



**Report of
KSV Kofman Inc.
as Proposed Receiver of
First Nickel Inc.**

August 19, 2015

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COURT FILE NO: CV-15-11082-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

RESOURCE CAPITAL FUND V L.P.

Applicant

and

FIRST NICKEL INC.

Respondent

REPORT OF
KSV KOFMAN INC.
AS PROPOSED RECEIVER

AUGUST 19, 2015

1.0 Introduction

1. Resource Capital Fund V L.P. ("RCF") and West Face Long Term Opportunities Global Master L.P. ("WFC") (jointly, the "Lenders") are secured creditors and shareholders of First Nickel Inc. (the "Company").
2. On the return date of this application, RCF is seeking an order ("Receivership Order"), among other things, appointing KSV Kofman Inc. ("KSV") as receiver of the Company's property, assets and undertaking pursuant to Subsection 243(1) of the *Bankruptcy and Insolvency Act* R.S.C. 1985, c. B-3, as amended ("BIA"), and Section 101 of the Courts of Justice Act R.S.O. 1990, c. C.43, as amended (if so appointed, KSV in such capacity is referred to herein as the "Receiver"). RCF is also requesting to come back to Court for a hearing (the "Comeback Hearing") prior to the end of August to request an order (the "Comeback Order") granting certain additional relief.
3. This report ("Report") is filed by KSV as proposed receiver (the "Proposed Receiver").
4. The primary purpose of these receivership proceedings is to facilitate a realization process for the Company's business and assets in an orderly Court-supervised process.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) Provide certain background information about the Company;
 - b) Summarize the Company's pre-filing efforts to identify prospective purchasers for its sole mine, the Lockerby Mine, which is located in the Sudbury Basin in Northern Ontario ("Lockerby Mine"), as well as its mining equipment;
 - c) Detail the intended sale process for the Company's assets;
 - d) Set out the intended course of action for the Lockerby Mine, including the remaining activity required to be performed by the Company in accordance with workplan approvals to be obtained from the Ministry of Labour;
 - e) Summarize the opinion prepared by Bennett Jones LLP ("Bennett Jones"), the Proposed Receiver's legal counsel, on the security granted by the Company in favour of RCF and WFC;
 - f) Summarize the status of the Company's defined contribution pension plan registered with the Financial Services Commission of Ontario ("FSCO") (the "Pension Plan"); and
 - g) Recommend that this Honourable Court issue the Receivership Order.

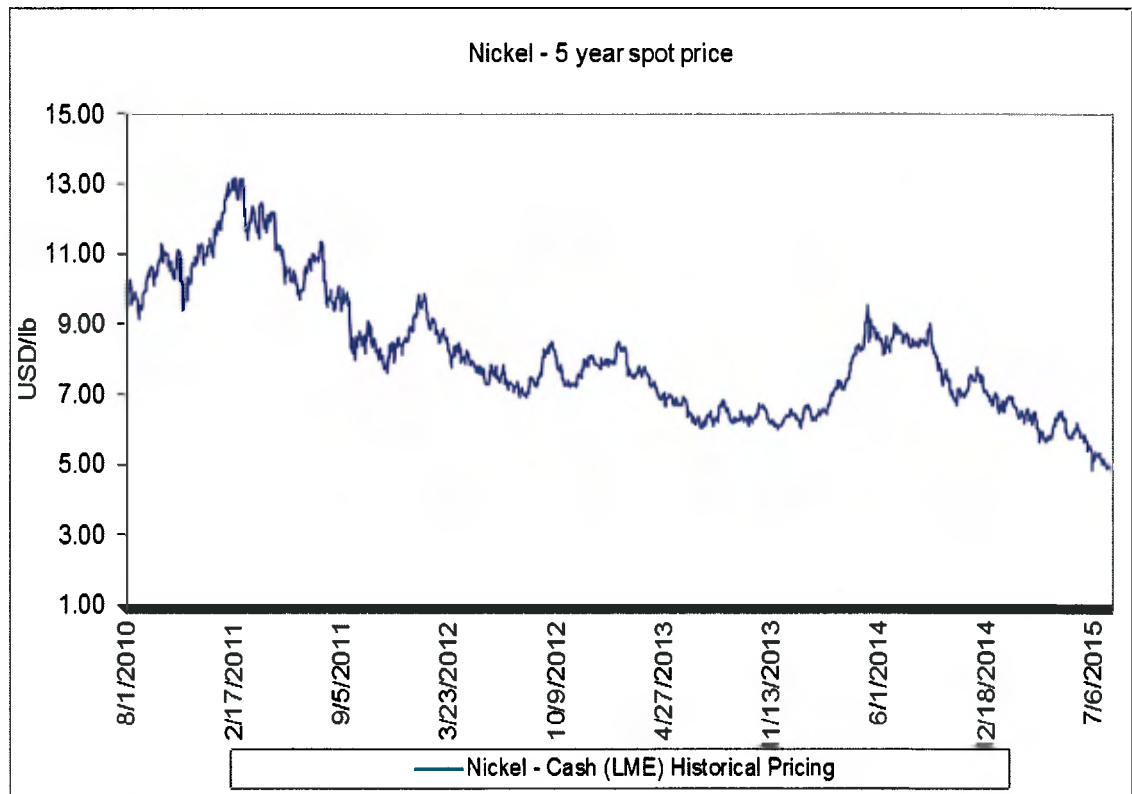
1.2 Restrictions

1. In preparing this Report, KSV has relied upon unaudited financial information prepared by the Company's management, the Company's books and records, discussions with the Company's management and its advisors, and discussions with the Lenders and their advisors. KSV has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future-oriented financial information relied upon in this Report is based on management's assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.

2.0 Background

1. The Company is a Canadian nickel mining and exploration company.
2. The Company is publicly traded; its shares are listed on the Toronto Stock Exchange under the trading symbol "FNI". The Company leases its head office, which is located in Toronto, Ontario.
3. The Lockerby Mine is an underground mine. The majority of the Company's mining equipment is located at depths ranging from 4,800 feet to 6,000 feet.

4. The Company produces nickel and copper bearing mineral ore. Its principal customer is Glencore Canada Corporation ("Glencore"); the Company supplies Glencore pursuant to the Lockerby Ore Sale and Processing Agreement dated May 31, 2005, as amended.
5. The Company also has rights to exploration properties in Sudbury, Bancroft, Belmont Townships and Timmins (collectively, the "Exploration Properties").
6. As a result of the decline in nickel prices and the Company's significant production costs, the Lockerby Mine is no longer economic. The Company is discontinuing its mining operations following its night shift on August 19, 2015. A chart of Nickel prices (obtained from S&P Capital IQ) for the last five years is provided below.



7. The Company had approximately 93 active employees as at August 19, 2015, the date that operations are being discontinued. The Company's hourly workforce is unionized. Hourly employees are members of either the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (United Steelworkers Local 2020, Unit 64) or the Sudbury Mine, Mill & Smelter Workers Union (Local 598/Unifor) (jointly, the "Unions").
8. Following the lay-offs that are expected to occur after the discontinuation of mining operations, the Company will employ 32 individuals, including 21 unionized employees. These employees are being retained by the Company to assist with the disposition of some or all of the Company's business and assets, and the orderly wind-down of any portion of the business and assets which are not saleable, including potentially the Lockerby Mine.

9. The Lockerby Mine is subject to a closure plan (the "Closure Plan"). In 2012, the Company arranged a CAD\$5.9 million surety bond with ACE INA Insurance ("ACE") in respect of the Company's obligations under the Closure Plan (the "Rehabilitation Process"). ACE's obligations are partially secured by cash collateral posted by the Company in the amount of approximately US\$2.4 million. The obligee under the bond is the Minister of Northern Development and Mines ("MNDM").
10. Further information concerning the Company is provided in the affidavit of Catherine Boggs, the Vice President and General Counsel of RCF Management L.L.C., the ultimate general partner that provides management services to RCF (the "Affidavit"). In order to avoid duplication, it has not been repeated herein. This Report is intended to be read in conjunction with the Affidavit.

3.0 The Lenders

1. Each of RCF and WFC is a lender pursuant to the loan agreements and other loan and security documents detailed in the Affidavit. As at the date of this Report, RCF and WFC were owed approximately US\$15.7 million and US\$12.67 million, respectively, plus interest and costs which continue to accrue.
2. The Lenders are expected to incur a substantial shortfall on their advances to the Company.
3. On August 19, 2015, RCF demanded repayment of its loan and issued a Notice of Intention to Enforce Security pursuant to the BIA. On August 19, 2015, the Company waived the statutory 10 day notice period and consented to the appointment of KSV as Receiver.
4. KSV has retained Bennett Jones to act as its independent counsel should the Court issue the Receivership Order and appoint KSV as Receiver. In advance of these proceedings, Bennett Jones provided KSV with a security opinion that the Lenders have validly perfected security interests in the Company's assets as set out in the security documents, subject to standard assumptions and qualifications. A copy of the opinion will be provided to the Court upon request and any interested party requesting a copy of same who confirms certain matters to the Receiver, including matters relating to privilege, reliance, liability to such party and disclosure.

4.0 Proposed Realization Process

1. KSV understands that the Company's pre-filing efforts to realize on certain of its mining equipment can be summarized as follows:
 - In June, 2015, the Company prepared and sent bid packages for its redundant equipment (i.e. those items that were not in use at that time) to five parties in the region which engage in the reselling of mining equipment;
 - Two bids were received for certain pieces of equipment;
 - The Company did not complete a transaction for the equipment at that time. It remains in communication with the bidders; and
 - The Lenders were supportive of the Company's sale process and were kept apprised of the Company's bid solicitation process, including the results thereof.

2. The Company's higher value mining equipment is its underground mobile fleet. Given that the Company was still operational at the time it solicited initial bids, it did not solicit bids for its mobile fleet.
3. The realization process needs to be completed very expediently. Urgency is driven by the Company's high cost structure and the lack of funding available for a lengthy realization process. In its present, non-operating state, the Company is projected to incur costs of approximately CAD\$800,000 per month, including professional fees.
4. Based on the foregoing, the Proposed Receiver, with the assistance of the Company's management team, intends to immediately solicit equipment bids from the parties that were approached by the Company and from additional prospective purchasers that the Company and the Proposed Receiver consider appropriate.
5. Potential bidders will be provided with a form of bidding document and requested to submit bids to the Proposed Receiver on or before August 27, 2015.
6. The value of the bids received on the equipment will determine the next steps in these proceedings. In consultation with the Lenders, the Proposed Receiver will be routinely considering the economics of continuing the realization process based on the expected recoveries versus the costs of the realization process, including maintenance costs. If and when the Proposed Receiver, in consultation with the Lenders, determines that the expected recoveries do not justify the related costs, the realization process will be discontinued.
7. Contemporaneous with the equipment sale process, the Proposed Receiver will consider any offers received for the Lockerby Mine. The timeframe to sell the Lockerby Mine will be driven by the economics of the equipment sale process. If no buyer emerges for the Lockerby Mine, the Proposed Receiver will turn the Lockerby Mine over to MNMD so MNMD can commence the Rehabilitation Process. The Proposed Receiver intends to contact ACE and MNMD at the outset of the proceedings to discuss timing, logistics and other matters related to the Rehabilitation Process.
8. As set out in the Affidavit, over the past year, the Company had been in discussions with prospective purchasers for the Lockerby Mine and maintained a data room to facilitate diligence. The Company's management has advised the Proposed Receiver that it is of the view that it is highly remote that a buyer will be identified for the Lockerby Mine. The Lenders concur with this view.

4.1 Exploration Properties Sale Process

1. Subject to Court approval to be requested at the Comeback Hearing, the Proposed Receiver intends to carry out the following sale process for the Exploration Properties:
 - a) It will compile a listing of prospective purchasers, which will include additional parties, if any, identified by the Company's management and the Lenders.
 - b) It will distribute to prospective purchasers a brief interest solicitation letter detailing this opportunity and relevant provisions of this sale process, including key milestones. Attached to the interest solicitation letter will be a confidentiality agreement ("CA"). Should a party be interested in performing due diligence, it would first be required to execute a CA.

- c) Prospective purchasers will have the opportunity to perform diligence, including the opportunity to review information in an online data room to be set up and maintained by the Receiver, with the assistance of the Company.
- d) The Proposed Receiver is of the view that the information necessary to submit a bid for the Exploration Properties will either be in the data room or available in the Company's publicly available information. A confidential information memorandum will not be prepared. The Proposed Receiver does not consider it necessary to incur the time and cost associated with preparing a confidential information memorandum.
- e) The Receiver will work with legal counsel to prepare a draft form of asset purchase agreement ("APA"). Prospective purchasers will be encouraged to submit offers in this format or substantially in this format, with any changes redlined against the original APA. The APA will also be made available in the data room.
- f) All offers will be subject to Court approval, and must not be contingent on financing or uncompleted due diligence.
- g) The bidding deadline shall be 30 days from the commencement of the sale process (unless the 30th day falls on a day that is not a business day, in which case it shall be the next business day). The Receiver will have the discretion to extend this deadline for an additional 30 days if it believes it is warranted in light of the level of interest and activity expressed by potential purchasers.
- h) The Receiver will not be required to accept the highest offer, or any offer, and will advise prospective purchasers that any transaction is subject to Court approval.
- i) The Receiver shall be entitled to have clarifying discussions with bidders regarding their bids after the bid deadline, and review and consider revised clarifying bids, provided the initial bid was submitted prior to the bid deadline.
- j) The Receiver shall be entitled to accept a single offer for all Exploration Properties, or multiple non-overlapping offers.
- k) Once an offer is accepted, the Receiver will, as soon as practical, seek Court approval of such offers.
- l) In assessing whether to accept an offer, the Receiver may consider such factors as it considers necessary and appropriate, including purchase price, cash payable on closing, conditions to closing, time to closing and the financial wherewithal of the purchaser to consummate the transaction within a reasonable time.
- m) If the proceeds of the offers received are not, in the aggregate, sufficient to pay the Lenders' claims against the Company in full, on closing, acceptance of the offers by the Receiver will be conditional on consent by both Lenders. Should no acceptable offers be received by the bid deadline (as may be extended), the Lenders reserve the right to seek to exercise remedies available to them as secured creditors.
- n) Further extensions beyond 30 days of the bid deadline and other reasonable modifications and amendments may be made by the Receiver with the consent of the Lenders, other than the requirement to obtain approval for any contemplated transaction.

5.0 Pension Plan

1. The Pension Plan is registered in Ontario and had 231 active members as at December 31, 2014.
2. Contributions to the Pension Plan are paid monthly in arrears based on wages paid in the prior month. The Company has made its August pension contribution. According to the Company's books and records, the Company's next scheduled payment is to be made in the last week of September, calculated based on wages paid in August, 2015. The Company estimates that the September contribution to the Pension Plan will be approximately CAD\$13,000.
3. KSV, Bennett Jones and the Lenders' legal counsel are in the process of reviewing issues related to the Pension Plan. If the Receiver is appointed, at the Comeback Hearing, RCF intends to seek an Order on notice to FSCO which will, *inter alia*, authorize the basis on which ongoing contributions to the Pension Plan will be funded during the Receivership Proceedings.

6.0 Comeback Hearing

1. At the initial hearing of this application, RCF is seeking only the granting of the Receivership Order, including the appointment of the Proposed Receiver (including the protections against liability for closure of the Lockerby Mine, described below), the corresponding stay of proceedings and other customary relief provided for in the model Ontario receivership order.
2. Should the Receivership Order be granted, RCF intends to re-attend at the Comeback Hearing on notice to the parties listed below, to seek the following relief:
 - Approval of the sale process described above for the Exploration Properties and, potentially, an equipment sale transaction(s) resulting from the bids to be received on August 27, 2015;
 - Authority for the Receiver to cause the Company to make the pension contributions in the normal course to the Pension Plan and related relief;
 - Authority for the Receiver to turnover the Lockerby Mine to MNMD so that MNMD can conduct the Rehabilitation Process;
 - Authority for the Receiver to establish a reserve for anticipated harmonized sales tax payments, and to cause the Company to pay harmonized sales tax from such reserve as and when such amounts are due and owing; and
 - Such other relief as RCF may consider necessary or appropriate to seek at such time.
3. The Proposed Receiver understands that the relief sought by RCF at the Comeback Hearing will be on notice to WFC, the Unions, MNMD, ACE, the Ministry of Labour, the Ministry of Environment, FSCO, Glencore, Canada Revenue Agency, the chief and council of the Atikameksheng Anishnawbek First Nation, and the other secured creditors registered against the Company's property.

7.0 Planned Activity at the Lockerby Mine

1. Based on the Proposed Receiver's discussions with the Company's mine management team, there is certain activity, including underground blasting, that will need to be undertaken at the Lockerby Mine for a short period of time after the anticipated receivership date. The Proposed Receiver understands this is a common procedure and this blasting is necessary in order to preserve the safety of the Lockerby Mine.
2. Unless the Lockerby Mine has already been turned over to MNDM, the scope of work to be performed by the Company is in an area of the Lockerby Mine known as "67-3E". The activities include inspecting, cleaning and clearing hazardous materials from that area. The process will also include the detonation of certain explosive materials.
3. The Company has retained the employees that are most familiar with and qualified to perform this scope of work. There are certain Ministry of Labour approvals that are required at various stages of this planned activity. The Company's initial workplan has been submitted to the Ministry of Labour. The planned activity will not commence until the requisite approvals are obtained from the Ministry of Labour.
4. Based on the foregoing, the Receivership Order includes a provision authorizing the Receiver to cause the Company to perform this work at the Lockerby Mine.

8.0 Protection for Receiver for certain Environmental Liabilities

1. The Proposed Receiver is requesting that the Receivership Order include the following provision:

THIS COURT ORDERS that the Receiver shall not be liable for any mine closure or environmental and land rehabilitation-related liabilities or obligations in respect of the Property, including as provided for in Part VII of the Mining Act, R.S.O. 1990, c. M. 14 or pursuant to any order or direction issued under the Environmental Legislation.
2. As discussed above and in the Affidavit, the Company has various obligations under the Closure Plan. The Proposed Receiver understands that the Company and certain other parties may have additional obligations under the Mining Act, R.S.O. 1990, c. M. 14.
3. It is the Proposed Receiver's expectation that the Rehabilitation Process will commence by MNDM shortly following the commencement of these proceedings, unless a buyer emerges for the Lockerby Mine. The Proposed Receiver, if appointed, intends to assist in facilitating the Rehabilitation Process with the Company, ACE and the MNDM; however, the Proposed Receiver does not intend to execute any aspect of the Rehabilitation Process itself. RCF is seeking express authority for the Receiver to turn over the Lockerby Mine to MNDM for this purpose. The Proposed Receiver supports this relief.
4. Accordingly, the Proposed Receiver is seeking confirmation from the Court that it will not be liable for any environmental rehabilitation-related liabilities in respect of the Company's assets. If the Receivership Order is granted, the MNDM will forthwith receive a copy of it, as described above.

9.0 Conclusion and Recommendation

1. Based on the foregoing, the Proposed Receiver respectfully recommends that this Honourable Court make an Order granting the Receivership Order.

* * *

All of which is respectfully submitted,

A handwritten signature in black ink that reads "KSV Kofman Inc." in a cursive, stylized script.

KSV KOFMAN INC.
IN ITS CAPACITY AS PROPOSED RECEIVER OF
FIRST NICKEL INC.
AND NOT IN ITS PERSONAL CAPACITY

Court File No. CV-15-11682-QCCL

RESOURCE CAPITAL FUND V L.P.

V.

FIRST NICKEL INC.
Respondent

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

REPORT OF THE PROPOSED RECEIVER
AUGUST 19, 2015

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