



Canada Nickel Company Inc.

Audited Consolidated Financial Statements

For the Year Ended October 31, 2020

and for the Period From October 11, 2019 (Date of Incorporation) to October 31, 2019

(Expressed in Canadian Dollars, unless otherwise noted)

# Canada Nickel Company Inc.

## Management's Report on Consolidated Financial Statements

The consolidated financial statements of Canada Nickel Company Inc. have been prepared by, and are the responsibility of, the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and reflect management's best estimates and judgements based on information currently available. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of the Company.

The Board of Directors is responsible for ensuring management fulfills its financial reporting responsibilities. The Audit Committee meets with the Company's management and external auditors to discuss the results of the audit and to review the consolidated financial statements prior to the Audit Committee's submission to the Board of Directors for approval. The Audit Committee also reviews with management the Company's systems of internal control, and reviews the scope of the external auditors' audit and non-audit work. The Audit Committee is composed entirely of directors not involved in the daily operations of the Company who are thus considered to be free from any relationship that could interfere with their exercise of independent judgement as a committee member.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

January 25, 2021

"Mark Selby"

Signed: Chief Executive Officer

"Wendy Kaufman"

Signed: Chief Financial Officer

To the Shareholders of Canada Nickel Company Inc.:

## Opinion

We have audited the consolidated financial statements of Canada Nickel Company Inc. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2020 and October 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended October 31, 2020 and for the period from October 11, 2019 (date of incorporation) to October 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2020 and October 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019 in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that since inception the Company incurred net losses and, at October 31, 2020 had an accumulated deficit of \$3,077,272. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Blair Michael Mabee.

Mississauga, Ontario

January 25, 2021

*MNP LLP*

Chartered Professional Accountants

Licensed Public Accountants

**Canada Nickel Company Inc.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

**As at October 31**

	Note	2020	2019
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		11,167,265	-
Accounts receivable		1,223,397	-
Loan receivable	4	160,224	-
Prepaid expenses		274,843	-
<b>Total current assets</b>		<b>12,825,729</b>	<b>-</b>
<b>Non-current assets</b>			
Exploration and evaluation assets	5	20,288,628	-
Property, plant and equipment		35,161	-
<b>Total assets</b>		<b>33,149,518</b>	<b>-</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	1,475,542	-
Flow-through share premium	6(b)	282,027	-
<b>Total liabilities</b>		<b>1,757,569</b>	<b>-</b>
<b>Shareholders' equity</b>			
Share capital	6	30,729,738	-
Share-based compensation and warrant reserves	7,8,9	3,739,483	-
Deficit		(3,077,272)	-
<b>Total shareholders' equity</b>		<b>31,391,949</b>	<b>-</b>
<b>Total liabilities and shareholders' equity</b>		<b>33,149,518</b>	<b>-</b>

*The accompanying notes are an integral part of these consolidated audited financial statements.*

Nature of operations and going concern (Note 1)  
Commitments and contingencies (Note 12)  
Subsequent events (Note 15)

Signed on behalf of the Board:

"Mark Selby"  
Mark Selby, Director

"David Smith"  
David Smith, Director

**Canada Nickel Company Inc.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian Dollars)

**For the Year Ended October 31, 2020 and for the Period From October 11, 2019 to October 31, 2019**

	Note	2020 \$	2019 \$
<b>Expenses</b>			
Salaries and management fees		406,888	-
General and administrative costs		440,142	-
Professional fees		763,985	-
Consulting and advisory		610,614	-
Promotion and communication		448,021	-
Investor relations and marketing		635,302	-
Share-based compensation	8,9	1,165,057	-
Travel and other		196,263	-
		<b>4,666,272</b>	-
<b>Flow-through share premium</b>	6(b)	<b>(1,589,000)</b>	-
<b>Net loss and comprehensive loss</b>		<b>3,077,272</b>	-
Loss per share – basic and diluted	10	\$0.06	-
Weighted average number of shares outstanding		53,447,954	-

*The accompanying notes are an integral part of these consolidated financial statements.*

**Canada Nickel Company Inc.**  
**Consolidated Statements of Cash Flow**  
(Expressed in Canadian Dollars)

**For the Year Ended October 31, 2020 and for the Period From October 11, 2019 to October 31, 2019**

	Note	2020	2019
		\$	\$
<b>Operating activities</b>			
Net loss		(3,077,272)	-
Adjustments for non-cash items:			
Share-based compensation		1,165,057	-
Flow-through share premium		(1,589,000)	-
Expenses paid or payable in shares		222,500	-
Changes in non-cash working capital items:			
Accounts receivable		(1,223,397)	-
Prepaid expenses		(274,843)	-
Accounts payable and accrued liabilities		495,369	-
<b>Net cash used in operating activities</b>		<b>(4,281,586)</b>	<b>-</b>
<b>Investing activities</b>			
Exploration and evaluation expenditures	5	(10,708,159)	-
Loan receivable, net of repayments	4	(160,224)	-
<b>Net cash used in investing activities</b>		<b>(10,868,383)</b>	<b>-</b>
<b>Financing activities</b>			
Proceeds from share issuances, net of issuance costs	6	24,622,228	-
Proceeds from exercise of warrants	6,7	1,695,006	-
<b>Net cash provided from financing activities</b>		<b>26,317,234</b>	<b>-</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>-</b>	<b>-</b>
Net change in cash and cash equivalents		11,167,265	-
<b>Cash and cash equivalents, end of year</b>		<b>11,167,265</b>	<b>-</b>
<b>Supplementary disclosure</b>			
Value of shares issued for acquisition of Crawford	5	8,000,000	-
Value of shares issued for acquisition of Crawford Annex and Option Properties	5	615,000	-
Value of shares issued for settlement of accounts payable	6	137,500	-

*The accompanying notes are an integral part of these consolidated financial statements.*

# Canada Nickel Company Inc.

## Consolidated Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Note	Number of common shares	Share capital	Share-based compensation reserve	Warrants reserve	Deficit	Total
		#	\$	\$	\$	\$	\$
<b>Balance, October 11 and 31, 2019</b>		<b>1</b>	-	-	-	-	-
Share issuance – private placements, net	6(a)	35,829,289	11,307,603	-	1,031,308	-	12,338,911
Share issuance – broker financings, net	6(a)	8,300,000	9,677,032	-	2,222,476	-	11,899,508
Share issuance - warrants exercised	7	3,035,026	2,438,880	-	(743,874)	-	1,695,006
Flow-through share premium	6(b)	-	(1,871,027)	-	-	-	(1,871,027)
Share issuance - acquisitions	5	32,500,000	8,615,000	-	-	-	8,615,000
Fair value of share-based compensation	8,9	-	-	1,165,057	-	-	1,165,057
Shares issued on settlement of accounts payable		275,000	137,500	-	-	-	137,500
Equity to be issued to settle accounts payable		-	424,750	-	64,516	-	489,266
Net loss for the year		-	-	-	-	(3,077,272)	(3,077,272)
<b>Balance, October 31, 2020</b>		<b>79,939,316</b>	<b>30,729,738</b>	<b>1,165,057</b>	<b>2,574,426</b>	<b>(3,077,272)</b>	<b>31,391,949</b>

The accompanying notes are an integral part of these consolidated financial statements.



# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 1. Nature of operations and going concern

Canada Nickel Company Inc. ("Canada Nickel" or the "Company") was incorporated on October 11, 2019 under the laws of the Province of Ontario, Canada, and its head office is located at 130 King Street West, Suite 1900, Toronto, Ontario, M5X 1E3.

On February 27, 2020, the Company's common shares commenced trading on the TSX Venture Exchange ("TSX-V") under the symbol TSX-V:CNC and on October 14, 2020 its common shares commenced trading on the OTCQB Venture Marketplace under the symbol OTCQB:CNIF.

On July 21, 2020, the Company incorporated a wholly owned subsidiary NetZero Metals Inc.

The Company is engaged in the exploration and discovery of nickel sulphide assets to deliver future supply for the high growth electric vehicle, green energy and stainless steel markets. The Company owns 100 per cent of the Crawford Nickel-Cobalt Sulphide Project ("Crawford" or "the Project"), which is located adjacent to major infrastructure in the world class Timmins-Cochrane mining camp of northern Ontario, Canada. The Company also holds an option to earn up to an 80% interest in 5 additional nickel targets located near the Project.

These consolidated financial statements have been prepared on the basis of a going concern, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As the Company has no revenue producing mines, the Company's ability to continue as a going concern is dependent upon its ability to raise funds in the capital markets, or through the sale of assets. The Company is in the exploration and evaluation stage and as is common with many exploration companies, it raises financing for its exploration and acquisition activities in discrete tranches. The Company has a working capital balance of \$11,068,160 at October 31, 2020, but has incurred losses and negative cashflows from operations and has an accumulated deficit of \$3,077,272. The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate operating profitability and positive cash flow. There can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate financing, the Company may be required to curtail operations, exploration, and development activities. All of these outcomes are uncertain and taken together indicate the existence of material uncertainties that may cast significant doubt over the ability of the Company to continue as a going concern.

As at October 31, 2020, the Company has sufficient cash on hand to meet operational expenses for the next twelve months, but would need additional funds to complete the feasibility study for Crawford. The Company plans to raise additional capital to execute its business plan, however the Company may increase or decrease expenditures as necessary to adjust to a changing capital market environment.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 1. Nature of operations and going concern (continued)

Due to the worldwide COVID-19 outbreak, material uncertainties may come into existence that could influence management's going concern assumption. Management cannot accurately predict the future impact COVID-19 may have on various external factors such as; global oil prices, demand for base metals, labour availability, availability of essential supplies, value of the Canadian dollar and the ability to obtain funding. At the date of the approval of these consolidated financial statements, the Canadian government has not introduced measures which impede the activities of the Company. Management believes the business will continue and accordingly, the current situation bears no impact on management's going concern assumption. However, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

The consolidated financial statements were approved by the Board of Directors on January 25, 2021.

### 2. Significant accounting policies

#### Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

#### Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The consolidated financial statements include the financial statements of Canada Nickel and its subsidiary, NetZero Metals Inc., from its respective date of control. All intercompany transactions and balances are eliminated on consolidation.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

#### Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar. The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (functional currency), which is the Canadian dollar.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At each financial reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the consolidated statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Flow-through shares

The Company may, from time to time, issue flow-through common shares to finance a portion of its Canadian exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resources property exploration expenditures. The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

#### Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Provisions for mine closure and restoration are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include such costs as dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted using a pre-tax rate and the accretion is included in finance costs.

Restoration activities will occur primarily upon closure of a mine but can occur from time to time throughout the life of the mine. As restoration projects are undertaken, their costs are charged against the provision as the costs are incurred.

The Company has no material provisions as at October 31, 2020.

#### Share capital, warrants and compensation options

Common shares, warrants and compensation options are classified as equity. The share capital represents the amount received upon issuance of shares. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit. The Black-Scholes option pricing model is used to determine the fair value of warrants and compensation options issued.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Share capital, warrants and compensation options (continued)

Consideration paid by holders on exercise of warrants and compensation options is credited to share capital combined with the fair value attributable to the same warrants and compensation options originally recorded in warrants reserve.

#### Share-based compensation

The Company has share-based compensation plans that grant stock options and restricted share units to employees and non-employees. These plans are equity-settled, however, the Company has the option to cash settle in certain circumstances. For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, using an option pricing model.

The expense is recognized over the vesting period of the options or units granted and is recognized as an expense in earnings with a corresponding credit to share-based compensation reserve. Any consideration paid by employees and non-employees on exercise of stock options is credited to share capital combined with any related share-based compensation expense originally recorded in share-based compensation reserve.

#### Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares to the extent that they are not anti-dilutive.

In periods that the Company reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

#### Exploration and evaluation assets

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility, and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation costs incurred are capitalized. Acquisition costs incurred in connection with the terms of option agreements are capitalized. All capitalized exploration and evaluation costs are recorded at acquisition cost and are monitored for indications of impairment. Where there are indications of a potential impairment, an assessment is performed for recoverability. Capitalized costs are charged to the consolidated statements of loss and comprehensive loss to the extent that they are not expected to be recovered.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Exploration and evaluation assets (continued)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to "Mines under construction". There is no amortization during the exploration and evaluation phase.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

#### Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income taxes in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured on a non-discounted basis using tax rates that have been enacted or substantively enacted at the end of the reporting period and are expensed to apply when the deferred tax asset or liability is settled. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. The effect of a change in the enacted or substantively enacted tax rates is recognized in the consolidated statements of loss and comprehensive loss or in equity depending on the item to which the adjustment relates.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### Impairment of non-current assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is an indication of impairment, then the asset's recoverable amount is estimated.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Impairment of non-current assets (continued)

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of loss and comprehensive loss.

#### Financial instruments

##### *Classification*

#### **Summary of the Company's classification and measurements of financial assets and liabilities**

	<u>Classification</u>	<u>Measurement</u>
Cash and cash equivalents	FVTPL	Fair value
Accounts receivable, excluding commodity taxes receivable	Amortized cost	Amortized cost
Loan receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

The Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

##### *Financial assets at fair value through other comprehensive income*

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Financial instruments (continued)

##### *Financial assets at fair value through other comprehensive income (continued)*

Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

##### *Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

##### *Impairment of financial assets*

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Financial instruments (continued)

##### *Impairment of financial assets (continued)*

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

#### Recent accounting pronouncements adopted

In January 2016, the IASB issued IFRS 16, Leases (IFRS 16). IFRS 16 is effective for periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The Company adopted this standard on November 1, 2019, with no resulting impact on its consolidated financial statements.

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. The Company adopted this standard on November 1, 2019, with no resulting impact on its consolidated financial statements.

#### Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and related disclosure. Judgement is used mainly in determining how a balance or transaction should be recognized in the consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. Actual results may differ from these estimates.

##### (a) *Accounting judgement*

Significant areas where management's judgement has been applied include:

###### (i) Exploration and evaluation assets

Judgement is required to determine whether future economic benefits are likely from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of economic recoverability. In addition, management applies a number of estimates and assumptions in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies (if any), accessible facilities, existing permits and estimated future cash flows.



# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Financial instruments (continued)

##### (a) Accounting judgement (continued)

###### (ii) Functional and presentation currency

The functional and presentation currency for the Company and its subsidiaries applies estimates and assumptions to assess the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgements to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

###### (iii) Going concern

Significant judgements used in the preparation of these consolidated financial statements include but are not limited to those relating to the assessment of the Company's ability to continue as a going concern. Judgement is required to determine the non-discretionary spending for the next 12 months and the potential cash in-flows for the same period.

###### (iv) Deferred taxes

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery. As of October 31, 2020, the Company has not recognized any deferred income tax assets.

##### (b) Use of estimates

As described above estimates and assumptions are contemplated with the described judgements. In addition, other significant areas requiring the use of management estimates and assumptions include:

###### (i) Impairment of accounts receivable and loan receivable

Expected credit losses on receivables requires the use of estimates and assumptions, including amongst others, historical default rates, forecast economic conditions, assessment of customer and related party financial condition and discount rates. The estimates and assumptions are subject to risk and uncertainty; hence, the Company's assessment of expected credit loss and forecast of economic conditions may not be representative of the customer's actual default in the future, which may impact the recoverable amount of the assets.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 2. Significant accounting policies (continued)

#### Financial instruments (continued)

##### (b) Use of estimates (continued)

##### (ii) Impairment of non-current assets

Non-current assets are tested for impairment if there is an indicator of impairment. The impairment analysis generally requires the use of estimates and assumptions, including amongst others, long-term commodity prices, discount rates, length of mine life, future production levels, future operating costs, future capital expenditures and tax estimates. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances the carrying value of the assets may be impaired with the impact recorded in the consolidated statements of loss and comprehensive loss.

##### (iii) Decommissioning liability

The Company's accounting policy for the recognition of accrued site closure costs requires significant estimates and assumptions such as the requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance and the timing, extent and costs of required closure, rehabilitation activity and applicable discount rates. Changes to these estimates and assumptions may result in actual expenditures in the future differing from the amounts currently provided. The decommissioning liability is periodically reviewed and updated based on the available facts and circumstances. Management's assumption is that there are currently no decommissioning liabilities at its sites, nor subject to known additional environmental liabilities or mitigation measures.

##### (iv) Share-based compensation, warrants and compensation options

The Company makes certain estimates and assumptions when calculating the fair values of share-based compensation and warrants granted. The significant estimations and assumptions include expected volatility, expected life, expected dividend rate, forfeiture rate and risk-free rate of return.

### 3. Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its expenditure obligations for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic and industry conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the period. The Company considers its Shareholders' Equity as capital which as at October 31, 2020 is \$31,391,949.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 4. Loan receivable

On June 26, 2020, the Company extended a \$625,000 interest-free unsecured loan (the "Loan") to Noble Mineral Exploration Inc. ("Noble") maturing on June 25, 2021. Under the terms of the Loan, should Noble sell any of its Canada Nickel shares, a minimum of 50% of the proceeds of that sale must be used as repayment against the Loan until the principal amount of the Loan has been repaid. If Noble fails to make any payment due under the Loan, interest at 12% per annum will accrue (compounded monthly) retroactive to June 26, 2020 until all principal and interest has been repaid. Noble has the right to prepay the Loan at any time. As at October 31, 2020, Noble repaid \$464,776 of the Loan and is in compliance with the requirements of the loan with a remaining balance outstanding of \$160,224.

Also during the year ended October 31, 2020, the Company entered into a \$250,000 promissory note with Noble and a \$400,000 promissory note with Spruce Ridge Resources Ltd. ("Spruce Ridge"). The amounts advanced were unsecured, bear no interest and were due on demand. Both notes were fully repaid during the year.

### 5. Exploration and evaluation assets

	Crawford Nickel-Cobalt Sulphide Project	Crawford Annex and Option Properties	Total Exploration and Evaluation Assets
	\$	\$	\$
Balance, October 11 and 31, 2019	-	-	-
Acquisition costs:			
Cash paid	2,000,000	500,000	2,500,000
Shares issued	8,000,000	615,000	8,615,000
Drilling	4,900,706	-	4,900,706
Assays	1,194,109	-	1,194,109
Geological and consulting	1,974,265	-	1,974,265
Mineralogy	464,059	-	464,059
Obligations to stakeholders	332,743	-	332,743
Support costs	307,746	-	307,746
<b>Balance, October 31, 2020</b>	<b>19,173,628</b>	<b>1,115,000</b>	<b>20,288,628</b>

#### Crawford Nickel-Cobalt Sulphide Project ("Crawford")

In October 2019, Noble, Canada Nickel, Spruce Ridge and certain private investors entered into a binding letter of intent and a subsequent Implementation Agreement on November 14, 2019, to facilitate Canada Nickel's consolidation of 100% ownership of Crawford.

Under the terms of the Implementation Agreement a series of transactions were completed to consolidate Crawford. Following which, on November 29, 2019, the Company entered into a definitive agreement with Noble, Spruce Ridge and certain private investors to acquire and consolidate Crawford for consideration of \$2 million cash paid to Noble, 12,000,000 common shares issued to Noble at an ascribed fair value of \$3,000,000, and 20,000,000 common shares issued to Spruce Ridge at an ascribed fair value of \$5,000,000.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 5. Exploration and evaluation assets (continued)

#### Crawford Annex and Option Agreement with Noble

On May 22, 2020, the Company closed a definitive agreement with Noble to acquire an additional property and enter into option agreements on five other targets near Crawford.

The Company paid Noble \$500,000 in cash and issued 500,000 Canada Nickel common shares (ascribed a fair value of \$615,000) to acquire the Crawford Annex property and the option to earn up to an 80% interest in five additional nickel targets within Noble's Project 81 land package. The Crawford Annex comprises 4,909 hectares in Crawford and Lucas township and the five option areas (Crawford-Nesbitt-Aubin, NesbittNorth, Aubin-Mahaffy, Kingsmill-Aubin, and MacDiarmid) ("Option Properties") range in size of 903 to 5,543 hectares.

The Company can earn up to an 80% interest in each of the Option Properties on the following terms and conditions:

- 1) Canada Nickel can initially earn a 60% interest in each of the Option Properties within 2 years by:
  - funding at least \$500,000 of exploration and development expenditures on each option property;
  - paying all property maintenance costs for each option property, including all applicable mining land taxes; and
  - making a payment to Noble of an additional \$250,000 in cash or, at Noble's election, Canada Nickel common shares.
- 2) Canada Nickel has the right to then increase their interest to 80% in each of the Option Properties within three years by funding an additional \$1,000,000 of exploration and development expenditures on each option property (for a total of \$1,500,000 per option property over three years).

If the conditions to earn a 60% interest or 80% interest have been satisfied, a joint venture would be formed on that basis and a 2% net smelter return royalty would be granted to Noble on the portion of the property which hold mining claims and are without royalty obligations.

### 6. Share capital

#### **Authorized share capital**

The authorized share capital consisted of an unlimited number of common shares without par value. All issued shares have been fully paid.

#### **Common shares issued**

	Note	Number of Common Shares	Share Capital
		#	\$
<b>Balance, October 11 and 31, 2019</b>		1	-
Share issuance - acquisitions	5	32,500,000	8,615,000
Share issuance - equity financings, net	6(a)	44,129,289	20,984,635
Flow-through share premium	6(b)	-	(1,871,027)
Share issuance – warrants exercised	7	3,035,026	2,438,880
Share issuance – settlement of accounts payable	6(c)	275,000	137,500
Shares to be issued to settle accounts payable	6(c)	-	424,750
<b>Balance, October 31, 2020</b>		<b>79,939,316</b>	<b>30,729,738</b>

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 6. Share capital (continued)

(a) The Company completed the following equity financings in its fiscal year ended October 31, 2020:

	Unit Price	Number of Common Shares	Number of Warrants/Options	Gross Proceeds Received	Costs of Issue	Net Proceeds Received	Fair Value Warrants/Options	Share Capital
	\$	#	#	\$	\$	\$	\$	\$
<b>Private placements</b>								
November 13, 2019	0.25	10,300,000	-	2,575,000	60,000	2,515,000	-	2,515,000
December 3 to 20, 2019	0.25	3,370,000	-	842,500	96,040	746,460	-	746,460
December 20 to 30, 2019 flow-through shares	0.30	2,013,666	-	604,100	-	604,100	-	604,100
January 29 and February 13, 2020	0.25	1,442,000	-	360,500	46,107	314,393	-	314,393
February 14, 2020 flow-through shares	0.3625	4,000,000	-	1,450,000	-	1,450,000	-	1,450,000
February 19 and 21, 2020	0.25	3,874,333	-	968,583	25,000	943,583	-	943,583
<i>May 5, 2020 issue<sup>(1)</sup>:</i>								
Shares and ½ warrant	0.35	1,642,890	821,443	575,012	-	575,012	(146,047)	
Flow-through shares	0.40	4,390,000	-	1,756,000	-	1,756,000	-	
Flow-through shares and ½ warrant	0.515	4,113,900	2,056,950	2,118,658	-	2,118,658	(449,328)	
Costs	-	-	608,807	-	443,781	(443,781)	(435,933)	
Total May 5 issue								2,974,581
September 10, 2020 flow-through	2.60	682,500	-	1,774,500	15,014	1,759,486	-	1,759,486
<b>Broker placements:</b>								
<i>Sept 30, 2020 issue<sup>(2)</sup>:</i>								
Shares and ½ warrant	1.50	5,350,000	2,675,000	8,025,000	-	8,025,000	(1,532,404)	
Costs	-	-	321,000	-	685,052	(685,052)	(432,997)	
Total September 30 issue								5,374,547
<i>October 14, 2020 issue<sup>(3)</sup>:</i>								
Flow-through shares	1.70	2,950,000	-	5,015,000	-	5,015,000	-	
Costs	-	-	177,000	-	455,440	(455,440)	(257,075)	
Total October 14 issue								4,302,485
<b>Balance, October 31, 2020</b>		<b>44,129,289</b>	<b>6,660,200</b>	<b>26,064,853</b>	<b>1,826,434</b>	<b>24,238,419</b>	<b>(3,253,784)</b>	<b>20,984,635</b>

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 6. Share capital (continued)

#### (1) May 5, 2020 issue

Each of the 2,878,393 warrants issued with the common shares and flow-through shares entitles the holder thereof to acquire one common share of the Company at a price of \$0.57 per common share until November 5, 2022, subject to adjustment and acceleration in certain events. The acceleration event was triggered on July 12, 2020 (see Note 7).

Additionally, 608,807 broker warrants were issued in conjunction with this financing, of which 98,573 broker warrants entitles the holder thereof to acquire one common share of the Company at a price of \$0.35 per common share, 263,400 broker warrants entitles the holder thereof to acquire one common share of the Company at a price of \$0.40 per common share and 246,834 broker warrants entitles the holder thereof to acquire one common share of the Company at a price of \$0.46 per common share until November 5, 2022.

The warrants and broker warrants issued were assigned an aggregate fair value of \$1,031,308 using the Black-Scholes valuation model, relative value method, with the following assumptions: dividend yield 0%, expected volatility 100%, risk-free rate of return 0.29% and expected life of 2.5 years.

#### (2) September 30, 2020 issue

Each of the 2,675,000 warrants issued with the common shares entitles the holder thereof to acquire one common share of the Company at a price of \$2.10 per common share until September 30, 2022, subject to adjustment and acceleration in certain events.

Additionally, the Company issued non-transferable compensation options to subscribe for up to 321,000 units of the Company. Each compensation option or unit entitles the holder to acquire one common share and ½ warrant of the Company at \$1.50 per common share until September 30, 2022. Once these common shares are purchased, the 160,500 warrants attributed to these shares entitles the holder to acquire one common share of the Company at \$2.10 per common share until September 30, 2022.

The warrants and broker warrants issued were assigned an aggregate fair value of \$1,965,401 using the Black-Scholes valuation model, relative value method, with the following assumptions: dividend yield 0%, expected volatility 100%, risk-free rate of return 0.23% and expected life of 2 years.

#### (3) October 14, 2020 issue

The Company issued non-transferable compensation options to subscribe for up to 177,000 units of the Company. Each compensation option or unit entitles the holder to acquire one common share and ½ warrant of the Company at \$1.50 per common share until October 14, 2022. Once these common shares are purchased, the 88,500 warrants attributed to these shares entitles the holder to acquire one common share of the Company at \$2.10 per common share until October 14, 2022.

The warrants and broker warrants issued were assigned an aggregate fair value of \$257,075 using the Black-Scholes valuation model, relative value method, with the following assumptions: dividend yield 0%, expected volatility 100%, risk-free rate of return 0.2% and expected life of 2 years.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 6. Share capital (continued)

- (b) Flow-through common shares were issued at a premium to the market price in recognition of the tax benefits accruing to subscribers. The following table shows the amounts the Company is committed to spend on eligible Canadian exploration expenditures ("CEE") by December 31, 2021, the premium associated with each issue and the remaining premium liability as of October 31, 2020.

	<b>Commitment to Spend on CEE</b>	<b>Premium Liability</b>	<b>Eligible CEE Incurred to October 31</b>	<b>Remaining Premium Liability</b>
<b>Equity raise</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
December 20 – 30, 2019	604,100	100,683	604,100	-
February 14, 2020	1,450,000	450,000	1,450,000	-
May 5, 2020	3,874,659	678,794	3,874,659	-
September 10, 2020	1,774,500	641,550	993,759	282,027
October 14, 2020	5,015,000	-	-	-
<b>Balance, October 31, 2020</b>	<b>12,718,259</b>	<b>1,871,027</b>	<b>6,922,518</b>	<b>282,027</b>

As of October 31, 2020 the Company has an obligation to incur an additional \$5,795,741 in eligible CEE by December 31, 2021.

- (c) 275,000 common shares were issued on settlement of accounts payable for the payment of certain consulting and advisory services. The Company has certain additional payables owing in common shares at October 31, 2020. This includes the 150,000 common share commitment owing to the First Nations (note 12) for value of \$192,250 and advisory and professional fee obligations of \$232,500 to be settled in the equivalent value of common shares.

### 7. Warrants and compensation options

The following table reflects the continuity of warrants and compensation options for the year ended October 31, 2020:

	<b>Number of warrants</b>	<b>Number of compensation options</b>
	<b>#</b>	<b>#</b>
Balance, October 11 and 31, 2019	-	-
Granted	6,162,200	498,000
Exercised	(3,035,026)	-
Expired	(71,428)	-
	<b>3,055,746</b>	<b>498,000</b>

On July 16, 2020, under the terms of the May 5, 2020 warrant indenture, the Company accelerated the expiry date of the outstanding warrants from November 5, 2022 to September 14, 2020. Of the 2,878,393 warrants issued, 2,806,965 warrants were exercised and the Company received proceeds of \$1,599,970. The remaining 71,428 unexercised warrants were automatically expired. In addition, the Company received \$95,036 from the exercise of 228,061 broker warrants.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 7. Warrants and compensation options (continued)

The following table reflects the warrants and compensation options outstanding as at October 31, 2020:

Grant Date	Exercise Price	Outstanding as at October 31 2020	Expiry Date	Remaining Life (years)
	\$			
May 5 broker warrants	0.35	54,359	5-Nov-22	2.0
May 5 broker warrants	0.40	179,933	5-Nov-22	2.0
May 5 broker warrants	0.46	146,454	5-Nov-22	2.0
September 30 warrants	2.10	2,675,000	30-Sept-22	1.9
September 30 compensation options	1.50	321,000	30-Sept-22	1.9
October 14 compensation options	1.50	177,000	14-Oct-22	2.0
	1.84	3,553,746		1.9

### 8. Stock options

The following table reflects stock options outstanding as at October 31, 2020:

Grant Date	Exercise Price	Outstanding as at October 31 2020	Expiry Date	Remaining Life (years)
	\$	#		
January 13, 2020	0.25	4,177,500	13-Jan-25	4.2
February 18, 2020	0.25	275,000	18-Feb-25	4.3
August 12, 2020	1.87	60,000	12-Aug-25	4.9
October 27, 2020	1.62	337,500	27-Oct-25	5.0
	0.37	4,850,000		4.3

All stock options were issued during the year ended October 31, 2020 and no stock options were exercised or forfeited. As at October 31, 2020, no options were exercisable. The options vest at a rate of one third on the anniversary date of the grant, and a further one third each year thereafter.

Each stock option converts into one common share of the Company upon exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The Company, at its discretion, may settle stock options exercised through the issuance of common shares from treasury or cash. The Company recorded share-based compensation expense related to stock options of \$418,996 for the year ended October 31, 2020 to the consolidated statements of loss and comprehensive loss.



# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 8. Stock options (continued)

The following table summarizes the assumptions used in the Black-Scholes valuation model for the determination of the cost of stock options issued during the year ended October 31, 2020.

	January 13, 2020	February 18, 2020	August 12, 2020	October 27, 2020
Risk free interest rate	1.66%	1.42%	0.30%	0.25%
Expected life (years)	5	5	5	5
Volatility	100%	100%	100%	100%
Expected dividends	0.00%	0.00%	0.00%	0.00%
Forfeiture rate	0.00%	0.00%	0.00%	0.00%
Fair value of options issued	\$0.19	\$0.19	\$1.38	\$1.20

### 9. Restricted share units ("RSUs")

The following table reflects RSUs outstanding as at October 31, 2020:

Grant Date	Grant Date Price and Fair Value	Outstanding as at October 31 2020
	\$	#
March 3, 2020	0.52	2,122,500
August 12, 2020	1.87	30,000
October 27, 2020	1.62	112,500
	0.59	2,265,000

All RSUs were issued during the year ended October 31, 2020 and no RSUs were exercised or forfeited. As at October 31, 2020, no RSUs were exercisable. The RSUs vest on the anniversary date of the grant.

Each RSU converts into one common share of the Company upon exercise. No amounts are paid or payable by the recipient on receipt of the RSU. The RSUs carry neither right to dividends nor voting rights. Upon vesting, the Company, at its discretion, may settle RSUs through the issuance of common shares from treasury or cash. The Company recorded share-based compensation expense related to RSUs of \$746,061 for the year ended October 31, 2020 to the consolidated statements of loss and comprehensive loss.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 10. Loss per share

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019		
	2020	2019
Net loss	\$3,077,272	\$ -
Weighted average number of common shares outstanding - basic	53,447,954	-
Effect of dilutive securities	-	-
Weighted average number of common shares outstanding - dilutive	53,447,954	-
<b>Loss per share – basic and diluted</b>	<b>\$ 0.06</b>	<b>\$ -</b>

Diluted loss per share does not include the effect of stock options, RSUs, compensation options and warrants as they are anti-dilutive.

### 11. Related party transactions

Related parties and related party transactions impacting the consolidated financial statements are summarized below and include transactions with key management personnel, which includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Related parties include the Board of Directors and management, close family members and enterprises that are controlled by these individuals; as well as certain persons performing similar functions.

A summary of the related party transactions and balances is as follows:

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019		
	2020	2019
	\$	\$
Management and directors fees	380,000	-
Share-based compensation	715,784	-
Accounting and financial services	68,036	-

These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the amount of consideration established and agreed to by the related parties.

Amounts payable to related parties were as follows:

As at October 31		
	2020	2019
	\$	\$
Fees owing to management for expense reimbursement	32,287	-
Fees owing to directors for board fees and advisory	47,970	-
Marrelli Support Services Inc.	24,178	-

Marrelli Support Services Inc. provided bookkeeping and office support services for the Company, including contract Chief Financial Officer (“CFO”) services. Robert D.B. Suttie acted as CFO for the Company from December 1, 2019 to October 31, 2020.

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 12. Commitments and contingencies

At October 31, 2020 the Company has \$773,219 in payables owing with respect to exploration and evaluation assets.

Canada Nickel entered into a Memorandum of Understanding ("MOU") with the Matachewan and Mattagami First Nations in relation to exploration and development operations at Crawford. The MOU establishes a commitment by Canada Nickel to engage in ongoing consultation and establish a mutually beneficial cooperative and productive relationship with the First Nations located in the Project area. The agreement also provides the communities with an opportunity to participate in the benefits of the Project through business opportunities, employment and training, financial compensation and consultation on environmental matters. Financial compensation to the First Nations includes the issuance of 200,000 common shares of the Company, of which 150,000 common shares were owing at October 31, 2020, and a commitment to pay 2% of the annual expenses related to the Company's exploration program. The 200,000 common shares were issued in January 2021 in satisfaction of the common share obligation.

### 13. Financial instruments

#### Fair values

At October 31, 2020, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, loan receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

#### Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the period, there were no transfer of amounts between levels.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Level 1 – none

Level 2 – cash and cash equivalents

Level 3 - none

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk; and
- Liquidity risk

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 13. Financial instruments (continued)

#### Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. All of the Company's cash is held at a Canadian bank, or funds held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk. Loans and account receivables consist of accounts receivable created in the course of normal business along with recoverable service taxes.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash and from time to time with equity. As at October 31, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the period.

#### Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar with minimal exposure to other currencies.

### 14. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate is as follows:

<b>For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019</b>		
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Net loss before income taxes	<b>3,077,272</b>	-
Expected income tax recovery	<b>815,480</b>	-
Share based compensation and non-deductible expenses	<b>(308,740)</b>	-
Flow-through share premium	<b>421,090</b>	-
Share issuance cost booked directly to equity	<b>666,870</b>	-
Change in tax benefits not recognized	<b>(1,594,700)</b>	-
Income tax recovery	-	-

# Canada Nickel Company Inc.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2020 and for the period from October 11, 2019 to October 31, 2019

### 14. Income taxes (continued)

#### Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	As at October 31	
	2020	2019
	\$	\$
Share issuance costs	2,013,200	-
Operating tax losses carried forward	4,004,520	-
<b>Net unrecognized deferred tax assets</b>	<b>6,017,720</b>	-

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses of \$4,004,520 expire in 2040.

Share issuance costs will be fully amortized in 2024. The remaining deductible temporary differences may be carried forward indefinitely.

### 15. Subsequent events

The Company issued stock options and RSUs to certain employees subsequent to October 31, 2020. 360,000 stock options were issued at an exercise price of \$1.62 per share and 100,000 stock options were issued at an exercise price of \$1.88 per share. All vesting over a three year period. In addition, 298,617 RSUs were issued vesting over a one year period.