



Canada Nickel Company Inc.

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise noted)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying condensed interim consolidated financial statements of the company have been prepared by and are the responsibility of the company's management. The company's independent auditor has not performed an audit or review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants.

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

| | Note | July 31 2023 \$ | October 31 2022 \$ |
|---|---------|-----------------------|--------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 7,560,687 | 13,009,936 |
| Harmonized sales tax receivable | | 697,374 | 1,527,062 |
| Accounts receivable | | 132,785 | 366,848 |
| Prepaid expenses | | 667,318 | 117,523 |
| Total current assets | | 9,058,164 | 15,021,369 |
| Non-current assets | | | |
| Exploration and evaluation assets | 4 | 158,400,429 | 128,624,444 |
| Equipment and right-of-use assets | 5 | 886,452 | 669,102 |
| Total assets | | 168,345,045 | 144,314,915 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 13,14 | 4,861,435 | 10,932,118 |
| Short-term loans | 6 | - | 13,291,981 |
| Total current liabilities | | 4,861,435 | 24,224,099 |
| Long-term portion of right-of-use lease liability | 5 | 218,463 | - |
| Deferred tax liabilities | 16 | 4,887,923 | 1,262,453 |
| Asset retirement obligation | 7 | 1,140,751 | |
| Total liabilities | | 11,108,572 | 25,486,552 |
| Shareholders' equity | | | |
| Share capital | 8 | 168,720,615 | 122,126,306 |
| Share-based compensation and warrant reserves | 9,10,11 | 14,489,645 | 11,692,512 |
| Deficit | | (25,973,787) | (14,990,455) |
| Total shareholders' equity | | 157,236,473 | 118,828,363 |
| Total liabilities and shareholders' equity | | 168,345,045 | 144,314,915 |

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

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 14)
Subsequent event (Note 17)

Signed on behalf of the Board:

"Mark Selby"
Mark Selby, Director

"David Smith"
David Smith, Director

Canada Nickel Company Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

For the Three and Nine Months Ended July 31

| | Note | For the three months ended July 31 | | For the nine months ended July 31 | |
|---|-------|---------------------------------------|-------------|--------------------------------------|-------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | \$ | \$ | \$ | \$ |
| Expenses | | | | | |
| Salaries and management fees | 13 | 411,799 | 149,861 | 1,131,774 | 677,968 |
| General and administrative costs | | 92,210 | 145,857 | 479,638 | 705,555 |
| Professional fees | | 180,373 | 374,488 | 866,720 | 730,750 |
| Consulting and advisory | | 447,486 | 281,208 | 1,057,962 | 966,732 |
| Promotion and communication | | 62,556 | 125,399 | 231,882 | 352,614 |
| Investor relations and marketing | | 154,921 | 32,787 | 380,017 | 173,047 |
| Share-based compensation | 10,11 | 1,091,728 | 1,290,422 | 3,697,331 | 3,346,571 |
| Travel and other | | 64,536 | 199,828 | 266,158 | 253,455 |
| Transaction costs and interest expense | 6 | - | - | 1,291,891 | 807,234 |
| | | 2,505,609 | 2,599,850 | 9,403,373 | 8,013,926 |
| Flow-through share premium | 8 | (940,966) | (3,500,000) | (2,045,511) | (4,459,399) |
| Net loss (income) and comprehensive loss (income) before tax | | 1,564,643 | (900,150) | 7,357,862 | 3,554,527 |
| Income tax expense (recovery) | | (344,260) | - | 3,625,470 | - |
| Net loss (income) and comprehensive loss (income) | | 1,220,383 | (900,150) | 10,983,332 | 3,554,527 |
| Loss (income) per share – basic and diluted | 12 | \$0.01 | \$(0.01) | \$0.09 | \$0.04 |
| Weighted average number of shares outstanding | | 140,149,544 | 111,622,072 | 127,809,273 | 100,572,518 |

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

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

For the Nine Months Ended July 31

| | Note | 2023 | 2022 |
|---|-----------|---------------------|---------------------|
| | | \$ | \$ |
| Operating activities | | | |
| Net loss | | (10,983,332) | (3,554,527) |
| Add – transaction costs included in financing activities | 6 | 1,221,891 | 524,094 |
| Adjustments for non-cash items: | | | |
| Share-based compensation | | 3,697,331 | 3,346,571 |
| Flow-through share premium | | (2,045,511) | (4,459,399) |
| Income tax expense | | 3,625,470 | - |
| Accretion on warrants and other non-cash related to short term loan facility | 6 | 70,000 | 283,140 |
| Expenses paid or payable in shares | | 254,742 | 5,448 |
| Changes in non-cash working capital items: | | | |
| Harmonized sales tax receivable | | 829,688 | (160,421) |
| Accounts receivable and prepaid expenses | | (315,732) | (415,021) |
| Accounts payable and accrued liabilities | | (27,673) | 667,530 |
| Net cash used in operating activities | | (3,673,126) | (3,762,585) |
| Investing activities | | | |
| Exploration and evaluation expenditures | 4 | (32,190,865) | (38,587,929) |
| Purchase of equipment | 5 | (97,731) | (111,796) |
| Net cash used in investing activities | | (32,288,596) | (38,699,725) |
| Financing activities | | | |
| Proceeds from short-term loan facility, net of transaction costs | 6 | - | 12,302,085 |
| Repayment of short-term loan facility and related interest and arrangement fees | 6 | (14,513,872) | (12,826,178) |
| Proceeds from share issuances, net of costs | 8 9,10 | 44,567,152 | 48,242,253 |
| Proceeds from exercise of warrants and stock options | | 459,193 | 168,882 |
| Net cash provided from financing activities | | 30,512,473 | 47,887,042 |
| Cash and cash equivalents, beginning of year | | 13,009,936 | 3,334,643 |
| Net change in cash and cash equivalents | | (5,449,249) | 5,424,372 |
| Cash and cash equivalents, end of year | | 7,560,687 | 8,759,375 |
| Supplementary disclosure | | | |
| Value of shares issued for acquisitions | 4 | 2,122,908 | 24,284,110 |
| Value of shares issued for settlement of accounts payable | | 123,462 | 115,448 |

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

Canada Nickel Company Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

Unaudited

| | Note | Number of common shares | Share capital | Share-based compensation reserve | Warrants reserve | Deficit | Total |
|---|-------|-------------------------------|--------------------|--|---------------------|---------------------|--------------------|
| | | # | \$ | \$ | \$ | \$ | \$ |
| Balance, October 31, 2021 | | 88,383,650 | 51,036,468 | 5,551,009 | 167,111 | (9,455,375) | 47,299,213 |
| Share issuance – equity offering | 8(b) | 15,364,708 | 48,242,253 | - | - | - | 48,242,253 |
| Flow-through share premium reserve | 8(b) | - | (5,942,672) | - | - | - | (5,942,672) |
| Share issuance – warrants exercised | | 39,023 | 68,268 | - | (30,220) | - | 38,048 |
| Share issuance – compensation options exercised | 9 | 26,550 | 66,813 | - | (26,988) | - | 39,825 |
| Share issuance – stock options exercised | 10 | 320,833 | 158,935 | (67,925) | - | - | 91,010 |
| Share issuance – restricted share units exercised | 11 | 333,469 | 503,400 | (503,400) | - | - | - |
| Share issuance - acquisitions | 4 | 8,517,000 | 24,284,110 | - | - | - | 24,284,110 |
| Shares issued to settle 2021 accounts payable | | 44,103 | 5,448 | - | - | - | 5,448 |
| Fair value of warrants issued | 6 | - | - | - | 283,140 | - | 283,140 |
| Fair value of share-based compensation | 10,11 | - | - | 4,534,448 | - | - | 4,534,448 |
| Shares to be issued to settle accounts payable | | - | 1,232,000 | - | - | - | 1,232,000 |
| Net loss for the nine months ended July 31 | | - | - | - | - | (3,554,527) | (3,554,527) |
| Balance, July 31, 2022 | | 113,029,336 | 119,655,023 | 9,514,132 | 393,043 | (13,009,902) | 116,552,296 |
| Balance, October 31, 2022 | | 113,067,836 | 122,126,306 | 11,241,037 | 451,475 | (14,990,455) | 118,828,363 |
| Share issuance - equity offering | 8(a) | 23,794,597 | 44,567,152 | - | - | - | 44,567,152 |
| Flow through share premium reserve | 8(a) | - | (2,045,511) | - | - | - | (2,045,511) |
| Share issuance - stock options exercised | 10 | 1,809,168 | 790,427 | (338,134) | - | - | 452,293 |
| Share issuance – restricted share units exercised | 11 | 1,083,325 | 2,119,213 | (2,119,213) | - | - | - |
| Share issuance – acquisitions and option payments | 4 | 1,026,314 | 890,908 | - | - | - | 890,908 |
| Share issuance – warrants exercised | | 69,330 | 17,380 | - | (10,480) | - | 6,900 |
| Fair value of share-based compensation | 10,11 | - | - | 5,194,960 | - | - | 5,194,960 |
| Fair value of warrants issued | 6 | - | - | - | 70,000 | - | 70,000 |
| Shares issued to settle accounts payable | | 86,337 | 123,462 | - | - | - | 123,462 |
| Shares to be issued to settle accounts payable | | - | 131,278 | - | - | - | 131,278 |
| Net loss for the year | | - | - | - | - | (10,983,332) | (10,983,332) |
| Balance, July 31, 2023 | | 140,936,907 | 168,720,615 | 13,978,650 | 510,995 | (25,973,787) | 157,236,473 |

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

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended July 31, 2023 and 2022

Unaudited

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 "CNC" and its common shares also trade on the OTCQX Best Market under the symbol "CNIKF".

On July 21, 2020, the Company incorporated a wholly owned subsidiary NetZero Metals Inc. and on November 3, 2022, the Company incorporated a wholly-owned subsidiary, Central Timmins Nickel Company 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 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 owns 25 additional nickel targets located near the Project.

These condensed interim 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 surplus balance of \$4,196,729 at July 31, 2023, and has incurred losses and negative cashflows from operations and has an accumulated deficit of \$25,973,787. 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.

On September 18, 2023, the Company closed a short-term loan facility with Auramet International, Inc., receiving proceeds of US\$12 million (see note 17). These funds will allow the Company to continue to advance its permitting and detailed engineering activities while it continues to source other sources of funding. The Company may increase or decrease expenditures as necessary to adjust to a changing capital market environment.

The condensed interim consolidated financial statements were approved by the Board of Directors on September 25, 2023.

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended July 31, 2023 and 2022

Unaudited

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”). These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and do not include all of the information required for annual consolidated financial statements. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended October 31, 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of presentation

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

In the preparation of these condensed interim 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 condensed interim consolidated financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

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 adjusts 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 July 31, 2023 is \$157,236,473.

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended July 31, 2023 and 2022

Unaudited

4. Exploration and evaluation assets

| | Balance October 31 2022 | Additions for the nine months ended July 31 2022 | Balance July 31 2022 | Balance October 31 2022 | Additions for the nine months ended July 31 2023 | Balance July 31 2023 |
|-----------------------------|-------------------------------|--|----------------------------|-------------------------------|--|----------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Acquisition costs: | | | | | | |
| Cash paid/payable | 2,695,000 | 1,071,000 | 3,766,000 | 4,016,000 | 4,655,452 | 8,671,452 |
| Loan forgiven | 160,224 | - | 160,224 | 160,224 | - | 160,224 |
| Shares issued/to be issued | 9,481,020 | 25,516,110 | 34,997,130 | 36,362,130 | 950,908 | 37,313,038 |
| Texmont fair value increase | - | - | - | - | 1,130,000 | 1,130,000 |
| Drilling | 17,682,223 | 19,413,113 | 37,095,336 | 42,032,730 | 6,174,426 | 48,207,156 |
| Assays | 2,614,091 | 1,872,590 | 4,486,681 | 5,399,137 | 2,285,417 | 7,684,554 |
| Geological | 2,672,133 | 2,541,653 | 5,213,786 | 5,852,526 | 303,144 | 6,155,670 |
| Consulting | 3,363,238 | 7,586,254 | 10,949,492 | 14,215,686 | 6,288,403 | 20,504,089 |
| Mineralogy | 2,755,611 | 2,610,244 | 5,365,855 | 6,756,350 | 976,190 | 7,732,540 |
| Access road | 1,697,555 | 547,376 | 2,244,931 | 2,335,346 | - | 2,335,346 |
| Obligations to stakeholders | 1,344,849 | 1,871,420 | 3,216,269 | 4,130,091 | 2,868,419 | 6,998,510 |
| Support costs | 2,838,963 | 3,261,883 | 6,100,846 | 7,364,224 | 4,143,626 | 11,507,850 |
| | 47,304,907 | 66,291,643⁽¹⁾ | 113,596,550 | 128,624,444 | 29,775,985⁽¹⁾ | 158,400,429 |

(1) Cash flow spend as per the consolidated statements of cash flows excludes non-cash payments and net payables.

Fiscal year 2022:

On December 17, 2021, the Company acquired from Noble, the five properties it previously had options for (Crawford-Nesbitt-Aubin, Nesbitt North, Aubin-Mahaffy, Kingsmill-Aubin, and MacDiarmid) and the option it held for additional claims adjacent to the original MacDiarmid property (the MacDiarmid Option) (together the "Transaction") plus additional claims held by Noble. Under the terms of the Transaction, the option agreements with Noble were terminated and Canada Nickel acquired 100% of the optioned claims and other interests in return for 3.5 million of the Company's common shares. The Transaction also provides Canada Nickel with the right to re-purchase 1% (half) of the 2% royalty held by Noble in respect of certain properties for a re-purchase price of \$1.5 million per property if re-purchased during the one-year period after closing, increasing to \$2.5 million per property if re-purchased during the second year after closing. As a result of this transaction, the Company owns 100% of the following six properties – Crawford/Nesbitt/Aubin, Nesbitt North, Aubin/Mahaffy, Kingsmill/Aubin, MacDiarmid and Bradburn/Dargavel.

Through the remainder of fiscal year 2022, the Company entered into 26 separate agreements ("2022 Agreements") to directly acquire or earn-in to 17 additional target properties within a 100 kilometre radius of Crawford and to expand five other properties previously owned. The consolidation of these properties underscores the Company's belief in the district-scale potential of the Timmins region.

Under the 2022 Agreements, Canada Nickel agreed to issue the shares and pay the cash listed in the table below and in most agreements has agreed that each of the sellers will retain a net smelter royalty ("NSR") that ranges between 1% and 2%, with Canada Nickel having the right to re-purchase 50% of the royalty for \$500,000 (with respect to a 1% NSR) or \$1 million (with respect to a 2% NSR).

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended July 31, 2023 and 2022

Unaudited

4. Exploration and evaluation assets (continued)

In total for these acquisitions the Company may pay up to \$2,237,000 in cash and issue up to 6,478,000 in shares. The table below also shows the payments made to July 31, 2023 and the additional aggregate payments required to maintain the acquisition or earn-in to the properties post signing.

| | Cash | Shares |
|--------------------------------|------------------|------------------|
| | \$ | # |
| Paid and issued 2022 | 797,000 | 5,012,000 |
| Paid and issued Q1 and Q2 2023 | 215,000 | 365,000 |
| Paid and issued Q3 2023 | 225,000 | 636,000 |
| | <u>1,237,000</u> | <u>6,013,000</u> |
| <i>Remaining payments:</i> | | |
| Fiscal year 2024 | 300,000 | 220,000 |
| Fiscal years 2025 and 2026 | 700,000 | 245,000 |
| | <u>1,000,000</u> | <u>465,000</u> |

In addition, under the 2022 Agreements there are commitments to fund exploration expenditures of at least \$2.4 million in fiscal years 2022 and 2023 (all of which has been spent as of July 31, 2023) and \$3.2 million in fiscal years 2025 and 2026 on certain properties to earn-in.

The above table includes two significant option agreements:

The Midlothian Property was acquired under an Option Agreement with Canadian Gold Miner Corp. (70% interest) and Laurion Mineral Exploration Inc. (30% interest), collectively the vendors. Under the terms of the agreement, Canada Nickel can earn a 100% interest in the property through cash and share payments and a commitment to \$500,000 of exploration expenditures within the first twelve months of the agreement (by February 2023 and has been spent). On or before the fourth anniversary (February 2026), Canada Nickel will complete an exploration program having a cumulative value of \$2.5 million (including the first-year expenditures of \$0.5 million). Cash and share payments paid in 2022 (on acquisition) were \$50,000 and 100,000 respectively. In subsequent years payments are \$100,000 and 35,000 common shares (paid in May 2023), \$200,000 and 70,000 common shares (February 2024), \$300,000 and 105,000 common shares (November 2023) and \$400,000 and 140,000 common shares (November 2025) for total cash payments of \$1,050,000 and share issuances of 450,000. The vendors will retain an NSR of 4% for gold and 2% for nickel with a commercial production payment of \$4.0 million. Canada Nickel will retain a 1% NSR buy-back right for aggregate payments of \$2.5 million. The Option Agreement includes clauses for acceleration of the exploration program and payment in lieu of exploration expenditures.

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended July 31, 2023 and 2022

Unaudited

4. Exploration and evaluation assets (continued)

An agreement with Noble to earn-in and acquire up to an 80% interest in approximately 625 single cell mining claims (the "Claims") in Mann, Hanna, Duff and Reaume Townships (the "Noble Option Agreement") and to acquire 198 mineral rights only patented properties in Kingsmill and Mabee Townships. The Noble Option Agreement required an initial payment to Noble of \$100,000 and 250,000 Common Shares, a payment in July 2022 of \$100,000 and a payment in July 2023 of \$100,000 (all payments included in the table above and paid in 2022 and 2023), a further payment to Noble of \$350,000, or at Noble's option the issuance to Noble of 150,000 common shares of Canada Nickel in lieu of that cash payment in early 2024, and a further \$100,000 in July 2024. These payments along with incurring at least \$500,000 of exploration expenditures on the properties by approximately December 31, 2022 (completed) would provide Canada Nickel the right to acquire a 60% interest in the Claims. After earning that 60% interest, Canada Nickel would have the option to increase its interest in the claims to 80% by incurring additional exploration expenditures of at least \$1,200,000 on the properties by approximately July 15, 2025. In addition, Noble will retain a 2% net smelter return royalty on the 304 staked claims that are subject to the Option Agreement (subject to Canada Nickel having the right to purchase 50% of that royalty for a payment of \$1,000,000). Noble will also retain the right to purchase up to 25% of the 2% royalty held by third parties on other parts of the claims that are subject to the Option Agreement (with Canada Nickel having the right to purchase another 25% of those royalties).

Fiscal Year 2023:

In October 2022, the Company entered into a binding agreement to acquire a 100% interest (subject to certain third party rights described below) in 14 mining leases (Texmont property) in exchange for a \$250,000 cash payment (paid in October) and in November, as part of the transaction close, issuing a non-interest bearing promissory note of \$3.75 million which was due and paid on March 14, 2023. The transaction closed November 14, 2022 whereby the seller was also granted a 2% net smelter returns royalty, which can be bought down to 1% for \$2.5 million at the Company's option. The property has a legacy ownership interest of 15% and net profits interest of 10%. The Company intends to determine whether these interests are still valid.

The Texmont property was formerly an operating mine and mill briefly in years 1971-1972. Because of the previous operation, there are asset retirement obligations for various mine facilities and tailings which were only partly rehabilitated by the previous owner. The acquisition of Texmont was considered an asset acquisition for accounting purposes. The proceeds of \$4 million and costs to acquire of \$120,000 were allocated to the net assets of Texmont as follows:

| | |
|--------------------------------------|-------------|
| | \$ |
| Exploration and evaluation assets | 5,250,000 |
| Asset retirement obligation (note 7) | (1,130,000) |
| Proceeds for acquisition | 4,120,000 |

In addition, in March 2023, the Company entered into a property option agreement with a group of vendors under which the Company acquired an option to earn a 100% interest in 170 single cell mining claims and 23 boundary cell mining claims located in the Timmins area. The agreement provides for certain annual expenditure commitments by the Company, the issuance by the Company of up to a total of 100,000 common shares, and the payment to the vendors of a total of \$90,000 over the option term to exercise the option. In March, the Company paid \$29,858 and issued 20,314 common shares. The vendors will retain a 2.00% NSR with a 1.00% buy-back provision to the Company for \$1.0 million.

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended July 31, 2023 and 2022

Unaudited

4. Exploration and evaluation assets (continued)

The Company, in the second quarter of 2023, made payments on other option agreements totalling \$360,000 and issuing 5,000 shares and in the third quarter of 2023 paid \$150,000. Excluding the 2022 Agreements, the Company has additional obligations under other option agreements (including the March 2023 option agreement described above), as follows:

| | Cash | Shares |
|----------------------------|---------|--------|
| | \$ | # |
| Fiscal year 2024 | 235,000 | 40,000 |
| Fiscal years 2025 and 2026 | 700,000 | 50,000 |
| | 935,000 | 90,000 |

In addition, under these other option agreements there are commitments to fund exploration expenditures of at least \$100,000 in fiscal year 2023 and \$750,000 in fiscal years 2024 and 2025 on certain of the properties to earn-in.

5. Equipment and right-of-use assets

| | Right-of-use assets | Equipment | Total |
|-------------------------------|------------------------|----------------|----------------|
| | \$ | \$ | \$ |
| Balance, October 31, 2021 | 115,026 | 412,758 | 527,784 |
| Additions | 96,531 | 226,004 | 322,535 |
| Depreciation | (81,753) | (99,464) | (181,217) |
| Balance, October 31, 2022 | 129,804 | 539,298 | 669,102 |
| Additions | 297,962 | 97,731 | 395,693 |
| Depreciation | (90,931) | (87,412) | (178,343) |
| Balance, July 31, 2023 | 336,835 | 549,617 | 886,452 |

Depreciation for equipment and right-of-use assets is recorded in Exploration and evaluation assets on the condensed interim consolidated statements of financial position. At July 31, 2023 a lease liability of \$128,339 (October 31, 2022 - \$133,863) related to the right-of-use assets is recorded in accounts payable and accrued liabilities and \$218,463 recorded as a long-term liability.

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

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Unaudited

6. Short-term loans

On January 5, 2022, the Company closed a secured loan facility with Auramet International LLC (“Auramet LLC”) for US\$10 million. The loan was repaid on its maturity of April 5, 2022. Interest expense accrued on the unpaid principal amount at a rate of 12% per annum monthly in arrears. Interest of \$384,662 was expensed and repaid on April 5, 2022 and was included in transaction costs and interest expense in the condensed interim consolidated statements of loss and comprehensive loss.

The Company paid an arrangement fee equal to 2 percent of the loan amount and issued 325,000 common share purchase warrants (“Auramet LLC warrants”). Each of the Auramet LLC warrants entitled Auramet LLC to acquire one common share of the Company at a price of \$3.94 per share until January 5, 2023. The Auramet LLC warrants issued were assigned an aggregate fair value of \$283,140 using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 65%, risk-free rate of return 1.0% and expected one year life. The fair value of the warrants as well as the arrangement fee and other transaction costs were amortized over the three-month maturity in transaction costs and interest expense (see table below). The warrants expired unexercised.

On October 18, 2022, the Company closed a secured loan facility with Auramet International, Inc. (“Auramet Inc.”) for US\$10 million. At October 31, 2022 the loan payable including interest was \$13,291,981. The loan was secured and matured on January 18, 2023, and at the Company’s option it extended the loan for a further 45 day period which matured and was repaid on March 3, 2023. Interest expense accrued on the unpaid principal amount at a rate of 12% per annum monthly in arrears until January 18, 2023 and upon extension of the facility, interest accrued at a rate of 15% per annum monthly in arrears. Interest of \$621,113 was expensed in 2023 and included in transaction costs and interest expense in the consolidated statements of loss and comprehensive loss.

The Company paid an arrangement fee equal to 2 percent of the loan amount (\$309,240) and issued 325,000 common share purchase warrants (“Auramet Inc. warrants”). Each of the Auramet Inc. warrants entitles Auramet Inc. to acquire one common share of the Company at a price of \$1.52 per share until October 18, 2023. The Auramet Inc. warrants issued were assigned an aggregate fair value of \$100,000 using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 60%, risk-free rate of return 4.0% and expected one year life. The fair value of the warrants as well as the arrangement fee and other transaction costs were amortized over the three-month maturity in transaction costs and interest expense in the consolidated statements of loss and comprehensive loss.

Upon extension of the facility on January 18, 2023, the Company paid an additional arrangement fee equal to US\$154,651 (\$207,836) and issued 200,000 common share purchase warrants (“Auramet Inc. extension warrants”). Each of the Auramet Inc. extension warrants entitles Auramet Inc. to acquire one common share of the Company at a price of \$1.94 per share until January 18, 2024. The Auramet Inc. extension warrants issued were assigned an aggregate fair value of \$70,000 using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 65%, risk-free rate of return 3.7% and expected one year life. The fair value of the arrangement fee was amortized over the 45-day maturity in transaction costs and interest expense in the consolidated statements of loss and comprehensive loss.

Canada Nickel Company Inc.

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6. Short-term loans (continued)

A summary of the transaction costs and interest expense related to the short-term loan facilities for the nine months ended July 31, 2023 and 2022 are as follows:

| | For the nine months ending July 31 | |
|--|------------------------------------|-----------|
| | 2022 | 2023 |
| | \$ | \$ |
| Arrangement fee | 286,315 | 558,971 |
| Warrant cost | 283,140 | 70,000 |
| Interest expense | 384,662 | 621,113 |
| Foreign exchange | (146,883) | 41,807 |
| Transaction costs and interest expense | 807,234 | 1,291,891 |

7. Asset retirement obligation

The asset retirement obligation consists of reclamation and closure cost estimates for the Texmont property. The undiscounted cash flow amount of the total obligation on acquisition date of March 14, 2023 was \$1.3 million and the present value of the obligation was estimated at \$1,130,000. The discount rate used by the Company is based on prevailing risk-free pre-tax rates in Canada for periods of time which coincide with the period over which the decommissioning costs are discounted.

The following table summarizes the assumptions used in the asset retirement obligation estimate:

| | As at acquisition date and July 31 2023 |
|---|---|
| Risk free interest rate | 2.5% |
| Inflation rate | 3.0% |
| Expected life (depending on reclamation plan) | 2-15 years |

The balance at July 31, 2023 of \$1,140,751 includes the effect of interest expense on discounting obligations. The Texmont property was acquired with an obligation to remediate environmental damage not fully rehabilitated by the previous owner. The cash flow estimates of the obligation were prepared considering multiple scenarios and assigning a probability weighted estimate. If the Company proceeds with mining at the property, the current remediation requirements will be integrated into the development of the mine and as such the obligation would be minimal.

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Unaudited

8. 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 | 2022 | | 2023 | |
|--|------|-------------------------|--------------------|-------------------------|--------------------|
| | | Number of Common Shares | Share Capital | Number of Common Shares | Share Capital |
| | | # | \$ | # | \$ |
| Balance, October 31 | | 88,383,650 | 51,036,468 | 113,067,836 | 122,126,306 |
| Share issuance - acquisitions | 4 | 6,288,000 | 20,280,880 | 40,314 | 62,884 |
| Share issuance – equity financings, net | | 15,364,708 | 48,242,253 | 23,794,597 | 44,567,152 |
| Flow through share premium | | - | (5,942,672) | - | (2,045,511) |
| Share issuance – warrants exercised | 9 | 13,275 | 39,450 | 69,330 | 17,380 |
| Share issuance – exercise compensation options | | 26,550 | 66,813 | - | - |
| Share issuance – stock options exercised | | 187,500 | 100,682 | 63,334 | 27,671 |
| Share issuance – RSUs exercised | 11 | 196,069 | 296,632 | 467,022 | 1,202,149 |
| Shares issued to settle accounts payable | | - | - | 86,337 | 123,462 |
| Shares issued to settle acquisitions payable | 8(c) | - | 1,232,000 | 350,000 | - |
| Balance, April 30 | | 110,459,752 | 115,352,506 | 137,938,770 | 166,081,493 |
| Share issuance - acquisitions | 4 | 2,229,000 | 4,003,230 | 636,000 | 828,024 |
| Share issuance – warrants exercised | 9 | 25,748 | 28,818 | - | - |
| Share issuance – stock options exercised | 10 | 133,333 | 58,253 | 1,745,834 | 762,756 |
| Share issuance – RSUs exercised | 11 | 137,400 | 206,768 | 616,303 | 917,064 |
| Shares issued to settle accounts payable | | 44,103 | 5,448 | - | - |
| Shares to be issued to settle accounts payable | | - | - | - | 131,280 |
| Balance, July 31 | | 113,029,336 | 119,655,023 | 140,936,907 | 168,720,615 |

- (a) The Company received gross proceeds of \$46.3 million in March 2023 from two financing arrangements:

On February 8, 2023, the Company entered into a Subscription and Investor Rights agreement with Anglo American Marketing Limited (“Anglo American”) to make a \$24.4 million investment in Canada Nickel at a price of \$1.95 per Common Share, a 10% premium to the 30-day volume weighted average price. Upon completion of the private placement Anglo American will own 9.9% of the Company’s issued and outstanding Common Shares on a non-diluted basis. The agreement contains customary investor rights, including Anglo American’s pro rata right in any future issuance of Common Shares or any securities that are or may become convertible, exchangeable or exercisable into Common Shares to maintain its shareholding as long as they hold 7.5% or more of the issued and outstanding shares of the Company.

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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Unaudited

8. Share capital (continued)

In addition, Canada Nickel has entered into an Offtake Term Sheet with Anglo American pursuant to which the Company has granted to Anglo American an exclusive right to purchase up to ten per cent (10%) of recoveries of nickel concentrate, iron and chromium contained in the magnetite concentrates and any corresponding carbon credits from the Company's Crawford Project until the delivery of 65,000 tonnes of nickel or a term of 15 years, whichever is later. The offtake is based on customary marketing terms and will be based on market terms for the specific products produced. If Canada Nickel utilizes any of the Anglo American technologies, Anglo American shall have the offtake rights to 100% of the incremental quantity of nickel products, related products, and carbon credits produced utilizing these technologies.

Canada Nickel has also entered into a Material Transfer and Technology Testing Agreement with Anglo American to assess opportunities to add value to Crawford from its FutureSmart Mining™ technology program. Anglo American will receive ore samples from Crawford for testing to assess opportunities to improve processing recoveries and reduce the project's overall energy, water and emission footprint. This Agreement will remain in force until 12 months after the delivery of a sample of ore in an amount of at least one hundred (100) tonnes from Canada Nickel to Anglo American, expected by 2024. For the duration of this agreement, Canada Nickel agreed to deal exclusively with Anglo American in those areas where FutureSmart Mining™ technologies apply.

Also on February 8, 2023, the Company entered into an agreement with Scotiabank to act as lead underwriter and sole bookrunner on behalf of a syndicate of underwriters (collectively, the "Underwriters") pursuant to which the Underwriters have agreed to purchase for resale (or arrange for purchase by substituted purchasers) the following equity securities of the Company on a bought deal basis for aggregate gross proceeds to the Company of \$18.2 million (the "Public Offering"):

- i. 7,462,500 common shares of the Company (each, a "Common Share") at a price of \$1.77 per Common Share; and
- ii. 1,748,300 common shares of the Company to be issued as "flow-through shares" within the meaning of the Income Tax Act (Canada) (the "Tax Act") (each, a "FT Share", and together with the Common Shares, the "Offered Securities") at a price of \$2.86 per FT Share.

In addition, the Company provided Anglo American with the right to concurrently subscribe for Common Shares in order to maintain a 9.9% interest (which interest Anglo American would acquire on the closing of the Subscription and Investor Rights agreement) on a non-brokered private placement basis for aggregate gross proceeds to the Company of \$1.8 million (the "Concurrent Private Placement" and together with the Public Offering, the "Offering").

In connection with the Public Offering, the Company granted to the Underwriters an option (the "Over Allotment Option"), exercisable in whole or in part for a period of 30 days after and including the closing date of the Public Offering, to purchase any combination of additional Offered Securities for additional gross proceeds of up to 15% of the gross proceeds raised under the Public Offering to cover over allotments, if any, and for market stabilization purposes.

An amount equal to the gross proceeds from the issuance of the FT Shares will be used to incur eligible resource exploration expenses which will qualify as (i) "Canadian exploration expenses" (as defined in the Tax Act), and (ii) "flow-through critical mineral mining expenditures" (as defined in subsection 127(9) of the Tax Act) (collectively, the "Qualifying Expenditures"). Qualifying

Canada Nickel Company Inc.

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8. Share capital (continued)

Expenditures in an aggregate amount equal to the gross proceeds raised from the issuance of the FT Shares will be renounced to the initial purchasers of the FT Shares with an effective date no later than December 31, 2023. The flow-through common shares were issued at a premium to the market price in recognition of the tax benefits accruing to subscribers and as a result the Company recorded a share premium liability of \$2,045,511 and has an obligation to incur \$5,000,138 in eligible Canadian exploration expenditures ("CEE") by December 31, 2023.

The Underwriters received a cash commission of 6.0% of the gross proceeds of the Public Offering. No commission is payable to the Underwriters in respect of the Concurrent Private Placement.

On March 2, 2023 both financings closed. Gross proceeds of \$26,196,151 were received from Anglo American which had subscribed for (i) 12,569,235 common shares in the capital of the Company ("Common Shares") at \$1.95 per Common Share, and (ii) 952,623 Common Shares at \$1.77 per Common Share (collectively, the "Anglo American Investment"). The Company also concurrently closed its Offering for aggregate gross proceeds of \$18,208,763.

Subsequently, on March 7, 2023 the Underwriters partially exercised their Over Allotment Option and purchased an additional 950,000 common shares of the Company at a price of \$1.77 per Common Share for aggregate gross proceeds of \$1,681,500. The Underwriters received an aggregate cash commission of 6.0% of the gross proceeds raised from the sale of the Common Shares in connection with the Over Allotment Option.

The net proceeds raised under the Public Offering, including the net proceeds raised from the sale of the Common Shares under the Over-Allotment Option, will be used primarily for the exploration and advancement of the Company's Crawford Nickel Project, repayment of the Auramet loan facility (made on March 3, 2023) and for general working capital purposes.

Following the completion of the Over Allotment Option, Anglo American also purchased an additional 111,939 common shares of the Company at a price of \$1.77 per Common Share for aggregate gross proceeds of \$198,132. Upon completion of the Anglo American Investment, Anglo American holds 13,633,797 Common Shares of the Company, which represented 9.9% of the issued and outstanding Common Shares at that time.

- b) On April 5, 2022, the Company closed a "bought deal" offering (the "Offering") and received aggregate gross proceeds of C\$51,554,157 (\$48,242,253 after payment of issuance costs), which included the exercise of the Underwriters' over-allotment option. Under the Offering, the Company sold the following:
- 10,440,050 common shares of the Company at a price of \$3.10 per common share;
 - 3,424,658 traditional flow-through shares of the Company at a price of \$3.65 per traditional flow-through share; and
 - 1,500,000 charity flow-through shares at a price of \$4.46 per charity flow-through share.

The Offering was completed pursuant to an underwriting agreement dated March 14, 2022 entered into among the Company and a syndicate of underwriters led by Red Cloud Securities Inc., and including Clarksons Platou Securities SA, Scotia Capital Inc., BMO Nesbitt Burns Inc., Cormark Securities Inc., Echelon Wealth Partners Inc., Haywood Securities Inc., Research Capital Corporation (collectively, the "Underwriters"). In connection with the Offering the Underwriters received an aggregate cash commission of \$3,086,103.

Canada Nickel Company Inc.

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Unaudited

8. Share capital (continued)

On April 5, 2022 the Company used a portion of the net proceeds of the Offering and repaid its US\$10 million short term loan facility with Auramet LLC plus related interest of US\$0.3 million (see Note 6). The remaining net proceeds were earmarked for continued development of the Crawford Project through additional studies, infrastructure design and exploration, including to undertake in-fill drilling to upgrade the current resource and proceed towards a feasibility study. In addition, the Company plans to use the net proceeds of the Offering on initial exploration work on mineral claims in the same region as Crawford (“District Exploration”).

The flow-through common shares were issued at a premium to the market price in recognition of the tax benefits accruing to subscribers and as a result the Company recorded a share premium liability of \$5,942,672 and has an obligation to incur \$19,190,002 in eligible CEE by December 31, 2022, all of which has been incurred.

- (c) In December 2021 (fiscal year 2022), the Company acquired a property that had an obligation due in January 2023 to pay an additional \$200,000 and issue 350,000 common shares of Canada Nickel valued at \$1,232,000. Payment was made in January 2023.

9. Warrants and compensation options

The following table reflects the continuity of warrants and compensation options for the three and nine months ended July 31, 2023 and 2022:

| | Number of warrants | Number of compensation options |
|---|-----------------------|--------------------------------------|
| | # | # |
| Balance, October 31, 2021 | 170,460 | 26,550 |
| Issued (note 6) | 325,000 | - |
| Warrants issued on exercise of compensation options | 13,275 | - |
| Exercised | (13,275) | (26,550) |
| Balance, April 30, 2022 | 495,460 | - |
| Exercised | (25,748) | - |
| Balance, July 31, 2022 | 469,712 | - |
| Balance, October 31, 2022 | 673,832 | - |
| Issued (note 6) | 200,000 | - |
| Exercised | (15,000) | - |
| Expired | (333,832) | - |
| Balance, April 30 and July 31, 2023 | 525,000 | - |

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9. Warrants and compensation options (continued)

The following table reflects the warrants and compensation options outstanding as at July 31, 2023 and October 31, 2022:

| Grants | Exercise Price | Outstanding as at October 31 2022 | Outstanding as at July 31 2023 | Expiry Date | Remaining Life (years) |
|---------------------------------|----------------|-----------------------------------|--------------------------------|-------------|------------------------|
| | \$ | | | | |
| May 5, 2020 broker warrants | 0.35 | 81 | - | 5-Nov-22 | - |
| May 5, 2020 broker warrants | 0.40 | 141 | - | 5-Nov-22 | - |
| May 5, 2020 broker warrants | 0.46 | 23,610 | - | 5-Nov-22 | - |
| Warrants issued to Auramet LLC | 3.94 | 325,000 | - | 5-Jan-23 | - |
| Warrants issued to Auramet Inc. | 1.52 | 325,000 | 325,000 | 18-Oct-23 | 0.3 |
| Warrants issued to Auramet Inc. | 1.94 | - | 200,000 | 18-Jan-24 | 0.5 |
| | 1.68 | 673,832 | 525,000 | | 0.3 |

10. Stock options

The following table reflects the continuity of stock options for the three and nine months ended July 31:

| | 2022 | 2023 |
|-------------------------------------|-----------|--------------------|
| | # | # |
| Balance, beginning of fiscal period | 5,221,585 | 6,377,252 |
| Stock options granted | 1,411,500 | 2,396,400 |
| Exercised | (187,500) | (63,334) |
| Forfeited | (66,666) | (90,666) |
| Balance, April 30 | 6,378,919 | 8,619,652 |
| Stock options granted | 135,000 | 194,000 |
| Exercised | (133,333) | (1,745,834) |
| Forfeited | - | (191,917) |
| Balance, July 31 | 6,380,586 | 6,875,901 |

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10. Stock options (continued)

The following table reflects stock options outstanding as at July 31, 2023 and October 31, 2022:

| Grant Date | Exercise Price | Outstanding as at October 31 2022 | Outstanding as at July 31 2023 | Vested and outstanding as at July 31 2023 | Expiry Date | Remaining Life (years) |
|---------------------------------|----------------|-----------------------------------|--------------------------------|---|-------------|------------------------|
| | \$ | # | # | | | |
| January 13, 2020 | 0.25 | 2,870,419 | 992,501 | 992,501 | 13-Jan-25 | 1.5 |
| February 18, 2020 | 0.25 | 275,000 | 275,000 | 275,000 | 18-Feb-25 | 1.6 |
| August 12, 2020 | 1.87 | 53,333 | 40,000 | 26,668 | 12-Aug-25 | 2.1 |
| October 27, 2020 | 1.62 | 337,500 | 337,500 | 225,000 | 27-Oct-25 | 2.3 |
| November 1, 2020 | 1.62 | 360,000 | 360,000 | 240,000 | 1-Nov-25 | 2.3 |
| December 8, 2020 | 1.88 | 100,000 | 100,000 | 66,667 | 8-Dec-25 | 2.3 |
| February 22, 2021 | 3.63 | 704,500 | 618,000 | 411,996 | 22-Feb-26 | 2.6 |
| June 16, 2021 | 3.57 | 15,000 | 15,000 | 10,000 | 16-June-26 | 2.9 |
| June 23, 2021 | 3.39 | 35,000 | 35,000 | 23,334 | 23-June-26 | 2.9 |
| November 15, 2021 | 2.95 | 61,500 | 50,000 | 16,667 | 15-Nov-26 | 3.3 |
| December 22, 2021 | 3.49 | 140,000 | 115,000 | 38,333 | 22-Dec-26 | 3.4 |
| January 24, 2022 | 3.51 | 100,000 | 100,000 | 33,333 | 24-Jan-27 | 3.5 |
| February 21, 2022 | 3.51 | 70,000 | 70,000 | 23,333 | 21-Feb-27 | 3.6 |
| March 14, 2022 | 3.14 | 920,000 | 870,000 | 290,003 | 14-Mar-27 | 3.7 |
| April 18, 2022 | 2.60 | 100,000 | 100,000 | 33,333 | 18-Apr-27 | 3.8 |
| May 12, 2022 | 2.06 | 70,000 | 70,000 | 23,333 | 12-May-27 | 3.8 |
| May 16, 2022 | 2.03 | 45,000 | 45,000 | 15,000 | 16-May-27 | 3.8 |
| July 11, 2022 | 1.75 | 20,000 | 20,000 | 6,666 | 11-July-27 | 3.9 |
| August 10, 2022 | 1.72 | 40,000 | 40,000 | - | 10-Aug-27 | 4.0 |
| September 14, 2022 | 1.59 | 60,000 | 60,000 | - | 14-Sept-27 | 4.1 |
| December 23, 2022 | 1.78 | - | 478,900 | - | 23-Dec-27 | 4.4 |
| February 13, 2023 | 1.78 | - | 1,890,000 | - | 13-Feb-28 | 4.6 |
| June 21, 2023 | 1.30 | - | 170,000 | - | 21-Jun-28 | 4.9 |
| July 10, 2023 | 1.25 | - | 24,000 | - | 21-Jun-28 | 4.9 |
| | | 6,377,252 | 6,875,901 | 2,751,167 | | 3.4 |
| Weighted average exercise price | | \$1.53 | \$1.91 | | | |

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.

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10. Stock options (continued)

The Company recorded share-based compensation expense related to stock options of \$527,612, and \$1,698,736 for the three and nine months ended July 31, 2023, respectively (\$616,110 and \$1,569,120 for the three and nine months ended July 31, 2022, respectively) to the condensed interim consolidated statements of loss and comprehensive loss and recorded \$649,948 of share-based compensation expense as an increase to exploration and evaluation asset on the condensed interim consolidated statements of financial position as at July 31, 2023 (\$494,577 as at July 31, 2022).

The following table summarizes the average assumptions used in the Black-Scholes valuation model for the determination of the cost of stock options issued during the three months ended January 31, 2023, three months ended April 30, 2023, three months ended July 31, 2023, and for the year ended October 31, 2022.

| | Year ended October 31 2022 | Three months ended January 31 2023 | Three months ended April 30 2023 | Three months ended July 31 2023 |
|------------------------------|----------------------------------|--|--|---------------------------------------|
| Risk free interest rate | 1.87% | 3.68% | 3.75% | 4.59% |
| Expected life (years) | 4.5 | 4.0 | 4.0 | 4.1 |
| Volatility | 101% | 91% | 92% | 88% |
| Expected dividends | 0% | 0% | 0% | 0% |
| Forfeiture rate | 0% | 10% | 0% | 13% |
| Fair value of options issued | \$2.19 | \$0.97 | \$1.19 | \$0.74 |

10. Restricted share units ("RSUs")

The following table reflects the continuity of RSUs for the three and nine months ended July 31:

| | 2022 | 2023 |
|-------------------------------------|------------------|------------------|
| | # | # |
| Balance, beginning of fiscal period | 2,809,484 | 3,655,102 |
| RSUs granted | 1,117,722 | 1,855,782 |
| Redeemed | (196,069) | (467,022) |
| Forfeited | (9,322) | - |
| Balance, April 30 | 3,721,815 | 5,043,862 |
| RSUs granted | 57,500 | 69,000 |
| Redeemed | (137,400) | (616,303) |
| Forfeited | - | (18,400) |
| Balance, July 31 | 3,641,915 | 4,478,159 |

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Unaudited

11. Restricted share units (“RSUs”) (continued)

The following table reflects RSUs outstanding as at July 31, 2023 and October 31, 2022:

| Grant Date | Grant Date Price and Fair Value | Outstanding as at October 31 2022 | Outstanding as at July 31 2023 | Vest Date | Vested as at July 31 2023 |
|--------------------|---------------------------------|-----------------------------------|--------------------------------|--------------------|---------------------------|
| | \$ | # | # | | # |
| March 3, 2020 | 0.52 | 1,393,190 | 964,940 | March 3, 2023 | 964,940 |
| August 12, 2020 | 1.87 | 20,000 | 20,000 | August 12, 2022 | 20,000 |
| October 27, 2020 | 1.62 | 112,500 | 112,500 | October 27, 2022 | 112,500 |
| November 1, 2020 | 1.62 | 230,000 | 115,000 | November 1, 2022 | 115,000 |
| December 8, 2020 | 1.88 | 48,617 | - | December 8, 2022 | - |
| February 22, 2021 | 3.63 | 612,386 | 439,503 | February 22, 2023 | 439,503 |
| July 1, 2021 | 3.54 | 50,000 | 50,000 | July 1, 2022 | 50,000 |
| November 15, 2021 | 2.95 | 39,000 | - | November 15, 2022 | - |
| December 22, 2021 | 3.49 | 102,786 | - | December 22, 2022 | - |
| February 21, 2022 | 3.51 | 38,761 | - | February 21, 2023 | - |
| March 14, 2022 | 3.14 | 875,362 | 809,834 | March 14, 2023 | 809,834 |
| April 18, 2022 | 2.60 | 50,000 | - | April 18, 2023 | - |
| May 12, 2022 | 2.06 | 35,000 | 35,000 | May 12, 2023 | 35,000 |
| May 16, 2022 | 2.03 | 22,500 | - | May 16, 2023 | - |
| September 14, 2022 | 1.59 | 25,000 | 25,000 | September 14, 2023 | - |
| December 23, 2022 | 1.78 | - | 273,933 | December 23, 2023 | - |
| February 13, 2023 | 1.78 | - | 1,563,449 | February 13, 2024 | - |
| June 21, 2023 | 1.30 | - | 47,000 | June 21, 2024 | - |
| July 10, 2023 | 1.25 | - | 22,000 | July 10, 2024 | - |
| | 1.94 | 3,655,102 | 4,478,159 | | 2,546,777 |

RSUs vest on the anniversary date of the grant unless the holder agrees to extend their anniversary date by one year. Under the Company’s RSU rollover arrangement certain holders of RSUs elected to extend the applicable redemption date of the RSUs by twelve months in exchange for a supplemental grant equal to 10% of the number of extended RSUs. Where applicable, the vest date in the table above shows the revised vest date for extensions.

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 \$564,116 and \$1,998,595 for the three and nine months ended July 31, 2023, respectively (\$674,312 and \$1,777,451 for the three and nine months ended July 31, 2022, respectively) to the condensed interim consolidated statements of loss and comprehensive and recorded \$847,681 of share-based compensation expense as an increase to exploration and evaluation asset on the condensed interim consolidated statements of financial position as at July 31, 2023 (\$693,299 as at July 31, 2022).

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12. Loss per share

| | For the three months ended July 31 | | For the nine months ended July 31 | |
|--|---------------------------------------|-------------|--------------------------------------|-------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net loss (income) | \$1,220,383 | \$(900,150) | \$10,983,332 | \$3,554,527 |
| Weighted average number of common shares outstanding - basic | 140,149,544 | 111,622,072 | 127,809,273 | 100,572,518 |
| Effect of dilutive securities | - | - | - | - |
| Weighted average number of common shares outstanding - dilutive | 140,149,544 | 111,622,072 | 127,809,273 | 100,572,518 |
| Loss (income) per share – basic and diluted | \$0.01 | (\$0.01) | \$0.09 | \$0.04 |

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

13. Related party transactions and balances

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 are as follows:

| | For the three months ended July 31 | | For the nine months ended July 31 | |
|--------------------------------|---------------------------------------|-----------|--------------------------------------|-----------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Management and directors' fees | 497,905 | 280,445 | 1,083,534 | 768,268 |
| Share-based compensation | 950,213 | 1,056,372 | 3,305,840 | 2,594,673 |
| Geological services | 172,498 | - | 296,136 | - |

These transactions are in the normal course of operations and have been valued in these condensed interim consolidated financial statements at the amount of consideration established and agreed to by the related parties. At October 31, 2022 \$188,960 was payable to Balch Exploration Consulting Inc. related to geological services provided by Canada Nickel's Vice President, Exploration (nil at July 31, 2023).

Canada Nickel Company Inc.

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Unaudited

14. Commitments and contingencies

At July 31, 2023, the Company has \$2.6 million (October 31, 2022 - \$9.5 million) in payables owing with respect to exploration and evaluation assets and has lease obligations of \$107,606 related to fiscal 2023 and \$239,196 for fiscal years 2024 to 2027. Commitments on option properties are described in Note 4.

Canada Nickel entered into agreements with the Matachewan and Mattagami First Nations, Taykwa Tagamou Nation and Apitipi Anicinapek Nation in relation to exploration and development operations at Crawford. The agreements establish 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 Crawford Project area. The agreement also provides the communities with an opportunity to participate in the benefits of the Crawford Project through business opportunities, employment and training, financial compensation and consultation on environmental matters. Financial compensation includes a commitment to pay a specified percentage of the annual expenses related to the Company's exploration program and a three-year commitment of approximately \$1.6 million for specific impact assessment programs.

In the ordinary course of operating, the Company may from time to time be subject to various legal claims or possible legal claims. Management believes that there are no legal claims or possible legal claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations, or cash flows. These matters are inherently uncertain, and management's view of these matters may change in the future.

15. Financial instruments

Fair values

At July 31, 2023, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities and short-term loans. 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.

Canada Nickel Company Inc.

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15. Financial instruments (continued)

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 – cash and cash equivalents

Level 2 – none

Level 3 – none

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

- Credit risk
- Liquidity risk

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, and accounts receivable. 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. Harmonized sales tax receivable and accounts receivable consist of receivables created in the course of normal business.

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 April 30, 2023, 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.

16. Income taxes

The following table reflects the continuity of the deferred tax liability for the six and nine months ended July 31, 2023:

| | 2023 |
|---|--------------------|
| | \$ |
| Balance, October 31, 2022 | 1,262,453 |
| Tax effect on renunciation of flow-through expenditures | 5,163,000 |
| Tax effect on operating losses and other timing differences | (1,193,270) |
| Balance, April 30, 2023 | 5,232,183 |
| Tax effect on operating losses and other timing differences | (344,260) |
| Balance, July 31, 2023 | 4,887,923 |

Canada Nickel Company Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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17. Subsequent events

- (a) The Company closed a US\$12 million secured loan facility with Auramet Inc on September 18, 2023. The loan is due on December 18, 2023 and carries an interest rate of 1.00% per month payable in arrears. The Company paid an arrangement fee equal to 2.3% of the loan amount and issued 550,000 one-year warrants with a strike price of \$1.24 per common share. The loan is subject to certain positive and negative covenants that are customary for a transaction of this nature. The warrants and the underlying shares will be subject to a four month hold period under applicable Canadian securities laws.

The Company will have the option to extend the loan for a further three-month period to March 18, 2024. From the date of extension, the interest rate would increase to 15% per annum monthly payable in arrears on the unpaid balance, an additional arrangement fee equal to 3 percent of the outstanding loan amount would be payable and the Company would issue an additional 550,000 common share purchase warrants.

- (b) The Company acquired a total of 498 mining claims within the Texmont ultramafic trend through a series of 11 Purchase and Sale Agreements. The Company will issue a total of 504,500 common shares and cash payments totaling \$295,550 in the latter part of the fiscal year. The Company has also agreed, under ten of the agreements, to grant a 2.0% net smelter returns royalty to the applicable vendors on such claims, with the Company having the exclusive option to repurchase half of each royalty for \$1,000,000 per royalty.

In addition, the Company entered into an option agreement with a group of optionors under which the Company had acquired an option to acquire a 100% interest in 28 single cell mining claims also located in the Texmont ultramafic trend. The agreement provides the issuance by the Company of up to a total of 82,236 common shares and the payment to the optionors of a total of \$20,000 to exercise the option. In the event the option is exercised, the optionors will retain a 2.0% net smelter returns royalty with the Company having the exclusive option to repurchase half of the royalty for \$1,000,000.

Each of the foregoing issuances of common shares are subject to the prior approval of the TSX Venture Exchange, and the shares will be subject to a four-month hold period under Canadian securities laws from the date of the respective issuance.