

# First Nickel Reports Financial and Operating Results for the Three Months Ended March 31, 2014

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TORONTO, ONTARIO--(Marketwired - May 12, 2014) - [First Nickel Inc.](#) ("FNI" or the "Company") (TSX:FNI) announces its results for the three months ended March 31, 2014. The Company's unaudited condensed interim financial statements and management's discussion and analysis for the period have been filed on SEDAR and will be available at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.fnimining.com](http://www.fnimining.com). This news release should be read in conjunction with the Company's unaudited condensed interim financial statements and management's discussion and analysis for the period ended March 31, 2014. This news release contains forward-looking information that is subject to the risks and assumptions set out in our cautionary statement on forward-looking information, which is located at the end of this news release. (All dollar amounts herein are in Canadian funds unless otherwise indicated.)

## HIGHLIGHTS FOR FIRST QUARTER 2014

- **Production:** The Lockerby Mine produced 2.7 million pounds of contained nickel and 1.7 million pounds of contained copper during the three months ended March 31, 2014.
- **Revenue:** Revenue for the three months ended March 31, 2014 was \$16.8 million.
- **Total cash production costs<sup>1</sup>:** Total cash production costs were \$12.8 million for the three months ended March 31, 2014, or \$8.22 per GMV<sup>2</sup>-net pound of nickel produced.
- **Development:** Ramp development to the 68 Level was completed early in January and lateral development totaled 532 metres for the three months ended March 31, 2014.
- **Net loss:** The Company had a net loss of \$9.3 million for the three months ended March 31, 2014.
- **Liquidity:** The Company's unrestricted cash balance at March 31, 2014 was \$1.9 million, and it had US\$2.0 million available to draw under the BNS credit facility as at March 31, 2014.
- **Debt facilities:** The Company's debt facilities will mature in March 2015, creating a current-account deficit on the balance sheet at March 31, 2014. The Company is in discussion with its principal shareholders regarding the possible refinancing or extension of the debt before its maturity.

On May 6, 2014, an accident occurred at the Lockerby Mine involving a fall of material and the deaths of two contract production drillers. The Company responded to the accident by following established protocols and emphasizing transparent communication within the bounds of those protocols, as well as counselling and supporting the families of the deceased, employees and the local community.

## Summary of Financial and Operating Results

The Company reported revenue of \$16.8 million, total cash production costs of \$12.8 million and a net loss of \$9.3 million for the three months ended March 31, 2014.

Under the Company's gross-metal-value ("GMV") ore-processing agreement with Glencore Canada Corporation (the "GMV Agreement"), the Company is paid for accountable gross metal value, which is based on the contained metal, multiplied by a specified percentage that is determined based on the average nickel grade of the ore delivered. There are no specifically-identified processing costs under the GMV Agreement given that the specified GMV percentage results in revenues that are paid and recorded net of processing costs. The GMV Agreement was adopted effective July 1, 2013, and the predecessor agreement (the "Original Agreement") required different accounting for revenues and cost of sales, which affects the comparability of certain financial statement elements between the current period and the first quarter of 2013.

<sup>1</sup> For additional information, see *Non-IFRS Financial Measures* section.

<sup>2</sup> Metric adapted for the gross-metal-value ("GMV") offtake agreement, see *Total cash production costs* section.

Under the GMV Agreement, ore-treatment costs are not included in the cost of goods sold, but are netted against nickel and by-product revenues. All things being equal, the accounting in the current period under the GMV Agreement would result in lower revenue, lower cost of goods sold and lower by-product revenue than prior-period accounting under the Original Agreement.

The following table presents the unaudited statements of comprehensive loss for the three months ended March 31, 2014:

<i>Canadian \$, except for share and per-share amounts,</i>	For the three months ended	
	March 31, 2014	March 31, 2013
Revenue		
Revenue	\$ 16,787,275	\$ 26,772,605
Cost of sales		
Cost of sales	16,865,993	21,553,541
Depreciation	4,229,681	3,642,486
Total cost of sales	21,095,674	25,196,027
Gross (loss) / income	(4,308,399)	1,576,578
General and administrative	1,112,923	1,275,574
Exploration and evaluation	138,955	136,311
Other income	(566,739)	-
Operating (loss) / income	(4,993,538)	164,693
Financing expense	4,260,465	1,060,108
Net finance expense	4,260,465	1,060,108
Loss before taxes	(9,254,003)	(895,415)
Income & mining taxes	-	-
Net loss and comprehensive loss	\$ (9,254,003)	\$ (895,415)
Loss per share - basic and diluted	\$ (0.01)	\$ -
Weighted average number of common shares outstanding - basic	644,152,033	530,839,250

## Lockerby Mine Operating Results

### ***Safety, Health & Environment***

The Company's directors, management, employees and contractors continue to place the highest priority on safety, health and the environment. During the three months ended March 31, 2014, there were no lost time injuries or reportable environmental incidents, and four medical-aid incidents.

On May 6, 2014, an accident occurred at the Lockerby Mine involving a fall of material and the deaths of two contract production drillers. The Company responded to the accident by following established protocols and emphasizing transparent communication within the bounds of those protocols, as well as counselling and supporting the families of the deceased, employees and the local community.

### ***Production***

In the three months ended March 31, 2014, the Lockerby Mine produced 2.7 million pounds of contained nickel and 1.7 million pounds of contained copper. Contained-nickel production in the first quarter of 2014 is below the first quarter of 2013 by 26% mainly reflecting a 21% reduction in average nickel head grades mined during the respective periods, combined with a 6% drop in ore tonnes produced. The variations in tonnes and grade mainly reflect grade variations for stopes within the Depth Zone and lower scheduled ore tonnage from one year to the next; however, tonnes mined during the first quarter of 2014 were affected by poor in-stope ground conditions that affected blast-hole drilling. Average nickel grade in the first quarter of 2014 was affected by final results from definition drilling, which resulted in additional tonnes from a primary stope but a corresponding reduction in the associated ore grade. The first and second quarters of 2014 are expected to have lower production than the second half of the year, based on the planned sequencing of stopes for later in 2014. Production of nickel and copper is expected to be in the lower ends of the respective

ranges based on the Company's 2014 guidance (see "Outlook for 2014" section).

In the three months ended March 31, 2014, 55,939 tonnes of ore were mined at Lockerby, producing approximately 1.6 million pounds of GMV-net payable nickel, at an average head grade of 2.21%, and approximately 0.9 million pounds of GMV-net payable copper at an average head grade of 1.35%.

For the three months ended March 31,	2014	2013
Tonnes of ore produced	55,939	59,877
Production		
Contained nickel (pounds)	2,727,907	3,682,968
Payable nickel (pounds) - Original Agreement (Q1 2013)	-	2,698,719
Net payable nickel (pounds) - GMV agreement (Q1 2014)	1,561,427	-
Nickel head grade	2.21%	2.79%
Contained copper (pounds)	1,670,598	2,125,297
Payable copper (pounds) - Original Agreement (Q1 2013)	-	1,832,162
Net payable copper (pounds) - GMV agreement (Q1 2014)	856,498	-
Copper head grade	1.35%	1.61%
Tonnes of ore shipped	51,045	61,062

## Revenue

The Company recorded total revenue of \$16.8 million in the three months ended March 31, 2014, compared with total revenue of \$26.8 million in the three months ended March 31, 2013. Revenues in the first quarter of 2014 show a significant decrease over the prior-year period partly reflecting lower nickel production, with contained nickel pounds produced approximately 26% below the prior-year period, combined with lower average realized nickel prices in the first quarter of 2014 (by approximately 15%). The impact of lower realized nickel prices was partially offset by foreign -currency translation gains related to weaker average Canadian-US dollar exchange rates, which lead to higher values for revenues presented in Canadian dollars. The decrease in first-quarter revenues compared to the prior year also includes the impact of accounting changes under the GMV Agreement, which affect the comparability to prior-period revenues and result in lower current-year values for revenue recorded under the GMV Agreement compared to higher gross revenues recorded under the Original Agreement in the first quarter of 2013.

The amendment to the Glencore ore-processing agreement and adoption of a GMV Agreement in the second half of 2013 resulted in revenues that were recorded net of the deduction of processing costs and other GMV deductions (as disclosed in the Company's MD&A for the year ended Dec 31, 2013). Revenues under the Original Agreement in the first quarter of 2013 were recorded gross of processing costs. Revenues recorded under the Original Agreement during the first half of 2013 were also affected by volume adjustments, following milling by Glencore. Estimated grade was determined by the Lockerby geology department and, in the event that the Glencore milling results returned a different grade than the Company's estimated grade, a quantity adjustment was made to revenue in the statement of comprehensive loss in the period in which the new information became available.

	For the three months	
	March 31,	March 31,
Canadian \$,	2014	2013
Provisional nickel revenue - Original Agreement (prior-year Q1)	\$ -	\$ 20,190,061
Provisional net nickel revenue - GMV agreement (Q1 2014)	11,614,207	-
Nickel quantity adjustment	-	667,157
Nickel price adjustment	1,145,037	(504,447)
Provisional by-product revenue - Original Agreement (prior-year Q1)	-	7,074,899
Provisional net by-product revenue - GMV agreement (Q1 2014)	4,130,180	-
By-product price and quantity adjustment - current period	(102,149)	(149,765)
Forward-sales-agreement losses	-	(151,402)
Total revenue	\$ 16,787,275	\$ 27,126,503

<sup>1</sup> For the purposes of this press release, year-to-date revenue includes pre-production capitalized revenue.

## Total cash production costs<sup>3</sup>

Cash production costs are a non-IFRS measure that is based on the cost of goods sold, less by-product revenues. Costs of goods sold of \$16.9 million in the first quarter of 2014 were \$4.7 million below the

comparable prior-year period mainly due to the exclusion of treatment costs, following the mid-2013 adoption of the GMV Agreement, partly offset by higher mine operating costs in 2014. Cost of sales for the first quarter of 2013 included \$8.9 million in treatment costs which are not incurred under the GMV Agreement in the current period. On a comparative basis, excluding the \$8.9 million in treatment costs from the prior-year period would result in costs of goods sold for the first quarter of 2014 that are above the prior-year period by \$4.2 million or 33%, mainly reflecting higher mine operating costs (by \$4.4 million) and labour (by \$0.2 million), partially offset by lower development costs than the first quarter of 2013 (by \$0.4 million).

<sup>3</sup> For additional information, see *Non-IFRS Financial Measures* section.

Mine operating costs in the first three months of 2014 were above the first quarter of 2013 due to several factors, including higher energy costs driven by very cold winter temperatures (impact of \$1.4 million including natural gas and electricity), on-site crushing costs (\$0.4 million), which started in mid-2013 with the adoption of the GMV Agreement, higher backfill costs arising from significantly increased backfill activity in 2014, compounded by the cold weather and the freezing of aggregate material used to backfill stopes, higher equipment maintenance costs, diesel and other costs that are driven by higher activity as well as deeper mining compared to the prior-year period.

Cash production costs in the three months ended March 31, 2014 were \$12.8 million, which is below the prior -year amount by \$2.1 million or 14%, mainly reflecting the variance in cost of sales described above, partially offset by the \$2.9 million impact of lower by-product revenue. The economic impact of by-product credits in the first quarter of 2014 is based chiefly on the production of 1.7 million contained copper pounds, which is 21% lower than the 2.1 million contained copper pounds produced during the first quarter of 2013. The reduction in copper by-product production is magnified by the 9% drop in realized copper prices from the first quarter of 2013 (average realized price of \$3.48 per pound) to the first quarter of 2014 (average of \$3.17 per pound realized). While the volume and pricing of copper by-product both show reductions from the prior-year period, by 21% and 9% respectively, by-product revenues recorded in the first quarter of 2014 are below the prior-year period by 42%, which demonstrates the revenue impact of accounting changes related to the GMV Agreement, whereby the reporting of by-product revenues is net of GMV deductions (as described in the "Revenue" heading above).

On a unit basis, cash production costs per GMV-net pound were \$8.22 in the first quarter of 2014, which is significantly above the Company's full-year guidance range of \$5.22 to \$5.74 per pound, partly reflecting the volume impact of lower GMV-net nickel production in the quarter, which results in a lower denominator in the calculation of per-pound costs, together with the impact of higher cash production costs during the first quarter as discussed above. Cash production costs are not expected to remain at high levels in subsequent quarters of 2014, and higher expected production levels for the remaining quarters of 2014 are expected to result in lower per-unit costs. The Company expects cash production costs per GMV-net pound to be at the upper end of the range for 2014 (see "Outlook for 2014" section).

Canadian \$, except production amounts for the three months ended March 31,	2014	2013
Cost of goods sold <sup>1</sup>	\$ 16,865,993	\$ 21,553,541
Provisional by-product revenue <sup>2</sup>	(4,130,180)	(7,074,899)
By-product revenue - mark-to-market and final settlement adjustments	102,149	149,765
By-product revenue - quantity adjustments - original agreement	-	353,898
Forward sales agreements related to by-products	-	(25,742)
Total cash production costs <sup>3</sup> (net of by-product credits)	\$ 12,837,962	\$ 14,956,563
Payable nickel production (pounds) - Original Agreement (prior-year Q1)	-	2,698,719
Cash production cost per pound of nickel <sup>3,4</sup> produced - original agreement (prior-year Q1)	\$ -	\$ 5.54
Net payable nickel production (pounds) - GMV agreement (Q1 2014)	1,561,427	-
Cash production cost per pound of nickel <sup>3,4</sup> produced - GMV agreement (Q1 2014)	\$ 8.22	\$ -

<sup>1</sup> Cost of goods sold does not include depreciation.

<sup>2</sup> Revenue presented for the three months ended March 31, 2014 is based on the GMV Agreement and revenue presented for the three months ended March 31, 2013 is based on the Original Agreement.

<sup>3</sup> For additional information, see *Non-IFRS Financial Measures* section.

<sup>4</sup> Cash production cost per pound based on cash production cost for the commercial production period divided by associated net payable nickel production for the same period.

As disclosed in the Company's MD&A for the year ended December 31, 2013, the change in accounting treatment generated by the GMV Agreement also resulted in a change to the Company's performance metrics, in order to ensure that the Company's performance is comparable to prior periods. Prior to the third quarter of 2013, the Company's performance metrics included payable nickel and copper, total cash

production costs and cash production costs per pound of payable nickel produced. Under the GMV Agreement, the Company's performance metrics will include contained nickel and copper, net-GMV nickel and copper payable pounds, total cash production costs and cash production costs per net-GMV pound of nickel produced. See the "Outlook for 2014" section for details about operational metrics, and the manner in which the economic performance of the Lockerby Mine under the GMV Agreement may be compared to prior periods.

## Capital

The Company made capital expenditures of \$3.0 million in the three months ended March 31, 2014, mostly representing underground development costs at the Lockerby Mine.

The development rate for the three months ended March 31, 2014 averaged 6.0 metres per day.

## Exploration

The Company's exploration strategy is focused on base metals and guided by the objectives of increasing resources and reserves in conjunction with the development and/or acquisition of quality projects, resulting in multiple mining operations. Due to the downturn in nickel prices seen through 2013 and ongoing efforts to bolster the Company's liquidity, FNI has not incurred any significant exploration expenditures on its exploration properties since December 31, 2012.

## OUTLOOK FOR 2014

The Company's outlook for 2014 is detailed in the table below. As discussed in the "Lockerby Mine Operating Results" section, the Company expects production of nickel and copper to be in the lower ends of the respective ranges for 2014, and mine site operating costs and cash production costs per GMV -net pound of nickel produced are expected to be at the upper ends of the respective ranges for 2014.

<i>Canadian \$, except metal pounds</i>	<i>2014</i>
Contained nickel lbs (millions)	13.5 - 15.1
Contained copper lbs (millions)	7.2 - 8.0
GMV net payable nickel lbs (millions)	6.8 - 7.6
GMV net payable copper lbs (millions)	3.6 - 4.0
Mine site operating costs (millions)	\$58.1 - \$61.0
Cash production cost per GMV-net pound of nickel produced <sup>1</sup>	\$5.22 - \$5.74

<sup>1</sup> For additional information, see Non-IFRS Financial Measures section

Assumptions: Cu per lb US\$3.25, CAD/USD 1:1

## Capital expenditures

Capital expenditures for 2014 are projected to be approximately \$7.2 million, including approximately \$3.5 million related to underground development.

## General and administrative expenses

General and administrative expenses for 2014 are projected to be approximately \$4.4 million, not including share -based compensation. Financing costs and exploration expenditures are projected to be approximately \$1.8 million and \$0.4 million, respectively, in 2014.

## Qualified Person

The foregoing scientific and technical information has been prepared or reviewed by Paul C. Davis, P.Geo., Vice-President Exploration of the Company. Mr. Davis is a "qualified person" within the meaning of National Instrument 43-101.

The Company follows rigorous quality control practices and procedures in full compliance with National Instrument 43-101, and these are described on the Company's website and in all technical news releases.

### **About FNI**

FNI is a Canadian mining and exploration Company. The Company's mission is to be the most dynamic North American emerging base metal mining Company in which to work and invest and to be respected in the communities in which it operates. FNI owns and operates the Lockerby Mine in the Sudbury Basin in northern Ontario, which reached full production during 2013 and is expected to produce approximately 14 million pounds of contained nickel and approximately 7 million pounds of contained copper in 2014, providing a foundation from which to grow the Company. More than half of FNI's common shares are held by institutional investors. FNI's shares are traded on the TSX under the symbol FNI.

To learn more about the Company please visit [www.fnimining.com](http://www.fnimining.com) and follow us on LinkedIn and Twitter @FNI\_Mining.

### **Cautionary Statement Regarding Forward-Looking Information**

Certain statements contained in this news release may contain forward-looking information about FNI. Forward-looking information can often be identified by the use of forward-looking terminology such as "anticipate", "believe", "continue", "budget", "forecast", "estimate", "schedule", "expect", "goal", "intend", "target", "potential", "objective", "may", "plan" or "will" or the negative thereof or variations thereon or similar terminology. Forward-looking information may include, but is not limited to: the continued operation of the Lockerby Mine; expectations of obtaining financing in the near term; future financial or operating performance of the Company and its projects; the future price of metals; the long term supply and demand for nickel; continuation of exploration activities; mineral reserve and mineral resource estimates; the realization of mineral resource estimates; costs of production and key supplies; capital, operating and exploration expenditures; forecasts of sales and production; costs and timing of the development of new and existing deposits; costs and timing of future exploration; the requirements for additional capital; government regulation of mining operations; environmental risks, reclamation expenses and/or title disputes or claims.

By its nature, forward-looking information is based on certain factors and assumptions which involve known and unknown risks, uncertainties and other factors which may cause the actual results, realization of mineral resources, performance or achievements of the Company, financial position or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Accordingly, actual events may differ materially from those implied by any forward-looking information. Readers are cautioned not to place undue reliance on forward-looking information, which speak only as of the date the statements were made and readers are also advised to consider such forward-looking information while considering the risk factors set forth in the management's discussion and analysis for the year ended December 31, 2012 under the heading "Risks and Uncertainties" and under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2012. The Company disclaims any intention or obligation to publicly update or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information or to explain any material difference between subsequent actual events and such forward-looking information, except as required by applicable law.

**Non-IFRS Financial Measures:** The cash cost per pound of nickel produced, cash cost per net-GMV pound of nickel produced and total production costs are non-IFRS financial measures that do not have a standardized meaning under International Financial Reporting Standards ("IFRS") and, as a result, may not be comparable to similar measures presented by other companies. Management uses these statistics to monitor operating costs and profitability, and believes that certain investors use this information to evaluate the Company's performance and ability to generate cash flow in addition to conventional IFRS measures. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. On a GMV basis, total cash production costs include mining costs, surface ore-handling and trucking costs, equipment operating lease costs, mine site general and administration costs, environmental costs and Vale royalties, less net-GMV by-product revenue, including forward sales gains and losses, and price adjustments from sales of copper, cobalt and PGE's.

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