



**NUINSCO RESOURCES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2013 AND 2012**

**DATED MARCH 31, 2014**

## **MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS**

All of the information in the annual report and accompanying consolidated financial statements of Nuinsco Resources Limited is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for public companies, being international financial reporting standards. Where necessary, management has made judgements and estimates in preparing the consolidated financial statements, and such statements have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the annual report has been reviewed to ensure that it is consistent with the consolidated financial statements.

Management maintains appropriate systems of internal control to give reasonable assurance that its assets are safeguarded, and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of independent non-executive Directors, meets with management and the external auditor to review the auditor's report and the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

A firm of independent Chartered Accountants, appointed by the shareholders, audits the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provides an independent professional opinion thereon. The external auditors have free and full access to the Audit Committee with respect to their findings regarding the fairness of financial reporting and the adequacy of internal controls.

Paul L. Jones  
CEO and Director  
March 31, 2014

Alison J. Sutcliffe  
Vice-President, Finance and CFO  
March 31, 2014

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF NUINSCO RESOURCES LIMITED**

We have audited the accompanying consolidated financial statements of Nuinsco Resources Limited which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nuinsco Resources Limited as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has not commenced commercial production and accordingly the Company is dependent upon debt or equity financing and the optioning and/or sale of resource or resource-related assets for its funding. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

(signed) BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario  
March 31, 2014

## Consolidated Balance Sheets

As at (in thousands of Canadian dollars)	<i>Notes</i>	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	\$ 249	\$ 2,223	\$ 516
Receivables	7	109	84	118
Marketable securities	8	3,656	828	1,531
<b>Total current assets</b>		<b>4,014</b>	3,135	2,165
<b>Non-current assets</b>				
Property and equipment	10	93	102	57
Exploration and evaluation projects	11	12,982	14,060	12,124
Interest in CBay Minerals Joint Venture	12,30	6,331	4,779	4,728
Loan receivable	13	4,100	1,009	-
Royalty interest	14	-	-	3,000
Other assets	17	-	210	-
<b>Total non-current assets</b>		<b>23,506</b>	20,160	19,909
<b>Total Assets</b>		<b>\$ 27,520</b>	\$ 23,295	\$ 22,074
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables	16	\$ 338	\$ 682	\$ 815
Loan payable	17	2,427	-	-
<b>Total current liabilities</b>		<b>2,765</b>	682	815
<b>Total Liabilities</b>		<b>2,765</b>	682	815
<b>Shareholders' equity</b>				
Share capital	19	98,169	98,169	97,195
Contributed surplus		5,560	5,436	4,985
Accumulated other comprehensive loss		(1,458)	(1,753)	(1,155)
Deficit		(77,516)	(79,239)	(79,766)
<b>Total shareholders' equity</b>		<b>24,755</b>	22,613	21,259
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 27,520</b>	\$ 23,295	\$ 22,074

### NATURE OF OPERATIONS (Note 1)

### CONTINGENCY (Note 28)

Approved by the Board of Directors

(signed)

**René R. Galipeau**

Director

(signed)

**Ed Guimaraes**

Director

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

## Consolidated Statements of Operations

Years ended December 31, (in thousands of Canadian dollars, except per share amounts)	Notes	2013	2012 (Note 30)
<b>Other expenses</b>			
General and administrative		\$ (872)	\$ (1,167)
Share-based payments:	21		
Options		(124)	(325)
Bonus shares		-	(25)
Amortization of property and equipment	10	(20)	(11)
Pre-exploration write-offs	11	(80)	(15)
Writedown of exploration and evaluation projects	11	(1,171)	(79)
<b>Operating loss</b>		<b>(2,267)</b>	<b>(1,622)</b>
Finance income	22	4,703	307
Finance costs	22	(326)	-
<b>Net finance income</b>		<b>4,377</b>	<b>307</b>
<b>Income (loss) before the undernoted</b>		<b>2,110</b>	<b>(1,315)</b>
Gain on sale of royalty interest	14	-	1,992
Interest in CBay Minerals Joint Venture	12,30	(467)	(180)
Recovery of provision for Chibougamau	12	-	30
<b>Income before income taxes</b>		<b>1,643</b>	<b>527</b>
Income tax recovery	8,23	80	-
<b>Net Income for the Year</b>		<b>\$ 1,723</b>	<b>\$ 527</b>
<b>Earnings per share</b>			
	20		
Basic earnings per share		\$ 0.01	\$ 0.00
Diluted earnings per share		\$ 0.01	\$ 0.00

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

## Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, (in thousands of Canadian dollars)	Notes	2013	2012 (Note 30)
<b>Net Income for the year</b>		<b>\$ 1,723</b>	<b>\$ 527</b>
<b>Other comprehensive income (loss)</b>			
Net change in fair value of financial assets	8	375	(598)
Income tax expense	23	(80)	-
<b>Other comprehensive income (loss) for the year</b>		<b>295</b>	<b>(598)</b>
<b>Total Comprehensive Income (Loss) for the Year</b>		<b>\$ 2,018</b>	<b>\$ (71)</b>

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

## Consolidated Statements of Shareholders' Equity

(Note 30) (in thousands of Canadian dollars)		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
<b>Balances as at January 1, 2012</b>	<i>Notes</i>	\$ 97,195	\$ 4,985	\$ (1,155)	\$ (79,766)	\$ 21,259
<b>Total comprehensive loss for the year</b>						
Net income for the year					527	527
<b>Other comprehensive loss</b>						
Net change in fair value of financial assets	8			(598)		(598)
<b>Total other comprehensive loss</b>						(598)
<b>Total comprehensive loss for the year</b>						(71)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the year</b>						
Issue of common shares and warrants	19	-	-	-	-	-
Issue of flow-through common shares and warrants	19	503	86	-	-	589
Shares issued for property	11, 19	321	-	-	-	321
Options granted and vesting	21	-	365	-	-	365
Issue of shares under Share Bonus Plan	19	25	-	-	-	25
Shares issued for loan fee	17, 19	125	-	-	-	125
<b>Total contributions by owners</b>		974	451	-	-	1,425
<b>Total transactions with owners</b>		974	451	-	-	1,425
<b>Balances as at December 31, 2012</b>		\$ 98,169	\$ 5,436	\$ (1,753)	\$ (79,239)	\$ 22,613
<b>Balances as at January 1, 2013</b>		\$ 98,169	\$ 5,436	\$ (1,753)	\$ (79,239)	\$ 22,613
<b>Total comprehensive income for the year</b>						
Net income for the year					1,723	1,723
<b>Other comprehensive income</b>						
Net change in fair value of financial assets	8			375		375
Income tax expense				(80)		(80)
<b>Total other comprehensive income</b>						295
<b>Total comprehensive income for the year</b>						2,018
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the year</b>						
Options granted and vesting	21	-	124	-	-	124
<b>Total contributions by owners</b>		-	124	-	-	124
<b>Total transactions with owners</b>		-	124	-	-	124
<b>Balances as at December 31, 2013</b>		\$ 98,169	\$ 5,560	\$ (1,458)	\$ (77,516)	\$ 24,755

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

## Consolidated Statements of Cash Flows

Years ended December 31 (in thousands of Canadian dollars)	Notes	2013	2012 (Note 30)
<b>Cash flows from operating activities</b>			
Net income for the year		\$ 1,723	\$ 527
Adjustments for:			
Gain on sale of royalty	14	-	(1,992)
Share-based payments	21	124	350
Amortization of property and equipment	10	20	11
Writedown of exploration and evaluation projects	11	1,171	79
Recovery of provision for Chibougamau	12	-	(30)
Interest in CBay Minerals Joint Arrangement	12	467	180
Net finance income	22	(4,354)	(240)
Income tax expense	23	(80)	-
Net change in non-cash working capital:			
Change in receivables		(25)	18
Change in trade and other payables		34	(232)
<b>Net cash used by operating activities</b>		<b>(920)</b>	<b>(1,329)</b>
<b>Cash flows from investing activities</b>			
Expenditures on exploration and evaluation projects	11	(1,184)	(1,758)
Funding to CBay Minerals Joint Venture	12	(995)	(191)
Advance under Amended Loan	13	(1,207)	(1,000)
Proceeds on sale of marketable securities	8	22	135
Purchase of marketable securities	8	(84)	-
Proceeds on sale of Cameron Lake royalty	14	-	5,003
Net purchase of equipment	10	(46)	-
Loan interest received	13	129	-
<b>Net cash (used by) from investing activities</b>		<b>(3,365)</b>	<b>2,189</b>
<b>Cash flows from financing activities</b>			
Issue of common shares and warrants	19	-	893
Loan fee paid	17	(7)	(50)
Interest paid	17	(182)	-
Net proceeds of loan	17	2,500	-
<b>Net cash from financing activities</b>		<b>2,311</b>	<b>843</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>		<b>(1,974)</b>	<b>1,703</b>
Unrealized foreign exchange gain on cash		-	4
<b>Cash and Cash Equivalents, Beginning of the Year</b>		<b>2,223</b>	<b>516</b>
<b>Cash and Cash Equivalents, End of the Year</b>		<b>\$ 249</b>	<b>\$ 2,223</b>

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

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## 1. REPORTING ENTITY

### Nature of Operations

Nuinsco Resources Limited (“Nuinsco” or the “Company”) is a company domiciled in Canada. The address of the Company’s registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The consolidated financial statements of the Company as at and for the years ended December 31, 2013 and 2012 comprise the Company and its subsidiaries (together referred to as “Nuinsco” and individually as “Nuinsco entities”) and Nuinsco’s interest in jointly-controlled entities. Nuinsco is primarily engaged in the acquisition, exploration and evaluation of properties for the mining of precious and base metals (Note 24). The Company conducts its activities on its own or participates with others on a joint venture basis. The Company also makes strategic investments through equity or loan financing to companies engaged in the exploration and development of resource properties. Refer to Notes 11, 12, 13, 24 and 26 to these consolidated financial statements.

The Company is listed on the Toronto Stock Exchange (“TSX”) under the symbol NWI.

### Going Concern

These consolidated financial statements have been prepared using generally accepted accounting principles (“GAAP”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2013, the Company had working capital of \$1,249,000 (December 31, 2012 – working capital of \$2,453,000). Working capital is defined as current assets including assets held for sale less current liabilities, excluding restricted cash, if any. Marketable securities comprise investments in other resource companies the markets for which are not always liquid. The loan payable is due in June 2014 and is classified as a current liability; it can be extended for a six-month period as described in Note 17.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to: continuing losses, dependence on key individuals, realization on its marketable securities as required and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company’s projects through exploration and development to the production stage will require significant financing. Given the current economic climate, the ability to raise funds may prove difficult.

None of the Company’s projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company’s ability to continue as a going concern, is dependent upon exploration results which have the potential for the discovery of economically recoverable reserves and resources, the Company’s ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding.

In an effort to generate cash from the Company’s available assets, the Company has entered into a secured loan agreement with Victory Nickel Inc. (“Victory Nickel”) which has a conversion feature which, pursuant to contractual terms, could generate cash flows as described in Note 13. The loan has provided the initial funding required by Victory Nickel to implement a three-phase business plan to enter the frac sand business with first sales expected to commence in March 2014.

The Company continues to examine a number of strategies to maximize the realization of previously written-down amounts due from Campbell Resources Inc. (“Campbell”) presently recorded as part of *Interest in CBay Minerals Joint Arrangement* on the consolidated balance sheets and held through CBay Minerals Inc. (“CBay”) a joint venture with Ocean Partners Investments Limited (“Ocean Partners”). Refer to Note 12 to these financial statements. Furthermore, the Company has received reassessments and a notice of confirmation from the Canada Revenue Agency (“CRA”) - refer to Note 28.

Should the Company not be able to continue to achieve favourable exploration results, obtain the necessary financing, achieve future profitable production or sale of properties or realize timely cash flows from the conversion of the loan with Victory Nickel, the carrying value of the Company’s assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company’s ability to continue as a going concern as contemplated under GAAP. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.



# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). This is GAAP for a Canadian public company.

These consolidated financial statements reflect the accounting policies described in Note 3. The Company has changed its accounting policy for its investment in the CBay Minerals Joint Arrangement to accord with the stipulations of IFRS 11 Joint Arrangements ("IFRS 11") which came into effect on January 1, 2013. This requires the Company to account for its interest in CBay using the equity method of accounting rather than recognizing the Company's proportionate share of individual assets, liabilities, revenues and expenses.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") requires the Company to treat this as a retrospective adjustment. Accordingly, the Company has restated its Consolidated Financial Statements as at and for the years ended December 31, 2012 as if the accounting policy was in force throughout that period and has provided a consolidated balance sheet as at January 1, 2012 also in accordance with requirements in IAS 8. The effect of this change is reflected in the notes to the consolidated financial statements and a summary reconciliation of individual financial statements is reflected in Note 30.

The management of Nuinsco prepares the consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. The consolidated financial statements were authorized for issue by the Board of Directors on March 31, 2014. Shortly thereafter, the financial statements are made available to shareholders and others through filing on SEDAR.

### (b) Basis of Measurement

The financial statements have been prepared on the historic cost basis except for derivative financial instruments such as warrants which are measured at fair value with changes through operations and financial assets such as marketable securities which are measured at fair value with changes recorded through other comprehensive income or loss ("OCI").

### (c) Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information is expressed in Canadian dollars unless otherwise stated; tabular amounts are stated in thousands of dollars.

### (d) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

The accompanying consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation.

### **Significant estimates and assumptions**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information regarding significant areas of estimation uncertainty made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Notes 8 and 9 valuation of financial assets at fair value through OCI;
- Note 11 measurement of the recoverable amounts of exploration and evaluation projects;
- Note 13 valuation of loan receivable;
- Note 15 valuation of deferred tax asset; and
- Note 21 measurement of share-based payments.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## **Significant Judgements**

Judgements are reviewed on an ongoing basis. Changes resulting from the effects of amended judgements are recognized in the period in which the change occurs and in any future periods presented.

Information regarding significant areas of critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 1 going concern assessment;
- Note 11 classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 11 impairment of exploration and evaluation projects;
- Note 15 recoverability of deferred tax assets; and
- Note 28 disclosure of contingencies.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are set out in detail below. Such policies have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Nuinsco entities.

### **(a) New Accounting Policies**

There have been no new accounting policies adopted by the Company, with the exception of IFRS 11 as described below and in Notes 12 and 30. The Company has also adopted IFRS 12 – Disclosure of Interest in other Entities (“IFRS 12”) and IFRS 13 – Fair Value Measurement (“IFRS 13”); refer to Notes 12, 26 and 5 respectively.

### **(b) Basis of Consolidation**

#### **(i) Subsidiaries**

Subsidiaries are entities controlled by Nuinsco. Control exists when Nuinsco has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Nuinsco. Significant Company entities are listed in Note 26.

#### **(ii) Jointly-controlled operations**

Effective January 1, 2013, the Company adopted IFRS 11. The standard is applicable to the Company’s interest in CBay which is considered a joint venture and must be accounted for using the equity method of accounting.

This shows the interest in CBay as one-line item in each of the consolidated balance sheets and statements of operations. In accordance with the transition requirements of IFRS 11, this is treated as a retrospective change in accounting policy which re-measures the interest using the carrying amounts of the assets and liabilities at the beginning of the immediately-preceding period. Note 12 contains more detail and Note 30 provides reconciliations of current basis disclosures with previously-reported information.

#### **(iii) Transactions eliminated on consolidation**

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of Nuinsco’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### **(c) Foreign Currency**

#### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Nuinsco entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized through

## Notes to the Consolidated Financial Statements

*(all tabular amounts in thousands of Canadian dollars, except common share and per share information)*

operations, except for differences arising on the retranslation of financial assets at fair value, which are recognized directly in OCI. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### ***(ii) Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

### **(d) Financial Instruments**

IFRS 9 Financial Instruments ("IFRS 9"), which impacts the classification and measurement of financial assets, has been adopted by the Company.

#### ***(i) Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity securities, receivables, cash and cash equivalents, restricted cash, borrowings, other long-term liability and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through operations, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits.

Receivables and borrowings are financial instruments with fixed or determinable payments that are not quoted in an active market. Such assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables and borrowings are measured at amortized cost using the effective interest method, less any impairment losses. Receivables and borrowings comprise trade and other payables, loan payable or receivables.

Accounting for finance income and expenses is discussed in Note 3(n).

#### *Financial assets at fair value through OCI*

Nuinsco's investments in equity securities are classified as financial assets at fair value through OCI. Subsequent to initial recognition, they are measured at fair value and changes therein, other than foreign currency differences on monetary items (which do not include equity investments) are recognized directly in OCI.

#### *Financial assets at amortized cost*

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

#### ***(ii) Derivative financial instruments***

##### *Financial assets at fair value through operations*

Nuinsco may hold warrants as part of its portfolio of marketable securities which are classified as financial assets at fair value through operations.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized through operations when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately through operations.

### **(e) Assets Classified as Held for Sale**

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with Nuinsco's accounting policies. Thereafter, the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets or deferred tax assets, which continue to be measured in accordance with Nuinsco's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized through operations. Gains are not

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

recognized in excess of any cumulative impairment loss until ultimate realization.

## (f) Property and Equipment

### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within *Other income* in the consolidated statement of operations.

### (ii) Depreciation

Depreciation is calculated as a function of the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation commences when assets are available for use.

Depreciation is recognized through operations as follows over the estimated useful lives of each part of an item of property and equipment.

The estimated depreciation rate or useful lives for the current and comparative periods are as follows:

Item	Method	2013	2012
Equipment	Declining-balance	20%	20%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

## (g) Exploration and Evaluation Projects

### (i) Exploration and Evaluation expenditures

Exploration and Evaluation (“E&E”) expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are capitalized as E&E assets on an “area of interest basis” which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises a single mine or deposit.

E&E assets are recognized if the rights to the project are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale; or
- activities on the project have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or other otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the project are continuing.

E&E expenditures are initially capitalized as intangible E&E assets. Such E&E expenditures may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, E&E assets attributable to that project are first tested for impairment and then reclassified to *Mine property and development projects* on the consolidated balance sheet. Currently, Nuinsco does not hold any assets classified as *Mine property and development projects*.

### (ii) Pre-E&E expenditures

Pre-E&E expenditures are incurred on activities that precede exploration for an evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area. Pre-E&E expenditures are expensed immediately as *Pre-exploration write-offs* through the consolidated statement of operations.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### (iii) Impairment

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount and any impairment loss is recognized as *Writedown of exploration and evaluation projects* through the consolidated statement of operations. The following facts and circumstances, among other things, indicate that E&E assets must be tested for impairment:

- the term of exploration license for the project has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and the Company plans to discontinue activities in the specific area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full through such activity.

E&E assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to *Mine property and development projects* on the consolidated balance sheet.

### (h) Borrowing Costs

The Company's policy is to capitalize project-related borrowing costs related to qualifying assets as incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company presently does not have any project-related borrowings on qualifying assets.

### (i) Government Grants

Government grants that compensate Nuinsco for expenses incurred are recognized through operations on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate Nuinsco for the cost of an asset are recognized through operations on a systematic basis over the useful life of the asset. For assets which are not being amortized, such as E&E assets or mine property and development projects, the government grant is deducted from the related asset.

### (j) Royalty Interest

Royalty interests with indefinite lives are measured initially at fair value under the cost basis less accumulated impairment losses. The fair value is determined using estimated net cash flows discounted at management's best estimate of a discount rate taking into account project risk factors. Acquisition costs of development and exploration stage mineral royalty interests are not depleted until such time as royalty-generating production begins.

### (k) Impairment

#### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized through operations.

#### (ii) Non-financial assets

The carrying amounts of Nuinsco'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 any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

## Notes to the Consolidated Financial Statements

*(all tabular amounts in thousands of Canadian dollars, except common share and per share information)*

The recoverable amount of an asset or cash-generating unit (“CGU”) (see definition below) is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates, or has the potential to generate, cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the CGU. Generally, a CGU is analogous to an individual project. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized through operations. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **(l) Employee Benefits**

#### ***(i) Termination benefits***

Termination benefits are recognized as an expense when Nuinsco is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Nuinsco has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

#### ***(ii) Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if Nuinsco has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

#### ***(iii) Share-based payments***

The grant-date fair value of options granted to employees, directors and consultants is recognized as an employee expense, with a corresponding increase in equity, over the period that the individuals become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by Nuinsco.

### **(m) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

In accordance with the Company’s environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when the land is contaminated and there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## (n) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including financial assets at fair value), dividend income, gains on the disposal of financial assets, amortization of flow-through premiums and changes in the fair value of financial assets at fair value through operations. Interest income is recognized as it accrues through operations, using the effective interest method. Dividend income is recognized through operations on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Gains on the disposal of financial assets are recognized on the settlement date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through operations and impairment losses recognized on financial assets. All borrowing costs are recognized through operations using the effective interest method, except for those amounts capitalized as part of the cost of qualifying assets.

Foreign currency gains and losses are reported on a net basis.

## (o) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized through operations except to the extent that it relates to items recognized either in OCI or directly in equity, in which case it is recognized in OCI or in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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.

Nuinsco has unrecorded deferred tax assets equal to the full amount of the deferred income tax benefit. The likelihood of utilizing the remaining unused tax losses and other tax deductions cannot be determined at this time.

## (p) Share Capital

### **Common shares**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has financed a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature. At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The flow-through premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a liability in *Trade and other payables* on the consolidated balance sheet (Note 16). The proceeds attributable to the warrants are also treated as equity and recorded in *Contributed surplus* on the consolidated balance sheet until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

The effect of renunciation of the tax benefits to holders of such shares is recognized pro rata with the associated expenditures being incurred by the Company. This could occur either before or after the formal renunciation of expenditures to the tax authorities have been made. When the eligible expenditures are incurred, the tax value of the renunciation is recorded as a deferred tax liability and charged against operations as a deferred tax expense. At the same time, where the Company has unrecognized deferred tax assets, they are reduced and a deferred tax recovery is recorded in the consolidated statement of operations, thereby offsetting the renunciation entries.

Furthermore, as eligible expenditures are incurred, the Company recognizes a pro rata amount of the Flow-through Premium through *Finance income* in the consolidated statement of operations (Note 22) with a decrement to the liability in *Trade and other payables* on the consolidated balance sheet (Note 16).

## **Share-based payment arrangements**

### **Stock Option Plan**

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 21. Awards to non-employees are measured at the fair value of the goods or services received. Awards made to employees are measured at the grant date. All share-based awards made to employees and non-employees are recognized at the date of grant using a fair-value-based method to calculate the share-based payment. The share-based payment is charged to operations over the vesting period of the options or service period, whichever is shorter. Stock options vest either immediately or over a 12-month period.

### **Share Incentive Plan**

The Company has a share incentive plan (the "Share Incentive Plan"), which includes both a share purchase plan (the "Share Purchase Plan") and a share bonus plan (the "Share Bonus Plan"). The Share Incentive Plan is administered by the Directors of the Company. The Share Incentive Plan provides that eligible persons thereunder include Directors, senior officers and employees of the Company and its designated affiliates and consultants who are primarily responsible for the management and growth of the business.

The Share Incentive Plan is described in Note 19. The Company uses the fair value method of accounting for, and to recognize as its share-based payments for employees. Shares issued under the Share Incentive Plan are valued based on the quoted market price on the date of the award. This amount is expensed over the vesting period.

### **(q) Revenue Recognition**

Consulting fees are recognized when services are rendered which includes amounts amortized over the non-cancellable term of the agreement. Other income is recognized on an accrual basis using the effective interest rate method.

### **(r) Earnings (Loss) per Share**

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise warrants and share options.

### **(s) New Standards and Interpretations Not Yet Adopted**

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued several new and revised standards and interpretations which are not yet effective for the year ended December 31, 2013 and have not been applied in preparing these consolidated financial statements unless stated otherwise. However, the revised standards and interpretations are not applicable to the Company or are expected to have minimal impact.

## **4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES**

### **Overview**

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

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.



# Notes to the Consolidated Financial Statements

*(all tabular amounts in thousands of Canadian dollars, except common share and per share information)*

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

## **Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined. The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

## **Credit Risk**

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, receivables, loan receivable and marketable securities.

## **Cash and cash equivalents**

The Company's cash and cash equivalents are held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board.

## **Receivables**

The Company's receivables consist primarily of amounts due from federal and provincial governments. Amounts due from other parties are settled on a regular basis.

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

## **Loan receivable**

The loan receivable bears interest at a fixed rate and is secured on equipment of the borrower through registered security agreements. Failure of the borrower to meet contractual obligations will result in seizure of the borrower's assets.

## **Marketable securities**

The Company limits its exposure to credit risk by investing only in securities which are listed on public stock exchanges. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

## **Guarantees**

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will enure to the Company. As at December 31, 2013 and 2012, the Company had no guarantees outstanding.

## **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when

## Notes to the Consolidated Financial Statements

*(all tabular amounts in thousands of Canadian dollars, except common share and per share information)*

due without incurring unacceptable losses or risking undue damage to the Company's reputation.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and marketable securities. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. When possible, spending plans are adjusted accordingly to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually-obligated cash flows are payable within the next fiscal year with the exception of the Company's lease commitment described in Note 18.

### **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income, the value of its E&E properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

### **Currency risk**

The Company is exposed to currency risk on purchases, certain marketable securities and other payables that are denominated in a currency other than the respective functional currencies of Company entities, primarily the Canadian dollar. The currencies in which these transactions primarily are denominated are the United States dollars ("US\$"). The Company does not actively hedge its foreign currency exposure.

The Company incurs expenditures related to the Berta project in Turkey, and certain general and administrative expenses, in US\$ and occasionally in the Euro. The Company also has had marketable securities denominated in A\$; in January 2013, these securities became listed on the TSX-V which has eliminated the A\$ currency risk.

### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash equivalents earn interest at variable short-term rates. The Company's loan receivable (Note 13) and debt (Note 17) bear interest at fixed rates. Accordingly, the estimated effect of a 50bps change in interest rate would not have a material effect on the Company's results of operations. None of the Company's other financial instruments are interest-bearing. Consequently, the Company is not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

### **Other market price risk**

The Company's marketable securities and strategic investments are subject to equity price risk. The values of these investments will fluctuate as a result of changes in market prices, the price of metals or other factors affecting the value of the investments.

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The value of the Company's mineral resource properties is related to the price of, and outlook for, base and precious metals. Historically, such prices have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures. The Company does not have any hedging or other commodity-based risks respecting its operations. The value of the Company's strategic investments is also related to the price of, and outlook for, base and precious metals.

### **Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Company has a small but hands-on and experienced executive team which facilitates communication across the Company. This expertise is supplemented, when necessary, by the use of experienced consultants in legal, compliance and industry-related specialties. The Company also has standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- development of contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective and available.

Compliance with Company standards is supported by a code of conduct which is provided to employees, officers and directors. The Company requires sign-off of compliance with the code of conduct.

## Capital Management Disclosures

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity as well as any long-term debt, equipment-based and/or project-based financing.

<b>As at December 31,</b>	<b>Notes</b>	<b>December 31, 2013</b>	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
Shareholders' equity		\$ 24,755	\$ 22,613	\$ 21,259
Loan payable	17	2,427	-	-
Available loans and borrowings	17	-	2,500	-
		<b>\$ 27,182</b>	<b>\$ 25,113</b>	<b>\$ 21,259</b>

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments.

Neither the Company, nor any of its subsidiaries, are subject to externally-imposed capital requirements. There were no changes in the Company's approach to financial risk management or capital management during the year.

## 5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Royalty Interest

The fair value of a royalty interest upon initial recognition is based on the discounted cash flows expected to be derived from the use of or eventual sale of the assets.

### (b) Marketable Securities

The fair value of financial assets at fair value through operations or OCI is determined by reference to their quoted closing bid price at the reporting date.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## Fair value hierarchy

The different levels of valuation are defined as follows:

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

## (c) Receivables

The fair value of receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes only.

## (d) Warrants

The fair value of investments in warrants is based upon the Black-Scholes option-pricing model. Measurement inputs include: share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly-available information), weighted average expected life of the instruments (based on historic experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

## (e) Non-derivative Financial Assets

Financial assets at fair value through operations include the Company's loan to Nuinsco – the Amended Loan. The fair value of the Amended Loan is based on the net present value of expected cash flows taking into account the probability of conversion of the loan into a participating interest (Note 13).

## (f) Non-derivative Financial Liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## (g) Share-based Payment Transactions

The fair value of employee share options is measured using the Black-Scholes option-pricing model. The measurement inputs are described above under Note 5(d). Any service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
Bank balances	\$ 249	\$ 2,223	\$ 516
<b>Cash and Cash Equivalents in the Statements of Cash Flows</b>	<b>\$ 249</b>	<b>\$ 2,223</b>	<b>\$ 516</b>

## 7. RECEIVABLES

	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
Receivables from Victory Nickel Inc.			
Due under management agreement	25	-	-
Commitment fees receivable	13	-	-
Other receivables	5	48	81
Prepaid expenses and deposits	37	36	37
	<b>\$ 109</b>	<b>\$ 84</b>	<b>\$ 118</b>

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### 8. MARKETABLE SECURITIES

	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
Financial assets at fair value through OCI			
Victory Nickel Inc. - shares	\$ 2,701	\$ 165	\$ 582
Coventry Resources Limited	87	660	926
Other	7	3	23
	<b>2,795</b>	828	1,531
Financial assets at fair value through operations			
Victory Nickel Inc. - warrants	861	-	-
	<b>\$ 3,656</b>	\$ 828	\$ 1,531

All of the Company's marketable securities are in companies which are publicly-listed; financial assets at fair value through OCI are valued using Level 1 methodologies, financial assets at fair value through operations are valued using Level 3 methodologies as described below.

On July 30, 2013, Nuinsco significantly increased its shareholding in Victory Nickel through its agreement to backstop an equity issue under the loan agreement described in Note 13. Under the agreement, Nuinsco subscribed for 50,316,018 Units for cash of \$1,207,584 or \$0.024 per Unit. Each Unit comprises one common share and one common share purchase warrant. Nuinsco also exercised its basic rights under its prior shareholding of Victory Nickel which amounted to 3,483,882 additional Units for \$83,613.

Nuinsco has valued the shares and warrants acquired under its participation in the rights offering at an aggregate amount of \$1,937,000 at closing using the closing price of Victory Nickel shares of \$0.025 along with an estimated fair value of \$0.011 per warrant valued as described in the table below. IFRS 13 provided clarification that the Black-Scholes option-pricing model is considered to be a Level 3 valuation methodology. IFRS 13 further states that, at inception, the fair value of an asset made using a Level 3 methodology cannot be recognized, therefore \$592,000 of that amount was not recorded. However, future changes from that recognition value must be recorded through operations even when a Level 3 valuation methodology is used.

Accordingly, the excess fair value over the cash paid of \$0.012 per Unit can only be recognized to the extent of \$0.001 per Unit or \$54,000 at inception which has been recorded in *Finance income* as *Gain on investment*. The increase in fair value of the warrants from recognition of \$0.016 per warrant or \$861,000 has also been recorded in *Finance income* as *Net change in fair value of financial assets at fair value through operations*.

Additional shares were received in consideration for the top-up advance with a value of \$20,758.

The subscription under the rights offering brings Nuinsco's interest in Victory Nickel's shares to approximately 12.24% at July 30, 2013 on a non-diluted basis and, accordingly, Nuinsco became a related party of Victory Nickel at that time. The Company continues to account for its investment in Victory Nickel as marketable securities and any changes in the value of shares will be accounted for through OCI with changes in the value of warrants from recognition date being accounted for through *Finance income* or *Finance costs* in the consolidated statement of operations.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

The fair value of warrants is based upon the Black-Scholes option-pricing model with assumptions described in the table below:

	July 30, 2013	December 31, 2013	December 31, 2012
	(recognition date)		
Fair value	\$ 0.011	\$ 0.027	n/a
Share price at valuation date	\$ 0.025	\$ 0.045	n/a
<b>Assumptions</b>			
Exercise price	\$ 0.035	\$ 0.035	n/a
Expected volatility	101%	115%	n/a
Expected remaining term (years)	2.0	1.58	n/a
Expected dividends	-	-	n/a
Risk-free interest rate	1.15%	1.12%	n/a

### Sensitivity Analysis – Equity Price Risk

All of the Company's financial assets at fair value through OCI are listed on public stock exchanges, including the TSX, the TSX-V and the ASX (until early 2013). Recently, the markets have experienced extreme volatility, therefore a sensitivity analysis is performed using 15%. For such investments, a 15% increase in the equity prices at the reporting date would have increased net income by \$364,000, net of tax effects of \$56,000 (December 31, 2012 - an increase of \$108,000, net of tax effects of \$16,000); an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above. For warrants, a 15% increase in value would have increased net income by \$112,000, net of tax effects of \$17,000 (there were no warrants as at December 31, 2012).

## 9. FINANCIAL INSTRUMENTS

### Credit Risk

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	December 31, 2013	December 31, 2012
			(Note 30)
<b>Carrying amount</b>			
Cash and cash equivalents	6	\$ 249	\$ 2,223
Receivables	7	109	84
Financial assets at fair value through OCI	8	2,795	828
Financial assets at fair value through operations	8	861	-
Loan receivable	13	4,100	1,009
		\$ 8,114	\$ 4,144

### Liquidity Risk

The following tables show the contractual maturities of financial assets and liabilities, including estimated interest payments. The loan receivable is a financial asset at fair value through operations and is recorded at fair value. Since the loan has not been converted, the contractual cash flows are shown based on the maturity of the loan. Note 13 describes the factors taken into account in arriving at the fair values which includes estimated cash flows.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

		<u>Financial assets</u>		
		<u>Loan</u>	<u>Receivables</u>	<u>Total</u>
(Note 30)		<u>receivable</u>		
<b>As at December 31, 2013</b>				
Carrying amount	(Note 13)	\$ 4,100	\$ 109	\$ 4,209
Contractual cash flows		1,130	61	1,191
6 months or less		60	61	121
6 - 12 months		60	-	60
1 - 2 years		1,010	-	1,010
<b>As at December 31, 2012</b>				
Carrying amount	(Note 30)	\$ 1,009	\$ 84	\$ 1,093
Contractual cash flows		1,250	47	1,297
6 months or less		60	47	107
6 - 12 months		60	-	60
1 - 2 years		120	-	120
2 - 5 years		1,010	-	1,010
<b>As at January 1, 2012</b>				
Carrying amount	(Note 30)	\$ -	\$ 118	\$ 118
Contractual cash flows		-	81	81
6 months or less		-	81	81

		<u>Non-derivative financial liabilities</u>		
		<u>Loan</u>	<u>Trade and</u>	<u>Total</u>
(Note 30)		<u>payable</u>	<u>other payables</u>	
<b>As at December 31, 2013</b>				
Carrying amount		\$ 2,427	\$ 338	\$ 2,765
Contractual cash flows		2,634	338	2,972
6 months or less		2,634	338	2,972
2 - 5 years		-	-	-
<b>As at December 31, 2012</b>				
Carrying amount	(Note 30)	\$ -	\$ 682	\$ 682
Contractual cash flows		-	417	417
6 months or less		-	417	417
2 - 5 years		-	-	-
<b>As at January 1, 2012</b>				
Carrying amount	(Note 30)	\$ -	\$ 815	\$ 815
Contractual cash flows		-	644	644
6 months or less		-	644	644
2 - 5 years		-	-	-

The contractual cash flows reflected in the tables above exclude the non-cash prepaid expenses and flow-through premium liability.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## Currency Risk

### Exposure to currency risk

The Company's exposures to foreign currency risk are as follows based on foreign-denominated amounts translated into Canadian dollars ("C\$") at the respective dates:

(in thousands of Canadian dollars)			
As at December 31, 2013	US\$	A\$(see note)	
Cash and cash equivalents	\$ 15	\$	-
Receivables	-	-	-
Marketable securities	-	-	-
Loan receivable	-	-	-
Trade and other payables	-	-	-
<b>Net exposure</b>	<b>\$ 15</b>	<b>\$</b>	<b>-</b>

(in thousands of Canadian dollars)			
As at December 31, 2012	US\$	A\$(see note)	
Cash and cash equivalents	\$ 288	\$	-
Receivables	-	-	-
Marketable securities	-	-	660
Loan receivable	-	-	-
Trade and other payables	-	-	-
<b>Net exposure</b>	<b>\$ 288</b>	<b>\$</b>	<b>660</b>

(in thousands of Canadian dollars)			
As at January 1, 2012	US\$	A\$(see note)	
Cash and cash equivalents	\$ 48	\$	-
Receivables	-	-	-
Marketable securities	-	-	926
Trade and other payables	(35)	-	-
<b>Net exposure</b>	<b>\$ 13</b>	<b>\$</b>	<b>926</b>

Note: Effective January 8, 2013, the Company eliminated its exposure to the A\$ since Coventry shares are now quoted on the TSX-V.

### Sensitivity analysis

A strengthening of the C\$ of 10% against the US\$ and A\$ would not be material.

## Fair Value

### Fair values versus carrying amounts

The fair values of financial assets and liabilities equal the carrying amounts shown in the consolidated balance sheets. The Company has not made any reclassifications between financial assets recorded at cost or amortized cost and fair value. There have been no transfers of financial assets between Level 1 and Level 2 during the current and previous reporting periods. All of the shares owned by the Company are valued using Level 1 methodologies. All of the warrants owned by the Company are valued using Level 3 methodologies.

## 10. PROPERTY AND EQUIPMENT

Equipment	Cost	Accumulated Depreciation	Carrying Amount
Balance as at January 1, 2012	\$ 357	\$ 300	\$ 57
Additions	56	-	56
Amortization	-	11	(11)
<b>Balance as at December 31, 2012</b>	<b>413</b>	<b>311</b>	<b>102</b>
Additions	11	-	11
Amortization	-	20	(20)
<b>Balance as at December 31, 2013</b>	<b>\$ 424</b>	<b>\$ 331</b>	<b>\$ 93</b>



# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## 11. EXPLORATION AND EVALUATION PROJECTS

Cumulative costs relating to the acquisition of mineral properties and E&E expenditures have been incurred on the following projects:

(Note 30)	January 1, 2013	Current Expenditures	Effect of Recoveries	Writedown of E&E Projects	December 31, 2013
<b>URANIUM AND RARE METALS</b>					
Diabase Peninsula	\$ 9,046	\$ 262	(see below) -	\$ -	\$ 9,308
Prairie Lake	3,372	302	-	-	3,674
	12,418	564	-	-	12,982
<b>GOLD AND COPPER</b>					
Chibougamau camp	440	604	(1,024)	(20)	-
Berta	1,202	13	(64)	(1,151)	-
	1,642	617	(1,088)	(1,171)	-
	\$ 14,060	\$ 1,181	\$ (1,088)	\$ (1,171)	\$ 12,982
(Note 30)	January 1, 2012	Current Expenditures	Effect of Recoveries	Writedown of E&E Projects	December 31, 2012
<b>URANIUM AND RARE METALS</b>					
Diabase Peninsula	\$ 8,041	\$ 1,005	-	\$ -	\$ 9,046
Prairie Lake	2,886	486	-	-	3,372
	10,927	1,491	-	-	12,418
<b>GOLD AND COPPER</b>					
Chibougamau camp	-	440	-	-	440
Berta	1,197	5	-	-	1,202
Bukari	-	23	-	(23)	-
J. Tobrar	-	40	-	(40)	-
	1,197	508	-	(63)	1,642
	\$ 12,124	\$ 1,999	\$ -	\$ (63)	\$ 14,060

### Uranium and Rare Metals

#### Diabase Peninsula

In December, 2004, Nuinsco entered into an agreement with Trend Mining Company ("Trend") to acquire a 50% interest in the Diabase Peninsula property in the Athabasca Basin of northern Saskatchewan upon the expenditure of \$1,000,000. As at March 31, 2012, cumulative expenditures increased this ownership interest to greater than 90% as Trend did not contribute its share of expenditures. Under the agreement, should a participant's interest drop below 10%, that participant will relinquish its entire participating interest and will have the right to receive a royalty equal to 3% of the net value of all mineral products produced from the property (as defined). Accordingly, Trend's interest was converted to a royalty and Nuinsco owns the project in its entirety. Effective December 19, 2012, the Company acquired that royalty through a one-time cash payment of \$15,000. Accordingly, Trend has no remaining interest whatsoever in the Diabase Peninsula property.

The property consists of ten contiguous claims encompassing 21,949 hectares ("ha"). Three claims were optioned while seven were staked by Nuinsco. Exploration for uranium has been undertaken at Diabase Peninsula since March, 2005, with the most recent drill program being completed in the winter of 2011 to 2012. During the winter of 2013 a modest program of geochemical sampling was initiated which included a survey consisting of sampling for detection of radon gas which is an indicator of uranium mineralization.

In order to maintain the option on one of the claims, the Company was required to make an option payment of approximately \$935,000 by September 2, 2012; in May 2012, the Company was successful in extending the option terms for a year, with additional extensions being possible, for four quarterly cash payments of \$9,350 and \$37,600 of the Company's shares. This deferred the option payment of \$935,000 by at least one year. The shares were issued in the third quarter of 2012 and all quarterly cash payments have been made.

In September, 2013, the Company negotiated a further extension whereby it is required to make payments totalling \$1,028,500 as follows: an aggregate sum of \$400,000 payable in quarterly instalments of \$25,000 up to and including June 2, 2017 and a lump sum of \$628,500 on or before September 2, 2017. The Company made two instalments of \$25,000 on each of September 2, 2013 and December 2, 2013. A further \$25,000 was paid on March 2, 2014.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

The claims are subject to a 3% gross production royalty payable to the vendor of the original Diabase Peninsula claim; the royalty is defined as actual metal/mineral sales with no deduction for refining or transportation expenses.

### **Prairie Lake**

The Prairie Lake property consists of nine claims comprising 38 claim units, encompassing 608 ha. Given the presence of an historic uranium resource, as well as strongly-anomalous tantalum, niobium and phosphorus, along with widespread rare metals mineralization, diamond drilling, surface sampling and mapping programs were conducted in 2007, 2008 and 2010. A review and analysis of past results took place during 2009 as did metallurgical testing. The property was subject to a 2% NSR payable on any production. Up to a maximum of one-half of the royalty could be purchased for \$1,000,000 in either cash or common shares of the Company. On January 23, 2012, the Company announced that it had acquired the entire 2% NSR through issuing 3,157,894 shares with a market value of \$300,000. The property is now royalty-free.

### **Gold & Copper**

#### **Chibougamau Camp**

In 2012, the Company entered into an option agreement with CBay to make expenditures on its Portage and Corner Bay properties in exchange for an undivided interest in each property as follows: \$300,000 incurred on Portage up to December 31, 2012 earns a 30% undivided interest with the option to incur up to an additional \$500,000 in \$100,000 increments each earning a 5% additional undivided interest; \$1,000,000 in expenditures incurred on Corner Bay in \$250,000 increments each earning a 5% undivided interest in the property. In the second quarter of 2013, the option agreement was amended to allow the Company to more freely determine on which properties the expenditure commitments may be made. Aggregate expenditures incurred on the Chibougamau camp amounted to \$1,024,000 when Nuinsco exercised its rights under the option agreement in December (\$440,000 was expended in 2012). Pursuant to the option agreement, Nuinsco acquired interests in the Chibougamau camp aggregating that amount; subsequently, an additional \$20,000 was spent and written off to *Writedown of exploration and evaluation projects* in the consolidated statement of operations.

On December 19, 2013, CBay exercised its right to reacquire the acquired interests through issuing 1,024,263 shares in CBay Ocean Partners also acquired 1,024,263 shares at the same time in order to maintain the 50:50 ownership interest in CBay.

#### **Berta**

In October, 2003, the Company entered into the Berta Joint Venture Agreement with Falconbridge Limited, now Glencore Xstrata plc ("Glencore"). The Berta property is located approximately 50 km south of the Black Sea coast in north-eastern Turkey. Pursuant to the agreement, the Company was required to spend US\$350,000 to earn a 50% interest in the project.

As a result of the work programs conducted by Nuinsco during 2005, the Company became vested with 50% of the project. Glencore participates pro rata in funding exploration expenditures. Discussions with Glencore have been ongoing, including discussions to buy Glencore's share of the joint venture. As a result, Nuinsco has allowed itself to be diluted to approximately 36%; the effect of dilution was a \$616,000 reduction in the value of Berta during 2011. In 2006 and 2007, the Company completed airborne geophysics followed by diamond drilling. Drilling intersected a significant, continuous domain of strong sulphide mineralization with copper, gold, silver and zinc values. Three drill holes were completed in 2008 demonstrating further evidence of widespread copper mineralization. The Berta property is subject to a 2% NSR.

In 2012, Glencore commenced a 7,500 metre drilling program with budgeted expenditures of US\$2,672,000 to the end of December 2012 of which US\$1,491,000 was spent by Glencore. Full results and accounting for the work program have now been received. Nuinsco has not agreed to participate in the funding of the recent program. The Company is discussing the possible implications of this non-participation on its interest in Berta with Glencore. Subsequent to the end of the 2012 drilling program, Glencore informed Nuinsco that it would resign as operator of the project. Nuinsco has been examining the options with regard to additional exploration and/or diamond drilling on the property taking into account the existing challenges and protracted timing presently associated with permitting in Turkey. Due to the uncertainty of the aforementioned challenges, the Company recorded a writedown of \$1,151,000 on this project as well as a reversal of an accrual of \$64,000 no longer considered necessary.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### Pre-exploration write-offs

Pre-exploration expenditures are written off at the end of each reporting period to *Pre-exploration write-offs* through operations. Exploration costs in the amount of \$80,000 were written off during the year ended December 31, 2013, (December 31, 2012 - \$15,000).

### 12. INTEREST IN CBay MINERALS JOINT VENTURE

<i>Note</i>	December 31, 2013	December 31, 2012	January 1, 2012
Balance as at beginning of year	\$ 4,779	\$ 4,728	\$ 1,125
Equity interest in loss of CBay	(365)	(180)	(3,554)
Other loss	(102)	-	-
Share of CBay contributed surplus	-	40	-
Funding to CBay	995	191	7,157
Effect of conversion of debt to equity in CBay	-	(5,823)	-
Investment in CBay equity	11 1,024	5,823	-
<b>Balance as at end of year</b>	<b>\$ 6,331</b>	<b>\$ 4,779</b>	<b>\$ 4,728</b>

Nuinsco owns a 50% interest in CBay and jointly controls the company with Ocean Partners; this interest is the culmination of the lengthy process jointly undertaken by both companies to gain control over significant assets which had secured loans to Campbell formerly originated by both parties. Effective January 1, 2013, IFRS significantly restricted the use of proportionate consolidation to account for joint arrangements. Accordingly, Nuinsco changed its accounting for CBay to equity accounting. In accordance with the transition requirements of IFRS 11, this change in accounting policy is required to be done on a retrospective basis. Accordingly, Nuinsco has provided information on the same basis as at and for the year ended December 31, 2012 as well as at January 1, 2012. Further, where relevant, additional information has been provided in notes where previously-disclosed amounts have changed. In particular, Note 30 provides various reconciliations which indicate the impact of the accounting policy change on previously-reported information.

CBay's Chibougamau assets represent a very substantial presence in a mining camp which has produced 1.6 billion pounds of copper and 3.2 million ounces of gold from 18 past-producing mines located on the Lac Doré Complex. Through CBay, Nuinsco and Ocean Partners own:

- eight past-producers on the Lac Doré fault and the significant potential to add to the known mineralization at these projects;
- three partially-developed copper projects - Corner Bay, Devlin and the Perch River option;
- a permitted 2,722 tonnes per day mill and tailings facility; and,
- in excess of 38,000 ha of highly-prospective exploration property.

During the third quarter of 2012, the Company recovered approximately \$30,000 on its investment in Campbell shares; this is recorded as a *Recovery of provision for Chibougamau* through operations.

CBay's assets, liabilities, revenues and expenses are as follows:

As at December 31,	2013	2012
<b>CBay Minerals Inc.</b>		
Cash and cash equivalents	\$ 354	\$ 104
Receivables	42	52
Property and equipment	1,874	1,950
Exploration and evaluation project	11,082	8,546
Current liabilities	(212)	(668)
Long-term liability	(478)	(426)
Net assets of CBay Minerals Inc.	12,662	9,558
<b>Nuinsco's interest in CBay Minerals at 50%</b>	<b>\$ 6,331</b>	<b>\$ 4,779</b>

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

Years ended December 31,	2013	2012
Other income	\$ -	\$ 240
General and administrative	(678)	(622)
Share-based payments: options expense	-	(80)
Pre-exploration write-offs	-	(4)
Net finance (costs) income	(52)	106
Other loss	(204)	-
Net loss of CBay Minerals	(934)	(360)
<b>Nuinsco's interest in CBay Minerals at 50%</b>	<b>\$ (467)</b>	<b>\$ (180)</b>

### 13. LOAN RECEIVABLE

	Notes	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
Advance for working capital		\$ 1,000	\$ 1,000	\$ -
Advance under Amended Loan for standby commitment	8	1,207	-	-
Aggregate advances		2,207	1,000	-
Accrued interest receivable		-	9	-
		2,207	1,009	-
Less: settled in Units of Victory Nickel	8	(1,207)	-	-
Less: unamortized loan fees		(161)	-	-
Change in fair value	22	3,261	-	-
		\$ 4,100	\$ 1,009	\$ -

The Company entered into a loan agreement in November 2012 with Victory Nickel that provided an advance for \$1,000,000. The Loan bears interest at 12% per annum and matures on January 31, 2015; it is secured by equipment and a general security agreement over the borrower's assets.

On March 26, 2013, the Company announced that it had amended and restated the loan agreement to increase the secured loan facility to up to \$3,000,000 under certain circumstances (the "Amended Loan"). As with the original loan, the Amended Loan bears interest at 12% per annum, payable quarterly in arrears, and matures on January 31, 2015. Upon the earlier of June 1, 2014 or notification that the frac sand plant is at commercial production, the Company has the right to convert the outstanding balance of the Amended Loan into a participating interest (the "Conversion") whereby the Company is entitled to receive a share of cash flows earned from the sale of frac sand from the borrower's frac sand business. The Company's participation is based on a range of a maximum of \$10,000,000, with a minimum of \$7,500,000, and is subject to adjustment under certain circumstances which could increase or decrease this range. On Conversion, the Amended Loan would be considered paid in full. The Company had also agreed to backstop an equity issue with cash or by converting a portion of the Amended Loan into shares, at the Company's option to an amount up to \$1,500,000 under certain circumstances. The borrower announced a rights offering on June 14, 2013.

Under the terms of the Amended Loan, Nuinsco agreed to provide a standby commitment for any equity offering initiated by Victory Nickel. This commitment was triggered for the rights offering of Victory Nickel which closed on July 30, 2013. Under the agreement, Nuinsco subscribed for 50,316,018 units for cash of \$1,207,584 (Note 8). Each Unit comprises one common share and one common share purchase warrant. This brings cumulative advances under the Amended Loan to Victory Nickel to \$2,207,584 and caps the Amended Loan amount at \$2,707,584 (from a maximum possible \$3,000,000) with \$500,000 remaining for draw down and to be used to develop Victory Nickel's frac sand business. The subscription under the standby commitment, among other things, is included in the calculation of Nuinsco's potential participation under the Conversion of the Amended Loan.

The borrower was to pay, with shares, an arrangement fee of up to \$300,000 plus a commitment fee of 1.5% per annum on unutilized balances. Aggregate arrangement fees of \$270,758 in shares (included in marketable securities) have been received based on advances of \$2,207,584; this satisfies the arrangement fee in full. Interest income has been received in cash of \$129,000 in the year (\$9,000 of which related to 2012). Commitment fees amount to \$11,000

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

in the year ended December 31, 2013 and will be paid in shares upon the final advance under the Amended Loan.

On February 4, 2014, both Nuinsco and Victory Nickel agreed to cancel the amount available to be drawn down under the Amended Loan. This fixed the commitment fee to be paid in shares at \$12,000 and also amended the range of the Company's participation in the net cash flows earned from the sale of frac sand to a maximum of \$10,222,831 with a minimum of \$7,667,124 on the basis of a sharing percentage of 52.16%. This range could be decreased should Victory Nickel repay some or all of the \$1,000,000 balance outstanding before Conversion.

The Conversion feature requires the classification of the loan as a financial asset at fair value through the statement of operations. From initial recognition until the fourth quarter, the Company considered that the fair value of the loan was equal to its amortized cost since the Company has not converted its loan and the 7P Plant was under construction with significant parts to be completed and there were other significant uncertainties. During the fourth quarter, the plant construction was well underway and the probability of Conversion increased substantially. Accordingly, the Company has revalued the loan using an effective interest rate of 22% (equivalent to a discount rate of 14%) and a probability-weighted average estimation of future expected cash flow scenarios of approximately 55% of the ceiling maximum of \$10,222,831 based on current expectations of business results, capital costs and pre-operating expenditures. These cash flows were on the basis of Phase 1 completion only.

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is \$10,222,831. Based on the estimated cash flows, payments could commence as early as mid-2015. These assumptions resulted in an estimated fair value of the loan of \$4,100,000 and, accordingly \$3,261,000 was recorded as a *change in the fair value of a financial asset* through the statement of operations. This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will review and revise its estimates of fair value as the expectations of payments of the participating interest change. Changes in that estimate will be recorded through the statement of operations with appropriate adjustment for actual cash flows received.

The discounted cash flow model was tested for sensitivity which could result from changes in key inputs used in the estimation model. The effect of any change is discrete unless otherwise stated.

Change in Model Key Input	Fair Value of Loan	Change in Fair Value of Loan
Carrying value of loan	\$ 4,100	\$ -
Effect of:		
Decrease in sales price per ton of \$5	3,962	(138)
Increase discount rate by 1%	4,011	(89)
Decrease volumes by 5%	4,064	(36)
Increase discount rate by 1% and decrease sales price per ton of \$5	3,861	(239)

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### 14. ROYALTY INTEREST

On April 20, 2010, pursuant to the sale of Cameron Lake to Coventry, the Company retained a royalty interest in the Cameron Lake property. The royalty interest was a 3% NSR under which Coventry had the right to reduce the royalty to a 1% NSR at any time within five years of April 20, 2010 by making, at Coventry's option, either a cash payment of \$2,000,000 or issuing additional Coventry shares with an equivalent market value. The royalty was accounted for using the cost basis and recorded at \$3,000,000.

Effective the first quarter of 2012, the Company decided to sell its royalty interest in the Cameron Lake property which is held by Coventry and a marketing strategy was implemented. In September 2012, the Company sold the royalty interest for \$5,003,000, being US\$5,100,000, and recorded a net gain on sale of \$1,992,000 after expenses.

### 15. DEFERRED TAX ASSETS

Deferred tax assets and liabilities are recognized for temporary differences between the carrying value of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are considered probable to be realized.

Significant components of the Company's deferred tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
<b>Deferred Tax Assets</b>			
Property and equipment	\$ 32	\$ 42	\$ 58
Share issue costs	58	65	72
Net tax losses carried forward	1,519	1,536	1,443
Eligible capital property and other	286	258	262
Capital losses, net	465	1,075	947
	<b>2,360</b>	2,976	2,782
Unrecognized deferred tax assets	<b>(1,906)</b>	(2,255)	(2,288)
	<b>454</b>	721	494
Deferred tax liability			
Exploration and development	<b>(454)</b>	(721)	(494)
<b>Deferred Tax Assets, Net</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Unrecognized deferred tax assets equal the full amount of the available deferred tax benefit, as the likelihood of utilizing the remaining unused tax losses and other tax deductions is not probable; it cannot be determined at this time.

Non-capital losses expire as follows:

	Amount
<b>2027</b>	<b>\$ 59</b>
<b>2028</b>	<b>1,317</b>
<b>2029</b>	<b>2,078</b>
<b>2031</b>	<b>2,275</b>
<b>2032</b>	<b>3</b>
	<b>\$ 5,732</b>

The Company also has realized capital losses available for carryforward of approximately \$7,377,000 (December 31, 2012 - \$6,536,000). These losses do not expire and may be utilized to reduce future capital gains, if any.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## Movement in Deferred Tax Assets and Liability during the Year

	As at January 1, 2013 (Note 30)	Recognized in operations	Recognized in OCI	Recognized in share capital	As at December 31, 2013
Property and equipment	\$ 42	\$ (10)	\$ -	\$ -	\$ 32
Share issue costs	65	(7)	-	-	58
Net tax losses carried forward	1,536	(17)	-	-	1,519
Eligible capital property and other	258	28	-	-	286
Capital losses (net)	1,075	(480)	(130)	-	465
	2,976	(486)	(130)	-	2,360
Unrecognized deferred tax assets	(2,255)	299	50	-	(1,906)
	721	(187)	(80)	-	454
Deferred tax liability					
Exploration and evaluation projects	(721)	267	-	-	(454)
Deferred tax assets, net	\$ -	\$ 80	\$ (80)	\$ -	\$ -

	As at January 1, 2012 (Note 30)	Recognized in operations	Recognized in OCI	Recognized in share capital	As at December 31, 2012 (Note 30)
Property and equipment	\$ 58	\$ (16)	\$ -	\$ -	\$ 42
Share issue costs	72	(36)	-	29	65
Net tax losses carried forward	1,443	93	-	-	1,536
Eligible capital property and other	262	(4)	-	-	258
Capital losses (net)	947	-	128	-	1,075
	2,782	37	128	29	2,976
Unrecognized deferred tax assets	(2,288)	190	(128)	(29)	(2,255)
	494	227	-	-	721
Deferred tax liability					
Exploration and evaluation projects	(494)	(227)	-	-	(721)
Deferred tax assets, net	\$ -	\$ -	\$ -	\$ -	\$ -

## 16. TRADE AND OTHER PAYABLES

Note	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
Trade payables			
E&E projects	\$ 55	\$ 38	\$ 162
Non-project related	49	99	123
Flow-through premium liability	-	265	171
Other payables	18	9	5
Due to Victory Nickel Inc.	25	38	20
Accrued liabilities			
E&E projects	4	88	60
Non-project related	212	145	274
	\$ 338	\$ 682	\$ 815

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

The following table shows the continuity of the flow-through premium liability:

As at and for the years ended December 31,	Note	2013	2012
<b>Balance as at beginning of year</b>		\$ 265	\$ 171
July and August, 2011 financing:			
Flow-through premium through finance income		-	(126)
December, 2011 financing:			
Flow-through premium through finance income		-	(45)
February and March, 2012 financing:			
Flow-through premium	19	-	321
Flow-through premium through finance income	19	(265)	(56)
<b>Balance as at end of year</b>		\$ -	\$ 265

### 17. LONG-TERM LIABILITIES

	December 31, 2013	December 31, 2012 (Note 30)	January 1, 2012 (Note 30)
Advances	\$ 2,500	\$ -	\$ -
Unamortized loan fees	(73)	(210)	-
	2,427	(210)	-
Reclassification to current liability	(2,427)	-	-
	\$ -	\$ (210)	\$ -

On December 18, 2012, the Company entered into a loan agreement with a third party for a \$2,500,000 loan facility (the "Facility"). The Facility can be drawn down in minimum amounts of \$500,000, with \$1,500,000 immediately available and the balance available six months from closing. The Facility matures on June 18, 2014 with the availability of a one-time extension period of six months upon issuance of 3% of the principal amount extended payable in CBay shares owned by Nuinsco; this represents 112,538 shares at an agreed value of \$0.666 per share which represents approximately 0.375% of the outstanding shares of CBay. A facility fee of \$50,000 was paid in cash at closing along with a 5% equity bonus in the form of 3,634,777 of the Company's shares; interest of 11.5% per annum is payable quarterly in arrears. The Facility is secured by a first ranking pledge upon Nuinsco's CBay shares.

The Facility was drawn down by \$1,000,000 on February 1, 2013 with three additional draws of \$500,000 being received on May 1, 2013, August 1, 2013 and October 21, 2013. The aggregate fees and expenses related to the Facility of \$216,000 (December 31, 2012 - \$210,000 included as *Other assets* on the consolidated balance sheet) are amortized through operations as interest expense using the effective interest rate method over the life of the loan; amortization of \$144,000 was charged during the year ended December 31, 2013 and interest of \$182,000 was paid in cash.

### 18. OPERATING LEASE

In June, 2011, the Company amended and extended its main lease for premises at 80 Richmond Street West, Toronto. The extension term is for five years terminating on September 30, 2016 and includes basic rent commitments as follows:

	December 31, 2013
<b>Office rental</b>	
Less than 1 year	\$ 102
Between 1 and 5 years	190
<b>Total Minimum Lease Payments Payable</b>	<b>\$ 292</b>

It is not expected that the cash flows reflected in the maturity analysis would occur significantly earlier, or at significantly different amounts. During the year ended December 31, 2013, \$208,000 was recognized as rent expense through operations in respect of operating leases including operating costs (December 31, 2012 - \$191,000).



## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### 19. CAPITAL AND OTHER COMPONENTS OF EQUITY

#### Share Capital

##### Authorized

The Company is authorized to issue an unlimited number of common shares with no par value. The Company is also authorized to issue an unlimited number of Class A special shares, issuable in series, an unlimited number of Class B special shares, issuable in series, an unlimited number of Class C special shares, issuable in series, an unlimited number of Class D special shares, issuable in series, and an unlimited number of Class E special shares, issuable in series.

##### Number of shares issued and outstanding

There are no special shares outstanding; all shares are fully paid. The issued and outstanding common shares during the years ended December 31, 2013 and 2012 are in the table below. There were no shares issued in 2013.

	Notes	Number of Shares	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Flow-through Premium	Warrants and Options	Share Capital
Balance as at January 1, 2012		280,211,807						\$ 97,195
Shares issued for property	(a)	3,157,894	\$ -	\$ 300	\$ (12)	\$ -	-	288
Issue of flow-through common shares	(b)	7,142,858	1,000	-	(90)	(321)	(86)	503
Shares issued for property	(c)	923,864	-	38	(5)	-	-	33
Issue of shares under Share Bonus Plan	(d)	454,545	-	25	-	-	-	25
Shares issued for loan fee	(e)	3,634,777	-	125	-	-	-	125
<b>Balance as at December 31, 2012 and 2013</b>		<b>295,525,745</b>	<b>\$ 1,000</b>	<b>\$ 488</b>	<b>\$ (107)</b>	<b>\$ (321)</b>	<b>\$ (86)</b>	<b>\$ 98,169</b>

- (a) On January 23, 2012, the Company issued common shares to acquire the royalty on the Prairie Lake property as described in Note 11.
- (b) In February and March 2012, the Company issued flow-through units (each a "Unit") at a subscription price of \$0.14 per Unit generating aggregate proceeds of \$1,000,000. Each Unit consisted of one common share and one-half of a share purchase warrant. The Company apportioned proceeds of \$321,000 to the flow-through premium and \$86,000 was attributed to the share purchase warrants recorded through contributed surplus.
- (c) On July 30, 2012, the Company issued 923,864 common shares to extend the agreement on Diabase Peninsula as described in Note 11.
- (d) In November 2012, the Company issued common shares to an officer as a discretionary bonus pursuant to the Company's Share Bonus Plan.
- (e) In December 2012, the Company issued common shares as part of a loan fee with respect to the Facility as described in Note 17.

#### Share Incentive Plan

The Company has a Share Incentive Plan which includes both a Share Purchase Plan and a Share Bonus Plan. The purpose of the Share Incentive Plan is to encourage ownership of common shares by directors, senior officers and employees of the Company and its designated affiliates and consultants who are primarily responsible for the management and profitable growth of its business, to advance the interests of the Company by providing additional incentive for superior performance by such persons and to enable the Company and its designated affiliates to attract and retain valued directors, officers, employees and consultants.

#### Share Purchase Plan

Under the Share Purchase Plan, eligible directors, senior officers and employees of the Company and its designated affiliates and consultants can contribute up to 10% of their annual basic salary before deductions to purchase common shares. The Company matches each participant's contribution. The purchase price per common share is the volume-weighted average of the trading prices of the common shares on the TSX for the calendar quarter in respect of which the common shares are issued. Common shares acquired are held in safekeeping and delivered to employees as soon as practicable following March 31, June 30, September 30 and December 31 in each calendar year. No common shares were issued pursuant to the Share Purchase Plan during 2012 or 2011. The maximum number of common shares issuable under the Share Purchase Plan is the lesser of: (i) that number of common shares that can be purchased with a dollar amount equal to 20% of the gross annual salary of the Participants (as

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

defined in the Share Incentive Plan); and (ii) 1% of the aggregate number of issued and outstanding common shares (calculated on a non-diluted basis) from time to time.

## Share Bonus Plan

The Share Bonus Plan permits common shares to be issued as a discretionary bonus to eligible directors, senior officers and employees of the Company and its designated affiliates, and consultants from time to time. At the Company's Annual and Special Meeting of Shareholders held on June 18, 2012 (the "ASM"), shareholders approved an increase in the maximum number of common shares issuable under the Share Bonus Plan to 8,000,000.

In 2013, no common shares were issued under the Share Bonus Plan (2012 – 454,545). The entitlement to shares issued under the Share Bonus Plan in 2012 and 2011 vested immediately. The fair value of common share entitlements granted under the Share Bonus Plan is determined using the quoted market value on the date of grant for an aggregate fair value that was charged immediately.

## Shareholder Rights Plan

In April, 2007, the Company adopted a shareholder rights plan ("Shareholder Rights Plan") which was subsequently confirmed by its shareholders at its 2007 Annual Meeting and the term extended to 2013 at the Annual Meeting held on June 2, 2010. At the Annual and Special Meeting held on June 28, 2013, extension of the Shareholder Rights Plan was not submitted to shareholders and it duly expired.

## Accumulated Other Comprehensive Income or Loss ("AOCI")

AOCI is comprised of the following separate components of equity:

### Net change of financial assets at fair value through OCI

This comprises the cumulative net change in the fair value of financial assets at fair value through OCI until the financial assets are derecognized.

### Income tax on OCI

This comprises the amount of income tax determined to be required on the cumulative net change in the fair value of financial assets at fair value through OCI.

## 20. EARNINGS PER SHARE

The calculation of basic and diluted EPS for the years ended December 31, 2013 and 2012 was based on the information in the table below.

Years ended December 31,	2013	2012
Balance as at beginning of year	295,526,000	280,212,000
Effect of shares issued pursuant to private placements	-	5,738,000
Effect of shares issued for property	-	3,445,000
Effect of shares issued under Share Bonus Plan	-	70,000
Effect of shares issued for loan fee	-	109,000
<b>Weighted average number of common shares - basic</b>	<b>295,526,000</b>	<b>289,574,000</b>
Effect of options granted and outstanding	100,000	732,000
Effect of warrants issued and outstanding	-	-
<b>Weighted average number of common shares - diluted</b>	<b>295,626,000</b>	<b>290,306,000</b>
Number of options excluded	31,775,000	23,498,000
Number of warrants excluded	-	9,292,718
<b>Net income attributable to shareholders</b>	<b>\$ 1,723</b>	<b>\$ 527</b>
<b>Basic earnings per share</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>
<b>Diluted earnings per share</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>

The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses. The table above provides the weighted average number of shares on a dilutive basis for

# Notes to the Consolidated Financial Statements

*(all tabular amounts in thousands of Canadian dollars, except common share and per share information)*

periods when losses are incurred for information only. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on quoted market prices for the respective periods during which the options were outstanding.

There have been no significant capital transactions from the reporting date to the date of this filing which have had a material impact on earnings per share.

## **21. SHARE-BASED PAYMENTS**

### **Description of the Share-based Payment Arrangements**

The Company's share-based payment arrangements are as follows:

#### ***Stock option plan (equity-settled)***

The Company has a Stock Option Plan to encourage ownership of its shares by key management personnel (directors and executive management), employees and consultants, and to provide compensation for certain services. The terms of the Stock Option Plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant. No compensation is recognized when options are exercised. The number of shares reserved for issuance is not to exceed 15% of the aggregate number of common shares issued and outstanding (calculated on a non-diluted basis) from time to time.

As at December 31, 2013, the Company had 12,454,000 (December 31, 2012 – 21,099,000) common shares available for the granting of future options. Options are exercisable at the market price of the shares on the date preceding the date of grant. The Company does not have any cash-settled transactions.

#### ***Share purchase warrants (equity-settled)***

There are no outstanding warrants as at December 31, 2013. The Company does not have any cash-settled transactions.

#### ***Share Bonus Plan***

The terms of the Company's Share Bonus Plan are set out in Note 19.

### **Terms and Conditions of Share-based Payment Arrangements**

#### ***Stock Option Plan***

The terms and conditions relating to the grants of the Stock Option Plan are as follows:

- Options issued during the period and granted to executive management, employees and consultants have a maximum term of five years and are equity-settled. Of the options granted, 50% vest immediately, while the remaining options are exercisable after one year.
- Options issued during the period and granted to directors have a maximum term of five years and are equity-settled. All options granted to directors vest immediately.
- Certain options issued prior to August 2006, had a maximum term of 10 years.
- All options are to be settled by physical delivery of shares.

#### ***Share purchase warrants***

The terms and conditions relating to the grants of the share purchase warrants are as follows; all warrants are to be settled by physical delivery of shares and as such, are equity-settled. Warrants issued are generally exercisable for a period of 12 to 24 months from issue date; the warrants issued under the rights offering were not exercisable until 12 months from issue and expired 12 months thereafter.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### Disclosure of Share-based Payment Arrangements

#### Stock Option Plan

The number and weighted average exercise prices of options are as follows:

Years ended December 31,	Number of options		Weighted average exercise price	
	2013	2012	2013	2012
Outstanding as at beginning of year	24,230,000	20,515,000	\$ 0.11	\$ 0.14
Granted	9,395,000	5,550,000	\$ 0.02	\$ 0.06
Forfeit	(350,000)	-	\$ 0.10	\$ -
Expired	(1,400,000)	(1,835,000)	\$ 0.18	\$ 0.29
<b>Outstanding as at end of year</b>	<b>31,875,000</b>	<b>24,230,000</b>	<b>\$ 0.08</b>	<b>\$ 0.11</b>
<b>Exercisable as at end of year</b>	<b>28,528,000</b>	<b>22,505,000</b>	<b>\$ 0.09</b>	<b>\$ 0.11</b>

For options granted during 2013, the weighted average fair value at the date of grant was \$0.014 (2012 - \$0.048).

As at December 31,	Number of options outstanding		Weighted average remaining contractual life (years)	
	2013	2012	2013	2012
<b>Range of exercise prices</b>				
\$0.015 to \$0.015	5,800,000	-	4.96	-
\$0.020 to \$0.020	120,000	-	4.36	-
\$0.030 to \$0.050	8,075,000	4,600,000	1.71	1.19
\$0.055 to \$0.055	1,100,000	1,100,000	1.61	2.61
\$0.060 to \$0.075	5,430,000	5,680,000	3.25	4.25
\$0.080 to \$0.100	4,350,000	4,350,000	1.01	2.01
\$0.110 to \$0.150	-	1,000,000	-	0.01
\$0.160 to \$0.170	4,650,000	4,750,000	2.20	3.20
\$0.220 to \$0.260	2,350,000	2,400,000	0.27	1.26
\$0.270 to \$0.350	-	350,000	-	0.48
	<b>31,875,000</b>	<b>24,230,000</b>	<b>2.50</b>	<b>2.49</b>

Additional disclosures relating to the Company's options are as follows:

As at and for the years ended December 31,	2013	2012
Number of options granted during the year	9,395,000	5,550,000
Weighted average fair value of options granted at grant date	\$ 0.014	\$ 0.048
Number of options subject to vesting as at end of year	3,347,000	1,725,000
Share-based payment expense - vesting options	\$ 124	\$ 277
Share-based payment expense - extended options	\$ -	\$ 48
Unvested options not yet charged to operations	\$ 29	\$ 22

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### Share purchase warrants

The number and weighted average exercise prices of warrants are as follows:

As at and for the years ended December 31,	Date Issued	Life <sup>(1)</sup>	Number of warrants		Weighted average exercise price	
			2013	2012	2013	2012
<b>Issued pursuant to private placements</b>						
	October 4, 2010	24		5,600,000		\$ 0.10
	<i>Expired</i>			(5,600,000)		
	January 10, 2011	12		1,562,500		\$ 0.22
	<i>Expired</i>			(1,562,500)		
	July 29, 2011	24	<b>1,833,315</b>	1,833,315	\$ 0.20	\$ 0.20
	August 3, 2011	24	<b>2,151,533</b>	2,151,533	\$ 0.20	\$ 0.20
	August 29, 2011	24	<b>333,334</b>	333,334	\$ 0.20	\$ 0.20
	August 30, 2011	24	<b>970,984</b>	970,984	\$ 0.20	\$ 0.20
	December 30, 2011	18	<b>22,833</b>	22,833	\$ 0.09	\$ 0.09
	<i>Expired Quarter ended June 30, 2013</i>		<b>(22,833)</b>			
	February 24, 2012	18	<b>3,410,750</b>	3,410,750	\$ 0.20	\$ 0.20
	February 24, 2012	18	<b>409,290</b>	409,290	\$ 0.14	\$ 0.14
	March 12, 2012	18	<b>138,250</b>	138,250	\$ 0.20	\$ 0.20
	March 13, 2012	18	<b>22,429</b>	22,429	\$ 0.20	\$ 0.20
	<i>Expired Quarter ended September 30, 2013</i>		<b>(9,269,885)</b>			
<b>Outstanding as at end of year</b>			-	9,292,718	n/a	\$ 0.20

(1) The life of warrants is generally stated in months from issue date; for warrants issued pursuant to the rights offering, the warrants were exercisable 12 months from issue date.

### Inputs for Measurement of Grant-Date Fair Values

The grant-date fair value of share-based payments, including any modifications, was measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility.

The inputs used in the measurement of the fair values at grant date of the share-based payments granted, modified or issued during the years are as follows:

Years ended December 31,	Options		Warrants	
	2013	2012	2013	2012
Fair values at grant/modification date	<b>\$0.011 to \$0.019</b>	\$0.001 to \$0.048	n/a	\$0.018 to \$0.031
Share prices at grant/modification date	<b>\$0.015 to \$0.03</b>	\$0.055 to \$0.065	n/a	\$0.09 and \$0.095
<b>Assumptions</b>				
Exercise prices	<b>\$0.015 to \$0.03</b>	\$0.05 to \$0.31	n/a	\$0.14 and \$0.20
Expected volatilities	<b>86% to 102%</b>	82% to 110%	n/a	87% and 93%
Life (years)	<b>4</b>	0.58 to 4.83	n/a	1.5
Expected dividends	-	-	n/a	-
Risk-free interest rates	<b>1.19% to 1.56%</b>	0.99% to 1.53%	n/a	1.12% to 1.20%

On April 4, 2013, 3,475,000 options were issued to employees, consultants and directors at an exercise price of \$0.03. Of these options, 2,337,500 vested immediately and 1,137,500 vest in one year. On May 10, 2013, 120,000 options were granted to an employee at an exercise price of \$0.02; half vested immediately and half vest in one year. On December 17, 2013, 5,800,000 options were issued to employees, consultants and directors at an exercise price of \$0.015. Of these options, 3,650,000 vested immediately and 2,150,000 vest in one year.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### 22. FINANCE INCOME AND FINANCE COSTS

Years ended December 31,	Notes	2013	2012
Interest income on bank deposits		\$ 14	\$ 7
Interest income on loan receivable	13	230	9
Commitment fee	13	11	-
Flow-through premium	16	265	227
Net foreign exchange gain		7	64
Gain on investment	8	54	-
Net change in fair value of financial assets at fair value through operations			
Warrants	8	861	-
Loan receivable	13	3,261	-
<b>Finance income</b>		<b>4,703</b>	<b>307</b>
Interest expense on loan payable	17	326	-
<b>Finance costs</b>		<b>326</b>	<b>-</b>
<b>Net Finance Income</b>		<b>\$ 4,377</b>	<b>\$ 307</b>

### 23. INCOME TAXES

The income tax amount in the year ended December 31, 2013 is a recovery of \$80,000 and relates to income taxes on the change in value of marketable securities recorded through OCI; in 2012, there was no income tax amount.

The income tax expense differs from the amount computed by applying the statutory federal and provincial income tax rates for each of the years ended December 31, 2013 and 2012, of 26.5% to the income before income taxes.

The differences are summarized as follows:

Years ended December 31,	2013	2012
Statutory rate applied to income before income taxes	\$ 423	\$ 140
Non-taxable income	-	-
Non-taxable portion of capital gain	(547)	-
Non-deductible items, net	300	81
Effect of rate change	-	(79)
Effect of change through OCI	(80)	-
Non-deductible loss on interest in CBay Minerals Joint Venture	123	48
Unrecognized deferred tax assets	(299)	(190)
<b>Income tax recovery</b>	<b>\$ (80)</b>	<b>\$ -</b>

### 24. OPERATING SEGMENT

#### Reporting Segment

The Company is engaged in the exploration and evaluation of properties for the mining of precious and base metals. The Company does not have formal operating segments and does not have operating revenues, products or customers. The corporate office operates to support the Company's projects as well as providing administrative support to Victory Nickel and CBay (Note 25). The projects are currently located in Canada and Turkey. Senior management makes decisions by considering exploration potential and results on a project basis. Any applicable amounts relating to projects are capitalized to the relevant project as *Exploration and evaluation projects* on the consolidated balance sheets.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### Geographic Information

As at December 31,	Notes	2013	2012
<b>Canada</b>			
Corporate		\$ 8,207	\$ 4,896
Interest in CBay Minerals Joint Venture	12	6,331	4,779
Diabase Peninsula	11	9,308	9,046
Prairie Lake	11	3,674	3,372
		<b>27,520</b>	<b>22,093</b>
<b>Turkey</b>			
Berta	11	-	1,202
		-	1,202
<b>Total Assets</b>		<b>\$ 27,520</b>	<b>\$ 23,295</b>

Revenues in each period are generally attributable to the corporate office in Canada. There have been no changes in the reportable segments or the treatment of segmented assets and revenues year over year.

### 25. RELATED PARTIES AND MANAGEMENT AGREEMENTS

#### Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, consulting fees, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue shares as part of the Share Bonus Plan and the Stock Option Plan (Notes 19 and 21).

Balances and transactions with related parties as at and for the years ended December 31, 201 and 2012 are shown in the following tables:

As at December 31,	2013	2012
<b>Balances Outstanding</b>		
Payable to key management personnel	\$ 99	\$ 57

Key management personnel compensation comprised:

Years ended December 31,	2013	2012
Short-term employee benefits	\$ 679	\$ 749
Share-based payments - options	39	209
Share-based payments - Share Bonus Plan	-	25
	<b>\$ 718</b>	<b>\$ 983</b>

#### Balances and Transactions with Victory Nickel and CBay under the Management Agreements

The Company shares management, administrative assistance and facilities with Victory Nickel and CBay pursuant to separate management agreements; management operates under the supervision of the respective board of directors of each respective company; there is only one common director being Mr. René Galipeau. The costs recovered from Victory Nickel and CBay are recorded at the cost to the Company of such services plus 10 per cent. The management agreement for Victory Nickel commenced February 1, 2007 and is terminable by the Company upon 90 days' notice and by Victory Nickel upon 180 days' notice. The management agreement for CBay commenced February 14, 2012 and is terminable by the Company upon 90 days' notice and by CBay upon 60 days' notice.

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

Balances and transactions with Victory Nickel and CBay under the management agreements as at and for the years ended December 31, 2013 and 2012 are shown in the following tables:

<b>As at December 31,</b>	<b>2013</b>	<b>2012</b>
<b>Balances Outstanding under Management Agreements</b>		
Receivable from Victory Nickel Inc.	\$ 56	\$ -
Payable to Victory Nickel Inc.	\$ -	\$ 38
<hr/>		
<b>Years ended December 31,</b>	<b>2013</b>	<b>2012</b>
<b>Transaction Values under Management Agreements</b>		
Overhead charges to Victory Nickel Inc.	\$ 755	\$ 654
Overhead charges from Victory Nickel Inc.	\$ 18	\$ 27
Project costs charged by Victory Nickel Inc.	\$ 37	\$ 22
Project recoveries charged to Victory Nickel Inc.	\$ 30	\$ 31
Overhead charges to CBay Minerals Inc.	\$ 273	\$ 247
Project recoveries charged to CBay Minerals Inc.	\$ 25	\$ 35

Amounts due to or from Victory Nickel and CBay under the management agreements are unsecured, non-interest bearing and due on demand. Amounts due to or from Victory Nickel and CBay are settled on a regular basis. Payables to key management personnel generally relate to directors' fees, consulting fees and expense reimbursements.

### Balances and Transactions with Victory Nickel under the Amended Loan

The terms of the Amended Loan with Victory Nickel and the balances and transactions related thereto are described in Note 13.

## 26. COMPANY ENTITIES

### Significant Subsidiaries and Jointly-controlled Entities

<b>Years ended December 31,</b>		<b>2013</b>	<b>2012</b>
<b>Ownership Interest</b>	<b>Country of Incorporation</b>		
Lakeport Gold Corporation	Canada	100%	100%
CBay Minerals Inc.	Canada	50%	50%
Nuinsco Madencilik Sanaye Ticaret	Turkey	100%	100%
Nuinsco Exploration Inc.	BVI	50%	50%
Z-Gold Resources Limited (through Nuinsco Exploration Inc.)	Egypt	50%	50%
NuMENA Minerals Corp.	Canada	100%	100%

None of the companies included in the table above is a public company. Lakeport Gold Corporation is inactive; CBay Minerals Inc. is a jointly-controlled entity with Ocean Partners and owns the Chibougamau mining camp; Nuinsco Madencilik Sanaye Ticaret is a wholly-owned subsidiary and was incorporated to hold the Company's Turkish licenses; Nuinsco Exploration Inc. is a jointly-controlled entity with QCC and was pursuing the rights, through Z-Gold Resources Limited to the gold concessions in Egypt; NuMENA Minerals Corp. is presently inactive and was incorporated as a potential vehicle to spin off certain of the Company's assets in the MENA region. This initiative has been put on hold. NuMENA will be inactive until circumstances warrant otherwise.

## 27. COMMITMENT

### Flow-through Commitment

As at December 31, 2013, the Company had fulfilled its expenditure obligations for flow-through share financings in 2012 and 2011.



## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### 28. CONTINGENCY

#### CRA Reassessment

In March, 2011, the Company received notices of reassessment in the aggregate amount of approximately \$4,400,000 from the CRA related to transactions completed in 2006; this amount does not include interest and penalties which could be substantial. The Company filed notices of objection on May 19, 2011. On March 7, 2014, the Company received a notice of confirmation with respect to one entity for which a notice of reassessment had been received in March 2011. In the notice of confirmation, the CRA denied the Company's notice of objection and confirmed the reassessment. The Company has a 90 day period within which to launch an appeal to the Tax Court of Canada and will do so within the time frame allowed. On July 22, 2011, the Company filed a request for adjustment to correspondingly adjust its tax pools and losses, in the unlikely event that the Company's appeal is unsuccessful.

The appeal process could be lengthy and the Company believes that its position is correct and that it will prevail. Accordingly, the Company has not recorded any liability with respect to this matter.

### 29. SUBSEQUENT EVENT

There have been no other additional developments not already discussed elsewhere in these consolidated financial statements.

### 30. EXPLANATION OF ACCOUNTING POLICY CHANGE FOR JOINT ARRANGEMENTS

As described in Notes 2, 3 and 12, the Company has changed its accounting policy for its interest in CBay to the equity method of accounting. The Company continues to jointly manage and operate CBay along with its partner, Ocean Partners under a shareholders' agreement which guides funding and other operational and strategic matters.

The change has had no effect on the operating results of the Company and has had a minor improvement on the Company's working capital.

The following tables explain the adjustments necessary to effect such change which reclassified balances from several individual balance sheet classifications into one line item named *Interest in CBay Minerals Joint Venture*; similarly, several individual statement of operations items were reclassified into one line item also named *Interest in CBay Minerals Joint Venture*.

# Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

## Reconciliation of Equity – Comparative and Transition Consolidated Balance Sheets

	December 31, 2012			January 1, 2012		
	As previously reported	Effect of Change	As restated	As previously reported	Effect of Change	As restated
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 2,275	\$ (52)	\$ 2,223	\$ 516	\$ -	\$ 516
Receivables	110	(26)	84	120	(2)	118
Marketable securities	828	-	828	1,531	-	1,531
<b>Total current assets</b>	<b>3,213</b>	<b>(78)</b>	<b>3,135</b>	<b>2,167</b>	<b>(2)</b>	<b>2,165</b>
<b>Non-current assets</b>						
Property and equipment	1,077	(975)	102	1,443	(1,386)	57
Exploration and evaluation projects	18,333	(4,273)	14,060	15,944	(3,820)	12,124
Interest in CBay Minerals Joint Venture	-	4,779	4,779	-	4,728	4,728
Loan receivable	1,009	-	1,009	-	-	-
Royalty interest	-	-	-	3,000	-	3,000
Other assets	210	-	210	-	-	-
<b>Total non-current assets</b>	<b>20,629</b>	<b>(469)</b>	<b>20,160</b>	<b>20,387</b>	<b>(478)</b>	<b>19,909</b>
<b>Total Assets</b>	<b>\$ 23,842</b>	<b>\$ (547)</b>	<b>\$ 23,295</b>	<b>\$ 22,554</b>	<b>\$ (480)</b>	<b>\$ 22,074</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Trade and other payables	\$ 1,016	\$ (334)	\$ 682	\$ 1,029	\$ (214)	\$ 815
<b>Total current liabilities</b>	<b>1,016</b>	<b>(334)</b>	<b>682</b>	<b>1,029</b>	<b>(214)</b>	<b>815</b>
<b>Non-current liability</b>						
Long-term liability	213	(213)	-	266	(266)	-
<b>Total Liabilities</b>	<b>1,229</b>	<b>(547)</b>	<b>682</b>	<b>1,295</b>	<b>(480)</b>	<b>815</b>
<b>Shareholders' equity</b>						
Share capital	98,169	-	98,169	97,195	-	97,195
Contributed surplus	5,436	-	5,436	4,985	-	4,985
Accumulated other comprehensive income (loss)	(1,753)	-	(1,753)	(1,155)	-	(1,155)
Deficit	(79,239)	-	(79,239)	(79,766)	-	(79,766)
<b>Total shareholders' equity</b>	<b>22,613</b>	<b>-</b>	<b>22,613</b>	<b>21,259</b>	<b>-</b>	<b>21,259</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 23,842</b>	<b>\$ (547)</b>	<b>\$ 23,295</b>	<b>\$ 22,554</b>	<b>\$ (480)</b>	<b>\$ 22,074</b>

## Notes to the Consolidated Financial Statements

(all tabular amounts in thousands of Canadian dollars, except common share and per share information)

### Reconciliation of Income or Loss for the Year Ended December 31, 2012

	Year ended December 31, 2012		
	As previously reported	Effect of Change	As restated
<b>Revenues</b>			
Other income	\$ 120	\$ (120)	\$ -
<b>Other expenses</b>			
General and administrative	(1,478)	311	(1,167)
Share-based payments:			
Options	(365)	40	(325)
Bonus shares	(25)	-	(25)
Amortization of property and equipment	(11)	-	(11)
Pre-exploration write-offs	(17)	2	(15)
Writedown of exploration and evaluation projects	(79)	-	(79)
<b>Operating loss</b>	<b>(1,855)</b>	<b>233</b>	<b>(1,622)</b>
Finance income	360	(53)	307
Finance costs	-	-	-
<b>Net finance income (costs)</b>	<b>360</b>	<b>(53)</b>	<b>307</b>
<b>Loss before the undernoted</b>	<b>(1,495)</b>	<b>180</b>	<b>(1,315)</b>
Gain on sale of royalty interest	1,992	-	1,992
Interest in CBay Minerals Joint Venture	-	(180)	(180)
Recovery of provision for Chibougamau	30	-	30
<b>Income before income tax</b>	<b>527</b>	<b>-</b>	<b>527</b>
Income tax expense	-	-	-
<b>Net Income for the Year</b>	<b>\$ 527</b>	<b>\$ -</b>	<b>\$ 527</b>
<b>Earnings (loss) per share</b>			
Basic earnings (loss) per share	\$ 0.00	\$ 0.00	\$ 0.00
Diluted earnings (loss) per share	\$ 0.00	\$ 0.00	\$ 0.00

### Reconciliation of Comprehensive Loss for the Year Ended December 31, 2012

	Year ended December 31, 2012		
	As previously reported	Effect of Change	As restated
<b>Net income for the year</b>	<b>\$ 527</b>	<b>\$ -</b>	<b>\$ 527</b>
<b>Other comprehensive loss</b>			
Net change in fair value of financial assets	(598)	-	(598)
Income tax recovery	-	-	-
<b>Other comprehensive loss for the year</b>	<b>(598)</b>	<b>-</b>	<b>(598)</b>
<b>Total Comprehensive Loss for the Year</b>	<b>\$ (71)</b>	<b>\$ -</b>	<b>\$ (71)</b>



**NUINSCO RESOURCES LIMITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED  
DECEMBER 31, 2013 AND 2012**

**DATED MARCH 31, 2014**

# **NUINSCO RESOURCES LIMITED**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Years ended December 31, 2013**

The following discussion of the results of operations and financial condition of Nuinsco Resources Limited ("Nuinsco" or "the Company") prepared as of March 31, 2014 consolidates management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2013 and 2012, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's audited consolidated financial statements as at and for the years ended December 31, 2013 and 2012 ("2013 Audited Consolidated Financial Statements") and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Certain information and discussion included in this Management's Discussion & Analysis ("MD&A") constitutes forward-looking information. Readers are encouraged to refer to the cautionary notes contained in the section Forward-Looking Statements at the end of this MD&A.

The 2013 Audited Consolidated Financial Statements are available at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.nuinsco.ca](http://www.nuinsco.ca). All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

#### **Change in Accounting Policy - IFRS 11 – Joint Arrangements ("IFRS 11")**

Nuinsco owns a 50% interest in CBay Minerals Inc. ("CBay") and jointly controls the company with Ocean Partners Investments Limited ("Ocean Partners"); this interest is the culmination of the lengthy process jointly undertaken by both companies to gain control over significant assets which had secured loans to Campbell formerly originated by both parties. Effective January 1, 2013 reporting, companies are required to adopt IFRS 11 which means joint arrangements must be classified as either joint operations or joint ventures. Based on the standard, the Company classified the CBay interest as a joint venture. The use of proportionate consolidation has been severely restricted even when the parties have a shareholders' agreement which governs their activities. Accordingly, the Company has changed its accounting for CBay to equity accounting wherein the Company presents this arrangement as a single line item on the consolidated balance sheet. The Company's share of operating results in the CBay joint venture is also reflected as a single line item in the statement of operations. In accordance with the transition requirements of IFRS 11, this change in accounting policy is required to be done on a retrospective basis. Accordingly, Nuinsco has provided information on the same basis as at and for the year ended December 31, 2012 as well as at January 1, 2012.

The accounting change has reduced certain of the Company's assets, liabilities, revenues and expenses on a line-by-line basis but has had no significant change to net assets and no change on earnings. The impact of this accounting change is reflected in the 2013 Audited Consolidated Financial Statements, including the restatement of comparative information and a revised opening consolidated balance sheet. The change in accounting for the CBay joint venture did not impact shareholders' equity on adoption. In particular, Note 30 in the 2013 Audited Consolidated Financial Statements provides various reconciliations which indicate the impact of the accounting policy change on previously-reported information. Unless otherwise stated, all information in this MD&A is reported based on equity accounting for the Company's interest in CBay.

#### **NATURE OF OPERATIONS**

Nuinsco is focused on identifying and exploiting mineral investment opportunities worldwide using its exploration programs and operating and financial expertise. The Company currently has interests in gold, copper, phosphate, rare metals, niobium and uranium assets in world-class mineralized belts in Canada's provinces of Saskatchewan, Ontario and Québec and in Turkey. In addition to its property holdings, Nuinsco owns a 50% interest in CBay, a private company that has a dominant position in Québec's Chibougamau mining camp with assets including a permitted mill, tailings facility, eight past-producing copper/gold mines, three partially-developed copper projects (Corner Bay, Devlin and the Perch River option) and a 38,000 hectare ("ha") (96,000 acre) land position. Shares of Nuinsco trade on the Toronto Stock Exchange ("TSX") under the symbol NWI.

The Company continues to achieve positive results from its Diabase Peninsula and Prairie Lake projects and continues to jointly manage CBay and its assets in the prolific Chibougamau mining camp in northern Québec along with Ocean Partners. As funding permits, exploration programs continue at the Diabase Peninsula uranium project in Saskatchewan and the Prairie Lake project in Ontario where additional testing has been performed which has indicated that a marketable phosphate concentrate can be produced. An exploration program at Chibougamau commenced in 2012 and continued in 2013.

In addition to its property holdings, Nuinsco owns common shares of Victory Nickel Inc. ("Victory Nickel") TSX:NI and common shares of Coventry Resources Inc. ("Coventry") listed on the Toronto Venture Exchange ("TSX-V") and Australian Stock Exchange ("ASX") both under the symbol CYY. These assets are available to be monetized to finance the Company's exploration programs and operating costs while helping to minimize equity dilution to shareholders. On September 27, 2012, the Company sold its royalty interest in Coventry's Cameron Gold project for US\$5,100,000.

On July 30, 2013, Nuinsco increased its shareholding in Victory Nickel to 12.24% through its agreement to backstop an equity issue under the loan agreement described below in the Significant Events section, thereby becoming a related party of Victory Nickel. As at March 27, 2014, the Company owns an approximate interest of 10.39% in Victory Nickel.

### **Going Concern**

The Company's 2013 Audited Consolidated Financial Statements have been prepared using the going concern assumption which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2013, the Company had working capital of \$1,249,000 (December 31, 2012 – working capital of \$2,453,000). Working capital is defined as current assets including assets held for sale less current liabilities, excluding restricted cash, if any. Marketable securities comprise investments in other resource companies the markets for which are not always liquid. The loan payable with a third party is due in June 2014 and is classified as a current liability although it can be extended for a six-month period as described in the Liquidity and Capital Resources section of this MD&A and, as at December 31, 2013, no additional funds are available to the Company.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals, realization on its marketable securities as required and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company's projects through exploration and development to the production stage will require significant financing. Furthermore, the Company has received reassessments from the Canada Revenue Agency ("CRA") as described in Note 28 to the 2013 Audited Consolidated Financial Statements. Given the current economic climate, the ability to raise funds may prove difficult. Refer to the Risks and Uncertainties and Liquidity and Capital Resources sections for additional information.

None of the Company's projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which have the potential for the discovery of economically recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding.

In an effort to generate cash from the Company's available assets, the Company has entered into a secured loan agreement with Victory Nickel (the "Amended Loan") which has a conversion feature which, pursuant to contractual terms, could generate cash flows as described in Note 13 to the 2013 Audited Consolidated Financial Statements. The loan has provided the initial funding required by Victory Nickel to implement a three-phase business plan to enter the frac sand business beginning in 2013 with first sales expected in early 2014.

On December 18, 2012, the Company entered into a loan agreement with a third party for a \$2,500,000 loan facility (the "Facility"). The terms of the Facility are described in the Liquidity and Capital Resources section. As at December 31, 2013, the Facility was drawn down by \$2,500,000; refer to Note 17 to the 2013 Audited Consolidated Financial Statements. The loan is disclosed as a current liability since it is due June 18, 2014; the loan can be extended for an additional six months as described in Note 17 to the 2013 Audited Consolidated Financial Statements.

Should the Company not be able to continue to achieve favourable exploration results, obtain the necessary financing, achieve future profitable production or sale of properties or realize timely cash flows from the conversion of the loan with Victory Nickel, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

## **SIGNIFICANT EVENTS**

During and subsequent to the year ended December 31, 2013, the Company:

### **Corporate**

- Entered into the Amended Loan with Victory Nickel to advance up to \$3,000,000 to provide financing for the development of a frac sand production and marketing business. The Amended Loan is secured by Victory Nickel's assets and the bulk of the funds are to be used to finance capital expenditures on Victory Nickel's frac sand plant in Medicine Hat, Alberta (the 7P Plant"). The loan bears interest at 12% per annum and is convertible at Nuinsco's option into a limited participating interest in cash flow from Victory Nickel's frac sand business.
- Participated in the rights offering of Victory Nickel for cash to an aggregate of \$1,291,197 under the terms of the Amended Loan combined with the exercise of its pre-existing rights under the offering. This increased Nuinsco's ownership in Victory Nickel to 12.24% on a non-diluted basis at that time.
- Announced the passing of director, George Archibald, a director of Nuinsco or its direct predecessors since 1970 and co-founder of the predecessor New Inesco Mines in 1970.
- Announced management and board changes. René Galipeau retired as Chief Executive Officer succeeding Bob Wardell as non-executive Chairman of the Board of Directors; Bob Wardell continues as a director of the Company. Paul Jones was named CEO and Sean Stokes became Executive Vice-President of Nuinsco. Paul Jones was also appointed as a director to the Board.
- Announced progress toward frac sand sales by Victory Nickel.

### **Gold**

- Announced positive drill results grading up to 93.20g/t over 0.25m, from a newly-identified geophysical target, on CBay's Chibougamau gold properties.
- Followed up the very encouraging drill results noted above with ground geophysics on CBay's Portage Island properties.
- Completed a second program of a minimum of 1,500m of diamond drilling consisting of 15 holes on several of CBay's Chibougamau gold properties.
- Announced initial results from the second program drilling at CBay's Chibougamau gold properties from 2 holes that revealed 2 short intervals of highly-anomalous geophysical target newly identified

### **Copper**

- Announced drill results with intercepts up to 12.65m grading 1.59% copper that further indicate the large scale of copper mineralization at the Berta property in Turkey.
- Announced the option of the advanced-stage Perch River copper project in the Chibougamau mining camp in Northern Québec through CBay. Perch River is a shallow, flat-lying, ramp-accessible copper deposit with the potential to be a feed source for CBay's Copper Rand mill.
- Announced the acquisition by CBay of the Devlin copper project. Also located in the Chibougamau mining camp, near CBay's Corner Bay copper project, Devlin also has the potential to be a feed source for CBay's Copper Rand mill.
- Completed four diamond drill holes aggregating 288m at the Devlin project for infill and grade confirmation purposes during the fall of 2013.
- Received results confirming that the Mackenzie Vein must be examined from multiple angles and validating the interpreted geometry of the veining at Baie du Commencement.

### **Uranium, Phosphorus and Rare Metals**

- Announced the production (on a test basis) of additional phosphorus concentrate from Prairie Lake for evaluation of agricultural and industrial applications of Prairie Lake mineralization.
- Commenced a lake sediment and water sampling radon gas survey on the Diabase Peninsula property to follow up on drill results showing widespread anomalous uranium mineralization, peaking at 707 parts per million ("ppm"). Radon surveys were instrumental in the recent discovery of high-grade uranium mineralization on a third party's Patterson Lake South JV in the south-western part of the Athabasca Basin.
- Announced the identification of a simplified metallurgical extraction process resulting in a concentrate with improved phosphorus recoveries and very low levels of impurities from mineralization at Prairie Lake.
- Provided a 30 tonne sample to a processor for metallurgical evaluation to assess the potential for recovery of a suite of high-value minerals.
- Announced that processing of the Prairie Lake sample has begun with results expected in the second quarter of 2014.

## **OUTLOOK**

Nuinsco is on a path to participate in cash flow as a result of a timely equity investment in and loan to Victory Nickel and its subsidiary Victory Silica Ltd. ("Victory Silica"). The importance of this anticipated revenue to the Company, coupled already with the increased value of the equity investment, cannot be overemphasised – as a non-dilutive form of financing, Nuinsco expects to have the ability to explore and develop its projects at a time when traditional equity financing is challenging and continues to be dilutive to Canadian junior explorers and developers. In this way, Nuinsco will continue to do what it has done for more than forty years – search for, and find, mineral deposits.

The Company's current projects are highly prospective and, in the case of Chibougamau (owned through CBay), are endowed with well-defined mineralization, are advanced in development towards production with infrastructure in place to allow immediate processing when production commences. We will continue to develop these projects but are also aware that considerable opportunity is likely to arise from the current conditions in the financial markets. To that end, we will be evaluating opportunities on an ongoing basis in order to continue to maintain a robust property portfolio.

### **Prairie Lake**

At Prairie Lake we continue to evaluate the potential for producing concentrates containing a number of minerals – including phosphorus, rare earth elements ("REE") and niobium. Samples from the project are currently being evaluated by the minerals processing researcher Corem in Quebec City and by a leading US-based mineral technology company. As these studies continue and become more detailed, we will develop a better and more robust understanding of the technical aspects of concentrating the contained minerals, of the overall value of the rock at Prairie Lake and ultimately whether economically-viable concentrates are possible.

The Prairie Lake carbonatite has a lot going for it: an Exploration Target of between 515 and 630 million tonnes of mineralization, superb infrastructure and year-round access, proximity to road, rail and shipping networks and the possibility of being easily exploited through simple and inexpensive quarry methods.

Further, Prairie Lake has the potential to produce minerals for industries which are forecast to require substantially increasing supply over the coming years – high-tech and "green" industries that require the rare earth minerals and niobium to fabricate the products of tomorrow. Prairie Lake could also potentially be a very significant source of phosphorus – a mineral with important agricultural and industrial applications. The use of phosphorus in agriculture is vital in sustaining crop yields to supply an increasing population.

### **Diabase Peninsula**

The work conducted by Nuinsco at Diabase Peninsula to date has developed a progressively more detailed picture of the mineralization occurring in the rocks underlying the property. The result is a model that has identified a widespread uranium mineralizing event with the potential for discovery of economic grade uranium mineralization. Diabase Peninsula is an excellent uranium project that has demonstrated results comparable with those found near to uranium deposits elsewhere in the Athabasca Basin which is the world's premier uranium-bearing terrane.

The coincidence of structural elements, alteration and indicator mineralization and the presence of widespread, strongly anomalous, uranium mineralization all point to the Prairie Lake project being in the right place. Continued exploration is necessary to further develop and evaluate the targets. This we will endeavour to do through whatever means possible while responsibly preserving the Company's treasury.

### **Chibougamau**

Nuinsco's presence in the Chibougamau mining camp as 50% owner of CBay provides a scope of possibility ranging from exploration through development to near-term production potential that few peers can match. Plans have been developed that would see up to three partially-developed projects commence production to provide feed for the CBay-owned Copper Rand mill and concentrator – this is a bold plan that would revitalize the Chibougamau camp. The Company continues to actively source funding for this endeavour.

Due to the significance of the numbers, it is worth reiterating from a previous Outlook that the Chibougamau mining camp's Lac Doré Complex has produced 1.6 billion pounds of copper and 3.2 million ounces of gold over 60 years from 18 past-producing mines. CBay currently owns eight past-producers in its 38,000 ha land package covering much of the core of the camp; combined they comprise 75% of total copper and gold production from the Lac Doré Complex. CBay also owns three partially-developed copper deposits: Corner Bay, Devlin and Perch River. Further, CBay owns a 2,700tpd mill and concentrator, and nearby tailings impoundment that is permitted for production. These production assets alone provide an enormous advantage to the Company as the cost to develop them from scratch would run to tens of millions of dollars or more and take years to permit and build.



Nuinsco expended approximately \$1 million dollars on exploration in the Chibougamau camp during 2013 – aimed at evaluating near surface opportunities in areas that had seen little work for decades. The results clearly demonstrate the potential of the camp for additional exploration success – but this is stating the obvious as headframes and mineshafts are a great guide to exploration and further discovery, and there are a lot of both in the camp. Success will come with diligent application of modern exploration techniques through well-funded work programs.

## Turkey

Nuinsco continues to examine its options with regard to the Berta project. It is challenging to conduct exploration in Turkey presently as a result of permitting issues that forestall work programs. The size of the project, the expanse of copper mineralized rock and the very impressive technical results to date are clear indicators of the potential at Berta. The Company continues to review options with regard to the project. However, because of the continued permitting issues, the Company determined it would record a writedown against its Berta project effective December 31, 2013. We continue to believe that the Berta project and the region remain very prospective and are considering the possibility of partnering on the project going forward.

## Global

Nuinsco is in an enviable position, as the investment in Victory Nickel is anticipated to provide a source of non-dilutive funding that the Company can use on current projects and operations as well as to evaluate and acquire new, prospective, projects as they become available. In this way Nuinsco will be an active participant in the junior exploration development sector – a point distinguishing it from many others in the sector. Having the ability to conduct our business, and doing so as we have done effectively for several decades, is bound to have a positive impact on market valuations.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

For the years ended December 31, (in thousands of Canadian dollars, except per share amounts)	2013	2012 <sup>(1)</sup>	2011 <sup>(2)</sup>
<b>Summary Operating Results Data</b>			
Other income	\$ -	\$ -	\$ 100
General and administrative costs	(872)	(1,167)	(1,878)
Pre-exploration write-offs	(80)	(15)	(120)
Writedown of exploration and evaluation projects	(1,171)	(79)	(2,622)
Elements of net finance income (costs)			
<i>Flow-through premium</i>	\$ 265	\$ 227	\$ 72
<i>Foreign exchange gain (loss)</i>	7	64	(74)
<i>Interest income</i>	244	16	4
<i>Interest expense</i>	(326)	-	(25)
<i>Gain on derivative</i>	54	-	-
<i>Net change in fair value of financial assets at     fair value through operations</i>			
Warrants	861	-	-
Loan receivable	3,261	-	-
Other	11	-	-
Net finance income (costs)	4,377	307	(23)
Gain on sale of royalty interest	-	1,992	-
Recovery of provision for Chibougamau	-	30	870
Interest in CBay Minerals Joint Venture	(467)	(180)	-
Income tax recovery (expense)	80	-	(105)
Net income (loss)	1,723	527	(4,403)
Total comprehensive income (loss)	2,018	(71)	(6,154)
Earnings (loss) per share	0.01	0.00	(0.02)

As at December 31, (in thousands of Canadian dollars, except per share amounts)	2013	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>
<b>Summary Balance Sheet Data</b>			
Cash and cash equivalents	\$ 249	\$ 2,223	\$ 516
Marketable securities	3,656	828	1,531
Other current assets	109	84	118
Property and equipment	93	102	57
Exploration and evaluation projects	12,982	14,060	12,124
Interest in CBay Minerals Joint Venture	6,331	4,779	4,728
Other resource interests	-	-	3,000
Loan receivable	4,100	1,009	-
Total assets	27,520	23,295	22,074
Trade and other payables	338	682	815
Loan payable	2,427	-	-
Total shareholders' equity	\$ 24,755	\$ 22,613	\$ 21,259

(1) Figures are restated for the impact of change in accounting policy during 2013. See Notes 12 and 30 to the 2013 Audited Consolidated Financial Statements.

(2) Figures are stated as originally reported and exclude the impact of change in accounting policy for joint ventures during 2013 as referred to above.

## RESULTS OF OPERATIONS

Unless otherwise explicitly stated, all of the information described below is accounted for in accordance with the change in accounting policy required under IFRS 11 – Joint Arrangements and is accounted for in accordance with its transition requirements which treats this as a retrospective change. Accordingly, the Company has restated its consolidated balance sheets as at December 31, 2012 and at the transition date of January 1, 2012 (the 2011 column). Under this accounting policy, the Company's CBay joint arrangement is classified as a joint venture which requires the use of the equity method of accounting. Prior to 2013, the Company used proportionate consolidation. The accounting change has reduced the Company's assets, liabilities, revenues and expenses on a line-by-line basis but with no significant change to net assets and no change to earnings. Refer to Notes 12 and 30 to the 2013 Audited Consolidated Financial Statements.

### Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

In the year ended December 31, 2013, the Company had net income of \$1,723,000, or \$0.01 per share, compared with net income of \$527,000 or \$0.00 per share in the year ended December 31, 2012. The principal reason for the increase is due to net finance income of \$4,377,000 in 2013 partially offset by the gain on sale of the Cameron Lake royalty interest of \$1,992,000 during the third quarter of 2012. In addition, the Company recorded a net writedown of \$1,171,000 on its exploration and evaluation projects ("E&E" projects) which primarily related to the Berta Project in Turkey during December 2013 due to uncertainty in the administration in that country as described below. Furthermore, there was a decrease of \$201,000 in share-based payments related to options and a decrease of \$295,000 in general and administrative "G&A" expenses in the current year.

General and administrative expenses in the year ended December 31, 2013 decreased to \$872,000 from \$1,167,000 in the year ended December 31, 2012. The main reason for the decrease is an increase of \$154,000 in aggregate net charges under management agreements, primarily to Victory Nickel as described below which is offset against G&A expenditures. Non-recurring items in 2013 impacting the difference include: increased premises costs for depreciation and catch-up charges from the landlord for previous years' common operating expenses; increased charges for benefits and management expenses offset by reduced discretionary expenditures on investor relations and decreases in compliance expenditures. Compliance expenditures decreased primarily through lower legal fees as there was reduced legal support required in 2013. Also, in 2012, additional work was required on the valuation of CBay assets acquired during that year. Nuinsco did not implement an across-the-board salary increase for either 2012 or 2013; executive salaries for the Company remained at 2011 levels. Results for 2012 also included non-recurring expenditures on deferred share issue costs which were written off due to a decision not to proceed with a financing.

Overhead recoveries through charges to Victory Nickel and CBay for services under the management agreements and deducted from operating expenses amounted to \$755,000 and \$273,000, respectively, in the year ended December 31, 2013, compared with \$654,000 and \$247,000 in 2012; Victory Nickel charged the Company \$18,000 (December 31, 2012 - \$27,000). Costs allocated to Victory Nickel and CBay pursuant to the management agreements among the Company and Victory Nickel and CBay are activity related. Such amounts are recorded at the cost to the Company of such services plus 10%. The increase in costs allocated to Victory Nickel is primarily a function of an increased proportion of fixed costs being allocated to Victory Nickel due to an increase in activity during 2013 as that company prepared for the launch of its frac sand

business. The management agreement with CBay commenced on February 14, 2012 (halfway through a quarter), which explains why costs allocated to CBay increased in 2013.

It is estimated that approximately \$744,000 of G&A expenditures were incurred in supporting the Company's public status in the year ended December 31, 2013 (December 31, 2012 - \$853,000 on a comparable basis). Such costs are largely non-discretionary and are weighted to the beginning of a financial year because of audit and other compliance requirements. The decrease is mainly due to decreases in audit fees, legal fees and convention costs included in discretionary investor relations spending.

Share-based payments related to options decreased to \$124,000 in the year ended December 31, 2013, from \$325,000 in the year ended December 31, 2012. The decrease is mainly due to the lower weighted average fair value of options granted in 2013 of \$0.014 compared with \$0.048 in 2012 partly offset by a higher number of options granted during 2013 of 9,395,000 (2012 – 5,550,000). The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 21 to the 2013 Audited Consolidated Financial Statements.

In 2012, the Board approved the issuance of 454,545 shares pursuant to the Share Bonus Plan as described in Note 19 to the 2013 Audited Consolidated Financial Statements. The shares were issued at a fair value of \$0.055 per share, which was recorded as bonus shares within share-based payments of \$25,000. No shares were issued under the Share Bonus Plan in 2013.

Routine write-offs of pre-exploration expenditures in the year ended December 31, 2013 aggregated \$80,000; there were minimal write-offs of \$15,000 in 2012.

The Company recorded an aggregate writedown of E&E projects of \$1,171,000 during 2013 which primarily relates to the Berta project and is shown net of an accrual reversal for that project of \$64,000. The writedown was deemed necessary due to increasing uncertainty around the protracted timing associated with permitting in Turkey as well as other existing challenges including the replacement of the previous operator and/or finding a new partner. In the year ended December 31, 2012, the Company recorded an aggregate writedown of exploration and evaluation projects of \$79,000. This included \$39,000 in respect of Egyptian properties and \$40,000 with respect to the J. Tobrar project in Sudan. These amounts relate to expenditures that were incurred in 2012 prior to the decision to write off the respective properties.

As at December 31, 2013, the Company had no remaining flow-through premium liability to be amortized through finance income from the flow-through financing that was completed in 2012 since all flow-through expenditures have been made. Note 16 to the 2013 Audited Consolidated Financial Statements includes an analysis of the flow-through premium liability which is \$nil as at the end of December 31, 2013.

*Net finance income* increased to \$4,377,000 in the year ended December 31, 2013 from *Net finance income* of \$307,000 in the year ended December 31, 2012. *Finance income* of \$4,703,000 was earned in the year ended December 31, 2013 compared with \$307,000 in 2012. In 2013, the gains in *Finance income* included \$861,000 from the increase in the fair value of the warrants acquired through the participation in the Victory Nickel rights offering as well as \$3,261,000 increase in the fair value of the loan receivable from Victory Nickel. These are partly offset by interest expense in *Finance costs* of \$326,000, mainly relating to the loan agreement entered into in December 2012 by the Company with a third party. The Company entered into loan agreements in late 2012 which resulted in interest income of \$230,000 and interest expense of \$326,000 in the year ended December 31, 2013. Both include non-cash amortization of loan fees using the effective interest rate method as described in Notes 13 and 17 to the 2013 Audited Consolidated Financial Statements.

The increase in the fair value of the loan receivable was significant. The Conversion feature of the Amended Loan requires the classification of the loan as a financial asset at fair value through the statement of operations. From initial recognition until the fourth quarter, the Company considered that the fair value of the loan was equal to its amortized cost since the Company has not converted its loan and the 7P Plant was under construction with significant parts to be completed and there were other significant uncertainties. During the fourth quarter, the plant construction was well underway and the probability of Conversion increased substantially. Accordingly, the Company has revalued the loan using an effective interest rate of 22% (equivalent to a discount rate of 14%) and a probability-weighted average estimation of future expected cash flow scenarios of approximately 55% of the ceiling maximum of \$10,222,831 based on current expectations of business results, capital costs and pre-operating expenditures. These cash flows were on the basis of Phase 1 completion only.

The percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is \$10,222,831. Based on the estimated cash flows provided by Victory Nickel, payments could commence as early as mid-2015.

These assumptions resulted in an estimated fair value of the loan of \$4,100,000 and, accordingly \$3,261,000 was recorded as a *change in the fair value of a financial asset* through the statement of operations. This is a Level 3

methodology and is subject to the highest level of uncertainty. The Company will review and revise its estimates of fair value as the expectations of payments of the participating interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows received.

The discounted cash flow model was tested for sensitivity which could result from changes in key inputs used in the estimation model. The effect of any change is discrete unless otherwise stated.

Change in Model Key Input	Fair Value of Loan	Change in Fair Value of Loan
Carrying value of loan	\$ 4,100	\$ -
Effect of:		
Decrease in sales price per ton of \$5	3,962	(138)
Increase discount rate by 1%	4,011	(89)
Decrease volumes by 5%	4,064	(36)
Increase discount rate by 1% and decrease sales price per ton of \$5	3,861	(239)

The most significant single transaction during the year ended December 31, 2012 was the sale of the royalty interest in the Cameron Lake property for US\$5,100,000 which generated a net gain on sale of \$1,992,000; there were no such sales in 2013. The royalty had been retained as part of the consideration for the sale of the Company's Cameron Lake project to Coventry in 2010.

The *Interest in CBay Minerals Joint Venture* of \$467,000 in 2013 compared with \$180,000 in 2012 represents the Company's share of net loss in the CBay joint venture. Due to the Company's adoption of IFRS 11 – Joint Arrangements, the Company was required to classify CBay as a joint venture. Refer to Note 12 to the 2013 Audited Consolidated Financial Statements. The increase in net loss of \$287,000 is due to increased expenses and reduced other income. In the year ended December 31, 2012, \$120,000 was earned which related to the Company's share of CBay's gold sales from a clean-up of the Copper Rand mill. There was no revenue in 2013. The increase in net loss is also due to a loss on the Company's ownership of CBay. CBay issued shares to both Nuinsco and Ocean Partners, maintaining their respective shareholdings at 50:50, in exchange for various assets or extinguishment of liabilities. In particular, Nuinsco exchanged the expenditures made from flow-through financings of \$1,024,000 for an acquired interest in properties as described in Note 11 to the 2013 Audited Consolidated Financial Statements. CBay then exercised its right to reacquire that interest through issuing shares. The difference in the amounts contributed by Nuinsco and OP gave rise to the loss of \$102,000.

The *Recovery of provision for Chibougamau* relates to the sale of the Company's holdings of Campbell shares that were previously written down to \$nil for \$30,000 in September 2012. No recoveries incurred in 2013.

The *Income tax recovery* in the amount of \$80,000 recorded in the year ended December 31, 2013 reflects an income tax recovery matching the tax expense recorded through OCI on the change in value of financial assets at fair value through OCI. The Company has an unrecognized deferred tax asset. When the Company's pool of marketable securities is in excess of its cost, a tax expense is recorded in OCI with an equal tax recovery through operations. As the excess reduces, the tax expense in OCI is reversed as a recovery and an equal tax expense is recorded through operations; the reverse would occur under continued market value improvements. No adjustments are made to the unrecognized deferred tax asset and no income tax recovery is recorded through OCI that is not related to a reversal of a previously-recorded provision. Presently, the Company's pool of marketable securities is above cost therefore an income tax provision is required to be recorded through OCI, therefore an equal and opposite amount is recorded through operations.

Other comprehensive income in the year ended December 31, 2013 of \$295,000 arises from a \$375,000 increase in the market value of the Company's financial assets at fair value through OCI partly offset by an income tax expense of \$80,000 compared to a loss of \$598,000 in 2012 from a decrease in the fair value of the Company's shareholdings in various public companies combined with the effect of sales of securities in 2012 that generated proceeds of \$135,000. Note that the fair value of Coventry shares used to be impacted by the fluctuation in the value of the A\$. In 2012, an approximate net loss of \$12,000 of the OCI related to Coventry is attributable to exchange rate fluctuations during that year. There are no longer any foreign exchange differences through OCI since Coventry is now quoted on a Canadian exchange.

The Company has realized capital loss pools available to it of approximately \$7,377,000 (Note 15 to the 2013 Audited Consolidated Financial Statements). Since the Company has an unrecognized deferred tax asset for such capital losses, any future income tax amounts with respect to marketable securities and recorded through OCI have an equal and opposite amount recorded through operations. In 2012 and to the third quarter of 2013, the pool of marketable securities had been below cost so no income taxes were recorded. Largely because of the increase in market value of Victory

Nickel shares, as at the end of December 31, 2013, the market value of the pool of marketable securities exceeded their cost so a provision for income taxes of \$80,000 was recorded in OCI (and matched with an income tax recovery through operations as described above).

A discussion of the more significant changes not addressed in other sections of this MD&A is as follows:

*Cash and cash equivalents* as at December 31, 2013 were \$249,000 compared with \$2,223,000 as at December 31, 2012. Refer to the Liquidity and Capital Resources section for discussion of annual cash flows in more detail.

*Marketable securities* as at December 31, 2013 consist of the Company's financial assets at fair value through OCI as well as financial assets recorded at fair value through operations. Any volatility in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes; any changes in the value of warrants will be recorded through operations. The value of marketable securities as at December 31, 2013 increased to \$3,656,000 from \$828,000 as at December 31, 2012 mainly due to acquiring an additional 53,799,900 Victory Nickel shares with a market value of \$1,345,000 as well as 53,799,900 warrants with an accounting value of \$nil (valued at acquisition) as a result of participation in the Victory Nickel rights offering (each share and warrant constituting a "Unit") and subsequent improvements in market values. Note that IFRS 13 classified the Black-Scholes option-pricing model as a Level 3 methodology which effectively disallowed recognition of the value of warrants at inception of \$592,000. Any prospective change in value has to be recognized despite the use of a Level 3 methodology and, accordingly, \$861,000 of increase in the value of warrants was recognized from inception to December 31, 2013. Also contributing to the increase is the receipt of 6,471,112 Victory Nickel shares as consideration for fees on the Amended Loan that was entered into in March 2013, partly offset by sales of 1,000,000 shares in the fourth quarter of 2013 for liquidity purposes.

*Exploration and Evaluation projects* decreased by \$1,078,000 to \$12,982,000 as at December 31, 2013 from \$14,060,000 as at December 31, 2012. The decrease arises from expenditures of \$1,181,000 during 2013 offset by recoveries of \$1,088,000 and writedowns of \$1,171,000. Of the expenditures, \$604,000 related to various properties in Chibougamau, \$302,000 related to Prairie Lake, and \$262,000 related to Diabase Peninsula. Furthermore, cumulative expenditures of \$1,024,000 at the Chibougamau camp were converted to an acquired interest in various properties at Chibougamau when Nuinsco exercised its rights under an option agreement with CBay. CBay then exercised its own right to issue shares in exchange for reacquiring those interests. A writedown of \$20,000 was recorded against the Chibougamau camp since expenditures incurred by Nuinsco exceeded the agreed-upon option amounts.

The primary writedown of \$1,151,000 related to the Berta project in 2013. There are significant delays in permitting being experienced in Turkey and while certain operators do not believe that this is unsurmountable, the Company believes that a writedown at this time is appropriate and will continue to monitor circumstances. Should the situation improve, the Company will consider reversing all or a portion of the Berta writedown.

In 2012, aggregate writedowns amounted to \$63,000 against straggling expenditures on foreign E&E projects written off in 2011.

The *Interest in CBay Minerals Joint Venture* increased to \$6,331,000 as at December 31, 2013 from \$4,779,000 in 2012. As described above, the Company now accounts for its interest in CBay on the equity basis. Note 30 to the 2013 Audited Consolidated Financial Statements includes a reconciliation of equity and shows the effect of the accounting policy change on previously-reported information. Effectively, individual asset and liability balances are now recorded net on one line. Note 12 to the 2013 Audited Consolidated Financial Statements shows a continuity of the balance. It increased primarily because of funding to CBay in the year and as a result of the conversion of the expenditures on the Chibougamau camp referred to above into an investment in CBay. The Company does not believe that the effect of this accounting policy change is material since there was no impact on earnings and minimal impact on the Company's working capital.

The *Loan receivable* at a fair value of \$4,100,000 as at December 31, 2013 (December 31, 2012 - \$1,009,000) relates to advances paid by the Company to Victory Nickel net of amounts satisfied through the issuance of Units under the Victory Nickel rights offering and is due on January 31, 2015. The loan was amended and extended in March 2013 to increase the amount available up to \$3,000,000 under certain circumstances as described in Liquidity and Capital Resources below. The Amended Loan is subject to a conversion right into a limited participating interest in cash flow based on operating cash flows of Victory Nickel's frac sand business. As described earlier, the Conversion feature causes the Amended Loan to be considered a financial asset at fair value through operations despite the fact that Nuinsco has not exercised its conversion right. The derivation of the fair value is described above. Refer to Note 13 in the 2013 Audited Consolidated Financial Statements.

On February 4, 2014, Victory Nickel, with the consent of Nuinsco, agreed to cancel the \$500,000 remaining undrawn at that time under the Amended Loan. This has fixed the commitment fees due to Nuinsco in shares at that date at \$12,000.

*Other assets* as at December 31, 2012 of \$210,000 were loan fees paid with respect to the Facility entered into in the fourth quarter of 2012 and were netted against the advances under the Facility upon drawdown in 2013 and are being amortized and netted against the *Loan payable*.

*Trade and other payables* decreased to \$338,000 as at December 31, 2013 from \$682,000 in the prior year; the main reason for the change is the amortization of the flow-through premium balance of \$265,000 through the statement of operations as flow-through expenditures have been incurred; the flow-through commitment was fulfilled by the end of December 2013. The remainder of the decrease is attributable to a general decrease in overall spending in 2013.

*Loan payable* was drawn down by \$2,500,000 as at December 31, 2013 and is shown net of unamortized loan fees; the loan was in place as at December 31, 2012 but had not been drawn upon at that time.

### **Year Ended December 31, 2012 Compared with Year Ended December 31, 2011**

*Note that 2011 operating information has not been restated to accord with the accounting policy on joint ventures adopted in 2013. Where considered useful, an indication of any significant differences caused by the accounting policy change have been identified.*

In the year ended December 31, 2012, the Company had net income of \$527,000, or \$0.00 per share, compared with a net loss of \$4,403,000, or \$0.02 per share, in the year ended December 31, 2011. The principal reasons for the change are the gain on sale of royalty interest in 2012 of \$1,992,000, as described earlier, combined with decreased G&A expenses and share-based payments, an increase in finance income as described below and a reduction in the writedown of E&E projects.

*Other income* in 2011 relates to a due diligence fee received by the Company. This was a non-recurring fee.

*General and administrative* expenses in the year ended December 31, 2012 decreased to \$1,167,000 from \$1,878,000 in the year ended December 31, 2011. There were non-recurring costs in the year ended December 31, 2011; the Company incurred tax service fees to support the challenge of the CRA reassessment and costs to support the protection of the Company's interests in Chibougamau. Other costs that decreased from 2011 to 2012 include discretionary investor and public relations spending; these decreases were partly offset by an increase in rent as a result of the premises expansion which occurred late in 2011.

G&A expenses are shown net of recoveries under management agreements; Nuinsco entered into a management agreement with CBay in 2012 and the Victory Nickel agreement continues. As a result of the CBay agreement, fixed costs are now spread across an additional party and, due to the Company's interest in CBay of 50%, the other 50% of costs are borne by Ocean Partners. Decreases in costs in general were partly offset by increases in CBay spending related to Chibougamau; in 2012, Nuinsco's share of CBay's G&A expenses amounted to \$311,000 and are included in *Interest in CBay Minerals Joint Venture* of \$180,000, in 2011 these expenditures were minimal. CBay's expenses increased because of the hiring of a dedicated CEO for that business as well as the management agreement with Nuinsco. In 2012, the expenses were partly offset by revenues of \$120,000 related to the clean-up of the mill at Chibougamau.

Overhead recoveries through charges to Victory Nickel and CBay for services under the management agreements and deducted from operating expenses amounted to \$654,000 and \$247,000 respectively in the year ended December 31, 2012, compared with \$829,000 charged to Victory Nickel alone in 2011; there were no such charges to CBay in 2012. Victory Nickel charged the Company \$27,000 in 2012, there were no such charges in 2011. The management agreement with CBay commenced on February 14, 2012. The decrease in costs allocated to Victory Nickel is primarily a function of a reduced proportion of fixed costs being allocated to Victory Nickel because of the agreement with CBay during 2012 that was not in place in 2011.

It is estimated that approximately \$623,000 of general and administrative expenditures were incurred in supporting the Company's public status in the year ended December 31, 2012 (December 31, 2011 - \$665,000). The change is mainly related to the decreased spending in investor and public relations costs and higher allocation of fixed costs under management agreements now spread across an additional party as described above. These costs are estimated; in 2013, a slightly different methodology was adopted which calculated the costs to be \$853,000 for 2012. The main difference in methodology related to the treatment of directors' fees.

Share-based payments related to options decreased to \$325,000 in the year ended December 31, 2012, from \$595,000 in 2011. This is primarily a function of the lower fair value of options issued in 2012 which was \$0.048 compared to \$0.15 in 2011. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 21 to the 2012 Audited Consolidated Financial Statements.

In 2012, the Board approved the issuance of 454,545 shares (2011 – 112,000 shares) pursuant to the Share Bonus Plan as described in Note 19 to the 2012 Audited Consolidated Financial Statements. The shares were issued at a fair value of \$0.055 per share (2011 - \$0.15 per share), which was recorded as bonus shares within share-based payments of \$25,000 (2011 - \$17,000).

The Company separates its pre-exploration write-offs from its writedowns of exploration and evaluation projects in the consolidated statement of operations. In the year ended December 31, 2012, pre-exploration expenditures amounted to \$15,000. Routine write-offs of pre-exploration expenditures in the year ended December 31, 2011 aggregated \$120,000 and related primarily to initial work in Sudan.

In the year ended December 31, 2012, the Company recorded an aggregate writedown of exploration and evaluation projects of \$79,000 compared with \$2,622,000 in 2011. The writedown in 2012 reflects \$39,000 in respect of Egyptian properties and \$40,000 with respect to the J. Tobrar project in Sudan. The writedown for Egypt includes a \$16,000 provision for impairment against amounts due from the Company's Egyptian partner, being the partner's share of expenditures financed by Nuinsco. These writedowns relate to expenditures that were incurred in 2012 prior to the decision to write off the respective properties and are in addition to the main write-offs which were taken in the fourth quarter of 2011 – Egypt \$803,000, J. Tobrar \$719,000 and Elmalaan in Turkey of \$1,100,000.

*Net finance income* increased to \$307,000 in the year ended December 31, 2012 from *Net finance costs* of \$23,000 in the year ended December 31, 2011. *Finance income* of \$307,000 was earned in the year ended December 31, 2012, compared with \$76,000 in the same period of 2011. This is primarily due to amortization of the flow-through premium of \$227,000 in the year ended December 31, 2012, compared with \$72,000 in 2011.

As at December 31, 2012, the Company had a remaining flow-through premium liability to be amortized through finance income of \$265,000 from the flow-through financing that was completed in 2012. As at December 31, 2011, the Company had a remaining flow-through premium liability of \$171,000 related to the flow-through financings that were completed in 2011. Note 16 to the 2012 Audited Consolidated Financial Statements includes an analysis of the flow-through premium liability.

Finance costs of \$nil were incurred during the year ended December 31, 2012, compared with \$99,000 in 2011. The Company recognized a net foreign exchange loss of \$74,000 in 2011 largely as a result of dilution adjustments in the second quarter of 2011 with respect to the Berta project. As reported in prior MD&As, the dilution adjustment reduced the carrying cost of the Berta project, accounts payable and foreign exchange. As the capitalized expenditures were recorded in periods where the Canadian dollar was weaker relative to the US\$, an exchange loss of \$63,000 was recorded during the second half of 2011. In 2012, the Company recorded a foreign exchange gain of \$64,000 in finance income which was primarily earned on the US\$ funds from the proceeds of the royalty sale until their conversion to Canadian funds.

As at December 31, 2012, the Company had a US\$-denominated cash balance of US\$288,000 remaining unconverted from the sale of the royalty interest. The Company generally does not have a significant need for US\$ funds and, given the uncertainties facing the US and its potential tumble over a so-called "fiscal cliff", it was deemed prudent to convert the funds into Canadian dollars as approved by the board. Given the recent reduction in foreign exchange exposure to the US\$ and Australian dollar ("A\$") (now that, through a corporate reorganization, Coventry shares are quoted on the TSX-V), one might expect future foreign exchange gains or losses through either operations or OCI to be less significant.

The most significant single transaction during the year ended December 31, 2012 was the sale of the royalty interest in the Cameron Lake property for US\$5,100,000 which generated a net gain on sale of \$1,992,000; there were no such sales in 2011. The royalty had been retained as part of the consideration for the sale of the Company's Cameron Lake project to Coventry in 2010. In September 2012, the Company sold all of its holdings of Campbell shares that were previously written down to \$nil for \$30,000; this was recorded as a recovery of provision for Chibougamau.

The *Recovery of Provision for Chibougamau* in 2012 was \$30,000 which represented a reversal of an amount which had been written off in 2008; in 2011, the Company re-evaluated the recoverable amount for its interests in Chibougamau given the progress which had been made in the asset acquisition process and effectively reversed \$870,000 of amounts written down in 2008.

The *Income tax expense* in the amount of \$105,000 recorded in the year ended December 31, 2011 reflects tax expense matching the recovery of taxes recorded through OCI on the change in value of financial assets at fair value through OCI. The Company has an unrecognized deferred tax asset and the accounting was explained above. As at December 31, 2012, the Company's pool of marketable securities was below cost and no income tax was required to be recorded.

Other comprehensive loss in the year ended December 31, 2012 of \$598,000 (December 31, 2011 – loss of \$1,751,000) relates to a decrease of \$598,000 (December 31, 2011 – decrease of \$1,856,000) in the market value of the Company's financial assets at fair value through OCI, partially offset with an income tax recovery recorded through OCI of \$nil (December 31, 2011 – recovery of \$105,000). The main decreases in market values in the year were in Victory Nickel shares of \$414,000 and \$162,000 in Coventry shares; for 2011, the primary decrease was in Coventry shares of \$1,642,000.

The net change in the fair value of financial assets through OCI comprised a net decrease in the fair value of the Company's shareholdings in various public companies combined with sales of securities in the period that generated proceeds of \$135,000 (December 31, 2011 – sales generated proceeds of \$2,126,000). Note that the fair value of Coventry shares was impacted by the fluctuation in the value of the A\$. An approximate net loss of \$12,000 of the OCI related to Coventry is attributable to exchange rate fluctuations during the year ended December 31, 2012 (December 31, 2011 – net loss of \$8,000). As explained above, there will no longer be any foreign exchange differences through OCI since Coventry is now quoted on a Canadian exchange.

The Company has capital loss pools available to it of approximately \$6,536,000 (Note 15 to the 2012 Audited Consolidated Financial Statements). Since the Company has an unrecognized deferred tax asset for such capital losses, any future income taxes with respect to marketable securities and recorded through OCI has an equal and opposite amount recorded through operations. In the year ended December 31, 2011, an income tax recovery of \$105,000 was recorded with an offsetting amount recorded through operations. In 2012, the pool of marketable securities has been below cost so no income taxes have been recorded.

A discussion of the more significant changes not addressed in other sections of this MD&A is as follows:

*Cash and cash equivalents* as at December 31, 2012 was \$2,223,000. This is an increase of \$1,707,000 over 2011. These are the residual funds from the royalty sale as referred to above.

*Marketable securities* as at December 31, 2012 consist of the Company's financial assets at fair value through OCI. The Company had no financial assets recorded at fair value through operations. Any volatility in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes. The value of marketable securities as at December 31, 2012 decreased to \$828,000 from \$1,531,000 as at December 31, 2011 as a result of significant declines in the market value of financial assets combined with the sale of shares during 2012.

The *Loan receivable* of \$1,009,000 in 2012 relates to an advance paid by the Company to Victory Nickel and is due on January 31, 2015. In March 2013, the loan was amended and extended as described earlier.

*Royalty interest* on Coventry's Cameron Gold Project was sold on September 27, 2012 as described earlier.

*Share capital* has increased by \$974,000 to \$98,169,000 as at December 31, 2012. This is primarily as a result of flow-through shares issued pursuant to private placements that generated gross proceeds of \$1,000,000 in February and March 2012 before allocation to warrants and flow-through premium liability. There were various non-cash transactions during 2012: in the first quarter of 2012, shares were issued with a fair value of \$300,000 to acquire the royalty on the Prairie Lake property and, in the third quarter, \$38,000 to extend the option payments on the Diabase property. A non-cash loan fee was paid to the lender in shares with a value of \$125,000 in the fourth quarter of 2012. Note that this loan fee, along with a cash loan fee of \$50,000 and legal expenses constitute the \$210,000 balance in *Other assets* as at December 31, 2012. This balance was reclassified as a contra-liability once advances were made under the Facility in 2013.



## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eight quarters ended December 31, 2013 is as follows:

<u>Fiscal year 2013</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Net finance income	\$ 3,867 <sup>(1)</sup>	\$ 317 <sup>(4)</sup>	\$ 104	\$ 89
Net income (loss)	\$ 2,372 <sup>(2)</sup>	\$ 30	\$ (334)	\$ (345)
Total comprehensive income (loss)	\$ 3,274 <sup>(3)</sup>	\$ (22) <sup>(5)</sup>	\$ (676)	\$ (558)
Earnings (loss) per share - basic and diluted	\$ 0.01	\$ (0.00)	\$ (0.00)	\$ (0.00)
<u>Fiscal year 2012</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Net finance income	\$ 146 <sup>(6)</sup>	\$ 19	\$ 40	\$ 102
Net (loss) income	\$ (226)	\$ 1,717 <sup>(7)</sup>	\$ (492)	\$ (472)
Total comprehensive (loss) income	\$ (452)	\$ 2,054 <sup>(8)</sup>	\$ (1,219) <sup>(9)</sup>	\$ (454)
(Loss) earnings per share - basic and diluted	\$ (0.00)	\$ 0.01	\$ (0.00)	\$ (0.00)

(1) Net finance income includes \$3,261,000 change in fair value of the Amended Loan plus \$646,000 change in fair value of warrants.

(2) Net income includes the item above plus \$1,171,000 writedown of E&E projects, primarily of Berta, Turkey.

(3) Total comprehensive income includes the items referred to above plus \$982,000 increase in the value of marketable securities.

(4) Net finance income includes \$54,000 of gain on derivative plus \$215,000 change in fair value of warrants.

(5) Total comprehensive income includes items referred to above as well as a decrease in value of marketable securities of \$52,000

(6) Net finance income includes the effect of \$77,000 amortization of flow-through premium related to expenditures in the fourth quarter of 2012.

(7) Net income includes the gain on sale of royalty interest of \$1,992,000.

(8) Total comprehensive income includes the gain referred to above as well as a net increase in the value of marketable securities of \$337,000.

(9) Total comprehensive loss includes a decrease of \$727,000 in the value of marketable securities.

Variations in the quarterly results of operations are largely a function of the timing of property and other writedowns, gains on sales of properties, income tax recoveries, the recording of amortization of flow-through premiums and the recognition of gains on derivatives or other fair value changes recognized through operations. Variations in comprehensive income are primarily a function of the changes in the fair values of the Company's marketable securities.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2013, the Company had working capital of \$1,249,000 (December 31, 2012 – working capital of \$2,453,000); being defined as current assets less current liabilities. The loan payable of \$2,427,000 is included as a current liability as at December 31, 2013; note that the loan can be extended for a six-month period upon issuance of 3% of the principal amount extended payable in CBay shares owned by Nuinsco; this represents 112,538 shares at an agreed value of \$0.666 per share which represents approximately 0.375% of the outstanding shares of CBay as described in Note 17 to the 2013 Audited Consolidated Financial Statements.

The Company used cash and cash equivalents of \$1,974,000 during the year ended December 31, 2013, compared with cash generated of \$1,703,000 during the year ended December 31, 2012. The main reason for the difference is because of the royalty sale in 2012 which generated \$5,003,000.

In the year ended December 31, 2013, the Company used cash of \$920,000 in operating activities, compared with \$1,329,000 in 2012. There was a significant difference in net results for each period – in the year ended December 31, 2013, the Company earned net income of \$1,723,000 compared with net income of \$527,000 in 2012. Further, there were significant adjustments for non-cash items in both periods. In 2013, adjustments for non-cash items include those for net finance income totalling \$4,354,000 (2012 - \$240,000) which include gain on investments of \$54,000 and change in the value of warrants of \$861,000 and Amended Loan of \$3,261,000, all as described earlier, and amortization through income of flow-through premium of \$265,000 as well as amortization of non-cash loan fees on loans receivable and payable. In 2012, the Company recorded a gain on sale of royalty of \$1,992,000.

Investing activities in the year ended December 31, 2013 used funds of \$3,365,000, compared with funds generated of \$2,189,000 in 2012. In 2013, the Company advanced \$1,207,000 under the Amended Loan which was then settled in Units of the Victory Nickel rights offering that closed on July 30, 2013. This Company also incurred cash outflows of \$1,758,000 relating to expenditures on E&E projects compared with only \$1,184,000 cash outflows of expenditures on E&E projects during 2013. Refer to the Exploration and Evaluation Activities section for additional discussion of project spending. Furthermore, there were cash outflows to fund the CBay joint venture of \$995,000 during 2013 compared to \$191,000 in 2012. This is offset by cash generated in 2012 which includes the significant proceeds generated from the sale of the Cameron Lake royalty of \$5,003,000.

Cash generated from financing activities was \$2,311,000 in the year ended December 31, 2013, compared with \$843,000 in 2012. The nature of the financing in each year indicates the challenges being experienced in securing equity financing in the difficult markets. There were no equity financings in 2013. On January 23, 2012, the Company issued 7,142,858 flow-through units at a subscription price of \$0.14 per unit generating net proceeds of \$910,000. Each unit comprised one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.20 for a period of 18 months from closing; the market for flow-through financing deteriorated significantly over the period. These warrants expired unexercised in 2013. Note that other share issue costs related to the non-cash share issuance noted below reduced the net cash flow from issue of common shares and warrants to \$893,000. Refer to Note 19 to the 2013 Audited Consolidated Financial Statements.

In the first quarter of 2012, the Company also issued 3,157,894 shares to acquire the royalty on the Prairie Lake property and incurred \$12,000 in share issue costs on this transaction. Issuing shares for property and other services is a means to conserve cash in cash-constrained times.

As described earlier and in Note 17 to the 2013 Audited Consolidated Financial Statements, Nuinsco entered into a loan facility in December of 2012. On February 1, 2013, the Company drew down \$1,000,000 on the Facility and paid loan-related legal fees of \$7,000. An additional amount of \$500,000 was drawn down on May 1; a further \$1,000,000 became available on June 18, 2013 of which \$500,000 was drawn on August 1, 2013, and the remaining \$500,000 was drawn down on October 21, 2013, bringing aggregate cash draws to \$2,500,000. The Facility has a term of 18 months with the availability of one six-month extension period upon issuance of 3% of the amount payable in CBay shares owned by Nuinsco. This non-cash payment represents 112,528 shares of CBay at an agreed value of \$0.666 per share and represents approximately 0.375% of the outstanding shares of CBay. A facility fee of \$50,000 was paid in cash at closing in 2012 along with a 5% equity bonus in the form of 3,634,777 of the Company's shares; interest of 11.5% per annum is payable in cash quarterly in arrears. The Facility is secured by a first ranking pledge upon Nuinsco's CBay shares.

The transactions described above resulted in a decrease in cash of \$1,974,000 and a balance of cash and cash equivalents of \$249,000 which, along with other current assets and other resources, is available to fund future activities.

The table below summarizes Nuinsco's contractual commitments as at December 31, 2013 and December 31, 2012.

#### Table of Contractual Commitments

	Due Date	December 31, 2013	December 31, 2012
Flowthrough expenditures outstanding	December 31, 2013	\$ -	\$ 792
Diabase extended option payment - initial agreement	Within one year	paid n/a - see subsequent agreement	\$ 28
Diabase balloon payment <sup>(1)</sup>	September 2, 2013		\$ 935
Diabase extended option payment - subsequent agreement	Within one year	\$ 100	n/a
	One to two years	\$ 100	n/a
	Two to three years	\$ 100	n/a
	Three to four years	\$ 50	n/a
	September 2, 2017	\$ 629	n/a
Long-term loan <sup>(2)</sup>	June 18, 2014	\$ 2,500	\$ -
Operating lease - premises	Refer to Note 18 in the 2013 Audited Consolidated Financial Statements		

(1) Additional extension is provided for in the extension agreement

(2) Additional extension of six months is provided for in the agreement; amount excludes interest

As described above, management is continuing to actively pursue additional ways to realize on the potential of its assets or secure financing in order to continue to provide funds for operations in light of the current difficult economic circumstances. Flow-through financings do not provide the funding necessary to meet corporate or foreign expenditures which do not qualify for flow-through eligibility. The significant cost to maintain and comply with regulatory requirements for the Company's public listing cannot be financed with flow-through shares. Cash received from the Company's warrants and options as well as from sales of marketable securities are "hard" dollars and can be utilized without restriction; however, most of the options are not "in-the-money" and the warrants have all expired as at December 31, 2013. Furthermore, the Company's marketable securities are those of other resource companies for which markets are not always liquid.

The Facility of \$2,500,000 has provided the Company with additional financial and strategic flexibility. The Company does not enter debt arrangements without careful consideration of alternatives and ramifications. That the Company can find and support such debt arrangements speaks to the quality of the Company's assets. Whilst securing funds has been important, the Company and management continue to be mindful of reducing present and future outflows.

In order to maintain the option on one of the Diabase Peninsula claims, the Company was originally obliged to make an option payment of approximately \$935,000. In May 2012, the Company announced an initial agreement to extend that option for one year in exchange for four quarterly cash payments of \$9,350 plus one payment of \$37,600 in the fair value of the Company's shares. This deferred the option payment of approximately \$935,000 originally due by September 2, 2012 to September 2, 2013. The terms included an option to extend this agreement and payment further. The shares were issued in July, 2012 and all four quarterly payments were made in accordance with the extension terms.

In the third quarter of 2013, the Diabase Option Agreement was amended further and the Company shall pay quarterly instalments of \$25,000 over the next four years to a total of \$400,000 beginning September 2, 2013 with a balloon payment of \$628,500 to be paid on or before September 2, 2017. The first two instalments of \$25,000 under this subsequent agreement were made in 2013 and the third instalment was paid in March 2014.

Managing in challenging times takes as much, if not more, senior management effort. However, senior management and directors of Nuinsco have historically agreed to accept salary and directors' fee deferrals and may be asked to do so again.

The Company has a corporate policy of investing its available cash in cash equivalents comprising Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise approved by the Board. The portfolio of marketable securities is available to fund the Company's activities.

The total market value of the Company's marketable securities as at December 31, 2013, is approximately \$3,656,000; as at March 31, 2014 the approximate value is \$5,792,000 through the offsetting impact of increased market value combined with sales for liquidity purposes. These shares have contributed to funding the Company's operations generating \$22,000 in cash in December 2013 and \$426,000 in 2014 to date. The market value on the Victory Nickel shares has been steadily increasing and trading volumes have generally increased. However, the market value of the remaining portfolio may decline. Trading volumes may be suppressed and it is generally acknowledged that equities are being undervalued.

As described above, exploration companies such as Nuinsco have historically been heavily reliant upon the equity markets to fund their activities as they typically have no short-term sources of revenue other than through monetization of assets. Opportunities available to Nuinsco for financing would normally be through private placements in the equity markets. However, today's equity markets continue to make this alternative difficult if not impossible without incurring significant dilution to existing shareholders.

Despite experiencing some improvements during 2011, circumstances toughened during 2012 and today's equity markets continue to make this alternative difficult if not impossible without incurring significant dilution to existing shareholders. For this reason, on September 27, 2012, the Company sold its royalty interest in Coventry's Cameron Gold Project for US\$5,100,000. The Company periodically liquidates portions of its securities holdings rather than raise equity financing. However, the results of, and the availability of such sales when required are also dependent upon market conditions which are outside the control of the Company. The Company will continue to balance its financing choices as a function of availability and market activity.

The Company closed flow-through financings in 2012 of \$1,000,000, a portion of which is to provide funds for exploration at the Chibougamau camp. While flow-through financings appear to continue to be available for exploration in certain provinces, the current share price makes such financing prohibitively dilutive. However, despite the funds generated from the royalty sale in 2012, additional financings will be required to properly exploit the Company's Canadian and foreign assets. The Company will consider all alternatives to protect and further improve liquidity as described above given appropriate pricing and other market conditions. Such alternatives could include earn-in options with third parties, other partnership arrangements, corporate transactions and further sales of marketable securities or project assets including royalty arrangements.

While waiting for the financing markets to return, the Company is preparing for the shift in the historic model of project exploration and development financing by evaluating revenue-generating opportunities. When the financing markets return, Nuinsco will be ready. Maintaining a healthy evaluation and development junior mining sector continues to be important to the Canadian economy and Nuinsco plans to be around to be part of that industry for years to come.

The proceeds from the royalty sale have helped to fund ongoing operations and commitments. Furthermore, the Facility has improved the Company's flexibility and ability to participate in potential cash-generating activities. To this end, the Company

loaned \$2,500,000 and up to \$3,000,000, under certain circumstances, to Victory Nickel for use in developing its frac sand business (the Amended Loan). The Amended Loan is secured and contains a convertibility option which would, at Nuinsco's option, convert the loan to a limited participating interest in net cash flows of an operating business. This is intended to provide Nuinsco with a cash flow stream which would be available to fund operations or exploration programs in the future. As described earlier, the Amended Loan has a fair value of \$4,100,000 which has been derived using a discounted probability-weighted cash flow on the basis of assumptions already described. While this is an estimation of future cash flows, it has been determined using a Level 3 methodology which is subject to the highest degree of measurement uncertainty and is conditional upon the degree of success of Victory Nickel's frac sand business.

Under the terms of the Amended Loan, Nuinsco provided a standby commitment for an equity offering, this applied to the rights offering of Victory Nickel which closed on July 30, 2013. Under the circumstances of the offering, Nuinsco subscribed for \$1,207,584 or 50,316,018 Units, each Unit comprising a common share and a share purchase warrant. This brings cumulative advances to Victory Nickel of \$2,207,584 and caps the Amended Loan funds at \$2,707,584 (from a maximum possible \$3,000,000) with \$500,000 remaining available under its terms for capital items to develop the frac sand business. Nuinsco also exercised its basic rights under its prior shareholding of Victory Nickel which amounted to 3,483,882 additional Units for \$83,613. On February 4, 2014, Victory Nickel agreed to cancel the \$500,000 undrawn availability on the loan facility immediately.

Nuinsco valued the shares and warrants at an aggregate amount of approximately \$1,937,000 at closing (\$2,285,000 including its original holdings) using the closing price of Victory Nickel shares of \$0.025 along with an estimated value of \$0.011 per warrant valued using the Black-Scholes option-pricing model. However, due to the Black-Scholes option-pricing model being a Level 3 methodology, \$592,000 of these values was not permitted to be recognized; changes in the value of the warrants is being recognized post-inception. Additional shares were received in consideration for the top-up advance with a value of \$20,758. As mentioned earlier, all of these shares are available to be monetized when necessary and the Company has generated proceeds from the sale of these securities to take advantage of the recent increase in market value of Victory Nickel to fund its operations.

The subscription under the rights offering brought Nuinsco's interest in Victory Nickel's shares to approximately 12.24% at July 30, 2013 on a non-diluted basis. Nuinsco has continued to account for its investment in Victory Nickel as marketable securities and any changes in the value of shares will continue to be accounted for through OCI with changes in the value of warrants being accounted for through *Finance income* or *Finance costs* in the consolidated statement of operations.

The Company is actively involved in advancing the Chibougamau camp in which Nuinsco has a 50% interest through CBay. Given current market conditions there is no guarantee that a going-public transaction or other structure will be completed in the near term. The Company, along with its partner, Ocean Partners, continues to be active in discussions with potential financiers or partners.

The Company's average monthly expenditures on a cash basis, net of recoveries from Victory Nickel and the net proportion from CBay for ongoing administrative support in 2012, were approximately \$123,000; budgeted net monthly commitments for expenses average \$158,000 for the whole of 2013; including salaries capitalized to projects, increases the monthly budgeted commitment to \$179,000 or approximately \$2,150,000 on an annual basis. In the year ended December 31, 2013, average monthly expenditures on a cash basis, including salaries capitalized to projects were \$138,000 compared with budget for the same period of \$179,000. Expenditures are higher than average at the beginning of a year due to compliance requirements such as audit.

Nuinsco's budgeted net operating expenses on a cash basis for 2014 are \$1,412,000 – or \$118,000 average each month - before salaries capitalized to projects. Including capitalized salaries increases the annual budget to \$1,585,000 or \$132,000 per month.

These figures assume that the management agreements remain in place; no notification of any intention to cancel the arrangements has been received or made. Note that these figures exclude the effect of both interest expense on the Facility which is payable on a quarterly basis and interest income on the loan receivable from Victory Nickel.

As described above, the salary deferral mechanism has been used when required to reduce the pressure on cash; other controls on discretionary expenditures are in place and non-essential services have been cancelled. The Company estimates that approximately \$744,000 was incurred in 2013 (2012 - \$853,000 on a comparable basis) in non-discretionary costs on an ongoing basis to support the Company as a public entity – such costs are generally biased towards the first half of a year. Such expenditures are not eligible for flow-through funding (even when available) and must be financed through other means. The 2012 budgeted program cost on Berta was approximately US\$2,672,000 of which Nuinsco's proportionate interest would be US\$953,000. The Company chose to not fund its proportionate share. Subsequent to the end of the 2012 drilling program, Glencore Xstrata plc ("Glencore") informed Nuinsco that it would

resign as operator of the project. Nuinsco has been examining the options with regard to additional exploration/diamond drilling on the property taking into account the existing challenges and protracted timing presently associated with permitting in Turkey. Due to the uncertainty and aforementioned challenges the Company recorded a writedown of \$1,151,000 in December 2013 against Berta.

Partners are also being sought for certain of the Company's projects where significant funding is required for proper exploration programming and fulfilment of option terms.

Overall, given the working capital of \$1,249,000, the available extension of the loan payable under the Facility of \$2,427,000 for a further six months and the expectation to continue monetization of the investment in Victory Nickel, the Company expects to be able to fulfil its operating requirements for 2014. We recognize that the markets are continuing to be difficult and that continuing to liquidate the Company's marketable securities at acceptable prices may be challenging. The convertibility feature of the Amended Loan and upside potential on Victory Nickel equity is expected to provide cash flow once the frac sand business is fully operational. The frac sand business commenced operations in March 2014 with the first sale expected to be completed in that month.

Nuinsco has not yet converted its Amended Loan with Victory Nickel to a share in net cash flows of the frac sand business. The conversion must occur at the earlier of notification of the 7P Plant reaching commercial production or June 1, 2014; upon conversion, the Amended Loan would be considered paid in full. The participation in net cash flows, based on transactions to date is calculated to be based on a range of a maximum of \$10,222,831 with a minimum of \$7,667,124. Participation commences after Victory Nickel has recouped its Phase 1 capital costs and its pre-operating expenses and is based on 52.16% of net cash flows. Repayment by Victory Nickel of any of the loan outstanding before conversion will have a downward effect on the range and the percentage participation.

#### **EXPLORATION AND EVALUATION ACTIVITIES**

In the year ended December 31, 2013, the Company incurred E&E expenditures of \$1,181,000 on its mineral interests compared with \$1,999,000 in the year ended December 31, 2012. The most significant expenditures in the period were on the Chibougamau Camp in the amount of \$604,000 (December 31, 2012 - \$440,000). Costs on other programs in 2013 included: Diabase Peninsula \$262,000 and Prairie Lake \$302,000 (December 31, 2012: \$1,005,000 and \$486,000).

Effective the fourth quarter of 2013, the Company decided to writedown its Berta project in Turkey to \$nil, requiring a writedown of \$1,151,000 after a reversal of an unrequired accrual of \$64,000. This is described further below. In the first quarter of 2012, the Company determined that it would cease its activity in Egypt, Sudan and Elmalaan, Turkey. Accordingly, effective December 31, 2011, the projects were written down to \$nil. Expenditures incurred on those projects in 2012 prior to the decision being made were also written off in the quarter ended March 31, 2012. Such amounts were: Bukari, Egypt \$23,000 expended and written off; J. Tobrar in Sudan \$40,000 expended and written off.

**Paul Jones, CEO and director of the Company effective September 30, 2013, is a "qualified person" as defined under NI-43-101, and he has supervised the preparation, and has approved, the information relating to the material mineral projects of the Company described herein.**

A synopsis of the Company's properties follows; complete details of the mineral properties are available on the Company's website at [www.nuinsco.ca](http://www.nuinsco.ca).

#### **URANIUM AND RARE METALS**

##### **Diabase Peninsula Property, Saskatchewan**

Nuinsco's Diabase Peninsula uranium project is located 150km northwest of La Ronge, Saskatchewan within the south-central Athabasca Basin - the region that hosts the world's richest uranium mines. The 21,900ha Diabase Peninsula property extends from the southern limit of the basin 35km north-easterly, atop a graphite-bearing conductive "basement" horizon beneath the basin sandstones, intertwined with the sub-parallel terrane-bounding major deformation structure - the Cable Bay Shear Zone - considered to be an important potential host structure for uranium mineralization in this part of the Athabasca Basin.

The Diabase Peninsula project was initially a joint venture with Trend. During the first quarter of 2012, cumulative expenditures increased Nuinsco's ownership interest to greater than 90% as Trend did not contribute its proportionate share of expenditures. Under the joint venture agreement, should a participant's interest drop below 10% that participant will relinquish its entire participating interest and will have the right to receive a royalty equal to 3% of the net value of all mineral products produced from the property. Accordingly, Trend's interest was converted to a royalty and Nuinsco owns the project in its entirety. Effective December 19, 2012, the Company acquired that royalty through a one-time cash payment of \$15,000. Accordingly, Trend has no interest in the Diabase Peninsula property.

In May, 2012, the Company announced an extension with the option holder on one of the claims, to extend that option for one year in exchange for four quarterly cash payments for an aggregate amount of \$37,000 and \$38,000 in the Company's shares; as at June 30, 2013, the shares have been issued and all of the cash payments have been made. The shares were issued in July, 2012. Accordingly, the option payment of approximately \$935,000 originally due by September 2, 2012 had been deferred to September 2, 2013.

In the third quarter of 2013, the Company negotiated a further extension whereby it is required to make payments totalling \$1,028,500 as follows: an aggregate sum of \$400,000 payable in quarterly instalments of \$25,000 up to and including June 2, 2017 and a lump sum of \$628,500 on or before September 2, 2017. The Company made the first two quarterly instalments of \$25,000 in 2013 with a third in March 2014.

That same claim is subject to a 3% gross production royalty defined as actual metal/mineral sales with no deduction for refining or transportation expenses.

A 2012 winter drill program followed from the past exploration programs that have identified all the elements indicative of a uranium-mineralizing event. Four holes were collared during the program although only three were completed (the fourth one, ND1202A, was abandoned in overburden at 30m). The total program consisted of 1,598m of drilling, with results peaking at 55.94ppm Uranium ("U") over 6.9m in hole ND1203 including individual intervals grading 134ppm and 181ppm U (analysis by total digestion method). Unseasonably warm weather forced the demobilization of equipment before drilling could be conducted on one of the most prospective uranium anomalies on the project – the Mackenzie Bay area to the north-west of previous hole ND801, in the central part of the property which is an area of overlapping geophysical, surface and drill hole geochemical anomalies and has favourable geology. The drill testing of this target will be deferred to a later program. Due to the small size of uranium orebodies relative to most other types of economic mineral deposits, tight drill-hole spacing is necessary in order to adequately evaluate prospective targets.

During the winter of 2013, a modest program of lake sediment and lake-bottom water sampling was completed over several parts of the Diabase Peninsula property. The survey samples were tested for the presence and concentration of radon gas (an indicator of uranium mineralization) over four widely-separated areas, at reconnaissance level sample spacing, overlying the Cable Bay shear structure and areas with known anomalous U results from previous drilling. Results to date appear to further validate geophysical and geological interpretations concerning the highest potential target areas for mineralization. As well it was found that radon concentrations in water sampled 1-2m above the lake-bottom accurately reflect the concentrations within sediments collected immediately below, such that distribution patterns within the water samples mimic patterns revealed by the testing of sediments. This implies that a water sample survey alone may be sufficient to prioritize the property's geophysical targets for drill testing, and that further radon surveying may be conducted for half the price or less per sample station, in comparison with the 2013 "orientation" survey.

Since radon, or its parental uranium carried in solution within circulating groundwater within the sandstone sequence, must migrate to near surface from depths ranging from 300m to 500m within the four areas surveyed, the highest concentrations of radon are expected to be encountered in the immediate vicinity of, and directly above, near vertical fault zones present at depth within the Athabasca sandstones. Such fault zones are common hosts to uranium deposits within the region, and most are considered to have originated due to reactivation of faults and shear zones present in the older basement lithologies beneath the sandstone such as the Cable Bay shear. The March 2013 survey successfully detected anomalous concentrations of radon over the northernmost geophysical-geochemical targets at the project, and has partly mapped the "surface expression" of strike-parallel faults indicated by geophysics to occur sporadically along the length of the Cable Bay Shear Zone.

Given the successful outcome of the March 2013 work, undertaken in part to test the survey method in areas of thick sandstone cover above the unconformity and the additional encouragement the radon concentrations detected have provided regarding the validity of interpreted geophysical and geological-geochemical anomalies, it is advisable to conduct further surveying of this nature over select areas in order to best direct future drilling efforts at the project toward areas with the best potential.

No additional field work was conducted on the project during the fourth quarter of 2013. The Company will continue cost effective ways to evaluate the project and will mount work programs as necessary.

#### **Prairie Lake Property, Ontario**

Prairie Lake, located near Marathon, Ontario, is a multi-commodity deposit containing phosphorus (P), niobium (Nb) tantalum (Ta), uranium, and REEs. The Prairie Lake property is owned 100% by the Company and is royalty-free.

An Exploration Target estimated at between 515 million tonnes and 630 million tonnes averaging 3.0% to 4.0% P<sub>2</sub>O<sub>5</sub>, 0.09% to 0.11% Nb<sub>2</sub>O<sub>5</sub>, 280 to 340ppm La, 650 to 790ppm Ce, 55 to 70ppm Sm, 300 to 360ppm Nd and 85 to 100ppm Y

(La, Ce, Sm, Nd and Y are Rare Earth Elements) has been identified on the project. The target area covered just 30% of the total host rock surface area in the Prairie Lake Carbonatite Complex. The Exploration Target was estimated by Eugene Puritch, P.Eng. and Antoine Yassa, P.Geo. of P&E Mining Consultants Inc. of Brampton, Ontario in a technical report dated April 15, 2014 to be released. This Exploration Target represents an overall tonnage increase of 56% to 75% over an earlier estimate of 330 million tonnes to 360 million tonnes.

The Company has most recently been focusing its efforts on metallurgical studies in order to demonstrate that the Prairie Lake rock is amenable to processing and concentration. Metallurgical testing at COREM Laboratory, a metallurgical and process testing laboratory in Quebec City, which started in 2009 and has continued to date, has demonstrated the potential to produce a marketable fertilizer product by meeting and exceeding published specifications for phosphate concentrate and most importantly demonstrating that a concentrate grading greater than 30% P<sub>2</sub>O<sub>5</sub> is attainable with appropriate thresholds. Current work is continuing to assess the viability of phosphorus concentration and to optimize a processing flowsheet. Additional work has commenced to evaluate the potential to concentrate niobium and to develop an optimized flowsheet for such.

Selected results from the tests conducted at COREM and completed in 2012 are tabulated below and are compared to published specifications of the Bureau of Indian Standards for phosphate concentrate (Type I and II). Test 35 from the program produced the best overall concentrate results to date with a P<sub>2</sub>O<sub>5</sub> content of 30.6%: other parameters tested are SiO<sub>2</sub> content of 1.37%, F content of 0.62%, MgO content of 0.7%, Cl content of 0.012% and Al<sub>2</sub>O<sub>3</sub>+Fe<sub>2</sub>O<sub>3</sub> of 0.65%. Selected size ranges from Test 35 produced even higher P<sub>2</sub>O<sub>5</sub> concentrations with <150 micrometres ("µm") to >106µm and <106µm to >75µm attaining 38% and 38.1% P<sub>2</sub>O<sub>5</sub> content respectively (and with the other tabulated criteria) while Test 27 attained 34.4% P<sub>2</sub>O<sub>5</sub> with the use of an HCl acid leach to remove carbonate.

<b>Bureau of Indian Standards (BIS) - IS: 11224-1985, reaffirmed 2003</b>	Type I	Type II	Test 35 Con.	Test 35 Con.	Test 35 Con.	Test 27 Con. after Leach
				-150+106µm	-106+75µm	
Total phosphate (P <sub>2</sub> O <sub>5</sub> ) % by mass	≥ 30	≥ 32	30.6	38	38.1	34.4
Silica (SiO <sub>2</sub> ) % by mass	≤ 10	≤ 5	1.37	1.12	1.2	5
Fluoride (F) % by mass	≤ 2	≤ 4	0.62	0.72	0.83	**
Mixed aluminium and iron oxide (Al <sub>2</sub> O <sub>3</sub> and Fe <sub>2</sub> O <sub>3</sub> ) % by mass	≤ 3	≤ 3.5	0.65	0.44	0.48	2.99
Magnesium oxide (MgO) % by mass	≤ 0.5	≤ 0.5	0.7	0.32	0.39	2.26
Chloride (Cl) % by mass	≤ 0.015	≤ 0.05	0.012	0.033	0.009	0.043

\*\* Insufficient samples

The most recent test work at COREM indicates that an apatite concentrate grading in excess of 29% phosphorus (P<sub>2</sub>O<sub>5</sub>) can be produced at a 71% P<sub>2</sub>O<sub>5</sub> recovery. This is a very significant result as it is a substantial improvement over recoveries achieved in previous testing. The most recent test work has also led to the development of a vastly simplified process flowsheet compared to that used in previous tests.

## **GOLD AND COPPER**

### **Chibougamau Camp, Québec**

With the acquisition of substantially all of the remaining secured debt of Campbell by Nuinsco and Ocean Partners, the Company and Ocean Partners, through a jointly-owned company, CBay, made a proposal to the courts to realize on its security and gain ownership of the former Campbell assets in the Chibougamau mining camp. The Québec Superior Court approved the proposal and, effective October 25, 2011, ownership of the assets was transferred to CBay.

The Chibougamau assets represent a very substantial presence in a mining camp which has produced 1.6 billion pounds of copper and 3.2 million ounces of gold from 18 past-producing mines on the Lac Doré complex alone. Nuinsco and Ocean Partners now own eight past-producers on the Lac Doré complex and the significant potential to add to the known mineralization at these projects, three partially-developed copper projects (Corner Bay, Devlin and the Perch River option), a permitted 2,722 tpd mill and tailings facility and in excess of 96,000 acres (38,000ha) of highly-prospective exploration property.

The Company has developed an initial exploration program to begin to capitalize on the huge potential which the Chibougamau copper-gold camp offers. The program commenced in September 2012 with an initial site visit and field examination. Subsequently, grid control was established and ground geophysics conducted on the north-eastern Portage Island part of the land package with the aim of assessing near-surface gold-copper zones that have not been examined in

at least 20 years. The last period of work in this area was a 1991-92 mapping and diamond drilling program by Westminer Canada, undertaken when the gold price ranged from approximately US\$200 to US\$300 per ounce.

The Portage Island area consists of mining concessions where both surface and mining rights are now owned 100% by CBay; and, as was the case during prior operator tenure dating back to the early 1900's, no performance or reporting of exploration activities for assessment purposes has been required in order to maintain property ownership. Consequently much of the work completed in this area, including bedrock trenching and drilling which has occurred intermittently from the 1930's to the early 1990's by a variety of operators, was ever reported to the Québec government. The confidential records concerning the work and results obtained consist of paper files archived at the Copper Rand mine. Following a comprehensive inventorying of the paper record era data during 2012, substantial progress has been made in the conversion of files to digital electronic formats, many relating to long-overlooked occurrences and prospects with significant gold tenor but insufficient copper content to have been high exploration priorities during the operational life of the many mines situated nearby.

Diamond drilling began in November on targets developed from the geophysical surveys and from the largely confidential records of historic work. This program continued during 2013, financed entirely with flow-through funds previously committed to the project.

In 2012, the Company entered into an option agreement with CBay to make expenditures on its Portage and Corner Bay properties in exchange for an undivided interest in each property as follows: \$300,000 incurred on Portage up to December 31, 2012 earns a 30% undivided interest with the option to incur up to an additional \$500,000 in \$100,000 increments each earning a 5% additional undivided interest; \$1,000,000 in expenditures incurred on Corner Bay in \$250,000 increments each earning a 5% undivided interest in the property. Expenditures on the Chibougamau camp amounted to \$1,024,000 (2012 - \$440,000) incurred pursuant to that agreement. Substantially all of the expenditures were on the Portage property and are described below. As described above, under the option agreement, Nuinsco converted its expenditures into an acquired interest. Also under the option agreement, CBay had the right to convert its acquired interest into shares of CBay – this right was exercised in December 2013.

An induced polarization (“IP”) survey over a 2km by 1.4km area in the north-eastern part of Portage Island and an 18 hole 1,683m drilling program completed during October-November 2012 to test new targets from the survey, and two gold enriched zones with subdued copper tenor known from historic exploration, was carried out in 2012.

In March-April 2013 linecutting and geophysical surveys consisting of IP and ground magnetics were conducted along strike to the southwest over additional mining concessions on Portage Island, covering an area measuring about 2.5km by 1.5km. Numerous chargeability anomalies and zones of low resistivity were identified, likely to represent zones of disseminated (non-conductive but chargeable) to stringer or semi-massive mineralization (exhibiting low resistivity to moderate conductivity), both types of which are prospective for gold and/or copper rich sulphides. This work provides a continuous east-west corridor of geophysical coverage across the island.

From late May to the end of July, a geological crew undertook field evaluation of the targets generated by geophysical surveys as well as conducting prospecting and sampling on other parts of the Chibougamau landholdings. In conjunction with the fieldwork, a data review is being conducted of extensive and very valuable historic information – to assess and unlock the potential of the other underexplored CBay-owned assets within the camp. Further, compilation and modelling of the past-producing Cedar Bay and Jaculet mines is also underway in order to develop “order-of-magnitude” estimates of targets, provide “scoping” for possible future drilling and allow visualization of the mineralization and target areas.

At the conclusion of the summer mapping and prospecting program, a dozen high priority, entirely-unexposed geophysical targets were examined by means of backhoe trenching in overburden. Those targets in the northwest part of Portage Island, hosted within either volcanic rocks or the iron-rich border phase of the Lac Doré Complex were found to lie generally beneath shallow cover and the geophysical responses investigated were found to be due to either disseminated pyrite and/or magnetite. Sampling revealed no economically-significant values in copper or gold.

In contrast, backhoe trenches excavated along the south-eastern portion of the island close to the past-producing Portage, Henderson 1 and Henderson 2 mines, where geophysical targets lie within anorthosites (plagioclase-rich intrusive rocks, host to most of the past-producing mines in the core of the Chibougamau mining camp) were found, without exception, to be deeply covered and impossible to expose by means of digging through soils utilizing a “high hoe” tracked excavator.

In early September, work commenced upon an exploration claim group in La Dauversière Township situated 3km northwest of the regionally-significant past-producing Joe Mann gold mine (1.24 million oz. Au at a grade of 0.24oz./ton). Targets were geophysical anomalies beneath deep cover possibly representing mineralized shear zones in a favourable orientation and a geological environment prospective for gold mineralization within quartz veins.



Holes NJ-1301 and NJ-1302 tested a discontinuous geophysical anomaly 3km in length which cuts highly-deformed volcanic rocks. The area lies along the northern margin of an east-west striking corridor of intense deformation and sits 3km northeast of the significant past-producing Joe Mann gold mine (4.75M tonnes at 8.26 g/t Au, total production 39.27 tonnes of gold). The two holes cut pyrrhotite/pyrite-rich, fissure-hosted mineralization, the cause of the geophysical response. Although analyses of the mineralized intervals revealed no significant precious metals content, two short intervals of highly-anomalous zinc were present in hole NJ-1301.

The drilling completed at the flat-lying, near-surface Devlin copper deposit was confined to the central part of the mineralized domain which in total consists of five main lenses within a 365m by 210m area encompassing the bulk of the contained copper mineralization demonstrated by prior work. Devlin comprises a sub-horizontal vein-hosted deposit from which an underground bulk sample was obtained, the results of which were reported in 1982. The bulk sample was accessed by means of a 610m ramp and drifts. Vertical drillholes DEV-CB1 through DEV-CB4 were spaced 30m to 60m apart near the central part of the deposit to intersect the shallow northeast-dipping copper mineralization. Sampling confirmed grade and continuity of the Devlin mineralization reported from historic work – intersections from the current work include 1.43% Cu over 1.67m in DEV CB-1 and 2.42% Cu over a core length of 3.16m in DEV CB-3.

Four drill holes totalling 582m were undertaken at the Baie du Commencement gold-copper zone in the southern part of Portage Island to confirm and trace downdip-significant gold copper intercepts reported from limited historic drilling in the mid 1930's and early 1990's. Observations suggest that this structure may coincide with the Mackenzie gold-copper vein system lying 4.5km to the northeast and may similarly show an increase in gold grades with depth. Testing of the structure at depths exceeding that to which the recent IP survey was capable of examining and drill testing of nearby IP anomalies covered beneath deep overburden is strongly recommended by the Company's consultants.

Five holes totalling 577m helped Nuinsco geologists gain a better understanding of structure and mineralization at the Mackenzie Vein. This work confirms that the Mackenzie Vein must be examined from multiple angles, and clearly illustrates the possibility of open cut production potential from this significant prospect. Individual assays reached 16.5 % Cu and 23 g/t Au (in separate samples) within 50m vertically below surface.

Through CBay, Nuinsco will continue to evaluate the Chibougamau Camp. No work is planned for the first quarter of 2014 but additional field work will be conducted later in the year.

During the first quarter of 2013, CBay entered into an agreement to option the Perch River copper project for a total cost of \$200,000 payable over four years. CBay paid \$30,000 in the first quarter of 2013. In early May 2013, CBay announced the acquisition of the Devlin copper project for \$363,000 which amount was paid in May 2013. Both transactions provide for 2% NSRs to be retained by the vendors and are intended to provide near-term feed for the Copper Rand mill.

## **Turkish Property**

### ***Berta***

The Berta copper project is located in north-eastern Turkey. Berta was originally a 50:50 joint venture with one of the commodity business units within Glencore. Exploration began at Berta in 2004.

As noted historically, discussions with Glencore were underway, including discussions to buy Glencore's share of the joint venture. Subsequently, Glencore advised that it was no longer interested in selling its share of Berta. As a result, Nuinsco opted not to pay the full share of the recorded expenditures and allowed itself to be diluted to approximately 36%.

Most recently, a total of six diamond drill holes were completed in a work program conducted in the third and fourth quarters of 2012 that followed up on the widespread and very anomalous copper mineralization identified in previous work programs. The principal aim of the work was to assess parts of the Berta Project that, to date, have seen no drilling but which are overlain by very strong copper-in-soil anomalies located at the centre, east and north of the Berta porphyry system. Results from past drill programs conducted between 2005 and 2008 returned very positive results, including the results from DDH SD-07-08 and DDH SD-08-10 (collared 500m south of SD-07-08) which returned 164.0m grading 0.20% copper and 0.06g/t gold between 250.5m and 414.5m. All of the holes drilled to date, including those from the most recent program at Berta, have returned copper mineralization with variable alteration associated with porphyry copper mineralization and thus the drilling indicates the huge scale and continuity of the anomaly in the Berta porphyry system. The wide spacing of the drill holes and the long anomalous and altered intercepts obtained continue to demonstrate the scope of the copper mineralization at Berta. The property remains a very large and very prospective exploration opportunity. Subsequent to the end of the 2012 drilling program, Glencore informed Nuinsco that it would resign as operator of the project.

Nuinsco continues to examine the options with regard to additional work on the property - the challenges in Turkey with regard to timely granting of permits to allow work programs to be planned and conducted persist. Accordingly, despite other operators' feelings that these challenges are not insurmountable, Nuinsco decided to value Berta at \$nil effective December 31, 2013. The Company will continue to monitor circumstances in Turkey and will revalue its investment in Berta should that be warranted in future. The Company continues to believe that the Berta project and the region remain very prospective and are considering the possibility of partnering on the project going forward.

## **INVESTMENTS**

### **Victory Nickel Inc.**

As at March 31, 2014, the Company owns 59,390,616 shares, which represents an approximate 10.39% interest in Victory Nickel, which is held as marketable securities, with a fair value of approximately \$3,563,000. Nuinsco also owns 53,799,900 warrants with an estimated fair value of \$2,098,000 using the Black-Scholes option-pricing model. As described earlier, these are available to be monetized to provide liquidity for operating purposes.

### **Coventry Resources Limited**

Pursuant to the sale of Cameron Lake, Nuinsco received 12,000,000 shares in Coventry (an approximate 6.9% interest – some of which has subsequently been sold) as well as the 3% NSR royalty over future production from the property, which was sold in September 2012. In early 2013, Coventry completed a corporate transaction with Crescent Resources Inc. which resulted in a merged corporation trading under the name Coventry Resources Inc. ("Coventry") on the TSX-V:CYC as well as the ASX. As at December 31, 2013, the Company owns 1,458,528 shares with a fair value of \$88,000. On September 30, 2013, Coventry announced a further reorganization to merge with Chalice Gold Mines ("Chalice") by way of a statutory plan of arrangement. On November 1, 2013, Chalice and Coventry announced an amendment of the structure and terms of the proposed merger. Under the revised deal structure, Chalice will not merge directly with Coventry but will acquire 100% of Coventry's subsidiary companies holding the Cameron Gold project, the West Cedartree assets, Rainy River project and Ardeen Gold Project for 46 million shares in Chalice. The shares will be distributed to Coventry shareholders on a pro rata basis and will proceed by a plan of arrangement that was approved on January 21, 2014. The Chalice shares were issued on February 7, 2014; Nuinsco received 737,191 shares of Chalice. As at March 31, 2014, the Company owns 1,458,528 shares of Coventry with a fair value of \$15,000, as well as 737,191 Chalice shares with a fair value of \$111,000.

## **IMPAIRMENT ANALYSIS UPDATE**

The Company performed a detailed impairment analysis on each of its E&E projects as at December 31, 2013. The Company does not believe that there have been any material changes to date which would adversely affect this analysis. Furthermore, there has been no change in management's plans which would cause a reassessment. All projects have had recent expenditures or are otherwise considered to be active, except that circumstances in Turkey are impacting the Berta project.

The metals markets and other general economic factors have continued to be glum, there has been no marked improvement and the challenge remains to find financing for development of projects. This difficulty is not a reflection of the quality of the Company's projects but is indicative of a general malaise affecting the junior resources sector in general. The Company performed a detailed impairment analysis at the project level.

An initial indicator of impairment considers the market capitalization of a company compared with its net book value. At and around the end of December 31, 2013, the Company's market capitalization was below its net book value – being around 20% of its net book value. A 100% ratio would require a share price of approximately \$0.083 which was most recently achieved in early 2012. However, many resource companies continue to experience similar circumstances in present markets despite having good projects. In particular, we continue to note situations where a company's cash balances may exceed its market capitalization. An analysis was performed on each of the Company's E&E projects.

The analysis reviewed historic expenditures recorded on each project along with any purchase price allocations from acquisitions, reflected the existence of previous writedowns and also considered the existence of any economic studies which had been performed. The assumptions used in such studies were reviewed for such factors as: forecast metals prices, foreign exchange rates, changes in resource and/or cost estimates, changes in royalty arrangements, the existence of significant by-products and other matters as necessary. In addition, any exploration results were also taken into consideration. Where appropriate, forecast metal prices were estimated from third-party sources such as analyst consensus reports and other available documentation which were considered to be reasonable by management.

Furthermore, management's intentions with respect to future expenditures and plans for the projects were considered. All projects have had recent expenditures or are otherwise considered to be active.

However, there are challenges being faced in Turkey with respect to permitting and the length of time it takes to secure them. While the belief of several commentators is that this is not insurmountable, the Company determined that it would be prudent to write the Berta project to \$nil and continue to monitor circumstances in Turkey. Accordingly, a writedown of \$1,151,000 was made against the Berta project. Should there be improvements in Turkey, the Company will consider a full or partial reversal of this writedown, as appropriate.

Management concluded that no impairment existed in each of its projects except on the Berta project as at December 31, 2013. All the costs incurred to date on all other projects are recoverable. The Company will continue to monitor developments as they occur in the metals markets and the economy and will update its impairment analysis to take account of any such changes, as appropriate.

#### **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Critical accounting estimates used in the preparation of the consolidated financial statements include determining the carrying value of investments and E&E projects, assessing the impairment and classification of long-lived assets, assessing the allocation of assets into their components, the recognition of the convertibility feature of the loan on fair value and the valuation of share-based payments and warrants, assessing the value of deferred income tax assets and the disclosure of contingencies and going concern matters. These estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control.

For a complete list of the significant accounting policies as well as information concerning the use of estimates, judgements and measurement uncertainty, reference should be made to Notes 2 and 3 to the Company's 2013 Audited Consolidated Financial Statements. The Company's financial statements have been prepared using the going concern assumption.

The recorded value of the Company's E&E projects is based on historic costs that are expected to be recovered in the underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is exposed to a number of risks and uncertainties and there is always the potential for a material adjustment to the value assigned to these assets.

The fair value of the share-based payments, until exercise, is calculated using the Black-Scholes option-pricing model that takes into account the exercise price, the expected life of the option/warrant, expected volatility of the underlying shares, expected dividend yield and the risk-free interest rate for the term of the option/warrant.

The Company has determined that it is not highly probable that it will generate returns sufficient to utilize its taxable losses prior to their expiry. This is a significant judgement that, dependent upon future events, may turn out to be incorrect. Presently, since CBay is in its pre-operating phase, a full valuation allowance has been recorded against losses incurred in that 50%-owned subsidiary.

#### **NEW ACCOUNTING POLICIES**

IFRS issued by the International Accounting Standards Board ("IASB") have been adopted in the Company's 2013 Audited Consolidated Financial Statements. Note 3 to those statements include the accounting policies that have been applied. The Company has changed its accounting policy for its investment in the CBay Minerals Joint Venture to accord with the stipulations of IFRS 11 which came into effect on January 1, 2013. This requires the Company to account for its interest in CBay using the equity method of accounting rather than recognizing the Company's proportionate share of individual assets, liabilities, revenues and expenses.

Transition provisions of IFRS 11 require the Company to treat this as a retrospective adjustment. Accordingly, the Company has restated its Consolidated Financial Statements as at and for the year ended December 31, 2012 as if the accounting policy was in force throughout that period and has provided a consolidated balance sheet as at January 1, 2012. The effect of this change is reflected in Notes 12 and 30 to the 2013 Audited Consolidated Financial Statements and a reconciliation of individual financial statements is reflected in Note 30.

A summary of the effects of the accounting policy change for the CBay Minerals Joint Venture is as follows:

<b>As at</b> (in thousands of Canadian dollars)	Increase/(Decrease)	December 31, 2012	January 1, 2012
Cash and cash equivalents		\$ (52)	\$ -
Receivables		(26)	(2)
Total current assets		(78)	(2)
Property and equipment		(975)	(1,386)
Exploration and evaluation projects		(4,273)	(3,820)
Interest in CBay Minerals Joint Venture		4,779	4,728
Total assets		(547)	(480)
Trade and other payables		(334)	(214)
Long-term liability		(213)	(266)
Total liabilities		(547)	(480)
Total shareholders' equity		\$ -	\$ -
<b>Year ended</b>			
(in thousands of Canadian dollars)			December 31, 2012
Decrease in Other income			\$ (120)
Decrease in General and administrative			311
Decrease in Share-based payments: options			40
Decrease in Pre-exploration write-offs			2
Decrease in Finance income			(53)
Increase in Interest in CBay Minerals Joint Venture			(180)
Change in Net income			\$ -

## FUTURE ACCOUNTING CHANGES

### New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2013 Audited Consolidated Financial Statements the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no new and revised standards and interpretations which are applicable to the Company or which have caused changes to its accounting policies. Refer to Note 3 to those statements.

## CORPORATE GOVERNANCE

The Company's Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of directors, none of whom are employees or officers of the Company, meets with management to review the 2013 Audited Consolidated Financial Statements to satisfy itself that management is properly discharging its responsibilities to the directors who approve the financial statements. The Board of Directors has also appointed compensation and corporate governance and nominating committees composed of non-executive directors.

### Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal year ended December 31, 2013, the Certifying Officers have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2013. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

There were no changes to the Company's disclosure controls and procedures that occurred during the year ended December 31, 2013 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

### Evaluation of Internal Control over Financial Reporting

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial

reporting and preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO (1992) control framework and is in the process of updating its methodology to incorporate the COSO (2013) framework into its analyses for 2014. The COSO Board has made the COSO (1992) framework available for use until December 15, 2014 at which date it will be considered superseded. For the fiscal year ended December 31, 2013, an evaluation was commissioned by the Company under the supervision of the Certifying Officers and with the participation of management of the effectiveness of the Company's internal control over financial reporting. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's internal controls over financial reporting and procedures were effective as at December 31, 2013. During the year, the Company made improvements to the controls over financial reporting as part of its continuous improvement process.

The management of the Company was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

There were no changes to the Company's internal controls over financial reporting that occurred during the year ended December 31, 2013 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

## **TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENTS WITH VICTORY NICKEL AND CBAY**

### **Related Party Balances and Transactions for Services**

Short-term employee benefits provided by the Company include salaries, consulting fees, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue shares as part of the Share Bonus Plan and the Stock Option Plan (Notes 19 and 21 to the 2013 Audited Consolidated Financial Statements). Payables to key management personnel generally relate to directors' fees, consulting fees, and expense reimbursements.

Balances and transactions with related parties as at December 31, 2013 and 2012 and for the years ended December 31, 2013 and 2012 are shown in the following tables:

<b>As at December 31,</b>	<b>2013</b>		<b>2012</b>	
<b>Balances Outstanding</b>				
Payable to key management personnel	\$	99	\$	57

Key management personnel compensation comprises:

<b>Years ended December 31,</b>	<b>2013</b>		<b>2012</b>	
Short-term employee benefits	\$	679	\$	749
Share-based payments - options		39		209
Share-based payments - Share Bonus Plan		-		25
	\$	718	\$	983

### **Balances and Transactions with Victory Nickel and CBay under the Management Agreements**

The Company shares management, administrative assistance and facilities with Victory Nickel and CBay pursuant to separate management agreements; management operates under the supervision of the respective board of directors of each respective company; there is only one common director being Mr. René Galipeau. As described earlier, Victory Nickel became a related party of the Company effective July 30, 2013. The costs recovered from Victory Nickel and CBay are recorded at the cost to the Company of such services plus 10 per cent. The management agreement for Victory Nickel commenced February 1, 2007 and is terminable by the Company upon 90 days' notice and by Victory Nickel upon 180 days' notice. The management agreement for CBay commenced February 14, 2012 and is terminable by the Company upon 90 days' notice and by CBay upon 60 days' notice.

Balances and transactions with Victory Nickel and CBay under the management agreements as at and for the years ended December 31, 2013 and 2012 are shown in the following tables:

<b>As at December 31,</b>	<b>2013</b>		<b>2012</b>	
<b>Balances Outstanding under Management Agreements</b>				
Receivable from Victory Nickel Inc.	\$	56	\$	-
Payable to Victory Nickel Inc.	\$	-	\$	38
<hr/>				
<b>Years ended December 31,</b>	<b>2013</b>		<b>2012</b>	
<b>Transaction Values under Management Agreements</b>				
Overhead charges to Victory Nickel Inc.	\$	755	\$	654
Overhead charges from Victory Nickel Inc.	\$	18	\$	27
Project costs charged by Victory Nickel Inc.	\$	37	\$	22
Project recoveries charged to Victory Nickel Inc.	\$	30	\$	31
Overhead charges to CBay Minerals Inc.	\$	273	\$	247
Project recoveries charged to CBay Minerals Inc.	\$	25	\$	35

Amounts due to or from Victory Nickel and CBay under the management agreements are unsecured, non-interest bearing and due on demand. Amounts due to or from Victory Nickel and CBay are settled on a regular basis. Payables to key management personnel generally relate to directors' fees, consulting fees and expense reimbursements.

#### **Balances and Transactions with Victory Nickel under the Amended Loan**

The terms of the Amended Loan are described in Note 13 to the 2013 Audited Consolidated Financial Statements as well as in the Liquidity and Capital Resources section of this MD&A.

A summary of the balances and transactions of the Amended Loan is included in the table and accompanying note below.

	<b>December 31,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
Advance for working capital	\$ 1,000	\$ 1,000
Advance under Amended Loan for standby commitment	1,207	-
Aggregate advances	2,207	1,000
Accrued interest receivable	-	9
	<b>2,207</b>	<b>1,009</b>
Less: settled in Units of Victory Nickel	(1,207)	-
Less: unamortized loan fees	(161)	-
Change in fair value	3,261	-
	<b>\$ 4,100</b>	<b>\$ 1,009</b>

Nuinsco has accrued \$11,000 as at December 31, 2013 for commitment fees receivable in shares upon the final advance under the Amended Loan; included in *Finance income* for the year ended December 31, 2013. Amortization of \$109,000 was recorded in the year ended December 31, 2013 and interest of \$120,000 was recorded for the year ended December 31, 2013 which was paid in cash at the end of each respective quarter; \$9,000 related to 2012 was received in the first quarter of 2013.

#### **OUTSTANDING SHARE DATA**

As at March 31, 2014, the Company had 295,525,745 common shares issued and outstanding. In addition, there were 25,150,000 stock options outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 320,675,745 and would generate approximately \$1,761,000. However, most of the options are not "in the money".

#### **RECENT DEVELOPMENTS**

There have been no additional developments not already discussed elsewhere in this MD&A.

## **CONTINGENCY**

### **CRA Reassessment**

In March, 2011, the Company received notices of reassessment in the aggregate amount of approximately \$4,400,000 from the CRA related to transactions completed in 2006; this amount does not include interest and penalties which could be substantial. The Company filed notices of objection on May 19, 2011. On March 7, 2014, the Company received a notice of confirmation with respect to one entity for which a notice of reassessment had been received in March 2011. In the notice of confirmation, the CRA denied the Company's notice of objection and confirmed the reassessment. The Company has a 90 day period within which to launch an appeal to the Tax Court of Canada and will do so within the time frame allowed. On July 22, 2011, the Company filed a request for adjustment to correspondingly adjust its tax pools and losses, in the unlikely event that the Company's appeal is unsuccessful.

The appeal process could be lengthy and the Company believes that its position is correct and that it will prevail. Accordingly, the Company has not recorded any liability with respect to this matter.

## **RISKS AND UNCERTAINTIES**

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. The risk factors which should be taken into account in assessing Nuinsco's activities and an investment in its securities include, but are not necessarily limited to, those set out below.

The relative significance of each risk described below will vary as a function of several factors including, but not limited to, the state of the economy, the stage of Nuinsco's projects, the availability of financing on acceptable terms and other matters.

Any one or more of these risks could have a material adverse effect on the value of any investment in Nuinsco and the business, financial condition or operating results or prospects of Nuinsco and should be taken into account in assessing Nuinsco's activities.

### **Industry Risks**

#### ***Speculative Nature of Mineral Exploration***

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that Nuinsco's results will be successful. Few properties that are explored are ultimately developed into economically-viable operating mines. Success in establishing reserves is a result of a number of factors, including the quality of Nuinsco's management, level of geological and technical expertise, the quality of land available for exploration and other factors. Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling to determine the optimal extraction method for the ore and the metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. It is possible that even preliminary due diligence will show adverse results, leading to the abandonment of projects. It is impossible to ensure that preliminary feasibility studies or full feasibility studies, on Nuinsco's projects or the current or proposed exploration programs on any of the properties in which Nuinsco has exploration rights will result in a profitable commercial mining operation. As a result of these uncertainties, no assurance can be given that Nuinsco's exploration programs will result in the establishment or expansion of resources or reserves. Furthermore, Nuinsco cannot give any assurance that its current and future exploration activities will result in the discovery of mineral deposits containing mineral reserves.

#### ***Evaluation and Development Projects***

In general, evaluation and development projects have no operating history upon which to base estimates of future cash operating costs. For evaluation and development projects such as those projects that Nuinsco has an interest in, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital cost, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. In addition, there remains to be undertaken certain feasibility and development preparation work on the projects that could adversely impact estimates of capital and operating costs required for the development of the projects. Costs necessary to develop the projects could be significant and will have a direct impact on the economic evaluation of the projects. As a result, it is possible that the actual capital cost, cash operating costs and economic returns of the projects may differ from those currently estimated.

### **Competition**

The mineral exploration business is highly competitive in all of its phases. Nuinsco competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Nuinsco, in the search for and acquisition of exploration and development rights on attractive mineral properties. Nuinsco's ability to

acquire exploration and development rights in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on other suitable properties. There is no assurance that Nuinsco will compete successfully in acquiring exploration and development rights on such other properties.

## **Operational Risks**

### ***Limited History of Operations***

Nuinsco has a limited history of earnings and limited financial resources. Nuinsco currently has no operating mines and its ultimate success will depend on its ability to generate cash flow from active mining operations in the future, as well as its ability to access capital markets for its development requirements.

### ***Development Targets, Permitting and Operational Delays***

There can be no assurance that Nuinsco will be able to complete the planned development of the projects on time or on budget due to, among other things, delays in receiving required consents, permits and registrations, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support Nuinsco's operations. Any failure to meet development targets or other operational delays or inadequacies could have a material adverse effect.

### ***Resources and Reserves***

Figures relating to mineral resources and mineral reserves are estimates and no assurance can be given that the anticipated level of recovery and/or grades of mineral reserves or mineral resources will be realized. Moreover, short-term operating factors relating to ore reserves and resources, such as the need for orderly development of an ore body or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period.

### ***Title Risks***

Nuinsco's ability to hold various mineral rights require licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various governmental and quasi-governmental authorities. Management believes that Nuinsco currently holds or has applied for all necessary licences, permits and authorizations to carry on the activities which Nuinsco is currently conducting and to hold the mineral rights Nuinsco currently holds under applicable laws and regulations in effect at the present time. Management also believes that Nuinsco is complying in all material respects with the terms of such licences, permits and authorizations. However, Nuinsco's ability to obtain, sustain or renew such licences, permits and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governmental and quasi-governmental bodies.

### ***Insurance Risk***

Nuinsco faces all of the hazards and risks normally incidental to the exploration of precious and base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. Nuinsco's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which Nuinsco has interests; not all such risks are insurable.

## **Financial and Investment Risks**

### ***Substantial Capital Requirements***

Nuinsco will have to make substantial capital expenditures for the development of and to achieve production from the projects. There can be no assurance that any debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Nuinsco. Moreover, future activities may require Nuinsco to alter its capitalization significantly. The inability of Nuinsco to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects. Flow-through financing cannot be used to fund the Company's corporate costs or foreign projects.

### ***Market Perception***

Market perception of junior exploration, development and mining companies may shift such that these companies are viewed less favourably. This factor could impact the value of investors' holdings and Nuinsco's ability to raise further funds by issue of additional securities or debt.

### ***Metal and Mineral Prices***

There is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Metal prices fluctuate on a daily basis and are affected by numerous factors beyond Nuinsco's control – including factors which are influenced by worldwide circumstances. The level of interest rates, the rate of inflation, world supply of precious and base metals and stability of exchange rates can all cause significant



fluctuations in precious and base metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The prices of precious and base metals have historically fluctuated widely and future price declines could cause commercial production to be uneconomical and such fluctuations could have a material adverse effect on Nuinsco's business, financial condition and prospects. Given the stage of development of Nuinsco's projects, the above factors have had no material impact on present operations but are considered in evaluating the impairment of long-lived assets.

#### ***Areas of Investment Risk***

Nuinsco's Common Shares are listed on the TSX. The share prices of publicly-traded companies can be volatile as the price of shares is dependent upon a number of factors, some of which are general or market or sector specific and others that are specific to Nuinsco.

The market for shares in small public companies is less liquid than for large public companies. Investors should be aware that the value of the Company's common shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Company's common shares may not reflect the underlying value of Nuinsco's net assets. The price at which investors may dispose of their securities may be influenced by a number of factors, some of which may pertain to Nuinsco and others of which are extraneous. On any disposal of their common shares, investors may realize less than the original amount invested.

#### **Regulatory Risks**

##### ***Government Regulation***

Existing and possible future environmental and social impact legislation, regulations and actions, including the regulation of air and water quality, mining reclamation, solid and hazardous waste handling and disposal, the promotion of occupational health and safety, the protection of wildlife and ecological systems and the protection of the societies and communities of indigenous peoples, could cause significant expense, capital expenditures, restrictions and delays in the Company's activities, the extent of which cannot be predicted and which may well be beyond Nuinsco's capacity to fund. Environmental laws are becoming more actively enforced. Environmental and social impact studies may be required for some operations and significant fines and clean-up responsibilities may be assessed for companies causing damage to the environment in the course of their activities.

##### ***Economic, Political, Judicial, Administrative, Taxation or Other Regulatory Factors***

Nuinsco may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors in the areas in which Nuinsco does or will operate and holds its interests, as well as unforeseen matters. As referred to above, the Company has received notices of reassessment from the CRA as well as a notice of confirmation and is in the process of defending what it and its advisors believe to have been a correct filing position.

#### **Other Risks**

##### ***Environmental and Health Risks***

The Company has no significant exposure to environmental or health risks, although this will change should any of the Company's projects approach production (a normal characteristic of mineral industry projects).

##### ***Key Personnel***

Nuinsco relies on a limited number of key consultants and there is no assurance that Nuinsco will be able to retain such key consultants or other senior management. The loss of one or more of such key consultants or members of senior management, if not replaced, could have a material adverse effect on Nuinsco's business, financial condition and prospects. Directors and management have previously accepted deferrals of remuneration in order to assist the Company through the economic turmoil; however, this potentially adds to the risk of losing experienced personnel.

##### ***Conflicts of Interest***

Certain of Nuinsco's directors and officers are also directors and officers of other natural resource companies. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers relating to Nuinsco will be made in accordance with their duties and obligations to deal fairly and in good faith with Nuinsco and such other companies.

##### ***Foreign Operations***

In 2004, the Company initiated exploration work in Turkey. While the Company believes that the risks associated with operating in Turkey are very acceptable, most investors would attribute a higher degree of risk to operating in Turkey as compared to operating in Canada. While the Company has terminated its activity in Sudan and Egypt and has reduced

activity in Turkey, it remains open to appropriate opportunities in the Middle East North Africa (“MENA”) region and elsewhere.

Nuinsco’s investments in foreign countries carry certain risks associated with different political, business, social and economic environments. The ability to carry on business in any country can be affected by possible political or economic instability in that country. Changes in mining or investment policies or shifts in political attitude may adversely affect private business. The effect of these factors cannot be accurately predicted. Should the respective government later seek to control any aspect of production, distribution or pricing of gold or precious metals, Nuinsco runs the risk that, at any time, its operations may be terminated for failure to comply with any permit, rule or regulation; or that its operations may prove to be unprofitable if the costs of compliance with such governmental regulations prove to be excessive.

There is a risk that the necessary permits, consents, authorizations and agreements to implement planned exploration, project development or mining may not be obtained under conditions, or within time frames, that make such plans economic, that applicable laws, regulations or the governing authorities will change or that such changes will result in additional material expenditures or time delays.

As with Canadian projects, the acquisition and retention of title to mineral rights is a detailed and time-consuming process. Title to, and the area of, mineral resource claims may be disputed or challenged. Nuinsco’s right to explore for, mine, produce and sell metals will be based on the respective governing agreement. Should Nuinsco’s rights under any agreement not be honoured or be unenforceable for any reason, or if any material term of the agreements is unilaterally changed or not honoured, including any boundaries of properties, Nuinsco’s ability to explore and produce metals in the future would be materially and adversely affected.

Nuinsco regularly and routinely considers the risks inherent in foreign jurisdictions and weighs such risks when evaluating continued, enhanced, reduced or renewed involvement in foreign projects. The Company considered that the protracted permitting delays in Turkey were significant enough to warrant a writedown of its Berta project effective December 31, 2013.

#### ***Investments and Other Agreements with Resource Companies***

In addition, Nuinsco makes, from time to time, investments in the common shares of publicly-traded companies in the junior natural resources sector or may enter into option or other agreements therewith. These companies are subject to similar risks and uncertainties as is Nuinsco, and Nuinsco’s investments in and agreements with these companies are subject to similar areas of risk as noted above. Nuinsco seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty’s failure to meet contractual obligations.

Nuinsco, through the Amended Loan, the potential conversion thereof into a limited participating interest in cash flows, and its investment in Victory Nickel, has indirect exposure to the frac sand industry.

#### **Summary**

The future success of the Company is subject to a number of risk factors that are common to the junior natural resources sector. These include the extent to which it can outline natural resources on its properties and establish the economic viability of developing those properties and the political, economic and legislative stability of the territories in which the Company’s interests are located. Another significant factor is the ability of the Company to obtain necessary financing, complete expected financing under anticipated terms or to find strategic partners to fund expenditure commitments as they fall due, as the Company currently has limited funds. Furthermore, the development of any natural resource interest may take years to complete and the resulting income, if any, from the sale of any natural resources produced by the Company is largely dependent upon factors that are beyond its control, such as costs of development, operating costs and the market value of the end product. Such risks are likely to be more extensive in foreign jurisdictions.

#### **FORWARD-LOOKING STATEMENTS**

**Forward-Looking Information:** This MD&A contains forward-looking information. All statements, other than statements of historic fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow, financing, the probability of Conversion of the Amended Loan, cash flows from a limited participating interest in Victory Nickel’s frac sand business, costs, economic return, net present value, mine life and financial models, mineral resource estimates, potential mineralization, potential mineral resources, timing of possible production and the Company’s development plans and objectives) constitute forward-looking information. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such

actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company.

Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; the possibility that actual circumstances will differ from estimates and assumptions; uncertainties relating to the availability and costs of financing expected or needed in the future; uncertainty of repayment of the Amended Loan; uncertainty, upon conversion, of cash flows from the limited participating interest in Victory Nickel's frac sand business; failure to establish estimated mineral resources; fluctuations in commodity prices and currency exchange rates; inflation; recoveries being less than those indicated by the testwork carried out to date (there can be no assurance that recoveries in small scale laboratory tests will be duplicated in large tests under on-site conditions or during production); changes in equity or debt markets; operating performance of facilities; environmental and safety risks; delays in obtaining or failure to obtain necessary permits and approvals from government authorities; unavailability of plant, equipment or labour; inability to retain key management and personnel; changes to regulations or policies affecting the Company's activities; the uncertainties involved in interpreting geological data; and the other risks disclosed under the heading "Risks and Uncertainties" and elsewhere. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

**March 31, 2014**