reserves	34
Higher capital cost primarily due to mill building size	(59)
Higher mining costs due to site layout change and removal of trolley assist	(186)
Lower mill recoveries due to narrowing of risk tolerances	(205)
<b>Project related impacts</b>	<b>(185)</b>
Royalty financings	(104)
Other	6
<b>Feasibility Study NPV<sub>8%</sub></b>	<b>US\$1,137</b>

The NI 43-101 compliant feasibility study technical report on the Dumont Nickel Project dated July 25, 2013 is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## CORPORATE STRATEGY

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Royal Nickel's primary objective is captured through the vision statement:

To be a prosperous mining company that grows through the acquisition and responsible development of a high-quality portfolio of base and platinum group metal assets.

Our mission statement further defines how we plan to achieve the vision statement:

We are the preferred choice for our communities, employees, shareholders and business partners by consistently creating sustainable value through the safe and responsible exploration, development and operation of our mining assets.

Combined with the vision and mission statements RNC has developed a set of values that we have implemented across the company. These value statements act as guidelines for how we conduct ourselves and our decision making on a daily basis. The values are:

- We work safely
- We treat people with dignity and respect
- We respect the environment



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- We hold ourselves accountable to deliver on our commitments
- We create lasting prosperity in the communities where we operate
- We generate value from our assets

Royal Nickel's current strategic focus is to develop the large ultramafic Dumont Nickel Project and to acquire highly prospective assets, preferably cash-producing, in base and platinum group metals.

Royal Nickel has the following targeted key milestones to achieve the development of the Dumont Nickel Project:

- Completion of partnership and financing arrangements in advance of the receipt of permits;
- Potential placement of long-lead orders driven by the project schedule, market driven equipment lead times and financing capacity;
- Receipt of main permit by mid-2014;
- Start of construction in 2014 subsequent to receipt of permits; and
- Project commissioning in the first half of 2016 followed by production ramp-up throughout 2016.

The milestones have been adjusted to account for the best estimate of permitting timelines based on government review of the Environmental and Social Impact Assessment (“**ESIA**”) and public hearings. RNC management continues to work diligently to push the development of the Dumont Project forward as quickly as possible.

In addition, Royal Nickel will continue to work with its financial advisor, Rothschild, to arrange financing to fund all stages of the development of the Dumont Nickel Project. Royal Nickel will continue to explore options for financing through a combination of strategic partnerships, joint venture arrangements, project debt finance, offtake financing, royalty financing and other capital markets alternatives throughout the remainder of 2013. Royal Nickel believes it can successfully implement its corporate strategy because of its unique strengths and deep management experience and well-developed relationships in the nickel industry.

## **SECOND QUARTER AND RECENT HIGHLIGHTS**

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- On April 5, 2013, the Corporation announced the signing of a memorandum of understanding with the Abitibiwinni First Nation with respect to the Dumont Nickel Project.
- On May 13, 2013, the Corporation announced that it had completed a royalty purchase agreement with RK Mine Finance (“**Red Kite**”). Under the terms of the financing, Red Kite acquired a 1% net smelter return royalty in the Dumont Nickel Project for a purchase price of US\$15 million.
- On June 17, 2013, the Corporation announced the positive results of the feasibility study for its Dumont Nickel Project, demonstrating a technically and economically sound project with an after-tax \$1.1 billion NPV<sub>8%</sub>.
- The Corporation incurred a net loss of \$1.9 million (\$0.02 per share) for the three months ended June 30, 2013 compared to a net loss of \$2.1 million (\$0.02 per share) for the same period in 2012.



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- On July 25, 2013, the Corporation announced that the Dumont Nickel Project NI 43-101 compliant technical report had been filed on SEDAR.

## OPERATIONAL REVIEW

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The Corporation's immediate focus is to continue to fast track the development of its current principal property, the Dumont Nickel Project.

### Dumont Nickel Project

During the second quarter of 2013, the Corporation continued its activities in support of a bankable feasibility study completed in June 2013. The work program focused on the feasibility engineering study, geological and geotechnical data collection, metallurgical testwork and flowsheet optimization, and follow up on the ESIA filing.

The following were the major activities and accomplishments during the second quarter of 2013:

- **Feasibility Study:** Work continued on the Dumont feasibility study, by a team comprised of Ausenco Limited ("**Ausenco**"), SRK Consulting (Canada) Inc. ("**SRK**"), Snowden Group, Golder Associates and Norascon. Key study milestones achieved in the second quarter are:
  - Completed capital and operating cost estimates for the feasibility study
  - Preparation of a NI 43-101 compliant technical report
- **Regional Exploration:** 1,400 metres of diamond drilling and 12 line-km of surface geophysics were completed to evaluate regional exploration targets that occur within the Dumont property but outside the Dumont resource.
- **Metallurgical Tests:** The following additional metallurgical tests were conducted to support the work on the feasibility study:
  - Optimization laboratory scale test work was completed and focused on the following areas:
    - Slimes flotation kinetics and circuit optimization
    - Reagent optimization for both the slimes and rougher flotation circuits
    - Locked cycle tests were completed on 5 samples to demonstrate nickel recovery with the flowsheet residence times and reagent consumption that formed the basis of the feasibility flowsheet
  - The results from the tests to characterize the self-heating potential of the Dumont concentrates confirmed that there is little to no potential for self-heating.
- **Stakeholder Relations:** The following stakeholder relations activities were completed during the quarter:
  - The second phase of a public consultation process that will integrate feedback from the surrounding communities as the project evolves was completed in the second quarter. The goal of this process is to ensure effective communication and distribution of information and documentation of the concerns, comments and suggestions of the host communities in order to improve upon the feasibility study and validate the content of the ESIA. The next phase of public consultation is the government-mandated environmental public hearings based on the ESIA.





- A Memorandum of Understanding (“**MOU**”) was signed with the Abitibiwinni First Nation (“**AFN**”) on April 4, 2013. The MOU will serve as a framework to govern the relationship between RNC and AFN in accordance with our mutual intentions to further build on a relationship characterized by cooperation and mutual respect, in connection with the development of the Dumont Nickel Project. The MOU sets out the areas in which RNC and AFN have agreed to work together and maintain effective avenues of communication to support mutual goals such as environmental responsibility and the enhancement of training, employment and business opportunities for Abitibiwinni community members.
- **Environmental and Social Impact Assessment:** The exchange of information with provincial and federal authorities continued as part of the ESIA process.

### Mineral Reserves and Resources – Dumont Nickel Project

The mineral reserves and resources for the Dumont Nickel Project shown below are extracted from the feasibility study technical report dated July 25, 2013, and filed under RNC’s profile on SEDAR at www.sedar.com.

The tonnages and grades for the Mineral Reserve and Resource estimates are summarized in the tables below. The mineral resource estimate includes mineral reserves:

### Mineral Resources

#### Mineral Resource Statement\*, Dumont Nickel Project, Quebec (SRK Consulting Canada, 30 April, 2013<sup>1</sup>)

Resource Category	Quantity (kt)	Grade		Contained Nickel		Contained Cobalt	
		Ni (%)	Co (ppm)	(kt)	(Mlbs)	(kt)	(Mlbs)
Measured	372,100	0.28	112	1050	2,310	40	92
Indicated	1,293,500	0.26	106	3,380	7,441	140	302
<b>Measured + Indicated</b>	<b>1,665,600</b>	<b>0.27</b>	<b>107</b>	<b>4,430</b>	<b>9,750</b>	<b>180</b>	<b>394</b>
Inferred	499,800	0.26	101	1,300	2,862	50	112
Resource Category	Quantity (kt)	Grade		Contained Palladium		Contained Platinum	
		Pd (g/t)	Pt (g/t)	(koz)	(koz)	(koz)	(koz)
Measured	372,100	0.024	0.011	288	126		
Indicated	1,293,500	0.017	0.008	720	335		
<b>Measured + Indicated</b>	<b>1,665,600</b>	<b>0.020</b>	<b>0.009</b>	<b>1,008</b>	<b>461</b>		
Inferred	499,800	0.014	0.006	220	92		
Resource Category	Quantity (kt)	Grade		Contained Magnetite			
		Magnetite (%)		(kt)	(Mlbs)		
Measured	-	-	-	-	-		
Indicated	1,114,300	4.27		47,580	104,905		
<b>Measured + Indicated</b>	<b>1,114,300</b>	<b>4.27</b>		<b>47,580</b>	<b>104,905</b>		
Inferred	832,000	4.02		33,430	73,702		

**Notes:** 1. \*Reported at a cut-off grade of 0.15% nickel inside conceptual pit shells optimized using nickel price of US\$9.00 per pound, average metallurgical and process recovery of 40%, processing and G&A costs of US\$6.30 per tonne milled, exchange rate of C\$1.00 equal US\$0.90, overall pit slope of 42° to 50° depending on the sector, and a production rate of 105 kt/d. Values of cobalt, palladium, platinum and magnetite are not considered in the cut-off grade calculation as they are byproducts of recovered nickel. All figures are rounded to reflect the relative accuracy of the estimates. Mineral resources are not mineral reserves and do not have demonstrated economic viability. The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce Mineral Reserves.

**Mineral Reserves****Mineral Reserves Statement\* (Snowden, 17 June 2013)<sup>1</sup>**

Category	(kt)	Grades				Contained Metal			
		Ni (%)	Co (ppm)	Pt (g/t)	Pd (g/t)	Ni (Mlb)	Co (Mlb)	Pt (koz)	Pd (koz)
Proven	179,600	0.32	114	0.013	0.029	1,274	45	77	166
Probable	999,000	0.26	106	0.008	0.017	5,667	233	250	550
<b>Total</b>	<b>1,178,600</b>	<b>0.27</b>	<b>107</b>	<b>0.009</b>	<b>0.019</b>	<b>6,942</b>	<b>278</b>	<b>328</b>	<b>716</b>

**Notes:** 1. \*Reported at a cut-off grade of 0.15% nickel inside an engineered pit design based on a Lerchs-Grossmann (LG) optimized pit shell using a nickel price of US\$5.58 per pound (62% of the long-term forecast of US\$9.00 per pound), average metallurgical recovery of 43%, marginal processing and G&A costs of US\$6.30 per tonne milled, long-term exchange rate of C\$1.00 equal US\$0.90, overall pit slope of 42° to 50° depending on the sector, and a production rate of 105 kt/d. Mineral Reserves include mining losses of 0.28% and dilution of 0.49% that will be incurred at the bedrock overburden interface (which corresponds to mining losses of 1 metre and 2 metres of dilution along this contact). The Proven Reserves are based on Measured Resources included within stockpile mill feed plus Indicated Resources included in both ROM and stockpile mill feed. Probable Reserves are based on Measured Resources included within stockpile mill feed plus Indicated Resources included in both ROM and stockpile mill feed. All figures are rounded to reflect the relative accuracy of the estimates.

**Technical Disclosure**

Unless otherwise indicated, the Corporation has prepared the technical information in this MD&A ("**Technical Information**") based on information contained in the technical reports and news releases (collectively the "**Disclosure Documents**") available under Royal Nickel's company profile on SEDAR at [www.sedar.com](http://www.sedar.com). Each Disclosure Document was prepared by or under the supervision of a qualified person (a "**Qualified Person**") as defined in NI 43-101. Readers are encouraged to review the full text of the Disclosure Documents which qualifies the Technical Information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

The disclosure in this MD&A of all Technical Information has been approved by Alger St-Jean, P.Geo., Vice President Exploration of the Corporation and Johnna Muinonen, P.Eng., Vice President Operations of the Corporation, both Qualified Persons under NI 43-101.

**Jefmar and Marbridge Properties**

No significant exploration work was completed by the Corporation on the Marbridge and Jefmar properties during the quarter ended June 30, 2013.

For Jefmar property claim number 2116146 Lot 8, Range 6, La Motte township, Glen Eagle Resources Inc. ("**Glen Eagle**") continues to perform exploration work under an option and joint venture agreement that was finalized in April 2011 whereby Glen Eagle can earn a 70% interest in this claim.

As at the date of this MD&A, both properties are considered to have longer term potential and, given the current focus on the Dumont Nickel Project, Royal Nickel will incur minor expenditures on both properties in 2013.

**NICKEL INDUSTRY TRENDS**

Following a relatively strong start to 2013, the weak pricing trend for nickel that began in February continued through the second quarter of 2013. Continued concern over apparent weakness in Chinese commodity



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demand combined with ongoing concern about the strength of the recovery in many other areas of the global economy and a strengthening of the U.S. dollar led to the building of significant short positions within the investment community causing sharp declines in many commodity prices, including nickel prices, during the second quarter. Declining nickel prices in turn have resulted in continued destocking throughout most of the stainless steel supply chain that is responsible for the majority of demand in China and Europe.

Despite negative market sentiment and apparent weakness, according to Wood Mackenzie overall global nickel demand grew by approximately 7% in the first half of 2013 compared to the first half of 2012, driven largely by continued strong demand from the Chinese stainless steel industry. RNC believes that, in the period from 2010 to 2020, annualized Chinese demand will grow from 0.6 million tonnes in 2010 by at least one million tonnes to a total of 1.6 million tonnes annually as it industrializes further and achieves similar per capita consumption to countries such as Germany and Japan.

The expected rebound in global nickel demand may finally materialize during 2014 as the U.S. economy continues to show signs of recovery, the central bank in Japan continues aggressive moves to jumpstart its economy and weaker Chinese economic figures may lead to increased Chinese stimulus. As inventory levels in many parts of the stainless steel supply chain are believed to be at relatively low levels in many countries, a resumption of market confidence could lead to a robust restocking rally with positive implications for the nickel market.

Nickel pig iron supply in China continued to grow during the first half of 2013 as multiple next generation integrated nickel pig iron/stainless steel plants began operations; however, at current nickel prices a substantial portion of older generation nickel pig iron producers are not economic despite lower prices for nickel ore and other key inputs. Indonesia has been a substantial exporter of nickel ore to China and has provided the bulk of nickel raw material to support the growth of nickel pig iron supply in China. As a result of government policy, Indonesia will remain a source of significant uncertainty for the nickel market in 2013 and beyond. In advance of a ban on exports of unprocessed mineral ores in 2014, Indonesian export legislation has been inconsistent. Chinese imports of Indonesian ore during the second quarter of 2013 remained at high levels relative to 2012, as Chinese consumers not only increased production, but continued to stockpile ore in advance of the uncertainty brought about by the expected ban. RNC believes that, although a full ban is unlikely, the Indonesian government will enforce restrictions on ore exports either through a combination of export duties and/or quotas.

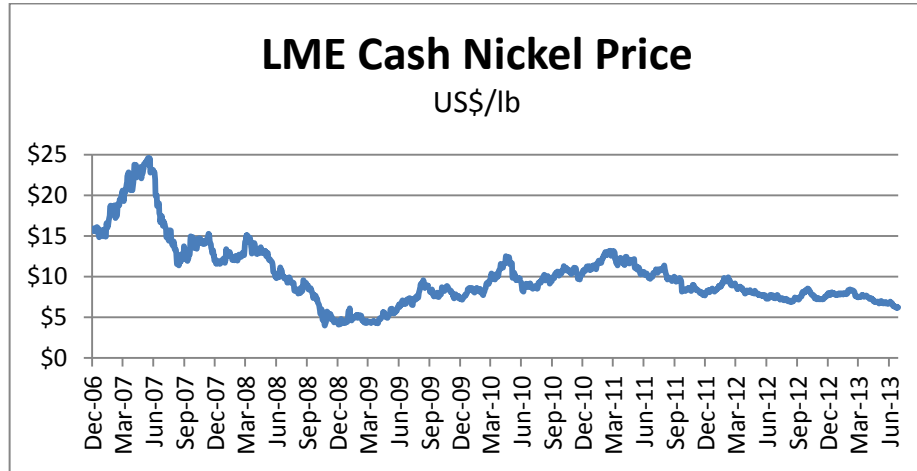
In addition to the trends in nickel pig iron industry, a number of other key themes for the nickel industry remain intact. A number of the new projects that began production during 2012 faced continued challenges during the quarter. RNC believes 2013 will be similar to 2012 as the robust supply growth anticipated by many market forecasters will once again fail to materialize. As a good sign for Dumont, large scale, lower-grade, open pit nickel sulphide projects continued to fare much better than laterite projects. The Mirabela Nickel Santa Rita project largely met expectations for cost and production in 2012 and into 2013, making progress in debottlenecking key areas in its mining and milling operations and First Quantum's Kevitsa project began production in May 2012 and achieved commercial production by August 2012.

During 2013, the final set of large scale projects that were launched during the prior peak in nickel prices in 2007 have begun ramping up: Koniambo, Xstrata Nickel's joint venture in New Caledonia, produced its first ferronickel following the first quarter and Taganito, Sumitomo Metal Mining's project in the Philippines, remains on track to begin production later in 2013. Aside from these projects, the drop in investment in new nickel projects that was the legacy following the market peak in 2007 has left Dumont as one of the few projects ready to enter the nickel market in the middle part of this decade.



**Nickel Prices**

**Nickel Price Trend**



Source: metalprices.com

Note: Nickel trades primarily on the London Metals Exchange (“LME”) and all references to nickel prices are based on trading on the LME.

Nickel began the first half of 2013 at US\$7.90 per pound, reached a high of US\$8.44 on February 4, 2013, a low of US\$6.15 on June 26, 2013, and finished the second quarter at US\$6.21 per pound. Nickel prices averaged US\$6.79 per pound in the second quarter and US\$7.32 in the first half of 2013, compared to US\$7.78 and US\$8.36 per pound in the same periods of 2012. During the first half of 2013, LME inventories increased by approximately 34% or 47 kilotonnes to 187 kilotonnes.

**MINERAL EXPLORATION PROPERTIES**

The current principal asset of the Corporation is the Dumont Nickel Project 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.

**The Dumont Nickel Project**

The Dumont Nickel Project is located in the western portion of the province of Quebec. Specifically, the property is located in the Launay and Trecesson townships in the Abitibi region. The property is located approximately 25 kilometres west of the city of Amos, approximately 60 kilometres northeast of the industrial and mining city of Rouyn-Noranda and 70 kilometres northwest of the city of Val-d’Or.

The Dumont Property consists of 233 contiguous mineral claims totalling 9,306.5 hectares. The mineral resource is located mainly in Ranges V, VI and VII on Lots 46 to 62 of Launay township, and in Range V on Lots 1 to 3 of Trecesson township.

**Mineral Tenure**

The mineral properties comprising the Dumont Nickel Project 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.



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### ***Underlying Agreements***

The Dumont mineral claims are subject to various royalty agreements arising from terms of the property acquisitions by RNC or through the sale of royalties. The details of the underlying mineral claim agreements are described below.

#### ***Marbaw Royalty***

The Marbaw International Nickel Corporation (“**Marbaw**”) property comprises an area totalling 2,639.0 ha. 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 RNC under an agreement dated March 8, 2007 for consideration that included future consideration.

Future consideration consisted of the following: (1) issuance of 7 million shares in RNC to Marbaw upon the property being placed into commercial production or upon transfer of the property to a third party; (2) payment of \$1,250,000 to Marbaw on March 8, 2008. This amount has been paid by RNC.

RNC also committed to incurring a minimum expenditure of \$8,000,000 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. RNC has the right to buy back half of the 3% NSR for \$10,000,000 at any time.

This property is subject to the Ressources Québec royalty and the Red Kite royalty.

#### ***Coyle-Roby Royalty***

The Sheridan-Ferderber property comprises an area of 256.47 ha 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 it was optioned to Patrick Sheridan and Peter Ferderber under an agreement dated October 26, 2006. The option agreement was subsequently assigned to RNC through an agreement dated May 4, 2007.

RNC’s option to acquire 100% interest in this property was exercised by the completion of \$75,000 in work on the property before October 26, 2008 and by paying \$10,000 to Coyle-Roby by October 26, 2007 and \$30,000 to Coyle-Roby by October 26, 2008. The claims were transferred 100% to RNC on August 25, 2008.

The property is subject to a 2% NSR royalty payable to Terrence Coyle (1%) and Michel Roby (1%). RNC has the right to buy back half of this 2% NSR for \$1,000,000 at any time. An advance royalty of \$5,000 per year is also payable to Coyle-Roby beginning in 2011. Scheduled royalty payments were made in October 2011 and October 2012. These claims are also subject to the Ressources Québec royalty and the Red Kite royalty.

#### ***Frigon-Robert Royalty***

The Frigon-Robert property comprises two contiguous claims totalling 83.84 ha. 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.

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 for \$1,000,000 at any time.

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

#### ***Pershimco Claims (Pershimco Royalty)***

The Pershimco mineral claim block comprises five claims totalling 195.64 ha. The claims were originally held 100% by Pershimco Resources. They were transferred to RNC through a purchase agreement dated March 18, 2013 for \$30,000. These claims are subject to a 3% NSR royalty payable to Pershimco Resources. RNC has the option to buy back the NSR in stages at any time by paying \$1,000,000 for the first percent, \$3,000,000 for the second percent and \$6,000,000 for the third percent. As these claims were acquired after the Ressources Québec agreement, they are not subject to the Ressources Québec royalty.



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These claims are subject to the Red Kite royalty.

### ***Ressources Québec Royalty***

On August 1, 2012, RNC entered into an investment agreement with Ressources Québec. Pursuant to the agreement, RNC 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. RNC 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 Ressources Québec royalty applies to all Dumont claims except the five Pershimco claims that were acquired after the Ressources Québec agreement.

### ***Red Kite Royalty***

On May 10, 2013, RNC closed a royalty financing with Red Kite. Under the terms of the financing, Red Kite (through 8248567 Canada Limited) acquired a 1% net smelter return royalty in the Dumont project for a purchase price of US\$15 million. The Red Kite royalty applies to all Dumont claims.

### ***Permits and Authorizations***

Exploration work on public land ("**Crown Land**") is conducted under a forestry operational permit granted by the MNR and renewed periodically. Exploration work on agricultural zoned lands is conducted under a permit granted by the Quebec Agricultural Land Protection Commission ("**CPTAQ**"). Exploration work on private surface rights not owned by RNC is conducted under the terms of access agreements between RNC and individual land owners. Stream crossings have been constructed under permits issued variously or jointly by the MNR, CPTAQ and the Ministry of Sustainable Development, Environment and Parks. There are no known formal native land claims on the territory of the Dumont Nickel Project within the St. Lawrence drainage basin. Algonquin first nations do, however, assert aboriginal rights over parts of western Quebec and eastern Ontario. Consultation with first nations is a responsibility of the federal and provincial governments. Nonetheless, RNC has initiated discussions with the local Algonquin Conseil de la Première nation Abitibiwinni and entered into a MOU for cooperation regarding the development of the Dumont Nickel Project.

### ***Environmental Considerations***

The Corporation is unaware of any outstanding environmental liabilities attached to the Dumont Nickel Project and is unable to comment on any remediation which may have been undertaken by previous companies. In order to limit environmental impact to one drainage basin, RNC has elected to contain feasibility study project infrastructure within the St. Lawrence drainage basin.

### ***Mining Rights in Quebec***

Under Quebec Mining Law, the holder of a claim has the exclusive right to explore for mineral substances (other than petroleum, natural gas and brine, sand, gravel and other surface substances) on the parcel of land subject to the claim. A claim has a term of two years. It may be renewed for additional periods of two years by completing minimum exploration work requirements and paying renewal fees. The holder of one or more claims may obtain a mining lease for the parcels of land subject to such claims, provided that the holder can prove the existence of a workable deposit on the property.

The mineral claims confer subsurface mineral rights only. Approximately 40% of the surface rights for the property are held privately by a number of owners, resident both in the area and outside the region. Of these privately held surface rights approximately 1,409 ha are required for the development of the Dumont Nickel Project. To date, RNC has purchased or acquired options to purchase approximately 1,200 ha or 85% of the private surface rights required for the development of the Dumont Nickel Project and negotiations are in progress to purchase the remaining private surface rights. The remainder of the surface rights are Crown Land.

A portion of the Dumont Nickel Project claims underlie surface rights that are classified as an agricultural zone within the meaning of the *Act respecting the preservation of agricultural land and agricultural activities*, RSQ, c P-41.1. Mining activity on these lands would require rezoning or exclusion of these lands from the agricultural zone by the CPTAQ. This exclusion must be requested by the local municipality. The application for exclusion



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must demonstrate that there are no suitable non-agricultural lands available for the stated purpose in the municipality. Royal Nickel does not expect that exclusion for the purpose of developing the Dumont Nickel Project would be unreasonably withheld. The application for exclusion was filed with the CPTAQ on February 20, 2013.

Use of surface rights for mining and associated activities under the terms of a mining lease is subject to environmental permitting. Access to surface rights for private lands would be obtained by negotiating purchase thereof from private surface rights holders. Access to surface rights for Crown Land would be obtained through the mining lease process. Prior to commencing any mining, the operator of a mine or mill on the land subject to a lease must submit a rehabilitation and restoration plan for the site and deposit a financial guarantee. No compensation may be claimed by the holder of a mining claim from the holder of a mining lease for the depositing of tailings on the parcel of land that is subject to the claim.

#### ***Dumont Nickel Project 2013 Program and Estimated Expenditures***

The current estimate for expenditures on the Dumont Nickel Project and corporate expenditures for 2013 is approximately \$18 million.

#### **Marbridge Property**

On April 22, 2009, the Corporation entered into an agreement (the “**Marbridge Agreement**”) to acquire a 100% ownership interest in the Marbridge Property from Xstrata for a total cash consideration of \$1,000,000. On July 31, 2009, the Corporation completed the acquisition pursuant to the terms of the Marbridge Agreement and acquired a 100% interest in the Marbridge Property.

The Marbridge Property is located 60 kilometres by road southeast of the Dumont Nickel Project and 40 kilometres northwest of Val-d’Or, Quebec. The deposits are komatiite-hosted and lie within the broad La Motte ultramafic belt within the eastern Abitibi Greenstone Belt. The Marbridge Property comprises two mining concessions totalling 240 hectares in La Motte township.

The four deposits at the Marbridge Property were discovered by prospecting and surface drilling during the period 1957 to 1966. The deposits were previously operated under a joint venture between Falconbridge Nickel Mines and Marchant Mining that produced 702,366 tonnes of ore grading 2.28% nickel and 0.1% copper over a five year period between 1962 and 1968.

In 2012, four drill holes totalling 107 metres were completed to characterize and evaluate mineralization types identified during compilation of historical data. This work confirmed that a previously unrecognized and poorly tested nickel bearing ultramafic flow horizon (up to 1.39% Ni over 2.02m) is located on the Marbridge property and merits further study and testing. Further compilation of historical data in light of these results is planned for 2013 to identify exploration targets.

#### **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:

- a) Payment of \$70,000 to Jefmar;
- b) Issuance of 150,000 common shares to Jefmar; and
- c) 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 \$1,000,000 with a minimum of 60 days prior written notice to Jefmar.



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On September 10, 2010, the Corporation entered into a letter agreement with 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. Glen Eagle has completed a total of approximately \$269,000 in exploration expenditures on the claim to fulfill the expenditure requirement of \$250,000 by the second anniversary date, and has made the required option payment of \$10,000 on the September 10, 2012, anniversary date of the agreement to keep the option in good standing. Glen Eagle completed a NI 43-101 Preliminary Economic Assessment dated January 22, 2013, for a lithium deposit that occurs partly on claim 2116146.

No significant expenditures by Royal Nickel are anticipated for the project for 2013.

## **RESULTS OF OPERATIONS**

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### **Three months ended June 30, 2013, compared with three months ended June 30, 2012**

The Corporation's net loss totalled \$1.9 million for the three months ended June 30, 2013 (with basic and diluted loss per share of \$0.02). This compares with a net loss of \$2.1 million (with basic and diluted loss per share of \$0.02) for the three months ended June 30, 2012. The net loss decrease of \$0.2 million is due primarily to lower general and administrative expenses (\$0.4 million) partially offset by a higher deferred income tax expense (\$0.2 million).

The decrease in general and administrative expenses (\$0.4 million) is due primarily to lower consulting fees (\$0.3 million), lower investor relations expenses (\$0.2 million) and lower business development expenses (\$0.2 million), partially offset by a net increase in the share-based payments expenses (\$0.3 million). The decrease in consulting fees (\$0.3 million) is due primarily to lower project finance advisory fees. The decrease in investor relations expenses (\$0.2m) is due primarily to lower investor communications advisory fees. The decrease in business development expenses (\$0.2 million) is due primarily to lower travel costs. The net increase in the share-based payments expenses (\$0.3 million) is due primarily to a small mark-to-market expense for deferred share units ("DSUs"), restricted share units ("RSUs") and share appreciation rights ("SARs") (\$0.03 million) for the three months ended June 30, 2013 compared to a mark-to-market recovery (\$0.3 million) in the same period last year.

The higher deferred income tax expense (\$0.2 million) is due primarily to additional deferred tax liabilities related to Quebec mining duties resulting from a change to the mix of expenditures incurred in the period and their characterization for Quebec mining duties purposes as compared to the prior period, partially offset by the amortization of the premium related to flow through shares as expenditures expected to be renounced were incurred.

### **Six months ended June 30, 2013, compared with six months ended June 30, 2012**

The Corporation's net loss totalled \$3.7 million for the six months ended June 30, 2013 (with basic and diluted loss per share of \$0.04). This compares with a net loss of \$4.6 million (with basic and diluted earnings per share of \$0.05) for the six months ended June 30, 2012. The net loss decrease of \$0.9 million is due primarily to lower general and administrative expenses (\$1.3 million) partially offset by an increase in the deferred income tax expense (\$0.3 million).

The decrease in general and administrative expenses (\$1.3 million) is due primarily to lower consulting fees (\$0.7 million), lower investor relations expenses (\$0.2 million), and lower business development expenses (\$0.2 million). The decrease in consulting fees (\$0.7 million) is due primarily to lower project finance advisory fees. The decrease in investor relations expenses (\$0.2m) is due primarily to lower investor communications advisory fees. The decrease in business development expenses (\$0.2 million) is due primarily to lower travel costs.

The higher deferred income tax expense (\$0.3 million) is due primarily to additional deferred tax liabilities related to Quebec mining duties resulting from a change to the mix of expenditures incurred in the period and





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their characterization for Quebec mining duties purposes as compared to the prior period, partially offset by the amortization of the premium related to flow through shares as expenditures expected to be renounced were incurred.

## SUMMARY OF QUARTERLY RESULTS

### Summary of Quarterly Results

(expressed in thousands of dollars except per share amounts)

	2013				2012			2011
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net loss	<b>\$(1,932)</b>	\$(1,783)	\$(1,611)	\$(2,948) <sup>1</sup>	\$(2,097)	\$(2,506)	\$(1,772)	\$(1,182)
Net loss per share	<b>\$(0.02)</b>	\$(0.02)	\$(0.02)	\$(0.03)	\$(0.02)	\$(0.03)	\$(0.03)	\$(0.01)
Fully diluted net loss per share	<b>\$(0.02)</b>	\$(0.02)	\$(0.02)	\$(0.03)	\$(0.02)	\$(0.03)	\$(0.03)	\$(0.01)

1. The higher than normal loss for the quarter of \$2.9 million was primarily due to a higher deferred income tax expense of \$0.8 million and a higher share-based payments expense of \$0.5 million. The higher deferred income tax expense is due primarily to the amount of deferred income tax liability associated with Quebec mining duties. The higher share-based payments expense is due primarily to a mark-to-market expense for deferred share units and restricted share units of \$0.3 million.

## CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

	Three months ended June 30,		Six months ended June 30,	
Sources and Uses of Cash (in thousands of dollars)	2013	2012	2013	2012
Cash used in operations prior to changes in working capital	<b>\$(1,240)</b>	\$(1,960)	<b>\$(2,587)</b>	\$(3,987)
Changes in non-cash working capital	<b>63</b>	473	<b>(69)</b>	358
Cash used in operating activities	<b>(1,177)</b>	(1,487)	<b>(2,656)</b>	(3,629)
Cash provided by (used in) investing activities	<b>13,703</b>	(4,277)	<b>10,034</b>	(6,532)
Cash provided by (used in) financing activities	<b>(13)</b>	(15)	<b>1,784</b>	198
Change in cash and cash equivalents	<b>\$12,513</b>	\$(5,779)	<b>\$9,162</b>	\$(9,963)

### Operating Activities

For the three months ended June 30, 2013, cash used in operating activities, prior to changes in non-cash working capital, was \$1.2 million compared to \$2.0 million in the same period last year. The decrease in cash used is due primarily to lower general and administrative cash expenditures as outlined above under the "Results of Operations" section. For the three months ended June 30, 2013, non-cash working capital decreased by \$0.1 million compared to a decrease of \$0.5 million in the same period last year. The decrease in non-cash working capital (\$0.1 million) reflects a decrease in amounts receivable and prepaids (\$0.1 million). For the three months ended June 30, 2013, cash used in operating activities was \$1.2 million compared to cash used in operating activities of \$1.5 million for the three months ended June 30, 2012.



For the six months ended June 30, 2013, cash used in operating activities, prior to changes in non-cash working capital, was \$2.6 million compared to \$4.0 million in the same period last year. The decrease in cash used is due primarily to lower general and administrative cash expenditures as outlined above under the “Results of Operations” section. For the six months ended June 30, 2013, non-cash working capital increased by \$0.1 million compared to a decrease of \$0.4 million in the same period last year. The increase in non-cash working capital (\$0.1 million) reflects an increase in amounts receivable and prepaids (\$0.1 million). For the six months ended June 30, 2013, cash used in operating activities was \$2.7 million compared to cash used in operating activities of \$3.6 million for the six months ended June 30, 2012.

### Investing Activities

For the three months ended June 30, 2013, cash provided by investing activities was \$13.7 million which reflects net proceeds (\$14.5 million) received from the sale of the net smelter return as outlined below under the “Liquidity” section, and net tax credits received (\$3.9 million), offset partially by expenditures on mineral property interests (\$4.7 million). For the three months ended June 30, 2012, the total cash used in investing activities was \$4.3 million which primarily reflects expenditures on mineral property interests (\$4.2 million).

For the six months ended June 30, 2013, total cash provided by investing activities was \$10.0 million which reflects net proceeds (\$14.5 million) received from the sale of the net smelter return, and net tax credits received (\$3.9 million), offset partially by expenditures on mineral property interests (\$8.4 million). For the six months ended June 30, 2012, the total cash used in investing activities was \$6.5 million which reflects expenditures on mineral property interests (\$9.1 million), offset partially by tax credits received (\$2.6 million).

### Financing Activities

For the three months ended June 30, 2013 and June 30, 2012, the only financing activity was negligible principal payments on finance leases.

For the six months ended June 30, 2013, cash provided by financing activities was \$1.8 million, which reflects net proceeds of \$1.8 million from the March 7, 2013 flow-through share offering. For the six months ended June 30, 2012, cash provided by financing activities was \$0.2 million, which reflects cash proceeds of \$0.2 million from the exercise of 650,000 warrants at \$0.35.

For the three months ended June 30, 2013, the net cash provided by operating, investing and financing activities was \$12.5 million compared to net cash used of \$5.8 million in the same period last year. For the six months ended June 30, 2013, the net cash provided by operating, investing and financing activities was \$9.2 million compared to net cash used of \$10.0 million in the same period last year.

### Liquidity and Capital Resources

(in thousands of dollars)	June 30, 2013	December 31, 2012
Cash and cash equivalents	\$19,922	\$10,760
Current portion of tax credits receivable	\$4,615	\$7,340
Working capital <sup>1</sup>	\$21,461	\$15,351
Mineral property interests	\$51,240	\$56,750
Total assets	\$78,302	\$79,047
Shareholders' equity	\$65,468	\$68,013

1. Working capital is a measure of current assets less current liabilities

The mineral exploration properties in which the Corporation currently has an interest are in the exploration and evaluation stage and as a result the Corporation has no current source of operating income and is dependent on external financing to fund its continued exploration and development program. Historically, the Corporation's principal sources of funding have been the issuance of equity securities for cash, the sale of net smelter return royalties, funds from the government of Quebec with respect to mining tax credits received based on eligible exploration expenditures, interest income and funds obtained from the exercise of stock options and warrants.



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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 million. On May 10, 2013, the Corporation closed a royalty financing with Red Kite. Under the terms of the financing, Red Kite acquired a 1% net smelter return royalty in the Dumont Nickel Project for a purchase price of US\$15 million. The Corporation's future financing efforts may be affected by general economic conditions and volatility in the capital markets.

The Corporation's financial instruments credit risk is minimal as, in accordance with the Corporation's investment policy, excess cash is principally invested in short-term deposits and high interest savings accounts at major Canadian chartered banks. In addition, amounts receivable are composed mainly of mining tax credits due from the Quebec government and sales tax receivables from government authorities in Canada.

As at June 30, 2013, the Corporation had working capital of \$21.5 million compared to \$15.4 million as at December 31, 2012. The increase in working capital as at June 30, 2013, reflects primarily the net proceeds received from the sale of the net smelter return to Red Kite and from the flow-through share offering, offset partially by the continued investment in the Dumont Nickel Project and expenditures on general and administrative activities. The working capital of the Corporation as at June 30, 2013, includes a current tax credit receivable from the Quebec government of \$4.6 million. 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 determination of whether expenditures qualify for exploration tax credits requires significant judgment involving complex technical matters that make the ultimate tax collection uncertain. As a result, there may be material differences between the actual tax credits received following final resolution of these interpretation matters with the relevant tax authority and the recorded amount of tax credits.

As at June 30, 2013, the Corporation had cash and cash equivalents of \$19.9 million, of which \$0.9 million is restricted to eligible exploration expenditures pursuant to a flow-through share financing. Management believes that the Corporation has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. However, to meet the long term business plans of developing the Dumont Nickel Project, which is a key component of the Corporation's financial success, the Corporation will need to raise additional capital in order to fund, amongst other things, additional engineering studies, deposits on long-lead mine equipment, permitting and construction. These future funding requirements may be met 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. 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.

## **OUTLOOK**

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With the completion of the Corporation's economically and technically sound feasibility study for the Dumont Nickel Project, the focus for the balance of 2013 will shift to accelerating project discussions with potential strategic or financial partners that will allow RNC to rapidly advance the project into the construction stage following the anticipated completion of the main permitting process by mid-2014. RNC's previously announced formal partnership process begun in late June 2012 is ongoing. At this time, with the feasibility study in hand, RNC is continuing discussions with interested parties to invest in the Dumont project either directly or through other investment structures. RNC is targeting partnership and financing arrangements to be completed in advance of the receipt of the main permit, expected by mid-2014. Current economic conditions are impacting the timing of the financing process and, while RNC remains optimistic that partnership and financing arrangements will be achieved in a timely manner, there is no assurance that any of the proposals or discussions held to date will lead to a binding proposal or to the signing of definitive agreements. With the completion of the US\$15 million Red Kite royalty financing, coupled with a reduction of monthly expenditures following completion of the feasibility study, management believes that RNC has sufficient funds and tax credits receivable to meet its current obligations and planned expenditures through 2014. Certain project



expenditures, such as long lead orders, will be undertaken based on the success of the project financing efforts. The Corporation will also continue to evaluate the additional upside opportunities of alternative downstream processing, trolley assist and the magnetite concentrate by-product that have the potential to add additional value to the project but were not included in the feasibility study in order to simplify the project and reduce implementation risk.

RNC will continue to work with the local community to maintain excellent communications and relationships throughout all phases of the project development. The ESIA for the Dumont Nickel Project was filed in November 2012 and the permitting process is ongoing in 2013, with the goal of receiving the main project permit by mid-2014.

In addition, the Corporation will continue to investigate acquisition opportunities of highly prospective assets, preferably cash-producing, to grow the business in base and platinum group metals. The Corporation will focus on jurisdictions where it believes the risk is manageable.

## 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	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Management salaries and benefits	\$505	\$435	\$896	\$870
Directors fees	91	61	189	152
Share-based payments – Management	160	168	282	340
Share-based payments – Directors	7	39	11	59
Mark-to-market adjustment for cash settled share-based payments	33	(387)	(98)	(439)
	<b>\$796</b>	<b>\$316</b>	<b>\$1,280</b>	<b>\$982</b>
<b>Administrative and general expenses</b>				
Consulting fees paid to a director	\$-	\$-	\$-	\$11

The Corporation is party to certain employment contracts with senior executives. These contracts contain clauses requiring additional payments to be made upon the occurrence of certain events, including contract termination or the change of control of the Corporation. The total amount of severance that would become payable to the senior executives upon a change of control or terminations without cause is \$3 million.

## CONTRACTUAL COMMITMENTS

(in thousands of dollars)	Payments due by period				
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Obligations under finance leases	\$51	\$37	\$14	\$-	\$-
Operating leases	1,288	464	795	29	-
Total contractual obligations	<b>\$1,339</b>	<b>\$501</b>	<b>\$809</b>	<b>\$29</b>	<b>\$-</b>



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An annual advance royalty payable of \$5,000 per year commenced in October 2011 as discussed under the section “*The Dumont Nickel Project*”.

## CONTINGENCIES

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The Corporation’s mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. As at August 9, 2013, the Corporation does not believe that there are any significant environmental obligations requiring material capital outlays in the immediate future and anticipates that such obligations will only arise when mine development commences.

Under the agreement dated March 8, 2007, pursuant to which Royal Nickel acquired a 100% interest in the Marbaw Mineral Claims, the Corporation is required to issue 7 million common shares in RNC 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.

## OFF-BALANCE SHEET ARRANGEMENTS

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As of the date of this MD&A, the Corporation does not have any off balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation, including, and without limitation, such considerations as liquidity and capital resources.

## PROPOSED TRANSACTIONS

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There are no proposed transactions of a material nature being considered by the Corporation. However, the Corporation continues to evaluate properties that it may acquire in the future. See “*Outlook*” above.

## OUTSTANDING SHARE DATA

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As at August 9, 2013, the Corporation had 94,112,311 common shares issued and outstanding.

As at August 9, 2013, the Corporation had the following securities outstanding, which are exercisable for common shares:

	Number of Securities	Weighted Average Exercise Price
Stock options	6,785,250	\$1.60
Warrants	240,000	\$0.50

As at August 9, 2013, the Corporation had the following securities outstanding, which are redeemable, at the option of the holder, in cash or common shares:

	Number of Securities
Deferred share units	1,346,343
Restricted share units	2,100,427



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## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal controls over financial reporting. Any system of disclosure controls and procedures and internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Corporation's internal controls over financial reporting during the quarter ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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The accounting policies applied by the Corporation to the unaudited condensed interim financial statements for the three months ended June 30, 2013, are consistent with those applied by the Corporation to the audited financial statements for the year ended December 31, 2012, except for the following:

### **Changes in Accounting Policies**

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.

The Corporation adopted the amendments to IFRS 12 effective January 1, 2013. These amendments carry forward existing disclosures and also introduce significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. These changes did not result in additional disclosures as the Corporation does not have an interest in other entities.

## **RISK FACTORS**

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The risk factors are discussed in the Corporation's most recent Annual Information Form on file with Canadian provincial regulatory authorities, available at [www.sedar.com](http://www.sedar.com).