



**ROYAL NICKEL CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED MARCH 31, 2011**

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## 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 quarter ended March 31, 2011. This MD&A, dated May 31, 2011, is intended to supplement and complement the Corporation's unaudited condensed interim financial statements and related notes for the three months ended March 31, 2011 and should be read in conjunction with both the audited financial statements and the annual MD&A for the year ended December 31, 2010. 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 has commenced reporting on this basis in the unaudited condensed interim financial statements. In this MD&A, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS. The unaudited condensed interim financial statements for the three months ended March 31, 2011 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1, including comparative figures. The audited financial statements have been prepared in accordance with Canadian GAAP. Unless otherwise noted, all amounts presented are in Canadian dollars.

Further information about the Corporation and its business activities, including its audited annual financial statements, the annual MD&A for the year ended December 31, 2010 and the most recent Annual Information Form are available at [www.sedar.com](http://www.sedar.com).

## 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 metals, the estimation of mineral resources, the realization of mineral 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, title disputes or claims. 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. Accordingly, 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 preliminary economic assessment contained in the Technical Report referred to in this MD&A, and the estimates contained therein, as well as the results of the optimization study and metallurgical testing to date are preliminary in nature and are based on a number of assumptions, any one of which, if incorrect, could materially change the projected outcome. Factors that could affect the outcome include, among others: the actual results of current exploration and development activities; nickel recovery; project delays; funding needs; general business, economic, competitive, political and social uncertainties; future prices of metals; availability of alternative nickel sources or substitutions; 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, development, evaluation 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).

Since acquiring the Dumont Nickel Project in 2007, Royal Nickel has undertaken an aggressive exploration program to evaluate and develop the mineral resources. The exploration work completed to date includes over 107,000 metres of diamond drilling at regularly spaced sections in order to delineate the mineral resource. The Dumont Nickel Project hosts approximately 7.0 billion pounds of nickel in the measured and indicated resource category at 0.27% nickel with an additional approximate 3.2 billion pounds of nickel classified in the inferred resource category at 0.25% nickel. Based on (i) expected production at the Dumont Nickel Project based on the 100,000 tonnes per day (“**tpd**”) case as set forth in the Technical Report (as hereinafter defined) and (ii) production figures from existing nickel sulphide operations compiled by Brook Hunt — a Wood Mackenzie Company, Royal Nickel believes that the Dumont Nickel Project would rank as the fourth largest nickel sulphide operation in the world (by annual production). 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. A mini pilot plant has also been constructed and is currently in operation to test larger scale samples to confirm and optimize the laboratory scale testing.

The National Instrument 43-101 — *Disclosure Standards for Mineral Projects* (“**NI 43-101**”) compliant technical report entitled “Preliminary Assessment of the Dumont Nickel Project, Launay and Trécesson Townships, Quebec, Canada” dated as of September 30, 2010 (the “**Technical Report**”) prepared by Micon International Limited (“**Micon**”) was completed on the property. The Technical Report assumes two cases for development of the Dumont Nickel Project. The first case assumes use of a concentrator that would treat up to 80,000 tpd of feed (the “**80,000 tpd Case**”), while the second case assumes use of concentrator with a capacity of up to 100,000 tpd (the “**100,000 tpd Case**”).

According to the Technical Report, the 80,000 tpd Case is estimated to require an initial capital investment of US\$2,023 million, generating an average annual production of 114.6 million pounds of nickel in concentrate at average cash costs of US\$3.96/lb. during a 31 year project life, which includes a 20 year mine life followed by a further 11 year period during which time lower-grade stockpiles would be processed. The Technical Report estimates an after-tax net present value (“NPV”) of US\$488 million at a discount rate of 10% (US\$904 million at a discount rate of 8%) from commencement of construction and an after-tax internal rate of return (“IRR”) of 14.1%.

The 100,000 tpd Case is estimated to require an initial capital investment of US\$2,304 million, generating an average annual production of 142.2 million pounds of nickel in concentrate at average cash costs of US\$3.87/lb. during a 25 year project life, which includes an 18 year mine life followed by a further seven year period during which time lower-grade stockpiles would be processed. The Technical Report estimates an after-tax NPV of US\$694 million at a discount rate of 10% (US\$1,146 at a discount rate of 8%) from commencement of construction and an after-tax IRR of 15.4%.

Both the 80,000 tpd Case and the 100,000 tpd Case assume a long term nickel price of US\$7.50/lb. and an exchange rate of CDN\$1.00 = US\$0.90.

The Corporation intends to take the 100,000 tpd Case forward into a pre-feasibility study.

## **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 a pre-feasibility study late third or early fourth quarter 2011;
- (b) placement of long-lead orders by mid 2012 or earlier;
- (c) completion of feasibility study by late 2012;

- (d) receipt of permits by mid 2013;
- (e) start of construction by mid 2013; and
- (f) project commissioning and ramp-up in 2015.

Royal Nickel expects to fund the exploration of the Dumont Nickel Project through various financing sources, including: (i) establishing strategic partnerships; (ii) joint venture agreements; (iii) project finance; (iv) acquiring cash flow producing assets; and (v) other capital markets alternatives. 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.

## **FIRST QUARTER AND RECENT HIGHLIGHTS**

- 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.
- Commenced a community information and consultation process ahead 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.
- Incurred a net loss of \$1.7 million compared to a net loss of \$2.2 million in the same period in 2010.
- Announced the awarding of the contract for the Dumont Nickel Project pre-feasibility study to Ausenco and SRK Consulting, who are collaborating on the project.
- Announced positive results of an optimization study and additional metallurgical test results for the Dumont Nickel Project that support the construction of a simplified, lower cost and more robust flowsheet. Two sets of test work in the mini pilot plant confirm rougher recovery performance. The cleaning stage recoveries that form a significant component of the overall nickel recovery for the orebody will be tested over the coming months and reflected in the pre-feasibility study results later in the year.

## **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 to March 31, 2012 at current operating levels. See "*Cash Flows, Liquidity and Capital Resources*" below.

### **Dumont Nickel Project**

During the first quarter of 2011, the Corporation focused its activities on completing work required to support a pre-feasibility study on the development of the Dumont Nickel Project, targeted to be completed in 2011. The work program focused on geological and geotechnical data collection, metallurgical test work and the operation of a mini pilot plant. This work included the following:

- (i) Infill drilling, 4,000 metres, was conducted on the Dumont Nickel Project for the purpose of upgrading the nickel mineral resource from the inferred category to the measured and indicated categories;
- (ii) Geotechnical drilling, 3,700 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;
- (iii) 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;
- (iv) Voluntary initiation of a public consultation process that will integrate feedback from the surrounding communities as the project evolves. This process has the goals of ensuring effective communication and distribution of information and documenting 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;
- (v) Bench scale testing of wet grinding/desliming with no defibering was tested on multiple samples in the first quarter of 2011;
- (vi) A dedicated mini pilot plant, owned by a third party, processed approximately two tonnes of material, representing three mineralization types from the Dumont deposit for flowsheet optimization;
- (vii) Sixty-five samples were submitted to SGS Mineral Services for comminution characterization for the pre-feasibility design. Thirty percent of the test work was completed by the end of the first quarter of 2011;
- (viii) A comminution optimization study was completed by Ausenco, looking at both dry and wet primary grinding options. The wet SAG (semi-autogenous grinding) option with desliming was the preferred option recommended by this study. This recommendation is being used as the design basis for the pre-feasibility study;
- (ix) Collection of environmental baseline study data on the project site continued in the first quarter of 2011 in preparation for an eventual environmental impact study. The ongoing study has revealed no environmental impediment to the development of the Dumont Nickel Project; and
- (x) In the first quarter of 2011, the Corporation purchased additional buffer claims totalling approximately 800 hectares at the margins of the Dumont Nickel Project in order to secure mineral tenure over zones of potential infrastructure development.

### Mineral Resources – Dumont Nickel Project

The tonnages and grades for the measured, indicated and inferred Mineral Resource estimates contained in the Technical Report are summarized as follows:

#### Summary of the Dumont Mineral Resources at a 0.20% Nickel Cut-off Grade (As of August 16, 2010)

<u>Area Within Deposit Model</u>	<u>Mineral Resource Category</u>	<u>Resource Tonnage</u>	<u>Nickel Grade (%)</u>	<u>Nickel (tonnes)</u>	<u>Nickel (pounds)</u>
All Structural Domains.....	Measured	155,680,000	0.29	447,000	985,365,000
All Structural Domains.....	Indicated	1,003,487,000	0.27	2,707,000	5,966,826,000
<b>All Structural Domains .....</b>	<b>Total Measured and Indicated</b>	<b>1,159,167,000</b>	<b>0.27</b>	<b>3,154,000</b>	<b>6,952,191,000</b>
All Structural Domains.....	Inferred	581,405,000	0.25	1,451,000	3,198,220,000

Mineral resources that are not mineral reserves do not have demonstrated economic viability. There are no mineral reserves identified on the Dumont Nickel Project.

### **Technical Disclosure**

Mr. Alger St-Jean, P.Geol., V.P. Exploration of the Corporation, is a Qualified Person as defined under NI 43-101. Mr. St-Jean has reviewed and approved the technical information contained in this MD&A, dated May 31, 2011.

### ***Jefmar and Marbridge Properties***

No exploration work took place on the Marbridge property during the first quarter of 2011. No exploration work took place on the Jefmar property during the first quarter of 2011, except for Jefmar property claim number 2116146 Lot 8, Range 6, La Motte Township where Glen Eagle Resources Inc. (“**Glen Eagle**”) continues to perform exploration work under an option and joint venture agreement that was finalized with RNC in May 2011 whereby Glen Eagle can earn 70% interest in this claim. Given the current focus on the Dumont Nickel Project, Royal Nickel will incur minor expenditures on both properties for 2011, however, both properties are considered to have longer term potential.

### **TRENDS**

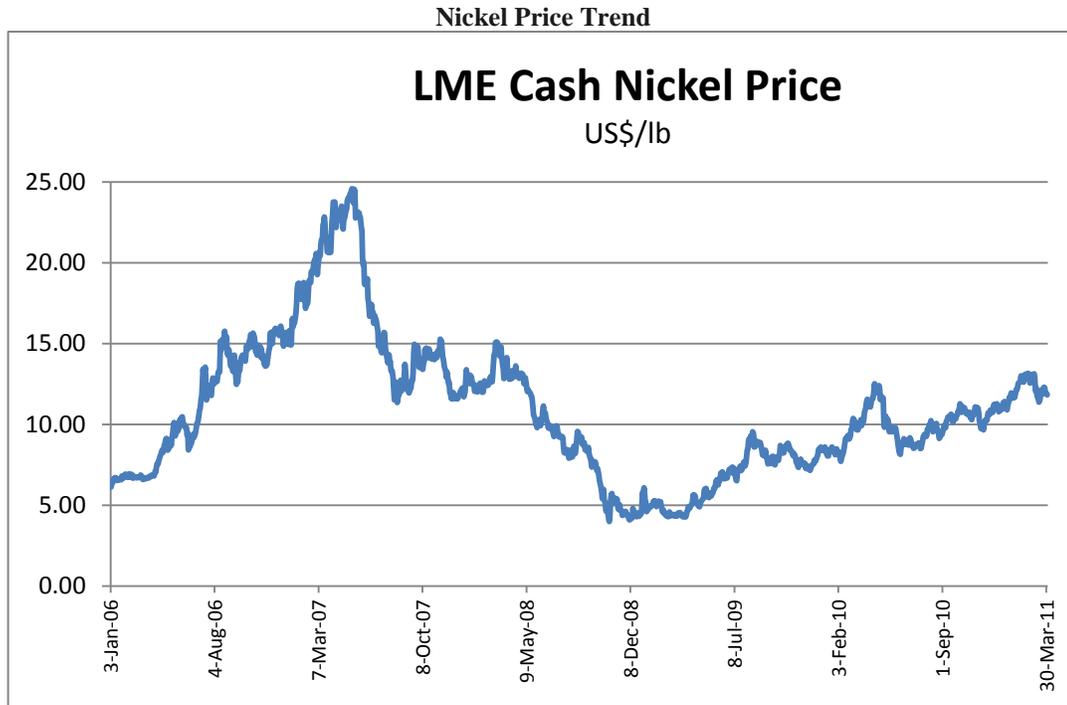
The mining industry continued to be very active during the first quarter of 2011, underpinned by strong growth from China and significant interest in commodities from the financial community. Mergers and acquisition activity continued at a strong pace, with the multi-player, multi-offer activity with Equinox Minerals, Lundin Mining and Inmet Mining culminating in a bid for Equinox by Barrick Gold Corp., one of the world’s largest gold producers.

Subsequent to the end of the quarter, the Quebec government announced its “Plan Nord” to provide infrastructure to facilitate resource development in the northern areas of the province. While this investment will not directly benefit the Dumont Nickel Project, it does highlight the significant advantages of the project location in the Abitibi region of Quebec, a province which continues to permit mines and one of the top rated mining jurisdictions in the world.

### **The Nickel Industry**

The nickel market performed well during the first quarter and was the only base metal that saw net declines in LME inventories—underpinned by continued strength in nickel demand from China and a recovery in rest-of-the-world demand coupled with continued supply disruptions both to existing producers and delays in new project development. Longer-term nickel supply and demand fundamentals remain strong and favourable in the context of the expected Dumont Nickel Project startup.

## Nickel Prices



Source: [metalprices.com](http://metalprices.com)

Nickel primarily trades on the London Metals Exchange (the “LME”) and all references to nickel prices are based on trading on the LME. Nickel began the first quarter of 2011 at US\$11.32 per pound, reached a low of US\$10.91 on January 10, 2011, a high of US\$13.17 on February 21, 2011 and closed the quarter at US\$11.32 per pound. Nickel prices averaged US\$12.20 per pound in the first quarter of 2011, compared to US\$9.11 per pound in the similar period in 2010. LME inventories declined 12 kilotonnes to 124 kilotonnes at the end of the first quarter of 2011 and are 32 kilotonnes lower than at the end of the first quarter of 2010.

## MINERAL EXPLORATION PROPERTIES

The Corporation’s exploration activities are at an early stage, and it has not yet been determined whether its properties contain an economic mineral reserve. The current principal asset of the Corporation is the Dumont Nickel Project. The Corporation has other exploration assets, consisting of (i) the Jefmar property and (ii) the Marbridge property.

### 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 Trécesson 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 Nickel Project consists of 138 contiguous mineral claims totalling 5,884.63 hectares. The mineral claims confer the subsurface rights only. Approximately 45% of the surface rights for the property are held privately and the balance is public land. In cases where private land has been crossed during the exploration program, agreements have been reached with the surface owners for access to the drill sites. There are no known formal native land claims covering the Dumont Nickel Project.

Mining activity on lands that are classed as an agricultural zone within the meaning of the *Loi sur la protection du territoire et des activités agricoles* respecting the preservation of agricultural land and agricultural activities would require rezoning and exclusion of these lands from the agricultural zone by the Quebec Agricultural Land Commission. 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.

Drilling on public land (Crown land) is being conducted under a forestry operational permit with the Quebec Ministry of Natural Resources, whereby stumpage fees are paid for timber cut in order to access drill sites.

The mineral claim boundaries coincide with the established township Lot and Range boundaries. The mineralized zones that comprise the Dumont Nickel Project are 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 Trécession Township. The property is covered by a layer of glacial overburden and swamp land and mineralization subcrops approximately 30 metres below the present surface.

The mineral claims are held 100% by Royal Nickel. The mineral claims can be subdivided into four blocks, three of which were obtained from separate parties. Accordingly, each block is the subject of a separate underlying agreement. The details of the underlying mineral claim agreements are described below.

#### ***Dumont Nickel Project Mineral Claims***

##### *Griffis International Ltd. Mineral Claims (the “Griffis Claims”)*

The Griffis Claims are comprised of 24 mineral claims totalling 1,011.37 hectares. This block of claims was originally held by Griffis International Ltd. (“Griffis”), but a 100% interest in and to the mineral claims was sold and transferred to Royal Nickel under an agreement dated January 15, 2007. The agreement with Griffis is not subject to any further future consideration, work commitment requirement or royalty payments. Royal Nickel must assign \$28,800 of admissible exploration work and pay renewal fees of \$1,248 every two years to the Quebec Ministère des Ressources Naturelles et de la Faune (“MRNF”) in respect of the Griffis Claims.

##### *Marbaw International Nickel Corporation Mineral Claims (the “Marbaw Claims”)*

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

Future consideration consisted of the following:

- (a) the requirement to issue seven million Common Shares 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; and
- (b) the requirement to pay \$1,250,000 to Marbaw on March 8, 2008, which amount has been paid by Royal Nickel.

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

Royal Nickel must assign \$69,600 of admissible exploration work and pay renewal fees of \$3,016 every two years to the MRNF in respect of the Marbaw Claims.

*Sheridan-Ferderber Mineral Claims (the “Sheridan-Ferderber Claims”)*

The Sheridan-Ferderber Claims are comprised of 6 contiguous mineral claims totalling 256.47 hectares. The claims were originally held 50% by Terrence Coyle (“**Coyle**”) and 50% by Michel Roby (“**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 Royal Nickel through an agreement dated May 4, 2007.

Royal Nickel’s option to acquire 100% interest in this block of mineral claims was exercised by the completion of \$75,000 in work on the mineral claims before October 26, 2008 and by paying \$10,000 to Coyle and Roby by October 26, 2007 and \$30,000 to Coyle and Roby by October 26, 2008.

The Sheridan-Ferderber Claims are subject to a 2% NSR royalty payable to Coyle (1%) and Roby (1%). Royal Nickel has the right to buy back one half of the 2% NSR for \$1,000,000 at any time. An advance royalty of \$5,000 per year is also payable to Coyle and Roby beginning in October 2011. Royal Nickel must assign \$7,200 of admissible exploration work and pay renewal fees of \$312 every two years to the Quebec Ministère du Développement durable, de l’Environnement et des Parcs in respect of the Sheridan-Ferderber Claims.

*Royal Nickel Claims (the “Royal Nickel Claims”)*

In March 2009, Royal Nickel staked a contiguous buffer block of 50 mineral claims totalling 2,275.69 hectares to the southwest of the Dumont Nickel Project. In 2010, the Corporation staked 51 additional buffer claims totalling approximately 1,700 hectares at the margins of the Dumont Nickel Project in order to secure mineral tenure over zones of potential infrastructure development. Because of claim boundary adjustments subsequent to staking, there are now 100 claims in this group. There is no known mineral resource on the Royal Nickel Claims. Royal Nickel holds a 100% interest in and to the Royal Nickel Claims, which are not subject to any royalty or other underlying agreement. Royal Nickel must assign \$114,400 of admissible exploration work and pay renewal fees of \$4,940 every two years to the MRNF in respect of the Royal Nickel Claims. In the first quarter of 2011, the Corporation added to the Royal Nickel Claims by purchasing additional buffer claims totalling approximately 800 hectares at the margins of the Dumont Nickel Project in order to secure mineral tenure over zones of potential infrastructure development.

Royal Nickel is unaware of any outstanding environmental liabilities attached to the Dumont Nickel Project.

*Dumont Nickel Project 2011 Program and Budgeted Expenditures*

A program consisting of approximately 18,000 metres of resource definition drilling, 5,200 metres of rock geotechnical drilling, drilling of 64 overburden characterization holes and 30 overburden cone penetration tests, environmental geochemistry testing on 90 samples, hydrological and hydrogeological data collection on surface and in boreholes, and a mini pilot plant campaign, in support of a pre-feasibility study targeted to be completed in 2011 are budgeted for 2011. Additional work in preparation for a feasibility study—targeted to be completed in 2012—consisting of 28,000 metres of resource definition drilling, 5,000 metres of rock geotechnical drilling, 5,000 metres of large diameter drilling for metallurgical testing, comminution testing and metallurgical piloting are also budgeted for 2011. The total 2011 expenditure for the Dumont Nickel Project is estimated to be approximately \$29,000,000.

**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.

No significant expenditures are anticipated for the project for 2011.

### **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% net smelter royalty ("**NSR**") granted to Jefmar. The Corporation has the right and option to buy back 1% of the NSR 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 Resources Inc. 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 full Option and Joint Venture agreement was finalized in May 2011. Glen Eagle Resources Inc. continues to complete exploration work in 2011 on Jefmar claim number 2116146 under this agreement.

No exploration expenditures were incurred on the remainder of the Jefmar property and no significant expenditures are anticipated for the project for the remainder of 2011.

### **MANAGEMENT CHANGES**

On March 28, 2011, Ms. Faiza Usman was appointed Corporate Controller. Ms. Usman has 12 years of experience in financial reporting and management and joins RNC from Barrick Gold Corporation where she was most recently Senior Manager, Financial Controls and prior to that, Senior Manager, Consolidated Results.

### **RESULTS OF OPERATIONS**

#### **Three months ended March 31, 2011, compared with three months ended March 31, 2010**

The Corporation's net loss totaled \$1.7 million for the three months ended March 31, 2011 (with basic and diluted loss per share of \$0.02). This compares with a net loss of \$2.2 million (with basic and diluted earnings per share of \$0.04) for

the three months ended March 31, 2010. The net loss decrease of \$0.5 million was due to the cessation of liquidity entitlement charges (\$0.4 million), a decreased deferred income tax expense (\$0.2 million) and increased interest income (\$0.1 million) offset by higher general and administrative expenses (\$0.2 million).

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. In the first quarter of 2010 the Corporation issued 180,000 common shares at an average price of \$2.00 per share for a total of \$0.4 million. Higher interest income is the result of increased cash resources in the first quarter of 2011. The decrease in the deferred income tax expense (\$0.2 million) is primarily due to a resource credit on eligible exploration expenditures in the first quarter of 2011.

The increase in general and administrative expenses are primarily due to increased office and general expenses (\$0.2 million), professional fees (\$0.1 million), investor relations expenses (\$0.1 million) and public company expenses (\$0.1 million) offset by lower salaries and benefits (\$0.3 million). Higher office and general expenses include increased insurance and rent costs, while increased professional fees are primarily due to public company related legal and audit fees. Lower salaries and benefits reflect lower share based payments (\$0.5 million) which includes a favourable mark-to-market adjustment to the liability for DSUs and RSUs as at March 31, 2011 (\$0.3 million) offset partially by higher salaries and benefits (\$0.2 million) as a result of increased staff in 2011.

## SUMMARY OF QUARTERLY RESULTS

### Summary of Quarterly Results

(expressed in thousands of dollars except per share amounts)

	2011		2010		2009 <sup>1</sup>			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net loss	<b>(1,729)</b>	(4,691) <sup>2</sup>	(1,833)	(6,216) <sup>3</sup>	(2,189)	(1,836)	(2,395) <sup>4</sup>	(1,275)
Net loss per share	<b>(0.02)</b>	(0.08)	(0.03)	(0.10)	(0.04)	(0.03)	(0.04)	(0.02)
Fully diluted net loss per share	<b>(0.02)</b>	(0.08)	(0.03)	(0.10)	(0.04)	(0.03)	(0.04)	(0.02)

Notes:

- (1) Information for 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.
- (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 deferred share units and restricted share units.
- (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.
- (4) The higher than normal loss for the quarter of \$2.4 million was primarily due to an increase in the share based payments charge of \$0.8 million (due primarily to stock options granted to the incoming President and Chief Executive Officer) and higher salaries and management fees of \$0.6 million (reflects a \$0.65 million severance payment to the former President and Chief Executive Officer).

## CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

<b>Sources and Uses of Cash</b> (in thousands of dollars)	<b>Three months ended March 31, 2011</b>	<b>Three months ended March 31, 2010</b>
Cash used in operations prior to changes in working capital .....	\$(1,400)	\$(804)
Changes in non-cash working capital .....	<u>(1,245)</u>	<u>302</u>
Cash used in operating activities .....	(2,645)	(502)
Cash used in investing activities .....	(5,667)	(4,365)
Cash provided by financing .....	<u>6,447</u>	<u>-</u>
Decrease in cash and cash equivalents	<u><u>\$(1,865)</u></u>	<u><u>\$(4,867)</u></u>

### *Operating Activities*

For the three months ended March 31, 2011, cash used in operating activities prior to changes in non-cash working capital was \$1.4 million compared to \$0.8 million for the three months ended March 31, 2010. The increase is due to non-cash item add backs for the three months ended March 31, 2011 of \$0.3 million, compared to non-cash item add backs of \$1.4 million in the same period last year partially offset by the decreased net loss (\$0.5 million). The reduction of non-cash item add backs in 2011 is due primarily to lower shared based payments (\$0.5 million), which includes a favourable DSU and RSU mark-to-market adjustment (\$0.3 million), and the cessation of liquidity entitlement share issuances (\$0.4 million) and a lower deferred income tax expense (\$0.2 million). For the three months ended March 31, 2011, non-cash working capital increased by \$1.2 million compared to a decrease of \$0.3 million in the same period last year. The increase of \$1.2 million reflects a decrease in accounts payable and accrued liabilities (\$0.8 million) and an increase in accounts receivable and prepaids (\$0.4 million). For the three months ended March 31, 2011, cash used in operating activities was \$2.6 million compared to cash used in operating activities of \$0.5 million for the three months ended March 31, 2010.

### *Investing Activities*

For the three months ended March 31, 2011, total cash used in investment activities was \$5.7 million which primarily reflects expenditures on mineral property interests (\$5.9 million) offset by tax credits and mining rights received (\$0.3 million). For the three months ended March 31, 2010, the total cash used in investment activities was \$4.4 million which primarily reflects expenditures on mineral property interests (\$4.6 million) partially offset by the receipt of tax credits and mining rights (\$0.3 million).

### **Financing Activities**

For the three months ended March 31, 2011, cash provided by financing activities was \$6.4 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 \$0.3 million from the exercise of 850,000 warrants. There was no cash provided by financing activities for the three months ended March 31, 2010.

For the three months ended March 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 \$1.9 million compared to a net cash decrease of \$4.9 million for the same period last year.

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

<b>Use of Proceeds</b> (in thousands of dollars)	<b>Use of proceeds prospectus December 2010</b>	<b>Actual use of proceeds March 31, 2011</b>
Exploration and drilling	\$15,000	\$4,877
Metallurgical testing	10,000	1,699
Preliminary feasibility study	4,000	130
Feasibility study	6,000	-
General and administrative costs	10,125	1,717
	<b>\$45,125</b>	<b>\$8,423</b>

### **Liquidity**

(in thousands of dollars)	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Cash and cash equivalents .....	\$45,617	\$47,482
Working capital <sup>(1)</sup> .....	\$43,590	\$44,503
Mineral property interests.....	\$40,886	\$34,489
Total assets .....	\$92,701	\$86,563
Shareholders' equity .....	\$81,977	\$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, accounts receivable are composed mainly of sales tax receivables from government authorities in Canada.

As at March 31, 2011, the Corporation had working capital of \$43.6 million compared to \$44.5 million as at December 31, 2010. The decrease in working capital as at March 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 budgeted expenditures through March 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 \$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 March 31, 2011, Royal Nickel had \$45.6 million in cash and cash equivalents, of which \$6.2 million 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. The results of the optimization study and additional metallurgical testing that were announced in May 2011 pave the way to a simplified, lower cost and more robust flowsheet. The new flowsheet utilizes proven technologies used in other similar operations that should significantly de-risk the project. The projected cost savings from this and an optimized reagent scheme increase the confidence level in the project. The Corporation plans to complete a pre-feasibility study, reflecting the results of the simplified flowsheet from the optimization study, by late third or early fourth quarter of 2011 and to launch the environmental permitting process by the end of the year. An updated resource estimate is also targeted for the third quarter of 2011. RNC will continue to add key personnel to the Corporation as it moves forward through the project phases.

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 months ended March 31, 2011 and 2010 are as follows:

	<b>Three months ended March 31</b> (in thousands of dollars)	
	<b>2011</b>	<b>2010</b>
<b>Administrative and general expenses:</b>		
Consulting fees to director and officer .....	\$44	\$50
	<b>\$44</b>	<b>\$50</b>

## 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 \$1.6 million for the next five years and \$0.1 million beyond 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 May 31, 2011, 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 seven 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.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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 and critical accounting estimates in the interim financial statements for the three months ended March 31, 2011.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Effective January 1, 2011 Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS for interim and annual periods. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The three months ended March 31, 2011 is the Corporation’s first reporting period under IFRS.

The IFRS project team has completed the conversion implementation. Post-implementation will continue in future periods. A detailed discussion of accounting policies under IFRS is included in Note 2 and the quantitative impact of adopting IFRS is further discussed in Note 14 of the condensed interim financial statements for March 31, 2011.

As a result of the accounting policy differences on conversion from Canadian GAAP to IFRS, the Corporation has recorded a reduction in the shareholder’s equity of approximately \$2.3 million as at January 1, 2010. In transition to IFRS, the Corporation also recorded an increase in loss and comprehensive loss of approximately \$0.8 million and \$1.9 million for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

### **Financial Statement Presentation Changes**

The transition to IFRS has resulted in financial statement presentation changes in the financial statements, most significantly on the statement of comprehensive loss. There were no changes to the Corporation’s cash flow statement as a result of the implementation of IFRS.

The following is a summary of the significant changes to the Corporation’s statement of comprehensive loss:

- Expenses by function—the Corporation’s statement of comprehensive loss presents expenses by function. Accordingly, line item details previously reported as separate items on the statement of comprehensive loss are now included in general and administrative expenses with the exception of liquidity entitlement, which is disclosed separately. These changes are reclassifications within the statement of comprehensive loss so there is no net impact to the Corporation’s reported comprehensive loss as a result of these changes.
- Deferred income tax expense under IFRS reflects the amortization of the liability that was established for a portion of the flow-through shares.

## Controls and Procedures

The conversion to IFRS does not have a significant impact on the Corporation's internal controls (including information technology systems), and accounting processes. However, the extent of change in accounting framework has required the Corporation to update its internal controls, disclosure controls and procedures to ensure they are appropriately designed and operated effectively for reporting under IFRS. These include: training communication—to ensure IFRS knowledge is transferred from subject matter experts to the entire organization; documentation—to ensure corporate accounting policies are updated for IFRS, and transitional analysis and decisions are adequately supported; and review—to ensure segregation of duties in the review and approval of IFRS information from preparer to management, and ultimately by the Audit Committee. As a result of these incremental internal control enhancements, the impact of the conversion from Canadian GAAP to IFRS on the Corporation's risk management or other business activities is reduced.

## Business Activities and Key Performance Measures

The Corporation is not subject to any financial covenants or key ratios, therefore the transition had no impact in this regard.

The impact of the IFRS transition project on the Corporation's compensation arrangements has been assessed and there is no significant impact to existing compensation arrangements due to the IFRS conversion project.

## Information Technology and Systems

The IFRS transition project did not have a significant impact on the Corporations' information systems for the convergence periods. Significant changes are also not expected in the post-convergence periods.

## Ongoing Activities

The completion of the Implementation and commencement of Post-Implementation phases will involve continuous monitoring of the changes implemented to date to ensure completeness and accuracy of IFRS financial reporting. In particular, there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. The Corporation also notes that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Corporation's financial statements primarily in the areas of capitalization of exploration costs and disclosures. There are processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

## OUTSTANDING SHARE DATA

As at May 31, 2011, the Corporation had 88,859,953 Common Shares issued and outstanding.

As at May 31, 2011 the Corporation had the following securities outstanding, which are exercisable for Common Shares:

	<u>Number of Securities</u>	<u>Weighted Average Exercise Price</u>
Stock options.....	7,740,583	\$1.89
Warrants.....	16,327,877	\$2.56
Compensation Warrants.....	199,291	\$2.25

As at May 31, 2011, the Corporation had the following securities outstanding, which are redeemable, at the option of the holder, in cash or common shares:

	<u>Number of Securities</u>
Deferred share units .....	1,079,167
Restricted share units .....	852,000

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control 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. Other than changes related to the Corporation's IFRS transition plan, there have been no changes in the Corporation's internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

#### **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](http://www.sedar.com).