# ROYAL NICKEL CORPORATION

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## YEAR ENDED DECEMBER 31, 2011

**TABLE OF CONTENTS**

## INTRODUCTION

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 year ended December 31, 2011. This MD&A, dated March 15, 2012, is intended to supplement and complement the Corporation's audited financial statements and related notes for the year ended December 31, 2011 and should be read in conjunction with both the audited financial statements and the Corporation's most recent Annual Information Form on file with Canadian provincial securities regulatory authorities and available at www.sedar.com. The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("**CICA Handbook**"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("**IFRS**"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation is reporting on this basis in the audited financial statements. In this MD&A, the term "**Canadian GAAP**" refers to Canadian generally accepted accounting principles before the adoption of IFRS. The audited financial statements for the year ended December 31, 2011, including comparative figures, have been prepared in accordance with IFRS applicable to the preparation of annual financial statements, including IFRS 1. Unless otherwise noted, all amounts presented are in Canadian dollars.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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, our belief as to the potential size and ranking of the Dumont Nickel Project if commercial production is achieved, 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, 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. The pre-feasibility study results are estimates only, are preliminary in nature and are based on a number of assumptions, any one of which, if incorrect, could materially change the projected outcome. Until a positive feasibility study has been completed, and even with the completion of a positive feasibility study, there are no assurances that Dumont 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: 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 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.

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.

## DESCRIPTION OF BUSINESS

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 100% owned 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 and warrants are traded on the Toronto Stock Exchange ("**TSX**") (TSX symbols RNX and RNX.WT).

On November 1, 2011 the Corporation released the results of a pre-feasibility study based on a 50,000 tonnes per day ("**tpd**") startup scenario with a subsequent expansion to 100,000 tpd. This smaller startup (compared to the scenario contemplated in the Corporation's preliminary economic assessment, dated September 30, 2010) is based on the significant technical work carried out in 2011 that led to a much simplified concentrator flow sheet. The 50,000 tpd startup scenario is estimated to require an initial capital investment of US$1,112 million which is less than 50% of the initial capital in the 100,000 tpd scenario in the preliminary economic assessment. The expansion from 50,000 tpd to 100,000 tpd will require an additional US$733 million capital investment. The average annual production during the first 19 years of the mine operation is estimated to be 44 kilotonnes of nickel in concentrate reducing to an annual average of 27 kilotonnes of nickel in concentrate for the remaining 12 years when the low grade stockpile is processed. Recovery over the 31 year project life is estimated to be 41%. Overall, the project is expected to generate an average annual production of 37 kilotonnes of nickel in concentrate at average cash costs of US$4.13/lb during a 31 year project life. The pre-feasibility study estimates an after tax net present value ("**NPV**") of US$1,083 million at a discount rate of 8% from commencement of construction and an after tax internal rate of return ("**IRR**") of 16.6%. The simple payback period is 6.5 years. The pre-feasibility study assumes a long term nickel price of US$9.00/lb and an exchange rate of CDN$1.00 = US$0.90. A National Instrument 43-101 ("**NI 43-101**") compliant pre-feasibility study technical report on the Dumont Nickel Project was filed on December 16, 2011.

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 165,000 metres of diamond drilling at regularly spaced sections in order to delineate the mineral resource. 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, drilling to assess geotechnical properties of the rock and sampling for metallurgical testing. In addition, detailed laboratory scale metallurgical testing on representative samples from the Dumont Nickel Project has been undertaken leading to a standard flowsheet design.

With the release of the pre-feasibility study results, RNC has stated probable reserves for the Dumont Nickel Project of approximately 1.1 billion tonnes at a 0.27% nickel grade. This reserve was derived from an updated resource base of approximately 1.4 billion tonnes at 0.27% nickel grade in the measured and indicated category along with an additional 0.7 billion tonnes at 0.26% nickel grade in the inferred category.

## CORPORATE STRATEGY

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
- 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 corporate strategy 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 targeted the following key milestones to achieve the development of the Dumont Nickel Project:

(a) completion of an updated NI 43-101 pre-feasibility study technical report by the end of the second quarter of 2012;

(b) potential placement of long-lead orders starting in the second half of 2012;

(c) completion of feasibility study by mid-2013;

(d) receipt of permits by end of 2013;

(e) start of construction by end of 2013; and

(f) project commissioning and ramp-up in late 2015.

Royal Nickel is currently working with Rothschild to arrange financing to fund the development of the Dumont Nickel Project. Royal Nickel will be exploring options for financing through a combination of strategic partnerships, joint venture arrangements, project finance, offtake financing and equity financing throughout 2012. 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.

## KEY HIGHLIGHTS

- On January 13, 2011, the Corporation announced the completion of the sale of 2,925,000 units at a price of $2.25 per unit for gross proceeds of an additional $6.6 million on the exercise by the underwriters of the over-allotment option granted in connection with the Corporation's December 2010 initial public offering. Each unit was comprised of one common share and one half of one common share purchase warrant, with each warrant exercisable at $3.00 per share until December 15, 2012.

- On March 2, 2011, the Corporation commenced a community information and consultation process ahead of the completion of the pre-feasibility study in order to understand and address community views early in the Dumont Nickel Project's development and to enhance the pre-feasibility study. A Community Advisory Committee consisting of independent representatives of the stakeholder community was established. The pre-feasibility study phase of this consultation process has been completed and its findings have been considered in the pre-feasibility study design.

- On September 26, 2011, the Corporation announced that it had retained GENIVAR Inc. ("**Genivar**"), a leading international engineering consulting firm to complete both the *Avis de Projet* (Project Notice), which initiates the environmental permitting process, and the Environmental and Social Impact Assessment (ESIA).

- On October 3, 2011, the Corporation announced the results of preliminary testwork completed on a lab scale sample of concentrate from its Dumont Nickel Project. High-grade ferronickel was produced from this sample using proven and widely used downstream roasting and reduction processes creating the potential for an alternate processing option for concentrate anticipated to be produced from Dumont. This alternate processing option has the potential to provide higher recoveries, lower costs, and greater flexibility than conventional smelting and refining.

- On December 5, 2011, the Corporation announced that the *Avis de Projet* for the Dumont Nickel Project was filed on December 2, 2011 in order to notify the Quebec Ministry of Sustainable Development, Environment and Parks (MDDEP) of its intention to proceed with the development of Dumont. The Project Notice provides preliminary information about Dumont to the MDDEP and to the federal Canadian Environmental Assessment Agency. The filing of the Project Notice is the first step in the Environmental Impact Assessment and Review Procedure.

- On December 16, 2011 the Corporation announced that the Dumont Nickel Project NI 43-101 compliant pre-feasibility study technical report had been filed under the Corporation's profile on SEDAR. Highlights of the pre-feasibility study are as follows:

    - US$1.1 billion after-tax $NPV_{8\%}$, 16.6% after-tax IRR[1]

    - C1 cash costs[2] of US$4.13 per pound, second quartile unit cash costs

    - Staged development approach: lower cost and lower risk — more than 50% reduction in initial capital outlay from the 100 ktpd scenario outlined in the preliminary economic assessment

    - Initial capital expenditure of US$1.1 billion for 50 ktpd operation

    - Expansion to 100 ktpd by year 5 requires $0.7 billion of additional capital

    - 1.1 billion tonnes of reserves at 0.27% nickel, life-of-mine strip ratio of 1.2:1, 31-year project life

    - Average annual contained nickel production of 96 million pounds (44 kt) during the 19-year mine life and 59 million pounds (27 kt) for the subsequent 12 years from processing of the lower grade stockpile

[1] Based on US$9.00 per pound long term nickel price and CDN$1.00 = US$0.90 exchange rate. NPV and IRR calculated from start of construction, January 2014 and based on October 2011 real costs.

[2] 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. C1 cash cost per pound is a non-IFRS financial performance measure with no standard definition under IFRS.

- Single high grade concentrate containing an average of 33% nickel over life of project

- Incurred a net loss of $7.8 million for the twelve months ended December 31, 2011 compared to a net loss of $14.9 million in the same period in 2010.

- On January 18, 2012, the Corporation announced that it had engaged Rothschild as its financial advisor in planning, preparing and subsequently implementing the currently contemplated project financing for the Dumont Nickel Project.

## OPERATIONAL REVIEW

The Corporation's immediate focus is to continue to fast track the development of its current principal property, the Dumont Nickel Project. The Corporation has sufficient cash on hand to fund its committed and discretionary exploration and operating activities for 2012. See "*Cash Flows, Liquidity and Capital Resources*" below.

**Dumont Nickel Project**
During 2011, the Corporation focused its activities on completing work required to support a pre-feasibility study on the Dumont Nickel Project and initiating work in support of a feasibility study targeted to be completed in mid-2013. The work program focused on geological and geotechnical data collection, metallurgical testwork and utilized a mini pilot plant owned and operated by a third party, data collection for and initiation of the ESIA, and community consultation.

This work included the following:

(1) Resource definition drilling, 53,000 metres, was conducted on the Dumont Nickel Project primarily for the purpose of upgrading the nickel mineral resource from the inferred category to the measured and indicated categories, and evaluating strike extension of the deposit to the northwest and southeast;

(2) Additional geotechnical drilling, 5,050 metres, was conducted on the Dumont Nickel Project for the purpose of measuring rock mechanical properties for pit wall slope angle determination and hydrogeological modelling;

(3) Overburden geotechnical drilling, 1,400 metres in 66 holes, was completed to characterize overburden for pit wall slope angle determination, infrastructure location and hydrogeological modelling;

(4) Voluntary implementation of a public consultation process that will integrate feedback from the surrounding communities as the project evolves. The goal of this process was to ensure effective communication and distribution of information and documentation of the concerns, comments and suggestions of the host communities in order to improve the pre-feasibility study and the content of the upcoming environmental impact study. The pre-feasibility study phase of this consultation process has been completed and its findings have been considered in the pre-feasibility study design;

(5) Bench scale testing of wet grinding/desliming with no defibering was tested on multiple samples in the first quarter of 2011;

(6) A dedicated mini pilot plant, owned by a third party, processed approximately six (6) tonnes of material, from several mineralization types from the Dumont deposit for flowsheet optimization;

(7) Multiple locked cycle cleaning tests to assess cleaning recoveries were completed on various mineralization types from the Dumont deposit. The process water and tailings produced from six of these samples were submitted for geochemical testing and analysis;

(8) Completed testing of sixty-five samples by SGS Mineral Services for comminution characterization for the pre-feasibility design;

(9) A comminution optimization study was completed by Ausenco Limited ("**Ausenco**"), looking at both dry and wet primary grinding options. The wet semi-autogenous grinding ("**SAG**") option with desliming was the preferred option recommended by this study. The recommendation was used as the design basis for the pre-feasibility study;

(10) Collection of environmental baseline study data on the project site continued in 2011. To date, the ongoing study has revealed no undue environmental constraint to the development of the Dumont Nickel Project;

(11) Additional hydrological (stream) data collection and hydrogeological (groundwater) monitoring continued in support of the ESIA and pre-feasibility study water balance;

(12) Initiation of the ESIA led by Genivar;

(13) Submitted the Project Notice to the provincial and federal environment ministries in December 2011;

(14) The Corporation purchased additional buffer claims totalling approximately 960 hectares at the margins of the Dumont Nickel Project in order to secure mineral tenure over zones of potential infrastructure development;

(15) Engineering work on the pre-feasibility study was completed by a team comprised of, Ausenco, SRK Consulting (Canada) Inc. ("**SRK**") and David Penswick, P. Eng.;

(16) Laboratory scale testwork was initiated to evaluate the production of a magnetite concentrate from the concentrator tailings; and

(17) Roasting and smelting tests were completed on 1 kilogram of nickel concentrate to produce a high grade ferronickel product. A conceptual study was initiated with Ausenco to design and provide capital and operating costs for the flowsheet.

**Mineral Reserves and Resources – Dumont Nickel Project**

The mineral reserves and resources for the Dumont Nickel Project shown below are extracted from the pre-feasibility study technical report dated December 16, 2011 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 Resource Statement*, Dumont Nickel Project—SRK December 13, 2011 (including mineral reserves)**

| | | | Contained Nickel | |
|---|---|---|---|---|
| **Resource Estimate** | **Resources (Mt)** | **Nickel Grade (%)** | **(000 tonnes)** | **(million pounds)** |
| Measured | 190 | 0.29 | 550 | 1,203 |
| Indicated | 1,220 | 0.27 | 3,270 | 7,216 |
| **Measured & Indicated** | **1,410** | **0.27** | **3,820** | **8,419** |
| Inferred | 695 | 0.26 | 1,790 | 3,939 |

* Reported at a cut-off grade of 0.2 percent nickel inside conceptual pit shells optimized using nickel price of US$9.00 per pound, average metallurgical and process recovery of forty-one percent, processing and G&A costs of US$5.40 per tonne milled, exchange rate of CDN$1.00 = US$0.90, overall pit slope of forty to forty-four degrees depending on the sector and a production rate of 100,000 tonnes per day. All figures rounded to reflect the relative accuracy of the estimates. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for mineability, selectivity, mining loss and dilution. These mineral resource estimates include Inferred mineral resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. Even though test mining has been

undertaken in areas with Measured & Indicated class mineral resources there is no certainty that inferred mineral resources will be converted to Measured and Indicated categories through further drilling, or into mineral reserves, once economic considerations are applied.

**Mineral Reserve Statement, Dumont Nickel Project—David Penswick December 13, 2011[1]**

| | | | Contained Nickel | |
|---|---|---|---|---|
| **Reserve Estimate** | **Reserves (Mt)** | **Nickel Grade (%)** | **(000 tonnes)** | **(million pounds)** |
| **Probable Reserves** | **1,070** | **0.27** | **2,876** | **6,341** |

1. Reported at a cut-off grade of 0.2 percent nickel inside an engineered pit design. This design was based on a Lerchs-Grossmann optimized pit shell using nickel price of US$6.70 per pound, average metallurgical and process recovery of forty-one percent, processing and G&A costs of US$6.30 per tonne milled, exchange rate of CDN$1.00 = US$0.90, overall pit slope of forty to forty-four degrees depending on the sector and a production rate of 50 kptd. All figures rounded to reflect the relative accuracy of the estimates. Mineral reserves are based on a smallest mining unit of $6000m^3$ and include allowances of 0.65% for dilution and 0.80% for mining losses.

**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. Each Disclosure Document was prepared by or under the supervision of a qualified person (a "Qualified Person") as defined in NI 43-101 – *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators. 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 prepared under the supervision of Alger St-Jean, P. Geo., Vice President Exploration of the Corporation and Johnna Muinonen, Vice President Operations of the Corporation, both Qualified Persons under NI 43-101.

**Jefmar and Marbridge Properties**

Minor exploration work was completed on the Marbridge and Jefmar properties during the year ended December 31, 2011. 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. In May 2011, Glen Eagle completed a 43-101 technical report for a mineral resource estimation for a lithium deposit that occurs partly on claim 2116146. As at the date of the 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 for 2012. On January 21, 2012 Glen Eagle published the results of a positive Preliminary Economic Evaluation for the deposit. Glen Eagle plans to continue evaluating the deposit in 2012.

## TRENDS

The first half of the year saw a continued recovery in the global economy that underpinned a strong performance by commodities and mining equities; however, by later in the second quarter, concerns over the financial stability of Greece and the broader Eurozone combined with political stalemate in the United States created enough economic uncertainty to bring the rallies to a halt. During the second half of the year, a strong sell-off in commodities and equities occurred as investors become increasingly risk averse and metals demand growth in China slowed due to a combination of tighter money supply in China to combat higher inflation, and destocking from higher commodity price levels reached earlier in the year.

As a positive lead-in to 2012, metals demand from China rebounded strongly in the fourth quarter as metal prices reached low enough levels that Chinese consumers were confident to begin restocking depleted stockpiles, and uncertainty about Europe on global demand began to recede.

The global supply response from the mining industry to meet global demand growth once again faced significant challenges in 2011 and highlighted many of the significant social, political and technical risks that the industry faces. Stability of fiscal policies, such as taxation and royalties, as well as certainty on land tenure and project ownership have been challenged in many mining jurisdictions in 2011. These factors, in addition to local protests against mining projects in these same jurisdictions, highlight the impacts that social and political risks resulting from the mining jurisdiction can have on mining projects.

A number of the larger scale nickel projects continued to report significantly higher capital cost estimates and further delays in commissioning and ramping up of production with projects from Vale, Sherritt and Xstrata all reporting significant capital cost increases, delays, or both.

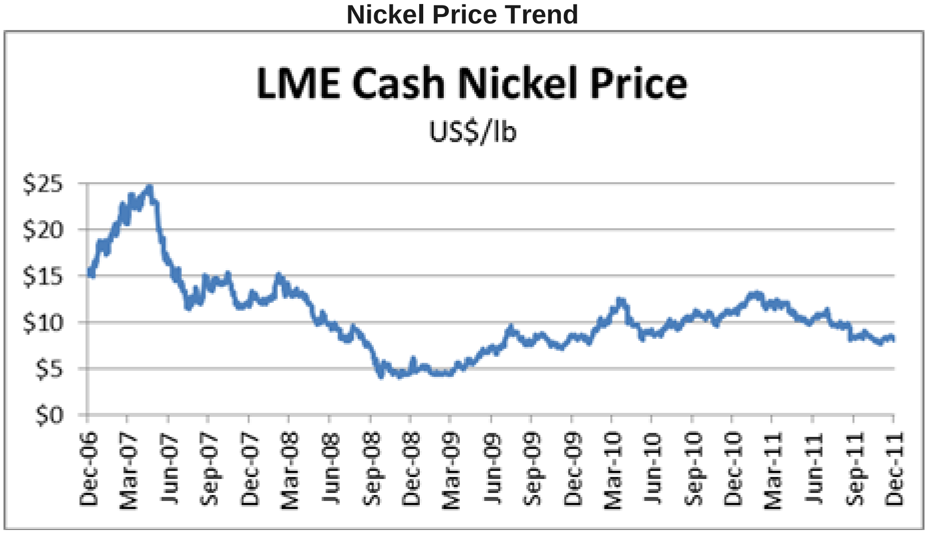
This environment continues to highlight the value of the Dumont Nickel Project with its proposed use of conventional, proven technology in a simple, open pit mine/mill operation and its location in the Abitibi region of Quebec, a province that continues to permit mines and one of the top rated mining jurisdictions in the world.

**The Nickel Industry**

2011 continued to reflect the major nickel market themes that RNC believes will provide a strong nickel market into which the Dumont Nickel Project will be brought into production. According to CRU, overall global nickel demand grew by more than 7% in 2011, underpinned by an increase in Chinese demand of more than 120 kilotonnes or 20% increase to just over 700 kilotonnes. With the continued strong growth in demand and delays to the startup of multiple nickel projects, nickel prices were driven sharply higher during the first half of the year to generate sufficient nickel pig iron production to close the market deficit that opened up during 2010 and remained open through the first half of 2011, before the global slowdown brought the market back into balance. RNC believes that the nickel market will continue to be well supported by significant demand growth from China and the rest of the world, and that continued delays and slower than expected ramp-ups of the projects that are currently under construction will lead to slower than anticipated supply growth. The increasing cost of energy, labour and high quality ore will ensure that cost structures of nickel pig iron supply, which provides the marginal supply for the market, will require higher and higher prices to generate the same level of output.

***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 2011 at US$11.42 per pound, reaching a high of US$13.17 on February 21, 2011, a low of US$7.68 on November 30, 2011 and finished the year at US$8.29 per pound. Nickel prices averaged

US$10.36 per pound in 2011, compared to US$9.89 per pound in 2010. During 2011, LME inventories declined 47 kilotonnes to 90 kilotonnes as of the end of 2011.

## 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 220 contiguous mineral claims totalling 9,042 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 in which a 100% beneficial interest is held by RNC.

*Underlying Agreements*

Several of the mineral claims are subject to royalty agreements with the parties from whom they were purchased. The details of the underlying mineral claim agreements are described below. The remainder of the claims comprising the Dumont Nickel Project were obtained through staking by RNC or through purchase and are not subject to any further royalty or consideration.

*Marbaw Claims (Marbaw Royalty)*

The Marbaw International Nickel Corporation ("**Marbaw**") mineral claim block is comprised of 58 mineral claims totalling 2,341.10 hectares. This block of claims was originally held by Marbaw, but a 100% interest in the claims was sold and transferred to Royal Nickel, for future consideration, under an agreement dated March 8, 2007.

*Future consideration consists 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 Royal Nickel.

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 mineral claims are subject to a 3% net smelter return ("**NSR**") royalty payable to Marbaw. RNC has the right to buy back half of the 3% NSR for $10,000,000 at any time.

*Sheridan-Ferderber Claims (Coyle-Roby Royalty)*

The Sheridan-Ferderber mineral claim block comprises 6 contiguous claims totalling 256.47 hectares. The claims were 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 RNC through an agreement dated May 4, 2007.

RNC's option to acquire 100% interest in this block of mineral claims was exercised by the completion of $75,000 in work on the claims 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, 2006.

These claims are subject to a 2% NSR royalty payable to Terrence Coyle (1%) and Michel Roby (1%). Royal Nickel 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. The initial advance royalty payment was made in October 2011.

*Frigon-Robert Claims (Frigon-Robert Royalty)*
The Frigon-Robert mineral claim block comprises 2 contiguous claims totalling 83.84 hectares. The claims were originally held 50% by Jacques Frigon and 50% by Gérard Robert. They were transferred to RNC through a purchase agreement dated November 1, 2010.

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

*Permits and Authorizations*
Exploration work on public land (Crown land) is conducted under a forestry operational permit granted by the Quebec Ministry of Natural Resources and Wildlife (MNRF) 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 MNRF, CPTAQ and the MDDEP. 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 to develop a memorandum of understanding 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 pre-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. RNC has purchased or acquired options to purchase approximately 680 ha of private surface rights overlying the Dumont resource. The remainder of the surface rights are public land (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 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.

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 public lands 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 2012 Program and Estimated Expenditures***

The total 2012 expenditure for the Dumont Nickel Project is currently estimated to be approximately $25 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.

Minor field expenditures to keep the property in good standing as well as a property-wide compilation to define exploration targets are anticipated for the property for 2012.

**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.

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 maintained their option by completing exploration work in 2011 on Jefmar claim number 2116146 under this agreement. Glen Eagle completed a 43-101 Technical Report dated May 20, 2011 for a mineral resource estimation for a lithium deposit that occurs partly on claim 2116146. On January 21, 2012 Glen Eagle published the results of a positive Preliminary Economic Evaluation for the deposit. Glen Eagle plans to continue evaluating the deposit in 2012.

Minor exploration expenditures to keep the property in good standing were incurred on the remainder of the Jefmar property and no significant expenditures are anticipated for the project for 2012.

## SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial data are derived from the audited financial statements of the Corporation for the years ended December 31, 2011, 2010 and 2009:
(expressed in thousands of dollars except per share amounts)

| | 2011 | 2010 | 2009[1] |
|---|---|---|---|
| Net loss | ($7,751) | ($14,929) | ($7,616) |
| Net loss per share (basic and diluted) | ($0.09) | ($0.24) | ($0.13) |
| Mineral property interests | $53,539 | $34,489 | $24,398 |
| Total assets | $86,368 | $86,563 | $39,639 |
| Non-current financial liabilities | $20 | $24 | $- |

Note:

(1) Information for 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

Royal Nickel has not, since the date of its incorporation, declared or paid any dividends on its Common Shares. For the foreseeable future, Royal Nickel anticipates that it will retain future earnings and other cash resources for the operation and development of its business.

## RESULTS OF OPERATIONS

**Year ended December 31, 2011, compared with year ended December 31, 2010**

The Corporation's net loss totalled $7.8 million for the year ended December 31, 2011 (with basic and diluted loss per share of $0.09). This compares with a net loss of $14.9 million (with basic and diluted earnings per share of $0.24) for the year ended December 31, 2010. The net loss decrease of $7.1 million was due to lower general and administrative expenses ($6.0 million), the cessation of liquidity entitlement charges ($1.3 million), and increased interest income ($0.4 million) offset partially by an increased deferred income tax expense ($0.6 million).

The decrease in general and administrative expenses of $6.0 million reflects lower share based payments ($8.6 million) offset partially by higher investor relations expenses ($0.6 million), office and general expenses ($0.6 million), salaries, wages and benefits ($0.4 million), professional fees ($0.3 million) and business development expenses ($0.2 million). The reduction in the share based payments expense of $8.6 million includes a stock option plan amendment in the second quarter of 2010 that extended the exercise period for most previously issued options outstanding from 5 to 10 years and which gave rise to a non-cash share based payment charge in 2010 of $3.5 million. The balance of the share based payments expense for the year ended December 31, 2011 was $5.1 million lower than in the same period last year and includes a mark-to-market recovery for deferred share units ("**DSUs**") and restricted share units ("**RSUs**") for the year ended December 31, 2011 of $2.2 million compared to a mark-to-market expense of $0.6 million in the same period last year. In addition, the vesting expense and the weighted average fair value of share purchase options and DSUs granted during the year ended December 31, 2011 was lower. The increase in investor relations ($0.6 million) is due primarily to higher investor and public relations consulting fees ($0.3 million), roadshow costs ($0.2 million) and advertising services ($0.1 million). The increase in office and general expenses ($0.6 million) is due primarily to higher rent ($0.2 million), increased government fees and taxes associated with the flow-through share issuance ($0.1 million) and increased insurance costs ($0.1 million). In March 2011, the Corporation's Toronto office relocated to larger premises to accommodate the increased level of activity and staffing needs of the business. Increased insurance costs reflect the higher costs associated with insuring the risks of a public company. The increase in salaries, wages and benefits ($0.4 million) reflects increased staffing levels to support the increased level of activity in 2011. The increase in professional fees ($0.3 million) is due primarily to increased legal costs associated with being a public company. The increase in business development expenses ($0.2 million) is due to higher subscription ($0.1 million) and travel ($0.1 million) expenses.

As detailed in note 17 to the audited financial statements for the year ended December 31, 2010, the liquidity entitlement issuance of shares to RAB Special Situations (Master) Limited ceased once the Corporation's shares were listed for trading on the TSX. For the year ended December 31, 2010 the Corporation issued 660,000 common shares at an average price of $2.00 per share for a total of $1.3 million. Higher interest income ($0.4 million) is the result of increased average cash resources for the year ended December 31, 2011.

The increase in the deferred income tax expense ($0.6 million) is due primarily to the re-measurement of the deferred tax liability associated with Quebec mining duties, as a result of an increase in the Quebec mining duties rate to 16% from 12% enacted in 2011, partially offset by the reduction of the liability associated with the flow through shares resulting from an increase in eligible expenditures incurred in the period as compared to the prior period.

## SUMMARY OF QUARTERLY RESULTS

**Summary of Quarterly Results**
(expressed in thousands of dollars except per share amounts)

| | **2011** | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Net loss | **$(1,772)** | $(1,182) | $(3,068)[1] | $(1,729) | $(4,690)[2] | $(1,834) | $(6,216)[3] | $(2,189) |
| Net loss per share | **$(0.03)** | $(0.01) | $(0.03) | $(0.02) | $(0.07) | $(0.03) | $(0.10) | $(0.04) |
| Fully diluted net loss per share | **(0.03)** | (0.01) | (0.03) | (0.02) | (0.07) | (0.03) | (0.10) | (0.04) |

Notes:

(1) The higher than normal loss for the quarter of $3.1 million was primarily due to a higher deferred tax expense of $1.8 million that reflects the re-measurement of the deferred tax liability associated with Quebec mining duties, as a result of an increase in the Quebec mining duties rate to 16% from 12% enacted in the quarter.

(2) The higher than normal loss for the quarter of $4.7 million was primarily due to an increased share based payments charge of $2.6 million, which included a charge of $0.5 million as a result of the December 31, 2010 mark-to-market of DSUs and RSUs.

(3) The higher than normal loss for the quarter of $6.2 million was primarily due to an increased share based payment charge of $4.6 million, which included a charge of $3.5 million as a result of a share incentive plan amendment extending the exercise period for most previously issued options outstanding from 5 to 10 years.

**Three months ended December 31, 2011, compared with three months ended December 31, 2010**

The Corporation's net loss totalled $1.8 million for the three months ended December 31, 2011 (with basic and diluted loss per share of $0.03). This compares with a net loss of $4.7 million (with basic and diluted earnings per share of $0.07) for the three months ended December 31, 2010. The net loss decrease of $2.9 million was due to lower general and administrative expenses ($2.2 million), the cessation of liquidity entitlement charges ($0.2 million), a decreased deferred income tax expense ($0.4 million) and increased interest income ($0.1 million).

The decrease in general and administrative expenses of $2.2 million is due primarily to lower share based payments ($2.1 million). The share based payments expense for the three months ended December 31, 2011 was $2.1 million lower than the same period last year and includes a mark-to-market recovery for DSUs and RSUs for the three months ended December 31, 2011 of $0.4 million compared to a mark-to-market expense of $0.6 million for the same period last year.

Higher interest income is the result of increased average cash resources in the fourth quarter of 2011. The decrease in the deferred income tax expense ($0.4 million) reflects a deferred tax recovery for the three month period ended December 31, 2011 ($0.1 million) as compared to a deferred tax expense for the three month period ended December 31, 2010 ($0.3 million) and is due primarily to the reduction in the deferred tax liability associated with the mineral properties in the period as compared to the prior period.

## CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

| **Sources and Uses of Cash** (in thousands of dollars) | **Three months ended December 31, 2011** | Three months ended December 31, 2010 | **Year ended December 31, 2011** | Year ended December 31, 2010 |
|---|---|---|---|---|
| Cash used in operations prior to changes in working capital | **$(1,338)** | $(1,577) | **$(6,287)** | $(4,120) |
| Changes in non-cash working capital | **(34)** | 1,208 | **(1,535)** | 1,050 |
| Cash used in operating activities | **(1,372)** | (369) | **(7,822)** | (3,070) |
| Cash provided by (used in) investing activities | **(5,774)** | 756 | **(26,591)** | (4,835) |
| Cash provided by (used in) financing activities | **(12)** | 46,822 | **6,672** | 47,768 |
| Increase (decrease) in cash and cash equivalents | **$(7,158)** | $47,209 | **$(27,741)** | $39,863 |

**Operating Activities**

For the three months ended December 31, 2011, cash used in operating activities, prior to changes in non-cash working capital, was $1.3 million compared to $1.6 million in the same period last year. For the three months ended December 31, 2011, non-cash working capital was increased by $0.03 million compared to a decrease of $1.2 million in the same period last year. The resultant net increase of $1.2 million reflects a decrease in accounts payable and accrued liabilities ($1.8 million) partially offset by an increase in amounts receivable and prepaids ($0.6 million). For the three months ended December 31, 2011, cash used in operating activities was $1.4 million compared to cash used in operating activities of $0.4 million for the three months ended December 31, 2010.

For the year ended December 31, 2011, cash used in operating activities, prior to changes in non-cash working capital, was $6.3 million compared to $4.1 million in the same period last year. The increase in cash used is due to higher general and administrative cash expenditures for the year ended December 31, 2011, as outlined above under the Results of Operations section. For the year ended December 31, 2011, non-cash working capital increased by $1.5 million compared to a decrease of $1.1million in the same period last year. The resultant net increase of $2.6 million reflects a decrease in accounts payable and accrued liabilities ($2.8 million) offset by a decrease in amounts receivable and prepaids ($0.2 million). For the year ended December 31, 2011, cash used in operating activities was $7.8 million compared to cash used in operating activities of $3.1 million for the year ended December 31, 2010.

**Investing Activities**

For the three months ended December 31, 2011, total cash used in investment activities was $5.8 million which primarily reflects expenditures on mineral property interests ($5.7 million). For the three months ended December 31, 2010, the total cash provided by investment activities was $0.8 million which primarily reflects the receipt of tax credits ($2.5 million) and partially offset by expenditures on mineral property interests ($1.8 million).

For the year ended December 31, 2011, total cash used in investment activities was $26.6 million, which primarily reflects expenditures on mineral property interests ($26.2 million). For the year ended December 31, 2010, the total cash used in investment activities was $4.8 million, which primarily reflects expenditures on mineral property interests ($10.1 million) financed in part by the receipt of tax credits ($2.8 million) and the draw down of short term investments ($2.6 million).

**Financing Activities**

For the three months ended December 31, 2011, other than a minor capital lease payment ($0.01 million), there were no financing activities. For the three months ended December 31, 2010, cash provided by financing activities was $46.8 million, which primarily reflects proceeds of $5.0 million for shares issued to Ningbo Sunhu Chem. Products Co. Ltd. and net proceeds from the December 16, 2010 initial public offering of $41.4 million.

For the year ended December 31, 2011, cash provided by financing activities was $6.7 million, which primarily reflects net proceeds of $5.9 million from the January 13, 2011 exercise of the over-allotment option in connection with the initial public offering. In addition, the Corporation received proceeds of $0.2 million from the exercise of 600,000 stock options and proceeds of $0.6 million from the exercise of 1,103,750 warrants. For the year ended December 31, 2010, cash provided by financing activities was $47.8 million, which primarily reflects net proceeds from the December 16, 2010 initial public offering of $41.4 million. In addition, the Corporation received proceeds of $5.0 million for shares issued to Ningbo Sunhu Chem. Products Co. Ltd. and net proceeds of $0.8 million from a brokered private placement, proceeds of $0.3 million from the exercise of 308,750 stock options, and proceeds of $0.3 million from the exercise of 253,750 warrants. In October 2010 the Corporation received net proceeds of $1.8 million from a loan with National Bank of Canada, secured by its 2008 and 2009 Quebec tax credits receivable, repayable upon collection of the Quebec tax credits. The Quebec tax credits were received and the loan was repaid in December 2010.

For the three months and year ended December 31, 2011, the net change in cash and cash equivalents as a result of operating, investing and financing activities was a net cash decrease of $7.2 million and $27.7 million respectively, compared to a net cash increase of $47.2 million and $39.9 million respectively, for the same periods last year.

The use of proceeds as at December 31, 2011 in comparison to the previously proposed use of proceeds of the Corporation's 2010 initial public offering are broken down as follows:

| **Use of Proceeds** (in thousands of dollars) | **Use of proceeds prospectus December 2010** | **Actual use of proceeds December 31, 2011** |
|---|---|---|
| Exploration and drilling | $15,000 | $15,324 |
| Metallurgical testing | 10,000 | 5,345 |
| Preliminary feasibility study | 4,000 | 3,505 |
| Feasibility study | 6,000 | 404 |
| General and administrative costs | 10,125 | 9,623 |
| | **$45,125** | **$34,201** |

| **Liquidity** (in thousands of dollars) | **December 31, 2011** | **December 31, 2010** |
|---|---|---|
| Cash and cash equivalents | **$19,741** | $47,482 |
| Working capital[1] | **$27,073** | $44,503 |
| Mineral property interests | **$53,539** | $34,489 |
| Total assets | **$86,368** | $86,563 |
| Shareholders' equity | **$76,741** | $76,810 |

Note:
(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, funds from the government of Quebec with respect to mining credits received based on exploration expenditures, interest income and funds obtained from the exercise of stock options and warrants.

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

As at December 31, 2011, the Corporation had working capital of $27.1 million compared to $44.5 million as at December 31, 2010. The decrease in working capital as at December 31, 2011 reflects primarily the expenditures on general and administrative activities and continued investment in the Dumont Nickel Project offset by net proceeds of $5.9 million from the January 2011 exercise of the over-allotment option.

Management anticipates that these funds will be sufficient to meet the Corporation's obligations and forecast expenditures through December 31, 2012. 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 fund an anticipated work program of approximately $45–50 million to reach a full feasibility study. This funding requirement may be met in the future in a number of ways including, but not limited to, the issuance of new debt or equity instruments and the introduction of joint venture partners and/or business combinations. 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.

**Capital Resources**

At December 31, 2011, Royal Nickel had $19.7 million in cash and cash equivalents, of which $nil is restricted pursuant to flow-through financings, compared to $47.5 million as at December 31, 2010, of which $11.3 million was restricted pursuant to flow-through financings.

The Corporation's financing efforts may be affected by general economic conditions and volatility in the capital and commodity markets.

## OUTLOOK

The Corporation's current focus is to advance the Dumont Nickel Project through the next phases of feasibility, permitting, construction and operation. The results of the optimization study, and additional metallurgical testing, that were announced in May 2011 paved the way to a simplified, lower cost and more robust flowsheet. The new flowsheet utilizes proven technologies used in other similar operations. The Corporation incorporated the results from the optimized flowsheet into the concentrator design for the pre-feasibility study. This improvement and additional technical work provided the Corporation the opportunity to evaluate additional scenarios during the pre-feasibility study stage, which resulted in the smaller 50,000 tpd startup scenario. The pre-feasibility study has identified additional opportunities that will be investigated in the near future which could potentially improve the project. As announced in October 2011, RNC has initiated a separate study to assess this potential downstream processing option to produce ferronickel from the Dumont concentrate. This option may provide lower processing costs, improved nickel recovery and additional partnership opportunities. RNC also has completed preliminary lab work to produce a magnetite (iron) concentrate from an existing tailings stream. With a relatively minor upgrading step, magnetite concentrate that grades up to 68% iron could be produced and sold, as an alternative to iron ore feed, to the carbon steel making industry. Additional recovery optimization work will continue to further build on the knowledge of the recovery performance of certain mineral areas of the orebody with the intent to potentially improve the overall recovery. Optimization studies will continue on the open pit design to determine the potential benefits of in-pit crushing or trolley assist to reduce overall fuel consumption and potentially rationalize the fleet of haul vehicles. The Corporation has targeted the completion of an updated pre-feasibility study by the end of the second quarter of 2012, which will incorporate some of the opportunities above. In addition, Royal Nickel will continue data collection and related work to support the ramp up of the bankable feasibility study work by mid-2012, with the intention of completion by mid-2013.

RNC will continue to work with the local community and the Community Advisory Group to maintain excellent communications and relationships throughout all phases of the project development. The permitting process for the Dumont Nickel Project is ongoing, with the goal to file the final Environmental Impact Statement by mid-year 2012. The Corporation will continue to add key personnel as it moves forward through the project phases.

On January 18, 2012, the Corporation announced that it had engaged Rothschild as its financial advisor in planning, preparing and subsequently implementing the currently contemplated project financing for the Dumont Nickel Project. RNC will be exploring options for financing through a combination of: strategic partnerships, joint venture arrangements, project finance, offtake financing and equity financing throughout 2012.

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 related party transactions during the three and twelve months ended December 31, 2011 and 2010 are as follows:

| | **Three months ended December 31** | | **Year ended December 31** | |
|---|---|---|---|---|
| (in thousands of dollars) | **2011** | **2010** | **2011** | **2010** |
| **Administrative and general expenses:** | | | | |
| Consulting fees to director and officer and to a company controlled by a director and officer | $22 | $44 | $142 | $184 |
| | $22 | $44 | $142 | $184 |

## CONTRACTUAL COMMITMENTS

In 2011, the Corporation entered into a sub-lease agreement and a head lease agreement that obligates the Corporation for aggregate rental payments of $1.5 million for the next five years.

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.

An annual advance royalty payable of $5,000 per year is required starting October 26, 2011 as discussed under the section “*The Dumont Nickel Project*”.

## CONTINGENCIES

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 March 15, 2012, 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 will issue 7 million Common Shares to Marbaw upon the Dumont Nickel Project being placed into commercial production or upon transfer (including through a merger, consolidation or asset purchase) of the Dumont Nickel Project to a third party.

## OFF-BALANCE SHEET ARRANGEMENTS

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

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

As at March 15, 2012, the Corporation had 89,529,618 Common Shares issued and outstanding.

As at March 15, 2012, the Corporation had the following securities outstanding, which are exercisable for Common Shares:

| | **Number of Securities** | **Weighted Average Exercise Price** |
|---|---|---|
| Stock options | 7,361,583 | $1.71 |
| Warrants | 14,632,027 | $2.53 |
| Compensation Warrants | 35,555 | $2.25 |

As at March 15, 2012, 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 | 1,437,637 |
| Restricted share units | 1,507,239 |

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND TRANSITION TO IFRS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. There is a full disclosure and description of the Corporation's critical accounting policies, critical accounting estimates and of the Corporation's transition to IFRS in notes 2 and 16 of the audited financial statements for the year ended December 31, 2011.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("**CEO**"), and the Chief Financial Officer ("**CFO**") of the Corporation are responsible for establishing and maintaining the Corporation's disclosure controls and procedures ("**DCP**") including adherence to the Disclosure Policy adopted by the Corporation. The Disclosure Policy requires all staff to keep senior management fully apprised of all material information affecting the Corporation so that they may evaluate and discuss this information and determine the appropriateness and timing for public release.

The CEO and the CFO are also responsible for the design of internal controls over financial reporting ("**ICFR**"). The fundamental issue is ensuring all transactions are properly authorized and identified and entered into a well-designed, robust and clearly understood accounting system on a timely basis to minimize risk of inaccuracy, failure to fairly reflect transactions, failure to fairly record transactions necessary to present financial statements in accordance with GAAP, unauthorized receipts and expenditures or the inability to provide assurance that unauthorized acquisitions or dispositions of assets can be detected. The relatively small size of Royal Nickel makes the identification and authorization process relatively efficient and a process for reviewing ICFR has been developed. To the extent possible given the Corporation's small size, the internal control procedures provide for separation of duties for receiving, approving, coding and handling of invoices, entering transactions into the accounts, writing cheques and wire requests and also require two signers on all payments.

The CEO and CFO evaluated the effectiveness of the Corporation's DCP and ICFR as required by National Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that as of December 31, 2011, the Corporation's design and operation of its DCP and ICFR were effective in providing reasonable assurance that material information regarding this report, and the annual consolidated financial statements and other disclosures, was made known to them on a timely basis and reported as required and in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The CEO and CFO also concluded that no material weaknesses existed in the design of the ICFR.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

There were no changes to the accounting policies applied by the Corporation to each of the 2011 quarterly unaudited condensed interim financial statements, compared to those applied by the Corporation to the financial statements for the year ended December 31, 2011.

## RISK FACTORS

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.