VICTORY NICKEL INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

DATED MARCH 31, 2015

MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

All of the information in the annual report and accompanying consolidated financial statements of Victory Nickel Inc. 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 by management 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 Directors, none of whom are employees or officers of the Company, meets with management and the external auditors to review the auditors' 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 Professional 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.

René R. Galipeau
Vice-Chairman and CEO
March 31, 2015

Alison J. Sutcliffe
Vice-President, Finance & CFO
March 31, 2015

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF VICTORY NICKEL INC.

We have audited the accompanying consolidated financial statements of Victory Nickel Inc. which comprise the consolidated balance sheets as at December 31, 2014, December 31, 2013 and January 1, 2013, and the consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2014 and December 31, 2013 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 in our audits 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 Victory Nickel Inc. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 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 none of the Company's mining projects have 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 and/or the ability to generate sufficient cash flow from its other operating activities 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 Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 31, 2015

Consolidated Balance Sheets

(in thousands of United States dollars)	Notes	December 31, 2014	December 31, 2013 (Note 2)	January 1, 2013 (Note 2)
ASSETS				
Current assets				
Cash and cash equivalents	*6*	**$ 712**	$ 1,338	$ 257
Restricted deposits	*6*	**271**	-	-
Receivables and prepaids	*7*	**3,367**	358	156
Marketable securities	*8*	**153**	261	560
Inventory	*9*	**2,977**	-	-
Total current assets		**7,480**	1,957	973
Non-current assets				
Property, plant and equipment	*11*	**6,179**	4,963	1,431
Mine property and development project	*12*	**34,893**	36,357	38,091
Exploration and evaluation projects	*13*	**13,380**	13,976	14,813
Total non-current assets		**54,452**	55,296	54,335
Total Assets		**$ 61,932**	$ 57,253	$ 55,308
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables	*14*	**$ 3,032**	$ 1,520	$ 554
Loans and borrowings - current	*15,16*	**7,493**	-	1,005
Total current liabilities		**10,525**	1,520	1,559
Non-current liabilities				
Loans and borrowings - long-term	*15,16*	**2,957**	2,143	8
Participating Interest	*16*	**3,548**	3,855	-
Lease obligations - long-term	*17*	**275**	384	-
Deferred tax liability	*18*	**817**	1,430	2,486
Total non-current liabilities		**7,597**	7,812	2,494
Total Liabilities		**18,122**	9,332	4,053
Shareholders' equity				
Share capital	*19*	**52,570**	52,048	47,926
Contributed surplus		**5,644**	5,431	4,420
Accumulated other comprehensive (loss) income		**(4,144)**	(1,714)	1,863
Deficit		**(10,260)**	(7,844)	(2,954)
Total shareholders' equity		**43,810**	47,921	51,255
Total Liabilities and Shareholders' Equity		**$ 61,932**	$ 57,253	$ 55,308

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board of Directors

(signed)
Cynthia P. Thomas
Director

(signed)
Roland Horst
Director

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

Consolidated Statements of Operations

Years ended December 31, (in thousands of United States dollars, except per share amounts)	Notes		2014		2013 (Note 2)
Revenues		**$**	**13,976**	$	-
Cost of goods sold			**(12,854)**		-
Gross margin			**1,122**		-
Operating expenses					
General and administrative			**(2,436)**		(1,582)
Share-based payments:	*21*				
Options			**(344)**		(197)
Share Bonus Plan			**-**		(42)
Amortization of property, plant and equipment	*11*		**(553)**		(26)
(Writedown) recovery of E and E projects	*13*		**(60)**		383
Pre-exploration costs	*13*		**(4)**		-
Net frac sand pre-operating costs	*24*		**(194)**		(585)
Operating loss			**(2,469)**		(2,049)
Finance income	*22*		**2,169**		14
Finance costs	*22*		**(2,629)**		(3,633)
Net finance costs			**(460)**		(3,619)
Loss before income taxes			**(2,929)**		(5,668)
Income tax recovery	*23*		**513**		778
Net Loss for the Year		**$**	**(2,416)**	$	(4,890)
Loss per share	*2,19,20*				
Basic loss per share		**$**	**(0.04)**	$	(0.10)
Diluted loss per share		**$**	**(0.04)**	$	(0.10)

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

Consolidated Statements of Comprehensive Loss

Years ended December 31, (in thousands of United States dollars)	Notes		2014		2013 (Note 2)
Net loss for the year		**$**	**(2,416)**	$	(4,890)
Other comprehensive (loss) income ("OCI")					
Net change in fair value of financial assets	*8*		**(104)**		(217)
Income tax recovery			**12**		30
Foreign exchange on change in functional currency	*2*		**(2,338)**		(3,390)
Other comprehensive loss for the year			**(2,430)**		(3,577)
Total Comprehensive Loss for the Year		**$**	**(4,846)**	$	(8,467)

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

Consolidated Statements of Shareholders' Equity

(in thousands of United States dollars)	*Notes*	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income / (Loss)	Deficit	Total Equity
Balances as at January 1, 2013		$ 47,926	$ 4,420	$ 1,863	$ (2,954)	$ 51,255
Total comprehensive loss for the year						
Net loss for the year					(4,890)	(4,890)
Other comprehensive loss						
Net change in fair value of financial assets	*8*			(217)		(217)
Income tax recovery	*23*			30		30
Foreign exchange on change in functional currency	*2*			(3,390)		(3,390)
Total other comprehensive loss				(3,577)		(3,577)
Total comprehensive loss for the year						(8,467)
Transactions with owners, recorded directly in equity						
Contributions by owners in the year						
Issue of common shares for settlement of liabilities, net	*19*	115	-	-	-	115
Issue of common shares under private placement, net	*19*	2,150	-	-	-	2,150
Issue of common shares for loan fee	*19*	265	-	-	-	265
Issue of common shares and warrants						-
under private placement, net	*19*	177	103	-	-	280
Issue of common shares and warrants						-
under rights offering, net	*19*	1,352	711	-	-	2,063
Issue of common shares under Share Bonus Plan	*19*	63	-	-	-	63
Options granted and vesting or modified	*21*	-	197	-	-	197
Total contributions by owners		4,122	1,011	-	-	5,133
Total transactions with owners		4,122	1,011	-	-	5,133
Balances as at December 31, 2013		$ 52,048	$ 5,431	$ (1,714)	$ (7,844)	$ 47,921
Balances as at January 1, 2014		$ 52,048	$ 5,431	$ (1,714)	$ (7,844)	$ 47,921
Total comprehensive loss for the year						
Net loss for the year					(2,416)	(2,416)
Other comprehensive loss						
Net change in fair value of financial assets	*8*			(104)		(104)
Income tax recovery	*23*			12		12
Foreign exchange on change in functional currency	*2*			(2,338)		(2,338)
Total other comprehensive loss				(2,430)		(2,430)
Total comprehensive loss for the year						(4,846)
Transactions with owners, recorded directly in equity						
Contributions by owners in the year						
Options granted and vesting	*21*	-	344	-	-	344
Warrants exercised	*19*	172	(30)	-	-	142
Options exercised	*19*	345	(144)	-	-	201
Equity component of debt	*15*	-	48	-	-	48
Issue of common shares for loan fee (net)	*19*	5	-	-	-	5
Effect of foreign exchange conversion	*2*	-	(5)	-	-	(5)
Total contributions by owners		522	213	-	-	735
Total transactions with owners		522	213	-	-	735
Balances as at December 31, 2014		**$ 52,570**	**$ 5,644**	**$ (4,144)**	**$ (10,260)**	**$ 43,810**

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

Consolidated Statements of Cash Flows

Years ended December 31, (in thousands of United States dollars)	***Notes***	**2014**	2013 (Note 2)
Cash flows from operating activities			
Net loss for the year		**$ (2,416)**	$ (4,890)
Adjustments for:			
Share-based payments	*21*	**344**	239
Amortization of property, plant and equipment	*11*	**553**	26
Writedown (recovery) of exploration and evaluation project	*13*	**60**	(383)
Net finance costs	*22*	**136**	3,609
Income tax recovery	*23*	**(513)**	(778)
Net change in working capital:			
Change in receivables		**(3,009)**	(219)
Change in inventory		**(2,977)**	-
Change in trade and other payables		**2,248**	100
Net cash used by operating activities		**(5,574)**	(2,296)
Cash flows from investing activities			
Expenditures on mine property and development project	*12*	**(396)**	(945)
Expenditures on exploration and evaluation projects	*13*	**(160)**	(134)
Proceeds on sale of marketable securities		**-**	57
Proceeds from option of Lynn Lake	*13*	**-**	391
Deposits on equipment	*11*	**(100)**	(150)
Expenditures on 7P Plant	*11*	**(2,334)**	(1,962)
Net cash used by investing activities		**(2,990)**	(2,743)
Cash flows from financing activities			
Issue of common shares	*19*	**338**	4,382
Payments of interest	*15,16,17*	**(1,274)**	(168)
Payments under leases	*17*	**(146)**	(94)
Net proceeds of loans	*15*	**9,291**	2,000
Deposits of restricted cash	*6*	**(271)**	-
Net cash from financing activities		**7,938**	6,120
Net (decrease) increase in cash and cash equivalents		**(626)**	1,081
Cash and Cash Equivalents, Beginning of the Year		**1,338**	257
Cash and Cash Equivalents, End of the Year		**$ 712**	$ 1,338

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

Notes to the Condensed Consolidated Financial Statements

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of Operations

Victory Nickel Inc. ("Victory Nickel" 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 as at and for the years ended December 31, 2014 and 2013 comprise the Company and its subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel was primarily engaged in the acquisition, exploration and development of nickel properties and associated products in Canada until the second quarter of 2014 when the Company became a producer and supplier of premium frac sand from its 500,000 ton per annum ("tpa") frac sand plant (the "7P Plant") located near Seven Persons approximately 18kms southwest of Medicine Hat, Alberta. Frac sand is specialized sand that is used as a proppant to enhance recovery from oil and gas wells. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol NI.

Change in Functional and Presentation Currency

Effective October 1, 2014, the Company changed its functional currency to the United States dollar ("US$") from the Canadian dollar ("C$"). This change in accounting treatment is applied prospectively. Concurrently, the Company determined that it would change its presentation currency to the US$. Refer to Note 2 (c) for additional information.

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, 2014, the Company had a working capital deficiency of $3,316,000, (December 31, 2013 – working capital of $437,000). Working capital is defined as current assets (excluding any restricted cash) less current liabilities.

During the second quarter of 2014, the Company was in the start-up and commissioning stage and began producing and selling frac sand from the 7P Plant; on August 11, 2014, the Company announced that the 7P Plant was commissioned. The SPA Loan is due in July, 2015, also one convertible note in the amount of $2,000,000 is due in November 2015 and, accordingly, they are classified as current liabilities, due within one year. The Company has generated operating cash flow during the second half of 2014 but not yet at levels sufficient to wholly fund its activities. In October 2014, the Company secured a short-term facility of $2,000,000 through the issuance of a promissory note (Note 15). This facility has been extended on a monthly basis by the lender and is presently due by March 31, 2015. A further extension to April 30, 2015 was arranged on March 31, 2015 (Note 28).

The Company recognizes the imminent cash requirement to repay debt and is actively considering restructuring of its debt to term it out for several years. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring.

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, an unexpected change in the frac sand market which would limit the Company's ability to generate cash flow from the 7P Plant, dependence on key individuals 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. Development of the Company's current nickel mining projects 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 mining 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 and/or the ability to generate sufficient cash flow from its other operating activities for its funding. The Company's 7P Plant completed commissioning in August, 2014. It is expected that future cash flow will be sufficient to meet operating requirements with the ultimate potential to advance the Company's mining interests the timing of this is not certain.

Notes to the Condensed Consolidated Financial Statements

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

The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon either 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 such as royalty interests for its funding or the success of the frac sand business referred to above.

However, should the Company not be able to reach successful cash flow generation and achieve profitable operations from frac sand business or continue to achieve favourable exploration results, obtain the necessary financing or achieve future profitable production or sale of properties, 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. There is no certainty, especially in the present environment, that the Company's initiatives to improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including project expenditures and corporate costs. 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.

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.

The management of Victory Nickel prepare 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, 2015 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

(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

Under IFRS, an entity's functional currency should reflect the underlying transactions, events and conditions relevant to the entity. Given the Company's transition into an operating entity with revenues and significant expenses driven by prices in US$ and which currency influences management's primary operating, capital and financing decisions, effective October 1, 2014, the Company changed its functional currency to the US$. This change in accounting treatment is applied prospectively. Concurrently, the Company determined that it would change its presentation currency to the US$.

For comparative reporting purposes, historic financial statements were translated into the US$ reporting currency whereby assets and liabilities were translated at the closing rate in effect at the end of the comparative periods; revenues, expenses and cash flows were translated at the average rate in effect for the comparative periods and equity transactions were translated at historic rates. The resultant exchange difference resulting from the translation as at October 1, 2014 was an unrealized foreign exchange loss of $5,757,000 which is included as a separate component of other comprehensive income.

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

Notes to the Condensed Consolidated Financial Statements

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

(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:

- Note 7 – valuation of receivables;
- Note 8 - valuation of financial assets at fair value through operations and OCI;
- Note 9 – valuation of inventory;
- Note 12 - measurement of the recoverable amount of mine property and development project;
- Note 13 - measurement of the recoverable amount of exploration and evaluation projects;
- Note 15 - measurement and valuation of the embedded options in convertible notes;
- Note 16 – measurement and valuation of the participating interest; and
- Note 21 - measurement of share-based payments.

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 circumstance giving rise to 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 2 – determination of the functional currency for the Company and its subsidiaries;
- Note 7 – impairment of receivables;
- Note 9 – impairment of inventory;
- Note 12 - classification of expenditures as mine property and development project or operating expenses;
- Note 13 - classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 12 - impairment of mine property and development project;
- Note 13 - impairment of exploration and evaluation projects; and
- Note 18 - recoverability of deferred tax assets.

Share Consolidation

On September 12, 2014, as described more fully in Note 19, the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"). Accordingly, certain comparative information regarding issued and outstanding common shares, options, warrants, weighted average number and per share information has been adjusted retroactively to be comparable using that basis as if the Share Consolidation had been effective on the first day of the reporting period of these financial statements. Refer to Notes 19, 20 and 21.

Reclassifications

Certain of the prior year's balances have been reclassified to conform with the current presentation.

Notes to the Condensed Consolidated Financial Statements

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

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 Victory Nickel entities.

(a) New Accounting Policies

There have been no new accounting policies adopted by the Company, except as noted below.

(b) Basis of Consolidation

Subsidiary

A subsidiary is an entity controlled by Victory Nickel. Control exists when Victory Nickel 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 align with the policies adopted by Victory Nickel. Significant Company entities are listed in Note 26.

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 Victory Nickel'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

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Victory Nickel 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 operations, except for differences arising on the retranslation of marketable securities, 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.

As reported earlier, the Company changed its functional and presentation currency to the US$ effective October 1, 2014.

(d) Financial Instruments

IFRS 9 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 and trade and other payables.

Non-derivative financial instruments, with the exception of financial assets and liabilities at fair value through OCI, 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.

Notes to the Condensed Consolidated Financial Statements

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

Cash and cash equivalents comprise cash balances and call deposits. Restricted deposits are funds on deposit with a Canadian chartered bank to support letters of credit being used to facilitate business activity with certain vendors.

Loans, receivables and borrowings are financial assets 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, loans, receivables and borrowings are measured at amortized cost using the effective interest method, less any impairment losses. Loans, receivables and borrowings comprise receivables or payables.

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

Financial assets at fair value through OCI

Victory Nickel's investments in equity securities are measured at fair value and changes therein, as well as foreign currency differences on monetary items (which do not include equity investments), are recognized directly in OCI.

Financial instruments 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

Victory Nickel may periodically hold warrants as part of its portfolio of marketable securities which are financial assets at fair value through operations. Convertible promissory notes contain embedded derivatives which are separated from the financial instrument measured at amortized cost.

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) Inventory

Finished products and raw materials inventories are valued at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of processing and other costs incurred in bringing inventories to their present location and condition. Net realizable value for finished products and raw materials is generally considered to be the selling price of the finished product in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale. Inventory is reviewed to ensure the carrying value does not exceed net realizable value. A writedown is recognized when carrying cost exceeds net realizable value. The writedown may be reversed if the circumstances which caused it no longer exist.

(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.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. 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 less its residual value. Depreciation is recognized through operations as follows over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. Depreciation commences when an asset is placed into service. The 7P Plant has commenced operation and accordingly, amortization of plant equipment commenced during 2014.

Notes to the Condensed Consolidated Financial Statements

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

The depreciation rates and methods for the current and comparative periods are as follows:

Item	**Method**	**2014**	2013
Building	Declining-balance	**5%**	5%
Plant and Equipment at 7P Plant	Straight-line	**10% to 20%**	n/a
Other Equipment and Furniture	Declining-balance	**20%**	20%
Vehicles and Mobile Equipment	Declining-balance	**30%**	30%

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 includes 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 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, geophysical surveys, 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, permitted and development is approved by the Board, 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.

(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.

(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 E and E 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) Mine Property and Development Project

(i) Pre-production development expenditures

The Company considers a project to be in the development phase when an identified mineral reserve is being prepared for production as approved by the Board, for example when there is construction of access to the mineral reserves upon determination that there is economic viability of the project under a successful feasibility study and is permitted for development. As such, project development activities are related to the construction of an asset to be used in production or preparation for extraction of a specific mineral resource.

The costs of mining properties, which include the costs of acquiring and developing mining properties and mineral rights, are capitalized in the same manner as property and equipment under *Mine property and development project* ("MP&D") assets on the consolidated balance sheet in the period in which they are incurred or transferred from E&E assets upon determination of economic viability. At that point, all further pre-production primary development expenditure other than land, buildings, plant and equipment, etc. is capitalized as part of the cost of the project until the project is capable of commercial production. This includes costs incurred in preparing the site for mining operations, including pre-stripping costs.

Presently, the Company's sole project classified as *Mine property and development project* on the consolidated balance sheet is the Minago project; it continues to be in the pre-production phase and costs continue to be capitalized without depreciation.

(ii) Impairment

If a property were to be abandoned, there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, the cumulative capitalized cost relating to the property is written off to its recoverable amount through operations.

(i) 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.

(j) Government Grants

Government grants that compensate Victory Nickel for expenses incurred are recognized through operations on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate Victory Nickel 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 MP&D assets, the government grant is deducted from the related asset.

(k) Investment Tax Credits ("ITCs")

Investment tax credits may be claimed by the Company on qualifying expenditures. The Company accounts for these when such qualifying expenditures have been made by reducing the deferred tax liability and recording an income tax recovery through the consolidated statement of operations.

(l) 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 Victory Nickel'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.

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. 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 a 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.

(m) Employee Benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Victory Nickel 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 Victory Nickel 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 Victory Nickel 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 payment transactions

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 Victory Nickel.

(n) 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.

(o) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including financial assets at fair value through operations), gains on the disposal of financial assets at fair value through operations, amortization of flow-through premiums and changes in the fair value of financial assets (warrants) at fair value through operations. Interest income is recognized as it accrues through operations, using the effective interest method. 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 and liabilities at fair value through operations and losses recognized on financial assets that are recognized through operations. 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.

(p) 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. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. 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.

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In 2009, pursuant to the receipt of a positive feasibility study for the Minago project, Victory Nickel determined that it was probable that it would be able to realize the benefit associated with its losses and costs prior to their expiry. Accordingly, the Company recognized the deferred tax assets (to the extent of the deferred tax liability) at that time. Victory Nickel continues to believe it is probable that the benefit of its losses and other costs will be realized prior to their expiry. The Company has not recognized any deferred tax assets relating to Victory Silica.

(q) Share Capital

(i) 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 E&E 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 14). The proceeds attributable to the warrants is 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.

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 provision.

Furthermore, as eligible expenditures are incurred, the Company recognises 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.

(ii) 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 stock-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 profitable 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 compensation expense, 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.

(r) Revenue Recognition

Revenues from frac sand sales are recognized when legal title passes to the customer which may occur at the

Company's production facility, rail origin or at the destination terminal or transload facility. At that point, delivery has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured.

(s) 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.

(t) 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, 2014 and have not been applied in preparing these consolidated financial statements unless stated otherwise. The Company is still assessing the impact of these not yet effective standards on the consolidated financial statements.

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.

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 including entry into new operations such as the frac sand business. 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, restricted deposits, receivables and marketable securities.

Cash and cash equivalents and restricted deposits
The Company's cash and cash equivalents and restricted deposits 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 has increased its exposure to credit risk upon commencement of sales of frac sand. The Company's other receivables consist primarily of amounts due from federal and provincial governments. Amounts

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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 receivables. 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.

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, 2014, the Company had $nil in third party guarantees outstanding (2013 - $nil).

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 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. However, the frac sand business is expected to provide liquidity to the Company.

The Company has several long-term liabilities including its deferred tax liability and long-term obligations relating to equipment financing, Participating Interest with Nuinsco Resources Limited ("Nuinsco") and other promissory notes. All other contractually-obligated cash flows are payable within the next fiscal year. It was expected that operating funds from frac sand activity would significantly assist in servicing and repaying such long-term obligations. In addition, certain loan obligations are convertible into equity and successful implementation of the frac sand business was expected to improve the attractiveness of conversion. However, the present downturn being experienced so far in 2015 is having an adverse effect on sales and share prices which affect the likelihood of debt conversion. Accordingly, the Company is seeking to restructure its debt.

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 and MP&D 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. The frac sand market is relatively new to the Company and is subject to market forces affecting oil and natural gas pricing and related demand for frac sand.

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Currency risk

The Company is exposed to currency risk on purchases and other payables that are denominated in a currency other than the functional currency of the Company; the US dollar. The primary currency in which these transactions are denominated is the Canadian dollar. The Company does not actively hedge its foreign currency exposure.

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 debt bears interest at fixed rates (Note 15). 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 presently exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates. The Company is in the process of securing working capital financing to support the short-term requirements of the frac sand business and to replace the short-term facility in place as at December 31, 2014; this financing is expected to have variable 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 and other minerals. The future prices of frac sand sales are also subject to similar risks.

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. The Company presently has two main sand suppliers and, in order to partly mitigate supply risk, has optioned the Bear Coulee property.

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, including the Occupational Health and Safety Act and related regulations and codes, and the Railway Safety Act and requirements of the Canadian Transportation Agency;

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- documentation of controls and procedures, including quality control and plant maintenance;
- 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 salaried 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.

	December 31, 2014	December 31, 2013	January 1, 2013
Shareholders' equity	**$ 43,810**	$ 47,921	$ 51,255
Loans and borrowings - long-term portion	**2,957**	2,143	8
Participating Interest	**3,548**	3,855	-
Lease obligations - long-term portion	**275**	384	-
Loans and borrowings - available	**-**	470	-
	$ 50,590	$ 54,773	$ 51,263

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, working capital 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 its subsidiary, are subject to externally-imposed capital requirements. There were no changes in the Company's approach to 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.

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).

(a) Property and Equipment

The fair value of property and equipment recognized as a result of a business combination is based on the amount for which a property could be exchanged on the date of valuation between knowledgeable, willing parties in an arm's length transaction.

(b) Intangible Assets

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

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(c) 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.

(d) 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.

(e) Warrants

The fair values of warrants included in either financial assets at fair value through operations or in equity are 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).

(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 share options is measured using the Black-Scholes option-pricing model. The measurement inputs are described above under Note 5(e). 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, 2014	December 31, 2013	January 1, 2013
Bank balances	**$ 707**	$ 1,333	$ 257
Short-term deposits	**5**	5	-
Cash and Cash Equivalents in the Statement of Cash Flows	**$ 712**	$ 1,338	$ 257

The Company has placed $271,000 funds on deposit with a Canadian chartered bank to support letters of credit being used to facilitate business activity with certain vendors and are presented as restricted cash on the consolidated balance sheet. The term deposits mature within one year and bear interest at either 0.35% or 0.95%.

7. RECEIVABLES AND PREPAIDS

	Note	**December 31, 2014**	December 31, 2013	January 1, 2013
Trade accounts receivable		**$ 2,725**	$ -	$ -
Less: Allowance for doubtful accounts		**-**	-	-
		2,725	-	-
Other receivables		**48**	217	69
Receivable from Nuinsco Resources Limited	*25*	**-**	-	37
Prepaid expenses and deposits		**594**	141	50
		$ 3,367	$ 358	$ 156

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The aging of trade accounts receivable is as follows:

	December 31, 2014	December 31, 2013	January 1, 2013
Trade accounts receivable			
Current	**$ 1,945**	$ -	$ -
Past due 0-30 days	**454**	-	-
Past due 31-60 days	**253**	-	-
Past due 61-90 days	**42**	-	-
Past due > 90 days	**31**	-	-
	$ 2,725	$ -	$ -

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures. As at December 31, 2014, the Company determined that it had no exposure to losses due to the quality of its customers; approximately 99% of the balances outstanding had been collected by the date of this report.

As at December 31, 2014, four of the Company's customers accounted for 85% of the trade accounts receivable balance.

8. MARKETABLE SECURITIES

	December 31, 2014	December 31, 2013	January 1, 2013
Financial assets at fair value through OCI:			
Shares	**$ 153**	$ 261	$ 560
	$ 153	$ 261	$ 560

The Company records its portfolio of shares at available market prices with any difference in fair value compared with acquisition cost being recorded as gain or loss on financial assets at fair value through OCI.

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 and the TSX-V. Recently, the markets have experienced extreme volatility; therefore the sensitivity analysis is performed using 15%. For such investments, a 15% increase in the equity prices at the reporting date would have increased equity by $20,000, after tax effects of $3,000 (as at December 31, 2013 - an increase of $34,000, after tax effects of $5,000); an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

9. INVENTORY

	December 31, 2014	December 31, 2013	January 1, 2013
Raw material			
At transload facility	**$ 118**	$ -	$ -
In transit	**951**	-	-
Stored at 7P Plant	**463**	-	-
	1,532	-	-
Finished goods	**1,445**	-	-
	$ 2,977	$ -	$ -

Notes to the Condensed Consolidated Financial Statements

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

10. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. All amounts are held in Canada.

The maximum exposure to credit risk at the reporting date was:

	Notes	December 31, 2014	December 31, 2013	January 1, 2013
Carrying amount				
Cash and cash equivalents	*6*	**$ 712**	$ 1,338	$ 257
Restricted deposits	*6*	**271**	-	-
Receivables	*7*	**3,367**	358	156
Financial assets at fair value through OCI	*8*	**153**	261	560
		$ 4,503	$ 1,957	$ 973

Liquidity Risk

The following table shows the contractual maturities of financial liabilities including estimated interest payments.

	Non-derivative financial liabilities				
	Trade and other payables (1)	Short-term loans	Leases payable (1)	Long-term liabilities (2)	Total
As at December 31, 2014					
Carrying amount	$ 2,895	$ 7,493	$ 412	$ 2,957	$ 13,757
Contractual cash flows	2,895	8,651	452	4,818	16,816
6 months or less	2,895	2,493	80	295	5,763
6 - 12 months	-	6,158	80	299	6,537
1 - 2 years	-	-	154	4,224	4,378
2 - 5 years	-	-	138	-	138
As at December 31, 2013					
Carrying amount	$ 1,520	$ -	$ 534	$ 2,143	$ 4,197
Contractual cash flows	1,520	-	599	2,551	4,670
6 months or less	1,520	-	105	147	1,772
6 - 12 months	-	-	70	149	219
1 - 2 years	-	-	148	2,255	2,403
2 - 5 years	-	-	276	-	276
As at January 1, 2013					
Carrying amount	$ 554	$ 1,005	$ -	$ -	$ 1,559
Contractual cash flows	554	1,255	-	-	1,809
6 months or less	554	60	-	-	614
6 - 12 months	-	60	-	-	60
1 - 2 years	-	120	-	-	120
2 - 5 years	-	1,015	-	-	1,015

(1) Balances reflect current leases payable as *Leases payable*; these are disclosed within *Trade and other payables* (Note 14) on the consolidated balance sheet.

(2) Note that the long-term loan to Nuinsco prior to its conversion to a Participating interest was contractually payable on January 31, 2015, however up to $nil (January 1, 2013 - $1,005,000) of option payments may be diverted to the lender as prepayment, that amount is classified as a current liability on the consolidated balance sheet (See Notes 13 and 15).

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

Currency Risk

Exposure to currency risk

As at December 31, 2014

(in thousands of United States dollars)	US$	C$
Cash and cash equivalents	$ 376	$ 336
Restricted deposits	224	47
Receivables and prepaids	3,355	12
Marketable securities	-	153
Trade and other payables	(801)	(2,231)
Loans and borrowings - current	(7,493)	-
Loans and borrowings - long-term	(2,745)	(212)
Participating Interest	-	(3,548)
	$ (7,084)	$ (5,443)

As at December 31, 2013

(in thousands of United States dollars)	US$	C$
Cash and cash equivalents	$ 1,275	$ 63
Receivables and prepaids	134	224
Marketable securities	(0)	261
Trade and other payables	(111)	(1,409)
Loans and borrowings - long-term	(2,143)	(384)
Participating Interest	-	(3,855)
	$ (845)	$ (5,100)

As at January 1, 2013

(in thousands of United States dollars)	US$	C$
Cash and cash equivalents	$ -	$ 257
Receivables	-	156
Marketable securities	-	560
Trade and other payables	3	551
Loans and borrowings	-	1,013
	$ 3	$ 2,537

Sensitivity analysis

A 10% weakening of the United States dollar would have an approximate effect on the Company's equity of $544,000 or $560,000 on profit or loss on balances denominated in C$ as at December 31, 2014 ($510,000 and $536,000 as at December 31, 2013; $254,000 and $228,000 as at January 1, 2013, respectively). The analysis assumes that all other variables, in particular interest rates, remain constant.

Fair Value

Fair values versus carrying amounts

The fair values of the Company's financial assets and liabilities equal their carrying amounts shown in the consolidated balance sheets. The Company has not made any reclassifications between assets recorded at cost or amortized cost and fair value.

The table below analyses financial instruments carried at fair value by valuation method:

	Level 1	Level 2	Level 3	Total
As at December 31, 2014				
Financial assets at fair value through OCI	**$ 153**	**$ -**	**$ -**	**$ 153**
	$ 153	**$ -**	**$ -**	**$ 153**

Notes to the Condensed Consolidated Financial Statements

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

As at December 31, 2013				
Financial assets at fair value through OCI	$ 261	$ -	$ -	$ 261
	$ 261	$ -	$ -	$ 261
As at January 1, 2013				
Financial assets at fair value through OCI	$ 560	$ -	$ -	$ 560
	$ 560	$ -	$ -	$ 560

There have been no transfers between Level 1, Level 2 and Level 3 during the current and prior reporting periods. All of the shares owned by the Company are valued using Level 1 methodologies.

11. PROPERTY AND EQUIPMENT

Balances as at January 1, 2013	**Land and Building**	**7P Plant**	**Vehicles and Mobile Equipment**	**Equipment and Furniture**	**Total**
Cost	$ 83	$ -	$ 32	$ 1,367	$ 1,482
Accumulated Amortization	(8)	-	(17)	(26)	(51)
Carrying Amount	**75**	**-**	**15**	**1,341**	**1,431**
Additions	-	2,922	603	159	3,684
Amortization	(1)	-	(21)	(3)	(25)
Balances as at December 31, 2013					
Cost	83	2,922	635	1,526	5,166
Accumulated Amortization	(9)	-	(38)	(28)	(75)
Effect of Foreign Exchange (Note 2)	(16)	(10)	(3)	(99)	(128)
Carrying Amount	**58**	**2,912**	**594**	**1,399**	**4,963**
Additions	-	1,852	73	115	2,040
Amortization	(2)	(382)	(168)	(2)	(554)
Balances as at December 31, 2014					
Cost	83	4,774	708	1,641	7,206
Accumulated Amortization	(11)	(382)	(202)	(30)	(625)
Effect of Foreign Exchange (Note 2)	(8)	(187)	(47)	(160)	(402)
Carrying Amount	**$ 64**	**$ 4,205**	**$ 459**	**$ 1,451**	**$ 6,179**

Equipment and furniture includes deposits of $1,544,000 related to the purchase of transformers and other electrical equipment; the equipment is not available for use and is not being depreciated. On May 10, 2010, the Company entered into an agreement to purchase the transformers and other electrical equipment for the Minago project. The total price is $2,840,000 (Note 27). Vehicles and Mobile Equipment include $666,000 (2013 - $603,000) of equipment acquired under leases (Note 17).

12. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2014	Effect of Foreign Exchange (Note 2)	Current Expenditures	Recoveries	**December 31, 2014**
Minago	$ 36,357	$ (1,836)	$ 372	$ -	**$ 34,893**
	$ 36,357	$ (1,836)	$ 372	$ -	**$ 34,893**

	January 1, 2013	Effect of Foreign Exchange (Note 2)	Current Expenditures	Recoveries	**December 31, 2013**
Minago	$ 38,091	$ (2,483)	$ 819	$ (70)	**$ 36,357**
	$ 38,091	$ (2,483)	$ 819	$ (70)	**$ 36,357**

Recoveries in 2013 represent grants from the Manitoba Government.

Notes to the Condensed Consolidated Financial Statements

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

Minago

The 100%-owned Minago project covers approximately 28,928 ha, through a combination of mining claims, mineral leases and a mineral exploration licence, on Manitoba's Thompson Nickel Belt. The property encompasses the Nose Deposit, which contains the entire current nickel mineral resource, and the North Limb, a zone of nickel mineralization with a known strike length of 1.5 kilometres located to the north of the Nose Deposit.

From 2006 to date, considerable work has been performed, including diamond drilling, metallurgical testing and engineering studies and all the studies required to complete the Environmental Impact Study which was filed in May 2010. As a result, in August 2011, the Company received its Environmental Act Licence. The results of the Minago Feasibility Study ("FS") were announced in December 2009 and improvements thereto announced in June 2010 and July 2011.

Five mineral claims totalling 691 ha located at the north end of the Company's existing Minago property package are subject to a maximum 2% net smelter return royalty with a 50% back-in right; these claims represent approximately 2.4% of the total Minago project.

The Minago project is not in production. Accordingly, the Minago project is not being depreciated. On September 19, 2011, the Company announced that the Board of Directors had approved the development of Minago and directed management to proceed with securing financing arrangements.

As at December 31, 2014, the Company tested the Minago project for impairment. The economic model in the FS was used as a base. The business model used in the FS and the intention of management is to develop and produce the nickel and frac sand co-product simultaneously. For the purposes of assessing the impairment of Minago, frac sand is treated as a raw material for sale into the market and is not processed to a finished product. This required elimination from the FS economic model of the following: processing plant capital, processing operating costs, transportation costs and the finished goods margin. This does not reflect how management intends to develop Minago, nor, in management's opinion, does it reflect how any other organization would develop the project.

In addition, adjustments were made for prices derived from the forecasted average of $9.29 for nickel and an exchange rate of US$0.80:C$1.00. A discount rate of 11% was used in the analysis and includes estimates for income taxes. These factors resulted in a recoverable amount in excess of the book value of Minago. Accordingly, no impairment exists on the Minago project.

The impairment model is sensitive to several of the model key input variables. The following table indicates the estimated impact on the recoverable amount:

Change in Model Key Input	Change in Recoverable Amount of Minago
Effect of:	
Increase discount rate by 1%	(55%)
Increase exchange rate by 0.05	(65%)
Increase frac sand and nickel prices by 1%	14%
Increase operating costs by 5%	(30%)

Notes to the Condensed Consolidated Financial Statements

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

13. EXPLORATION AND EVALUATION PROJECTS

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

	January 1, 2014	Effect of Foreign Exchange (Note 2)	Current Expenditures	Writedowns/ Recoveries	Excess Proceeds	**December 31, 2014**
Lac Rocher	$ 6,946	$ (349)	$ 12	$ -	$ -	**$ 6,609**
Mel	7,026	(347)	92	-	-	**6,771**
Lynn Lake	-	-	44	(44)	-	**-**
Other	4	-	12	(16)	-	**-**
	$ 13,976	$ (696)	$ 160	$ (60)	$ -	**$ 13,380**

	January 1, 2013	Effect of Foreign Exchange (Note 2)	Current Expenditures	Recoveries	Excess Proceeds	**December 31, 2013**
Lac Rocher	$ 7,354	$ (477)	$ 69	$ -	$ -	**$ 6,946**
Mel	7,459	(483)	50	-	-	**7,026**
Lynn Lake	-	-	8	(391)	383	**-**
Other	-	-	4	-	-	**4**
	$ 14,813	$ (960)	$ 131	$ (391)	$ 383	**$ 13,976**

The expenditures on the Lynn Lake property are shown net of cumulative option payments received which include $nil in 2014 and $391,000 in 2013. The excess proceeds of $nil and $383,000 for the years ended December 31, 2014 and 2013, respectively, represent the excess of consideration received under the option agreement above carrying value and are reflected in *Writedown (recovery) of exploration and evaluation project* through operations.

Lac Rocher

The Lac Rocher project, which is 100%-owned, is located 140 kilometres northeast of Matagami in northwestern Québec. The project is subject to a royalty of C$0.50 per ton on any ores mined and milled from the property and a 2% NSR described below.

In 2007, the Company began environmental work in support of obtaining a permit for the Lac Rocher deposit in order to extract and direct-ship mineralized material to an offsite mill for processing. A 12-hole, 1,500 metre drill program was also completed to test for extensions to the nickel sulphide mineralization and to provide metallurgical samples for the Preliminary Economic Assessment ("PEA") to determine the near-term production and cash generation potential of the project.

Metallurgical testing of the massive sulphide mineralization from the deposit was completed in December, 2007. In February, 2008, the Company announced the results from metallurgical testing of the disseminated sulphide zone and they were incorporated into the PEA completed in November 2008. The Company completed the construction of an access road in the third quarter of 2009 and performed diamond drilling to provide geotechnical data for portal and ramp development.

The Lac Rocher property is subject to a discovery incentive plan (the "DIP") to reward certain individuals involved in the discovery of Lac Rocher with a 2% NSR for mines that were discovered on certain properties prior to the expiry of the DIP. The NSR is payable only on revenues earned after recovery of all development costs for any mine on the property. The terms of the DIP provide the Company with a right of first refusal on any proposed disposition of the NSR. In addition, the DIP contains put/call provisions under which the Company may be required to purchase, or may exercise an option to purchase, the NSR at the value of its discounted cash flows, as defined therein. The Lac Rocher property is the only property subject to the DIP. As the Lac Rocher property is not yet in production, no royalties are currently payable.

Mel
Effective August 27, 1999, Nuinsco Resources Limited ("Nuinsco") (the predecessor entity of Victory Nickel) entered into an option agreement (the "Agreement") with Inco Limited (predecessor to CVRD Inco Limited, now Vale) for the exploration and development of Vale's Mel properties (the "Mel Properties") located in the Thompson area of northern Manitoba. Pursuant to the Agreement, sufficient expenditures have been incurred to earn a 100% interest in the Mel Properties, and in 2007 the Company exercised its option to acquire such interest. Vale had the right to earn back a 51% interest by incurring expenditures of C$6,000,000 over a four-year period. On September 14, 2010, Vale notified the Company that it would not exercise this back-in right. In accordance with the terms of the agreement with Vale, they now are entitled to a 10% royalty on "distributable earnings" as defined in the agreement. Distributable earnings is defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

Also under the Agreement, Vale has a contractual obligation to mill ore mined from the Mel deposit at its cash cost plus 5% (provided that the product meets Vale specifications and that Vale has sufficient mill capacity). Ongoing updating of Mel data is being conducted and applies to both the drilling data on the Mel deposit/lease as well as the 111 drill holes collared on the claims portion of the property. When completed, additional modelling of the resource will be continued. No fieldwork has been conducted during 2014 and 2013.

Lynn Lake
The Company owns a 100% right, title and interest in the Lynn Lake nickel property ("Lynn Lake"), covering approximately 600 ha in northern Manitoba. As at December 31, 2013, the Lynn Lake property was subject to an option agreement with Wellgreen Platinum Ltd. ("Wellgreen") (formerly Prophecy Platinum Corp.). The Company received all payments scheduled under the option agreement to December 31, 2012. Accordingly, under the original agreement, the sole remaining condition for the Lynn Lake property to transfer to Wellgreen was the C$1,000,000 option payment which was originally due from Wellgreen by March 1, 2013.

On March 1, 2013, the Company agreed to an additional amendment to the option agreement which allowed Wellgreen to make a series of payments through 2013 and 2014 aggregating C$1,125,000 in satisfaction of the remaining option conditions. On March 1, 2013, the Company received the first payment of C$125,000; C$125,000 was received in May 2013 and C$150,000 in September 2013 (being an aggregate of $391,000); C$175,000 was due in December 2013 with a further C$550,000 being payable by August 29, 2014.

On March 17, 2014, Wellgreen formally confirmed to the Company that it was relinquishing the Lynn Lake option which included vacating the option properties in good condition and returning all exploration materials and data to the Company. In 2013, $383,000 excess of proceeds under the option agreement above the book value of the property had been received and accordingly was recorded through the consolidated statement of operations as a recovery of exploration and evaluation project in respect of Lynn Lake.

On November 4, 2014, the Company announced that it had optioned the Lynn Lake property to Corazon Mining Ltd. ("Corazon") an Australian public company (ASX: CZN).

Other Projects
The Company has incurred minimal expenditures on other properties in 2014 and 2013.

Impairment and Pre-exploration Costs
Costs relating to discontinued projects in the amounts of $60,000 were provided for through operations as *Writedown (recovery) of exploration and evaluation projects* in the consolidated statement of operations during the years ended December 31, 2014 (2013 - $nil, apart from the $383,000 recovery on Lynn Lake as referred to above). Pre-exploration costs of $4,000 (2013 - $nil) were incurred in the year ended December 31, 2014.

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

14. TRADE AND OTHER PAYABLES

	Notes	**December 31, 2014**	December 31, 2013	January 1, 2013
Accounts payable				
Mine property and development project		**$ 13**	$ 24	$ 295
Exploration and evaluation projects		**1**	-	3
Property and equipment		**402**	697	-
Other accounts payable		**1,708**	109	84
Accrued liabilities				
Mine property and development project		**22**	26	2
Exploration and evaluation projects		**-**	1	1
Property and equipment		**-**	306	-
Other accrued liabilities		**683**	144	161
Other payables		**21**	-	8
Lease obligations - current portion	*17*	**137**	150	-
Due to Nuinsco Resources Limited				
Under the Management Agreement	*25*	**45**	53	-
Commitment fees	*16*	**-**	10	-
		$ 3,032	$ 1,520	$ 554

15. LOANS AND BORROWINGS

	Notes	**December 31, 2014**	December 31, 2013	January 1, 2013
Current loans				
SPA Loan	*(a)*	**$ 3,585**	$ -	$ -
Short-term loan	*(b)*	**2,000**	-	-
Current portion of long-term loans	*(c)*	**1,908**	-	-
Total current loans		**7,493**	-	-
Long-term loans				
Promissory notes	*(c)*	**2,957**	2,143	8
Total long-term loans		**2,957**	2,143	8
		$ 10,450	$ 2,143	$ 8

(a) SPA Loan	**December 31, 2014**	December 31, 2013	January 1, 2013
Advances in US$	**$ 3,000**	$ -	$ -
Conversion from Promissory Notes	**1,000**	-	-
Add: fair value of warrants with a cashless exercise feature	**121**	-	-
	4,121	-	-
Less: unamortized loan fees	**(536)**	-	-
SPA Loan	**$ 3,585**	$ -	$ -

On May 15, 2014, the Company announced that it had executed a securities purchase and line of credit agreement (the "SPA Loan") to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of $4,000,000 (each a "SPA Note"). The SPA Loan matures on July 30, 2015. The purchaser previously purchased a convertible note in the amount of $1,000,000 and this was converted into a SPA Note on the initial closing date of May 15, 2014 (the "Initial Closing Date") refer below.

The Company has issued to the purchaser 2,000,000 common share purchase warrants (after giving retroactive effect to the Share Consolidation Note 19). The number of warrants is subject to an increase to 1,000,000 warrants (after giving retroactive effect to the Share Consolidation Note 19) for each $1,000,000 Note issued if any of the Notes is prepaid and the closing price of the Company's common shares is C$2.00 or lower (after giving retroactive effect to the Share Consolidation Note 19) on the trading day preceding the date of such prepayment. Given that there are costs associated with the prepayment right, the Company has valued the prepayment right at $nil. Each warrant (after giving retroactive effect to the Share Consolidation Note 19) entitles the holder to purchase one common share of the Company at an exercise price of C$1.00 (after giving retroactive effect to the Share Consolidation Note 19) for a period of 36 months from the Initial Closing Date. The warrants are subject to a cashless exercise provision and are therefore considered a component of debt rather than equity; the fair value at inception was calculated at C$620,000 and was revalued at December 31, 2014 at $121,000 with the aggregate change in fair value of $462,000 being recorded in finance income (Note 22).

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

In the year ended December 31, 2014, the Company paid $352,000 in interest and amortized $450,000 in loan fees into finance costs. There are no amounts remaining to be drawn under the SPA Loan.

The values of the warrants with a cashless exercise provision have been calculated using the Black-Scholes option-pricing model using the following parameters:

(after retroactive effect of Share Consolidation - Note 19)	**December 31, 2014**	**May 15, 2014**
		(At inception)
Fair values	**C$0.07**	**C$0.31**
Share prices at valuation dates	**C$0.24**	**C$0.60**
Assumptions		
Exercise price	**C$1.00**	**C$1.00**
Expected volatilities	**111%**	**101%**
Expected remaining terms (years)	**2.37**	**3.00**
Expected dividends	**-**	-
Risk-free interest rates	**1.00%**	**1.12%**

(b) Short-term loan

On October 1, 2014, the Company completed the arrangement of short-term financing by way of a promissory note amounting to $2,000,000. The promissory note bears interest at an annual rate of 28% and was originally due on December 1, 2014. The lender has agreed to several monthly extensions of the short-term facility upon payment of extension fees.

The first amendment extended the repayment to December 31, 2014 for an extension fee of $20,000; the second amendment extended the repayment to January 31, 2015, also with an extension fee of $20,000. A third amendment extended the repayment to February 27, 2015 with an extension fee of $22,500 and an additional penalty of $22,500 should the balance not be repaid by that date. On January 31, 2015, February 6, 2015 and February 27, 2015 the Company repaid $500,000, $250,000 and $250,000, respectively. A fourth amendment extended the short-term loan to March 31, 2015 under similar terms. The balance outstanding as at March 31, 2015 is $1,000,000 (Note 28).

Interest expense (including the applicable commitment and extension fees) for the year amounted to $206,000.

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(c) Promissory Notes	***Notes***		**December 31, 2014**		December 31, 2013	January 1, 2013
Advances			**$ 6,979**		$ 2,000	$ -
Conversion to SPA Loan			**(1,000)**		-	-
			5,979		2,000	-
Embedded option derivatives at inception		**$ (1,420)**		$ (160)		-
Less: effect of conversion to SPA Loan		**417**		-		-
Less: accumulated amortization	*22*	**339**		11		-
			(664)		(149)	-
Less: unamortized loan fees			**(108)**		(33)	-
Add: Effect of foreign exchange			**19**		-	-
Less: Equity component of debt			**(48)**		-	-
Net promissory notes			**5,178**		1,818	-
Embedded option derivatives at inception		**1,420**		160		-
Less: effect of conversion to SPA Loan		**(417)**		-		-
Change in value of embedded option derivatives	*22*	**(1,316)**		165		-
			(313)		325	-
			4,865		2,143	-
Less: current portion of promissory notes			**(1,908)**		-	-
Promissory Notes - long-term portion			**$ 2,957**		$ 2,143	$ -

On November 11, 2013 and during 2014, the Company entered into several unsecured convertible promissory notes by way of private placements (the "Convertible Notes"). The Convertible Notes bear interest calculated and payable quarterly at 14.8% and are convertible at the option of the holder into the Company's shares at C$1.00 (after retroactive effect of the Share Consolidation). All Convertible Notes have two-year terms. The Company paid $669,000 for interest in cash and amortized $53,000 for loan fees and $328,000 for the embedded option derivatives at inception using the effective interest rate method during the year (2013 - $41,000, $2,000 and $11,000, respectively).

The embedded option derivatives have been calculated using the Black-Scholes option-pricing model using the following parameters:

(after retroactive effect of Share Consolidation - Note 19)	**December 31, 2014**	**(Various inception dates)**	November 11, 2013	December 31, 2013
			(At inception)	
Fair values	**C$0.00 to C$0.03**	**C$0.22 to C$0.40**	C$0.08	C$0.16
Share prices at valuation dates	**C$0.24**	**C$0.50 to C$0.70**	C$0.30	C$0.45
Assumptions				
Exercise price	**C$1.00**	**C$1.00**	C$1.00	C$1.00
Expected volatilities	**82% to 109%**	**116%**	103%	109%
Expected remaining terms (years)	**0.86 to 1.52**	**2.00**	2.00	1.87
Expected dividends	**-**	-	-	-
Risk-free interest rates	**1.00%**	**1.20%**	1.20%	1.20%

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16. PARTICIPATING INTEREST

Participating Interest	Note		December 31, 2014		December 31, 2013		January 1, 2013
Advance for working capital		**$**	**940**	$	940	$	1,005
Advance under Amended Loan for standby commitment			**1,135**		1,135		-
Accrued interest payable			**-**		-		8
Aggregate advances			**2,075**		2,075		1,013
Less: settled in Units of Victory Nickel			**(1,135)**		(1,135)		-
Less: unamortized loan fees			**(51)**		(185)		-
			889		755		1,013
Change in fair value	*22*		**2,875**		3,100		-
Effect of foreign exchange			**(216)**		-		-
Participating Interest		**$**	**3,548**	$	3,855	$	1,013
Current portion - due within one year (1)		**$**	**-**	$	-	$	1,005
Long-term portion (2)			**3,548**		3,855		8
Participating Interest		**$**	**3,548**	$	3,855	$	1,013

(1) Classified as loans and borrowings - current
(2) Classified as loans and borrowings - long-term

In 2012, the Company entered into a loan agreement for C$1,000,000 with Nuinsco (the “Lender”). The loan was amended and restated on March 25, 2013 (the “Amended Loan”) to up to C$3,000,000 with the additional amount being available to fund capital expenditures relating to the 7P Plant. The Amended Loan bore interest at 12% per annum and was set to mature on January 31, 2015; the loan was secured by equipment and a general security agreement over the equipment of the Company. At the option of the Lender, and under certain circumstances, the Lender could elect to receive prepayment of the loan from up to C$1,000,000 of the proceeds of the Lynn Lake option payments originally due by March 1, 2013. As at January 1, 2013, this amounted to C$1,000,000 and, accordingly, C$1,000,000 of the loan, or $1,005,000, was classified as a current liability due within one year effective that date. As described in Note 13, Wellgreen relinquished the option effective March 17, 2014, and no further option payments are due therefore the whole of the amount due to Nuinsco became classified as long-term.

Prior to June 1, 2014, the Lender had the right to convert the outstanding balance of the Amended Loan into a limited participating interest (the “Conversion”) whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. The Lender’s participation was capped at C$10,000,000, with a minimum of C$7,500,000, and was subject to adjustment under certain circumstances. On Conversion, the Amended Loan would be considered paid in full. The Lender had also agreed to backstop an equity issue, if any was announced, with cash or by converting a portion of the Amended Loan into shares, at the Lender’s option, to an amount up to C$1,500,000 under certain circumstances. On June 14, 2013, the Company announced a rights offering for existing shareholders to raise gross proceeds of up to approximately C$2,700,000 (see Note 19). The rights offering closed on July 30, 2013 and raised gross proceeds of C$2,400,000 which included the backstop provided by the Lender in cash of C$1,207,584 ($1,135,000). This capped the Amended Loan at C$2,707,584 and reduced the amount available to be drawn down to C$500,000. Upon exercise of the backstop, Nuinsco increased its shareholding in the Company to approximately 12.24% on a non-diluted basis, thereby becoming a related party of the Company.

The Company was to pay, with shares, an arrangement fee of up to C$300,000 plus a commitment fee of 1.5% per annum on unutilized balances. Commitment fees of C$11,000 were accrued to December 31, 2013 and are included in *Finance costs* in Note 22; shares were issued in December 2014. Effective March 2013, the Company issued 5,681,818 shares in satisfaction of the arrangement fee at that time of C$250,000; an additional 789,294 shares with a stated value of C$20,758 were issued in August 2013 under the loan terms related to the backstop of the rights offering; this satisfies the arrangement fee in full. These amounts, along with other loan fees, are being amortized as interest expense using the effective interest rate method; in the year ended December 31, 2014, $119,000 was amortized as interest expense and $46,000 interest was paid to the Lender in cash (2013 - $128,000 and $115,000, respectively).

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On February 4, 2014, both Nuinsco and Victory Nickel agreed to cancel the amount that remained available to be drawn down under the Amended Loan. This fixed the commitment fee to be paid in shares at C$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 C$10,222,831 with a minimum of C$7,667,124. As at December 31, 2014, these limits approximate $8,812,000 and $6,609,000.

The loan is classified as a financial liability carried at amortized cost and is defined as "Participating Interest". From recognition until the fourth quarter of 2013, the Company considered that there were no changes in estimated cash flows since Nuinsco had not converted its loan and the 7P Plant was not built and there were other significant uncertainties. During the fourth quarter of 2013, the plant construction was well underway and the probability of Conversion had increased substantially. Accordingly, the Company revised the estimated future cash flows and discounted these cash flows at 15%. The estimated future cash flows were determined using a probability-weighted estimation of future expected cash flow scenarios from the frac sand business based on current expectations of business results, capital costs and pre-operating expenditures. An assessment is made regarding the applicable ceiling for the cash flows which is dependent upon the phase attained by the Company when payments under the Participating Interest are anticipated. These cash flows were on the basis of Phase Two completion; the Company still expects to enter Phase Two before paying out the expected cash flows despite announcing a deferral of Phase Two during February, 2015. The Company also included probability weightings of 5%, 40% and 55% as risk factors applied to varying levels of expected cash flows – being zero, 50% and 100% of the applicable ceiling maximum of C$10,222,831. As at December 31, 2013, the probability weightings used in the model were 34%, 16% and 50%; representing a probability-weighted average of 75% (2013 – 58%).

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase Two is C$7,667,124 (Phase One - C$10,222,831). These assumptions resulted in revised amortized cost carrying amount of the Participating Interest of $3,548,000 and, accordingly $225,000 was recorded as a *gain on adjustment of estimated cash flows* through the statement of operations. As at December 31, 2013, the Participating Interest was estimated to be $3,855,000 with $3,100,000 being recorded as a loss through the statement of operations. This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will continue to review and revise its estimates of expected future cash flows 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 paid.

17. LEASE OBLIGATIONS

	Note	**December 31, 2014**	December 31, 2013	January 1, 2013
Vehicles and Mobile Equipment:				
Total present value of minimum lease payments		**$ 570**	$ 623	$ -
Principal payments		**(158)**	(89)	-
Total present value of minimum lease payments remaining		**412**	534	-
Lease obligations - current portion	*14*	**(137)**	(150)	-
Lease obligations - long-term		**$ 275**	$ 384	$ -

The Company has finance lease obligations for equipment in use at the 7P Plant. At the end of the lease obligations, ownership is transferred to the Company for all leases except one, whereby an election is to be made 60 days prior to the end of the lease term at the purchase option price of C$1.

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The future minimum lease payments (also reflected in the liquidity analysis in Note 10) are as follows:

	December 31, 2014	December 31, 2013	January 1, 2013
Less than 1 year	**$ 160**	$ 179	$ -
Between 1 and 5 years	**293**	421	-
Total minimum lease payments payable	**453**	600	-
Future finance charges on minimum lease payments	**41**	66	-
Present value of minimum lease payments	**$ 412**	$ 534	$ -

18. DEFERRED TAX LIABILITY

Deferred income 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 liability, after applying enacted corporate income tax rates, are as follows:

	December 31, 2014	December 31, 2013	January 1, 2013
Temporary differences			
Property and equipment	**$ (93)**	**$ (11)**	$ (24)
Exploration, evaluation and development projects	**4,986**	**5,482**	6,379
Share issue and other costs	**(392)**	**(662)**	(194)
Non-capital tax losses carried forward	**(4,169)**	**(3,862)**	(3,588)
Capital losses carried forward	**(50)**	**-**	(63)
Capital losses unrealized	**(77)**	**(71)**	(66)
	205	**876**	2,444
Unrecognized deferred tax assets	**612**	**554**	42
	$ 817	**$ 1,430**	$ 2,486

The income tax recovery represents the recognition of deferred income tax assets (to the extent of the deferred tax liability) since the Company currently believes that it is probable that the benefit associated with these losses and costs will be realized prior to their expiry. It also includes the effect of enacted rate changes.

Non-capital losses, on which a deferred tax asset was recorded, expire as follows:

2015	**$ 345**
2026	**598**
2027	**3,201**
2028	**2,342**
2029	**1,693**
2030	**1,831**
2031	**848**
2032	**1,438**
2033	**2,099**
2034	**2,878**
	$ 17,273

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Non-capital losses on which a deferred tax asset was not recorded expire as follows:

2032	**$**	**146**
2033		**488**
2034		**206**
	$	**840**

As at December 31, 2014, the Company had estimated capital losses of $463,000 available for carryforward (December 31, 2013 - $nil).

Movement in Deferred Tax Assets and Liability during the Year

	As at January 1, 2014	Effect of foreign exchange (Note 2)	Recognized in operations	Recognized in OCI	Recognized in share capital	**As at December 31, 2014**
Property and equipment	$ (11)	$ 4	$ (86)	$ -	$ -	**$ (93)**
Exploration and evaluation projects	5,482	(453)	(43)	-	-	**4,986**
Share issue and other costs	(662)	46	224	-	-	**(392)**
Net tax losses carried forward	(3,862)	358	(665)	-	-	**(4,169)**
Capital losses (net)	-	3	(53)	-	-	**(50)**
Capital losses unrealized	(71)	6	-	(12)	-	**(77)**
	876	(36)	(623)	(12)	-	**205**
Unrecognized deferred tax assets	554	(52)	110	-	-	**612**
Deferred tax liability, net	$ 1,430	$ (88)	$ (513)	$ (12)	$ -	**$ 817**

	As at January 1, 2013	Effect of foreign exchange (Note 2)	Recognized in operations	Recognized in OCI	Recognized in share capital	**As at December 31, 2013**
Property and equipment	$ (24)	$ -	$ 13	$ -	$ -	**$ (11)**
Exploration and evaluation projects	6,379	(403)	(494)	-	-	**5,482**
Share issue and other costs	(194)	23	(383)	-	(108)	**(662)**
Net tax losses carried forward	(3,588)	245	(439)	(80)	-	**(3,862)**
Capital losses (net)	(63)	2	-	61	-	**-**
Capital losses unrealized	(66)	6	-	(11)	-	**(71)**
	2,444	(127)	(1,303)	(30)	(108)	**876**
Unrecognized deferred tax assets	42	(13)	525	-	-	**554**
Deferred tax liability, net	$ 2,486	$ (140)	$ (778)	$ (30)	$ (108)	**$ 1,430**

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.

Share Consolidation

On September 12, 2014, pursuant to shareholder approval granted at the Company's Annual and Special Meeting of Shareholders held on May 29, 2014 (the "ASM"), the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"). Accordingly, certain comparative information regarding issued and outstanding common shares, options, warrants, weighted average number and per share information has been adjusted retroactively to be comparable using that basis as if the Share Consolidation had been effective on the first day of these financial statements. Refer to Notes 2, 19 and 21.

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Number of shares issued and outstanding

The issued and outstanding common shares for 2013 and 2014 are as follows:

(after retroactive effect of Share Consolidation)	*Notes*	Number of Shares	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Income Taxes	Other Warrants and Options	Share Capital
Balance as at January 1, 2013		**39,734,704**						**$ 47,926**
Issue of common shares for liabilities	*(a)*	**472,000**	$ -	$ 120	$ (5)	$ 1	$ -	**116**
Issue of common shares for cash	*(b)*	**4,417,850**	2,158	-	(10)	3	-	**2,151**
Issue of common shares for loan fee	*(c)*	**568,182**	-	245	-	-	-	**245**
Issue of shares under Share Bonus Plan	*(d)*	**36,750**	-	16	-	-	-	**16**
Issue of shares under Share Bonus Plan	*(e)*	**118,000**	-	39	-	-	-	**39**
Issue of common shares and warrants under rights offering	*(f)*	**10,000,000**	2,332	-	(364)	100	(713)	**1,355**
Issue of common shares for loan fee	*(g)*	**78,929**	-	20	-	-	-	**20**
Issue of shares under Share Bonus Plan	*(h)*	**26,667**	-	8	-	-	-	**8**
Issue of common shares and warrants under private placement	*(i)*	**1,250,000**	291	-	(20)	4	(103)	**172**
Balance as at December 31, 2013		**56,703,082**	$ 4,781	$ 448	$ (399)	$ 108	$ (816)	**$ 52,048**

(after retroactive effect of Share Consolidation)	*Notes*	Number of Shares	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Income Taxes	Other Warrants and Options	Share Capital
Balance as at January 1, 2014		**56,703,082**						**$ 52,048**
Options exercised	*(j)*	**463,000**	$ 201	$ 144	$ -	$ -	$ -	**345**
Warrants exercised	*(k)*	**450,065**	144	30	(2)	-	-	**172**
Issue of common shares for fractional positions	*(l)*	**163**	-	-	-	-	-	**-**
Issue of common shares for commitment fee	*(m)*	**18,268**	10	-	(5)	-	-	**5**
Balance as at December 31, 2014		**57,634,578**	$ 355	$ 174	$ (7)	$ -	$ -	**$ 52,570**

(a) In January 2013, the Company issued 472,000 shares (after giving retroactive effect to the Share Consolidation) to satisfy $120,000 in accounts payable owing to a vendor for settlement of outstanding amounts owed by the Company.

(b) In March 2013, the Company entered into a private placement with a key investor and issued 4,417,850 shares (after giving retroactive effect to the Share Consolidation) at C$0.50 per share generating gross proceeds of approximately $2,158,000.

(c) Effective March 2013, the Company issued 568,182 shares (after giving retroactive effect to the Share Consolidation) to satisfy $245,000 of the arrangement fee then outstanding on the Amended Loan.

(d) In April 2013, the Company issued 36,750 shares (after giving retroactive effect to the Share Consolidation) under the Share Bonus Plan to an employee.

(e) In July 2013, the Company issued 118,000 shares (after giving retroactive effect to the Share Consolidation) under the Share Bonus Plan to senior officers of the Company.

(f) On June 14, 2013, the Company announced the terms of a rights offering to existing shareholders to raise gross proceeds of up to approximately C$2,700,000. The offering closed on July 30, 2013 and raised gross proceeds of $2,332,000 (excluding any potential proceeds from the exercise of the warrants). Accordingly, the Company issued 10,000,000 shares and 10,000,000 share purchase warrants (after giving retroactive effect to the Share Consolidation). Each warrant entitles the holder to purchase one common share at a price of C$0.35 during the 12-month period beginning July 31, 2014.

(g) In August 2013, the Company issued 78,929 shares (after giving retroactive effect to the Share Consolidation) with a stated value of $20,000 for the arrangement fee under the terms related to the backstop of the rights offering (Note 16).

(h) In September 2013, the Company issued 26,667 shares (after giving retroactive effect to the Share

Consolidation) under the Share Bonus Plan to an officer and employee of the Company.

(i) In September 2013, the Company entered into a private placement and issued 1,250,000 shares and 1,250,000 share purchase warrants at C$0.24 per share (after giving retroactive effect to the Share Consolidation) generating gross proceeds of $291,000. Each warrant entitles the holder to purchase one common share at a price of C$0.35 for two years from issue date.

(j) In January and February, 2014, various officers, employees and consultants of the Company exercised 463,000 options (after giving retroactive effect to the Share Consolidation) generating aggregate cash proceeds of $201,000; $144,000 was transferred from contributed surplus.

(k) In the second half of 2014, various shareholders exercised 450,065 warrants (after giving retroactive effect to the Share Consolidation) generating aggregate cash proceeds of $144,000; $30,000 was transferred from contributed surplus.

(l) As mentioned earlier, on September 12, 2014, the Company undertook a one-for-ten share consolidation of its common shares. Accordingly, the number of common shares of the Company outstanding at that time was reduced by 518,356,826 to 57,595,203; approximately 163 shares were issued for fractional positions.

(m) In December, 2014, the Company issued common shares to a third party for settlement of a commitment fee on the Amended Loan (Note 16).

Share Incentive Plan

The Company has a Share Incentive Plan which includes 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 have yet been issued pursuant to the Share Purchase Plan. 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 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 26, 2012, shareholders approved an increase in the maximum number of common shares issuable under the Share Bonus Plan to 1,000,000 (after giving retroactive effect to the Share Consolidation).

In 2013, 181,417 shares were issued under the Share Bonus Plan (after giving retroactive effect to the Share Consolidation). The entitlement to shares issued under the Share Bonus Plan in 2013 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 of $64,000 in 2013, which was charged immediately. No shares were issued under this plan during 2014.

Shareholder Rights Plan

In March, 2009, the Board of Directors approved the adoption of a shareholder rights plan (the "Shareholder Rights Plan") which was subsequently confirmed by its shareholders at the Company's Annual and Special Meeting held

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on June 3, 2009 (the "ASM"). At the ASM, shareholders approved the extension of this plan to the termination of the annual meeting of shareholders in 2012, at which meeting this plan was further extended to the termination of the annual meeting of shareholders in 2015.

In order to implement the adoption of the Shareholder Rights Plan, the Board of Directors authorized the issuance of one right (a "Right") in respect of each common share outstanding at the close of business on April 17, 2009 (the "Record Time"). In addition, the Board authorized the issuance of one Right in respect of each additional common share issued after the Record Time. Rights trade with and are represented by common share certificates, including certificates issued prior to the Record Time. Until such time as the Rights separate from the common shares and become exercisable, Rights certificates will not be distributed to shareholders.

If a person, or a group acting in concert, acquires (other than pursuant to an exemption available under the Shareholder Rights Plan) beneficial ownership of 20% or more of the common shares, Rights (other than those held by such acquiring person which will become void) will separate from the common shares and permit the holder thereof to purchase common shares at a 50% discount to their market price. A person, or a group acting in concert, who is the beneficial owner of 20% or more of the outstanding common shares as of the Record Time is exempt from the dilutive effects of the Shareholder Rights Plan provided such person (or persons) does not increase its beneficial ownership by more than 1% (other than in accordance with the terms of the Shareholder Rights Plan). At any time prior to the Rights becoming exercisable, the Board may waive the operation of the Shareholder Rights Plan with respect to certain events before they occur.

The issuance of the Rights is not dilutive until the Rights separate from the underlying common shares and become exercisable or until the exercise of the Rights. The issuance of the Rights will not change the manner in which shareholders currently trade their common shares.

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.

Income tax on other comprehensive income

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.

Foreign exchange on change in functional currency

This comprises the effects of the Company's decision to change the Company's functional and presentation currency to the US$ effective October 1, 2014. Refer to Note 2.

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20. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the years ended December 31, 2014 and 2013 was based on the information in the table below.

(after retroactive effect of Share Consolidation - Note 19)	December 31, 2014	December 31, 2013
Balance as at beginning of year	**56,703,100**	39,734,700
Effect of shares issued to settle liabilities	**-**	452,600
Effect of shares issued for private placements	**-**	3,805,700
Effect of shares issued for loan fees	**-**	472,500
Effect of shares issued under rights offering	**-**	4,246,600
Effect of shares issued under Share Bonus Plan	**-**	96,200
Effect of shares issued for commitment fee	**4,700**	-
Effect of options exercised	**445,500**	-
Effect of warrants exercised	**172,600**	-
Weighted average number of common shares as at end of period - Basic and Diluted	**57,325,900**	48,808,300
Effect of options granted and outstanding	**495,100**	590,000
Weighted average number of common shares as at end of year - Diluted	**57,821,000**	49,398,300
Number of options excluded	**3,555,000**	3,145,100
Number of warrants excluded	**12,356,864**	11,250,000
Number of shares from conversion of promissory notes excluded	**6,935,575**	2,127,200
Net loss attributable to shareholders - Basic	**$ (2,416)**	$ (4,890)
Net loss attributable to shareholders - Diluted	**$ (2,416)**	$ (4,890)
Basic loss per share	**$ (0.04)**	$ (0.10)
Diluted loss per share	**$ (0.04)**	$ (0.10)

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 diluted basis for periods where 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 share issuances subsequent to the end of the year which would have had a significant effect on the EPS.

21. SHARE-BASED PAYMENTS

Description of the Share-based Payment Arrangements

The Company's share-based payment arrangements are described below.

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, 2014, the Company had 5,125,187 common shares available for the granting of future options (December 31, 2013 – 5,330,134 common shares) (after giving retroactive effect to the Share Consolidation). Options are exercisable at the closing market price of the shares at the date prior to grant. The Company does not have any cash-settled transactions.

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Share purchase warrants (equity-settled)

Pursuant to the rights offering which closed on July 30, 2013, the Company issued 10,000,000 warrants (after giving retroactive effect to the Share Consolidation in Note 19). The Company also issued 1,250,000 warrants (after giving retroactive effect to the Share Consolidation in Note 19) pursuant to a private placement on September 19, 2013. The 2,000,000 warrants (after giving retroactive effect to the Share Consolidation in Note 19) issued pursuant to the SPA Loan may be settled without cash and are, accordingly, classified as debt (Note 15). The Company does not have any cash-settled transactions.

Share Bonus Plan

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

Terms and Conditions of Share-based Payment Arrangements

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

- Options issued during the year and granted to executive management, consultants and employees 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 year and granted to directors have a maximum term of five years and are equity-settled. All options granted vest immediately.
- Certain options issued upon formation of the Company under a plan of arrangement had terms of up to 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 18 months from issue date; the warrants issued under the rights offering in 2013 are exercisable on July 31, 2014 and expire on July 31, 2015. The Company's share purchase warrants issued pursuant to the private placement are exercisable on issue and expire on September 19, 2015.

Disclosure of Share-based Payment Arrangements

Stock Option Plan

The number and weighted average exercise prices of options (after giving retroactive effect to the Share Consolidation in Note 19) are as follows:

(after retroactive effect of Share Consolidation - Note 19)						
(amounts in Canadian dollars)	**Number of options**			**Weighted average exercise price**		
As at and for the years ended December 31	**2014**	2013		**2014**		2013
Outstanding as at beginning of year	**3,204,125**	2,865,150	**$**	**0.80**	$	1.30
Granted	**1,063,000**	937,000	**$**	**0.66**	$	0.30
Exercised	**(463,000)**	-	**$**	**0.46**	$	-
Expired or forfeit	**(249,125)**	(598,025)	**$**	**1.70**	$	2.40
Outstanding as at end of year	**3,555,000**	3,204,125	**$**	**0.72**	$	0.80
Exercisable as at end of year	**3,209,750**	2,945,625	**$**	**0.73**	$	0.80

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(after retroactive effect of Share Consolidation - Note 19) As at December 31,	Number of options outstanding **2014**	2013	Weighted average remaining contractual life (years) **2014**	2013
Range of exercise prices (Canadian dollars)				
$0.25 to $0.50	**1,587,000**	2,101,000	**2.96**	3.19
$0.55 to $0.55	**263,000**	-	**4.10**	-
$0.60 to $1.40	**1,186,000**	424,750	**3.22**	2.33
$1.50 to $1.60	**519,000**	519,000	**0.01**	1.01
$1.70 to $2.50	**-**	159,375	**-**	0.07
	3,555,000	3,204,125	**2.61**	2.57

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

(after retroactive effect of Share Consolidation - Note 19) As at and for the years ended December 31,		**2014**		2013
Number of options granted during the year		**1,063,000**		937,000
Weighted average fair value of options granted at grant date (Canadian dollars)	**$**	**0.393**	$	0.180
Number of options subject to vesting as at end of year		**3,209,750**		2,585,000
Share-based payment expense - vesting options	**$**	**344**	$	177
Share-based payment expense - extended options	**$**	**-**	$	20
Unvested options not yet charged to operations	**$**	**58**	$	25

Share purchase warrants

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

(after retroactive effect of Share Consolidation - Note 19) (amounts in Canadian dollars) As at and for the years ended	Date Issued	Life	Number of warrants **2014**	2013		Weighted average exercise price **2014**		2013
Issued pursuant to rights offering								
Unit warrants	July 30, 2013	12 (a)	**10,000,000**	10,000,000	**$**	**0.35**	$	0.35
Exercised			**(450,065)**	-				
Issued pursuant to private placements								
Unit warrants	Sept. 19, 2013	24	**1,250,000**	1,250,000	**$**	**0.35**	$	0.35
SPA warrants	May 15, 2014	36	**2,000,000**	-	**$**	**1.00**		n/a
Outstanding as at end of year			**12,799,935**	11,250,000	**$**	**0.45**	$	0.35

(a) The life of warrants is shown in number of months from issue date, except for those issued pursuant to the rights offering which became exercisable 12 months from issue.
(b) The SPA warrants may be settled without cash and are, accordingly, classified as debt rather than as a component of contributed surplus.
(c) The number of warrants and weighted average exercise prices are disclosed after giving retroactive effect to the Share Consolidation in Note 19.

Inputs for Measurement of Grant-Date Fair Values

The grant-date fair values of share-based payments were measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility.

Notes to the Condensed Consolidated Financial Statements

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

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:

(after retroactive effect of Share Consolidation - Note 19) (amounts in Canadian dollars)	Options		Warrants	
Years ended December 31,	**2014**	2013	**2014**	2013
Fair values at grant dates	**$0.31 and $0.42**	$0.12 to $0.19	**n/a**	$0.11 and $0.19
Fair values of options modified	**n/a**	$0.04 to $0.23	**n/a**	n/a
Share prices at grant and modification dates	**$0.70 and $0.50**	$0.25 and $0.30	**n/a**	$ 0.25
Assumptions				
Exercise prices	**$0.70 and $0.55**	$0.25 to $1.60	**n/a**	$ 0.35
Expected volatilities	**93% and 91%**	88% to 111%	**n/a**	101% and 107%
Life (years)	**4**	0.5 to 4.9	**n/a**	2
Expected dividends	**-**	-	**n/a**	-
Risk-free interest rates	**1.23% and 1.01%**	0.78% to 1.63%	**n/a**	1.15% and 1.22%

22. FINANCE INCOME AND FINANCE COSTS

Years ended December 31,	***Notes***	**2014**	2013
Interest income on bank deposits		**$ 1**	$ 14
Net change in fair value of financial liabilities at fair value through operations	*15,16*	**1,943**	-
Gain on adjustment of estimated cash flows	*16*	**225**	-
Finance income		**2,169**	14
Interest expense on loans			
Cash settled	*15*	**1,274**	160
Amortization of loan fees	*15*	**770**	130
Amortization of embedded option derivatives	*15*	**339**	11
Commitment fee	*16*	**3**	10
Loss on adjustment of estimated cash flows	*16*	**-**	3,100
Net change in fair value of financial liabilities at fair value through operations	*15,16*	**-**	165
Net foreign exchange loss		**243**	57
Finance costs		**2,629**	3,633
Net Finance Costs		**$ (460)**	$ (3,619)

Notes to the Condensed Consolidated Financial Statements

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

23. INCOME TAXES

The income tax amount in 2014 is a recovery of $490,000 (2013 – recovery of $778,000).

The income tax recovery differs from the amount computed by applying the statutory federal and provincial income tax rates for 2014 of 25.0% and 2013 of 26.5%, to the loss before income taxes. The differences are summarized as follows:

Years ended December 31,		**2014**		2013
Statutory rate applied to loss before income taxes	**$**	**(732)**	$	(1,505)
Effect of investment tax credits, net		**(28)**		(33)
Non-deductible items, net		**137**		64
Non-taxable portion of capital loss on financial liabilities through operations		**(30)**		395
Effect of change in expected future income tax rates and other		**30**		(225)
Unrecognized deferred tax assets		**110**		526
Income Tax Recovery	**$**	**(513)**	$	(778)

24. OPERATING SEGMENT

Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products; since January 1, 2014, it also is a producer and supplier of premium frac sand from its 7P Plant. Accordingly, the Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand. Prior to January1, 2014, there were no formal operating segments; for comparative purposes, the Company estimated the assets involved in each segment and has reported them in the table below.

The Corporate segment operates to support the Company's activities, including exploration and development projects and the frac sand business. The Company will continue to share services with Nuinsco (Note 25) to do so.

Senior management makes decisions with respect to Exploration and Development by considering exploration and development potential and results on a project basis. The exploration and development projects are all located in Canada. Any applicable amounts relating to such projects will continue to be capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 26). The segment is located in Canada although raw materials purchases are sourced from the US.

The following tables provide information on the Company's segments:

		December 31, 2014		December 31, 2013		January 1, 2013
Canada						
Corporate	**$**	**1,860**	$	2,290	$	2,404
Exploration and Development		**49,734**		51,764		52,904
Frac Sand		**11,300**		3,654		-
Intersegment elimination		**(962)**		(455)		-
Total Assets	**$**	**61,932**	$	57,253	$	55,308

Notes to the Condensed Consolidated Financial Statements

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

Year ended December 31, 2014	Corporate	Exploration and Development	Frac Sand	Intersegment Reclassification	Total
Revenues	$ -	$ -	$ 13,976	$ -	$ 13,976
Cost of goods sold	-	-	(12,854)	-	(12,854)
Gross margin	-	-	1,122	-	1,122
Operating expenses					
General and administrative	(1,914)	(26)	(496)	-	(2,436)
Share-based payments:					
Options	(344)	-	-	-	(344)
Share Bonus plan	-	-	-	-	-
Amortization of property, plant and equipment	(1)	(4)	(548)	-	(553)
Writedown of E and E projects	-	(60)	-	-	(60)
Pre-exploration costs	-	(4)	-	-	(4)
Net frac sand pre-operating costs	-	-	(194)	-	(194)
Operating loss	(2,259)	(94)	(116)	-	(2,469)
Finance income	2,169	-	11	(11)	2,169
Finance costs	(2,611)	-	(29)	11	(2,629)
Net finance costs	(442)	-	(18)	-	(460)
Loss before income taxes	(2,701)	(94)	(134)	-	(2,929)
Income tax recovery	513	-	-	-	513
Net Loss for the Year	$ (2,188)	$ (94)	$ (134)	$ -	$ (2,416)

There have been no changes in the reportable segments or the treatment of segmented assets and revenues during the year.

25. RELATED PARTIES AND MANAGEMENT AGREEMENT

Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, 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 options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 19 and 21).

Balances and transactions with related parties as at and for the years ended December 31, 2014 and 2013 are shown in the following tables:

As at December 31,	**December 31, 2014**	December 31, 2013	January 1, 2013
Balances Outstanding			
Payable to key management personnel	**$ 251**	$ 112	$ 158

Key management personnel compensation comprises:

Years ended December 31,	**2014**	2013
Short-term employee benefits	**$ 891**	$ 924
Share-based payments - options	**233**	115
Share-based payments - Share Bonus Plan	**-**	64
	$ 1,124	$ 1,103

Balances and Transactions with Nuinsco Resources Limited under the Management Agreement

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement; management operates under the supervision of the respective board of directors of each

Notes to the Condensed Consolidated Financial Statements

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

respective company; there is only one common director, Mr. René Galipeau. As described in Note 16, Nuinsco became a related party of the Company effective July 30, 2013. The costs charged by Nuinsco are recorded at the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by the Company upon 180 days' notice and by Nuinsco upon 90 days' notice. The Company served notice of termination on September 5, 2014; accordingly, the management agreement will cease around the end of February 2015. The Company expects to continue to share resources and costs with Nuinsco under a cost sharing arrangement.

Balances and transactions with Nuinsco under the management agreement as at and for the years ended December 31, 2014 and 2013 are shown in the following tables:

	December 31, 2014	December 31, 2013	January 1, 2013
Balances Outstanding under the Management Agreement			
Payable to Nuinsco Resources Limited	**$ 45**	$ 53	$ -
Receivable from Nuinsco Resources Limited	**$ -**	$ -	$ 37

Years ended December 31,	**2014**	2013
Transaction Values under the Management Agreement		
Overhead charges from Nuinsco Resources Limited	**$ 671**	$ 733
Overhead charges to Nuinsco Resources Limited	**$ -**	$ 17
Project costs charged to Nuinsco Resources Limited	**$ 21**	$ 36
Project recoveries charged by Nuinsco Resources Limited	**$ 70**	$ 29

Amounts due to or from Nuinsco under the management agreement are unsecured, non-interest bearing and due on demand. Amounts due to or from Nuinsco thereby 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 Nuinsco Resources Limited under the Amended Loan/Participating interest

The terms of the Amended Loan/Participating Interest with Nuinsco and the balances and transactions related thereto are described in Note 16.

26. COMPANY ENTITY

Significant Subsidiary - Victory Silica

On June 19, 2012, the Company announced a new initiative through the creation of Victory Silica. The objective is to establish the Company as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project. Victory Silica's executives and employees manage the frac sand business on behalf of the Company. Until the end of the first quarter, most costs of the frac sand business related either to pre-operating costs which have been expensed through operations or to plant commissioning and mobile equipment which have been capitalized. In the first three months of 2014, sales of frac sand produced during the pre-operating stage amounted to $248,000; these have been netted against the pre-operating expenditures recorded in the first quarter resulting in *Net frac sand pre-operating costs* recorded in the statement of operations of $194,000.

Significant production and sales volumes were achieved during the second quarter of 2014 thus the 7P Plant was no longer considered to be pre-operating. Consequently, operating results commenced being reported and amortization of the 7P Plant commenced in the second quarter of 2014. Full commissioning of the 7P Plant occurred in August, 2014.

Notes to the Condensed Consolidated Financial Statements

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

As at and for the years ended December 31,	**December 31, 2014**	December 31, 2013	January 1, 2013
Victory Silica Ltd.			
Current assets	**$ 46**	$ 76	$ -
Current liabilities	**$ 143**	$ 260	$ -
Pre-operating costs	**$ 194**	$ 585	$ 160

27. COMMITMENT

Transformer Equipment

On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price is $2,840,000. The Company has made aggregate deposits of $1,544,000 as at December 31, 2014.

28. SUBSEQUENT EVENT

Extension of short-term loan

On March 31, 2015, the Company agreed on an additional extension of the short-term loan with the lender. The balance outstanding is $1,000,000 and is now due on or before April 30, 2015 under similar terms. On March 31, 2015, the Company paid an extension fee of $10,000 along with a penalty for not repaying the amount originally due on March 31, 2015 of $15,000. In addition, with respect to the promissory note, the Company agreed upon an extension of a $73,000 interest payment required on March 31, 2015 to be paid on April 1, 2015.

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

DATED MARCH 31, 2015

VICTORY NICKEL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years ended December 31, 2014 and 2013

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of March 31, 2015 consolidates management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2014 and 2013, 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 for the years ended December 31, 2014 and 2013 ("2014 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 and 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 2014 Audited Consolidated Financial Statements are available at www.sedar.com and at the Company's website www.victorynickel.ca.

Change in Functional and Presentation Currency

Effective October 1, 2014, the Company changed its functional currency to the United States dollar ("US$" or "US dollar") from the Canadian dollar ("C$"). This change in accounting treatment is applied prospectively. Concurrently, the Company determined that it would change its presentation currency to the US$. Refer to Note 2 (c) to the 2014 Audited Consolidated Financial Statements for additional information. All amounts disclosed are in United States dollars unless otherwise stated. All tabular amounts are in thousands of US dollars.

COMPANY OVERVIEW

Victory Nickel is a Canadian producer of high-quality "Northern White" frac sand sourced from Wisconsin, US, through its wholly-owned subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica"). Northern White occurs predominantly in the US Mid-West and generally exceeds American Petroleum Institute ("API") specifications. For this reason, it is a highly-desirable and preferred frac sand. Frac sand is used as a proppant in the oil and gas industry which enhances the recovery from oil and gas wells. The Company's frac sand processing facilities are located in Seven Persons, Alberta and comprise a wet plant with capacity of approximately 120,000 tons per annum ("tpa") which requires minimal investment to become operational and a fully-operational dry plant with a nominal capacity of 500,000 tpa (the "7P Plant").

In addition to the significant sand resource at its Minago project in Manitoba, in October 2014, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in south western Wisconsin, USA (the "Bear Coulee Property"). The option agreement provides for a cash payment on signing of the agreement, a second cash payment on delivery of permits and a third cash payment on exercise of the option. The option is valid for six months with two equivalent extensions available under certain circumstances. Prior to production the Company will be required to pay $40,000 per annum as advance royalties on the initial 20,000 tons of sand production. Once the Bear Coulee Property is in production, the Company will be required to pay a royalty of $2.00 per ton of frac sand sold from the property. The Bear Coulee frac sand property is located in Trempeleau County, Wisconsin. In February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed by Summit Envirosolutions Inc. ("Summit") on the Company's Bear Coulee Property and will be incorporated into a National Instrument 43-101 technical report.

The Company is now considering constructing a wet plant in Wisconsin or Minnesota and is also completing preliminary studies to build a second 1,000,000 tpa dry plant in Winnipeg, Manitoba.

Crucial to the success of its frac sand operations is the Company's ability to build a solid customer base within an economic distance of its production facilities. To date, the Company has been able to establish itself as a preferred supplier in the areas around Medicine Hat, Alberta through spot-market sales and has completed a fixed term contract for approximately 2,000 tons per week. The Company's 7P Plant is located in close proximity to drilling activity in Alberta, BC, Saskatchewan and North Dakota, allowing customers to purchase sand FOB the 7P Plant and use their own trucks to deliver to the wellhead or, alternatively, to have the Company deliver sand directly to the wellhead. A small portion is delivered by rail.

The Company was formed on February 1, 2007 as exploration and development mineral resource company and, until recently, was primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada. Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (under option with Corazon Mining Ltd. ("Corazon") an Australian public company (ASX: CZN) refer below) and Mel projects in Manitoba and the Lac Rocher project in Québec. The results of a feasibility study on the Minago Project ("FS") were announced in December 2009, the Environmental Impact Study ("EIS") was filed in May 2010 with subsequent improvements to the project announced in June 2010 and July 2011. Receipt of the Environmental Act Licence ("EAL") was announced in August 2011. A preliminary economic assessment of Lac Rocher ("PEA") was announced in November 2008. Baseline environmental studies are ongoing at Mel in preparation for permit applications should the economics support development.

In November 2004, Corazon optioned Lynn Lake. Under the terms of the agreement, Corazon can acquire a 100% interest by issuing to Victory Nickel 40 million Corazon shares upon closing and incurring A$3,500,000 in exploration expenditures or in payments (in cash or Corazon shares at Corazon's option) to Victory Nickel over five years. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from the Lynn Lake nickel project, and receive a payment of A$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of the commencement of ore processing activities at the Lynn Lake nickel project.

The Company's decision to enter the frac sand business was initially based on the need to highlight the value of the frac sand as a co-product at its Minago nickel project in Manitoba. Based on the FS, approximately 11 million tonnes of frac sand will be produced from within the Minago pit footprint. The frac sand is a significant contributor to the economics of the Minago project. On June 19, 2012, the Company announced the creation of Victory Silica a wholly-owned subsidiary that has been established to manage the Company's entry into frac sand production and distribution. The Company has established itself as a frac sand producer by acquiring concentrated sand in Wisconsin, US and processing it into four main categories of finished frac sand products at the 7P Plant. This strategy is expected to generate significant cash flow for Victory Nickel prior to development and sale of frac sand from its Minago project. The 7P Plant processed its first sand during the week commencing March 24, 2014. The plant was considered out of commissioning in early August 2014.

During the first quarter of 2014, Convertible Notes aggregating $2,000,000 were issued. In the second quarter, a convertible note with principal of $1,000,000 was extinguished and replaced with a SPA Note as part of the SPA Loan. The SPA Loan of $4,000,000 was entered into in the second quarter and was fully drawn in August, 2014 and is due on July 30, 2015.

An additional Convertible Note of $3,000,000 was also entered into during the third quarter of 2014.

A one month short-term facility of $2,000,000 to fund working capital was fully drawn down by October, 2014. The short-term facility has been renewed on a monthly basis and the $1,000,000 balance was due March 31, 2015. A further extension to April 30, 2015 was arranged on March 31, 2015.

Going Concern

The Company's 2014 Audited Condensed 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, 2014, the Company had a working capital deficiency of $3,316,000, (December 31, 2013 – working capital of $437,000). Working capital is defined as current assets (excluding any restricted cash) less current liabilities.

During the second quarter of 2014, the Company began producing and selling frac sand from the 7P Plant; on August 11, 2014, the Company announced that the 7P Plant was commissioned. The Company has generated operating cash flow during the second half of 2014 but not yet at levels sufficient to wholly fund its activities.

In late 2013 and the second half of 2014, the Company raised $5,000,000 through the issuance of Convertible Notes – refer to the Liquidity and Capital Resources section. The Company now has approximately $11 million of debt including the SPA Loan of $4,000,000 which is due in July, 2015; one convertible note in the amount of $2,000,000 is due in November 2015, and, along with a $2,000,000 short-term note for receivables financing these amounts are classified as current liabilities, due within one year. The lender has agreed to several monthly extensions of the short-term facility upon payment of extension fees and it is presently due by March 31, 2015. A further extension to April 30, 2015 was arranged on March 31, 2015 (Note 28 to the 2014 Audited Consolidated Financial Statements).

The Company recognizes the imminent cash requirement to repay debt and is actively considering restructuring of its debt to term it out for several years. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring.

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, an unexpected change in the frac sand market which would limit the Company's ability to generate cash flow from the 7P Plant, dependence on key individuals 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. Development of the Company's current nickel mining projects to the production stage will require significant financing. Given the current economic climate, the ability to raise funds to finance nickel projects may prove difficult. Refer to the Risks and Uncertainties and Liquidity and Capital Resources sections for additional information.

None of the Company's nickel mining 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 and/or the ability to generate sufficient cash flow from its other operating activities for its funding. The Company's 7P Plant completed commissioning in August, 2014. During the start-up period, the Company experienced various events which prevented it from reaching the designed capacity of 500,000 tpa at its 7P Plant. Although steps have been taken to reduce the impact of these events, there is no certainty that operations will not be affected by similar events in the future. The recent drop in the price of oil has caused confusion in the frac sand business and it is not known when business will return to normal. Although it is expected that future cash flow will be sufficient to meet operating requirements with the ultimate potential to advance the Company's mining interest, the timing of this is not certain.

The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon either 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 such as royalty interests for its funding or the success of the frac sand business referred to above.

However, should the Company not be able to reach successful cash flow generation and achieve profitable operations from frac sand business or continue to achieve favourable exploration results, obtain the necessary financing or achieve future profitable production or sale of properties, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to the financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty, especially in the present environment, that the Company's initiatives to improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including project expenditures and corporate costs. 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.

HIGHLIGHTS

During and subsequent to the year ended December 31, 2014, the Company:

Corporate

- Announced the Conversion of the Amended Loan to a direct interest in net cash flows (the "Participating Interest").
- Completed a securities purchase and line of credit agreement (the "SPA Loan") for $4,000,000.
- Completed the issue of convertible notes in the aggregate of $5,000,000 (the "Convertible Notes").
- Completed a share consolidation on a one-for-ten basis (the "Share Consolidation").
- Completed a short-term financing by way of a promissory note amounting to $2,000,000 to fund accounts receivable.

Frac Sand and Victory Silica

- Completed the acquisition of the 7P Plant.
- Completed the upgrade and construction of the 500,000 tpa 7P Plant frac sand processing facility
    - Completed the start-up and commissioning stage of the 7P Plant
    - Completed all key agreements for: sand purchase, sand washing, transload in Winona, rail transport, rail siding, railcar leasing, Seven Persons trucking, mobile equipment leasing.
- Obtained approval from the Board of Directors to proceed with Phase Two, providing non-dilutive financing can be obtained.
- Produced 109,155 tons of frac sand at the 7P Plant during 2014.

- Sold 90,731 tons of frac sand at the 7P Plant during 2014.
- Optioned the Bear Coulee frac sand property at the end of 2014
- In early 2015, completed a 43-101 report outlining a frac sand resource of approximately 11 million tons of frac sand on the Bear Coulee property.
- Secured a second Wisconsin-based supplier of washed concentrated Northern White frac sand.
- Contracted with a second transload facility in St. Paul, Minnesota in early 2015.

Minago

- Applied for amendment to Minago Environmental Act Licence (“EAL”) to relocate the tailings impoundment.

Lynn Lake

- Regained 100% ownership of the Lynn Lake project.
- Optioned the Lynn Lake project to Corazon in November, 2014.

OUTLOOK

The year 2014 was a great year for the frac sand industry and a decisive one for Victory Nickel. As a typical junior resource company with superior nickel projects but no access to the financial and capital markets necessary to move these projects forward, the Company had to find an alternative. Waiting for the resource markets to turn around was not considered to be an acceptable option. So in June 2012, the Company announced its intention to enter the frac sand business with a plan that was certainly considered very aggressive and a vision at best. With the efforts of the talented team that was put together under the leadership of Ken Murdock, CEO of Victory Silica, that vision is now a reality. Victory Nickel, through its wholly-owned subsidiary Victory Silica, is now a producer and distributor of high-quality northern white frac sand for sale into the northern markets of Canada and the U.S. Victory Silica’s product has received universal acceptance in the oil and gas service industry and the Company now boasts a customer list comprised of leading companies in the industry.

Choosing to enter the frac sand business was not without reason. The strong market fundamentals for frac sand suggested continuing growth of the industry and new public information and strong peer group valuations indicated the availability of near-term cash flow. Suddenly, towards the end of the year and apparently to everyone’s surprise, the bottom fell out of the oil industry and the price of oil crashed from in excess of $100 per barrel to the mid $40’s and has remained in a narrow range ever since. Requests to OPEC to cut production were met with resistance and, in fact, Saudi Arabia, in February 2015, produced more barrels of oil since it had in 2013. In the United States, production of 9.42 million barrels per day was the highest since 1983, presumably all due to fracking. One can only assume that the U.S. would rather provide their own oil than have to be dependent on other nations.

The sudden turn of events could not have come at a more crucial time in our development and entry into the frac sand industry.

Phase One of the Company’s three-phase entry into the industry is now complete and the 7P Plant is capable of producing at levels sufficient to generate cash flow. Training of the fourth crew necessary to operate 24 hours per day, seven days a week, was near completion towards the end of the year. Bottlenecks in rail delivery were dealt with by adding a second transload facility in Minnesota to minimize the impact of traffic congestion at our first transload facility in Wisconsin. A second supplier of washed sand was contracted and washing sand during the winter season, something normally not possible, is being undertaken.

Having completed Phase One, the board of directors approved moving forward to Phase Two of the Company’s three-phase business plan. With the recent decline caused by the drop in the price of oil, this project will be difficult to finance in a non-dilutive manner. However, this is a desirable next step which would not only make the Company more competitive but also provide significant flexibility to target certain markets which often require different grades of sand.

Phase Two of the Company’s three-phase plan is to build a wash plant on a Wisconsin sand resource. Frac sand production is a two-stage process; the wet stage and the dry stage. The Company now contracts out the wet stage which is completed in Wisconsin prior to shipping the wet sand to the 7P Plant in Alberta. The wet stage removes the fines and clays, allowing transport of only the coarser fractions. The dry stage, where the sand is dried and separated into four main products of different sizes, is completed at the Company’s 7P Plant, a 500,000 tpa dry processing facility. This is of great advantage in maintaining the high quality of the sand. By dry processing and finishing close to markets, where customers can ship directly to the wellhead by truck, Victory Nickel’s finished product is only handled once rather than five or six times as is the case with most Wisconsin sand. Every time finished product is handled, the quality deteriorates.

Our customers have recognized the need to maintain the high quality which, importantly, makes quality one of Victory Nickel's key competitive advantages.

The three-phase approach to entry into the business was designed to minimize risk to Victory Nickel shareholders. The cost of entry with Phase One was approximately $6,000,000, or less than $12 per ton of annual production at capacity. This represents approximately 30% of the expected capital required to build a plant from scratch. The capital recovery period is generally in excess of two years. In Victory Nickel's case, this period is approximately six months at full production levels.

Phase Three of the business plan is to build a second dry processing facility in Winnipeg, Manitoba. Several sites have been identified and the Company is working with YES! Winnipeg to select the most appropriate location. The Company is targeting a site which is serviced by multiple rail carriers. This gives the Company more flexibility in accessing only the highest quality sand from the Wisconsin/Minnesota region. The plan is to build a 1,000,000 tpa plant which would initially be fed with Northern White sand. However, the ultimate plan is to provide customers with a variety of qualities which would include domestic sand, possibly from the Company's Minago project in Manitoba which has been permitted and is ready for development when the price of nickel recovers. The Minago project is a nickel project overlain by overburden which includes sand meeting the frac sand specs. The Winnipeg formation sand is the highest-quality domestic sand and would be a welcome addition to the Company's mix of products. Not all of our customers' applications require the best quality sand.

The Minago FS completed in 2009 indicated that the frac sand component of the Minago open pit contributed approximately $2.90 per pound of nickel; a very significant co-product. The sand resource at Minago is not restricted to the footprint of the open pit but extends beyond the pit limit such that it is not unreasonable to expect that there is sufficient sand to last in excess of 100 years at the million ton per year rate of extraction; this would be a new industry for Manitoba

We cannot change the market. All we can do is work with it and within it. There are numerous articles outlining the significant reduction in rigs since the drop in the price of oil. However, statistics show that the number of uncompleted wells (not fracked) is increasing. This, in effect, is storing oil in the ground as oil doesn't flow until it is fracked. We read this as very positive. Eventually, these wells will be fracked regardless of the amount of drilling. Existing wells are being refracked. The amount of sand used per frack, that is, proppant intensity per well, is increasing as E&P companies realize that more sand means more oil.

E&P companies continue to squeeze oilfield services companies to reduce costs. Oilfield service companies in return push suppliers including frac sand suppliers to reduce costs. The uncertainty is causing panic selling in some cases. Conversely, there are indications that oilfield services companies are being opportunistic and stocking up on cheap sand. This is not sustainable.

The Company must now focus on managing liquidity until markets settle down and fear no longer impacts business decisions. The Company recognizes the imminent cash requirement to repay debt and is actively considering restructuring of its debt to term it out for several years. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring. The Company will only incur costs associated with buying and delivering sand to its 7P Plant when existing inventories get below working levels. We will manage the current downturn.

Nickel Assets

The Company owns four advanced sulphide nickel projects; three in Manitoba and one in Quebec. A feasibility study of Minago, our main project, was completed in 2009 and permits for development were received in 2011. The Minago project is ready for development. An important part of the Minago deposit is the significant frac sand resource overlying the nickel deposit. Quantifying the value of the frac sand by getting into the business in advance of the Minago development should add certainty to the value of the frac sand co-product at Minago and make financing possible.

RESULTS OF OPERATIONS

Year ended December 31, 2014	Corporate	Exploration and Development	Frac Sand	Intersegment Reclassification	Total	2013 Total
Revenues	$ -	$ -	$ 13,976	$ -	$ 13,976	$ -
Cost of goods sold	-	-	(12,854)	-	(12,854)	-
Gross margin	-	-	1,122	-	1,122	-
Operating expenses						
General and administrative	(1,914)	(26)	(496)	-	(2,436)	(1,582)
Share-based payments:						
Options	(344)	-	-	-	(344)	(197)
Share Bonus plan	-	-	-		-	(42)
Amortization of property, plant and equipment	(1)	(4)	(548)	-	(553)	(26)
Writedown of E and E projects	-	(60)	-	-	(60)	383
Pre-exploration costs	-	(4)	-	-	(4)	-
Net frac sand pre-operating costs	-	-	(194)	-	(194)	(585)
Operating loss	(2,259)	(94)	(116)	-	(2,469)	(2,049)
Finance income	2,169	-	11	(11)	2,169	14
Finance costs	(2,611)	-	(29)	11	(2,629)	(3,633)
Net finance costs	(442)	-	(18)	-	(460)	(3,619)
Loss before income taxes	(2,701)	(94)	(134)	-	(2,929)	(5,668)
Income tax recovery	513	-	-	-	513	778
Net Loss for the Year	$ (2,188)	$ (94)	$ (134)	$ -	$ (2,416)	$ (4,890)

Overall

For the year ended December 31, 2014, the Company had a net loss of $2,416,000, or a loss of $0.04 per share (December 31, 2013 - $4,890,000 or a loss of $0.10 per share (after giving retroactive effect to the Share Consolidation)). This narrative discusses the relevant operations of the Frac Sand and Exploration and Development segments first, and then addresses more general and Corporate activities.

Frac Sand

The Company's 7P Plant commissioning was completed during August 2014 and produced 109,155 tons of various grades of frac sand. During the commissioning and production periods, 88,891 tons of sand were sold which generated gross margin of $1,122,000. The first sand was produced in March 2014 consequently there was no Frac Sand Segment in 2013 other than pre-operating costs of $585,000 recorded for the Company as a whole compared with $194,000 during the pre-operating stage in 2014.

Revenues

The Company recognized revenue on frac sand sales from the second quarter onwards aggregating $13,976,000 or $157.23 per ton sold. During the commissioning and start-up stages, the 7P Plant operated at below capacity levels for various reasons – most of which have been addressed. However, a gross margin of $1,122,000 was realized for 2014. Inventories of finished sand are priced using normalized costs thus do not bear an inordinate proportion of costs.

Cost of goods sold

The cost of goods sold includes the cost of concentrated sand purchased in Wisconsin, the cost of delivery to the 7P Plant including handling and transloading costs and the operating cost to dry and screen the concentrated sand into four main dry products. Direct plant operating costs are inventoried and charged to cost of goods sold when title to the product passes to the customer. Costs are capitalized as a component of inventory on a normalized basis and are reflected in costs of goods sold when inventory is sold.

The cost of goods sold was $12,854,000, or $144.60 per ton of frac sand sold for the year ended December 31, 2014; this also includes transportation costs to the customer for a portion of sales. Included in the year was approximately five months of commissioning during which time the plant was not operating at its design level. The plant operated at below capacity while training of four crews continued throughout the year. The fourth and final crew was hired in October 2014. In addition, the 7P Plant experienced rail delivery issues, weather disruptions and equipment failures.

Costs per ton are stated as costs per dry ton unless otherwise stated.

Concentrated sand is purchased through long-term supply agreements with third parties at specified prices per ton. For the year ended December 31, 2014 the cost of washed, concentrated sand included as a component of inventory was $34.60 per ton. Transportation costs including freight charges and fuel surcharges when transporting our sand from

Wisconsin to the 7P Plant, transload costs at the source and at the 7P Plant were $61.25 per ton for the year ended December 31, 2014. Other elements of cost of goods sold were $23.55 per ton during the year ended December 31, 2014 and were primarily comprised of railcar lease payments, operating expenditures at the plant and mobile equipment lease payments. This adds to a finished goods inventory cost of $119.40 per ton. The difference from that to the cost of goods sold per ton of $25.20 essentially represents a combination of transportation costs to the customer's specified location (included in both sales and cost of goods sold) and costs due to start-up such as training of new hires.

All plant operating expenditures, local trucking and some mobile equipment lease payments included in cost of goods sold are denominated in C$ dollars, therefore average costs include a foreign exchange component.

Gross margin
The 7P Plant generated a gross margin of $1,122,000 for the year ended December 31, 2014 on sales revenue of $13,976,000. The gross margin of $12.62 per ton was lower than the expected $25.00 per ton as the Company worked through plant inefficiencies during the commissioning and start-up stages. During the fourth quarter, the gross margin was $13.03.

General and administrative and other costs
General and administrative ("G&A") costs for the segment amounted to $496,000 for the year ended December 31, 2014. These costs include Victory Silica administration, marketing and logistics management.

Amortization of property, plant and equipment of $548,000 was recorded in the year ended December 31, 2014 for items in use at the 7P Plant including owned and leased equipment. The 7P Plant assets came into use primarily in the second quarter of 2014, at which time amortization commenced. The 7P Plant was not in operation during 2013.

Net pre-operating costs amounted to $194,000 ($585,000 in 2013). This is disclosed net of sales which occurred in the pre-operating phase of $248,000.

Net income
All of the above items combine to produce net loss for the frac sand segment of $134,000 for the year ended December 31, 2014, after interest expense relating to equipment leases of $29,000, offset by a net foreign exchange gain of $11,000.

Exploration and Development
There were no write-downs necessary for impairment of projects in 2014 and 2013, however, expenditures of $60,000 on non-core projects were written off for the year ended December 31, 2014. In addition, there were pre-exploration expenditures of $4,000 incurred in the same period (2013 – $nil). In the year ended December 31, 2013, the Company received $391,000 in receipts under the Lynn Lake option; net of expenditures, $383,000 was recorded as recovery of exploration and evaluation project. The option was relinquished in early 2014 and the Lynn Lake project was returned to the Company. On November 4, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area.

Net Loss for the Year – Corporate and Total
The net loss for the year ended December 31, 2014 for the Company was $2,416,000 compared with $4,890,000 for the same period of 2013, after operating expenses totalling $2,259,000 (2013 - $2,049,000), net finance costs of $460,000 (2013 - $3,619,000) and an income tax recovery of $513,000 (2013 - $778,000). In 2013, these costs were net of a $383,000 recovery with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property; as explained above, the option was terminated in March 2014.

G&A expenses increased by $854,000 to $2,436,000 compared with $1,582,000 in the prior year. The main reason for the increase is directly attributable to the Company's new frac sand business with G&A of $496,000 along with indirect costs attributed to the frac sand business incurred at Corporate. In addition, the CEO became a full-time employee of the Company effective January 1, 2014 and 100% of his remuneration is charged directly to G&A rather than through cost allocations under Nuinsco Resources Limited's ("Nuinsco") Management Agreement as occurred in 2013.

Corporate costs include: general investor relations expenses, consulting, travel costs, health benefits and director costs mostly related to growing the frac sand business. Slightly offsetting the increase are costs under the Management Agreement with Nuinsco which have decreased marginally by $25,000 reflecting a slight change in activity.

As mentioned above, G&A expenses include costs charged by Nuinsco for administrative services, partly offset by costs charged to Nuinsco by Victory Nickel as described under Transactions with Related Parties and Management Agreement with Nuinsco below; these amounted to $661,000 and $nil (2013 - $684,000 and $16,000), respectively. The

Management Agreement has been terminated by Victory Nickel but the Company expects to continue to share resources and costs with Nuinsco under a cost sharing arrangement.

The costs of public company compliance in 2014 for Victory Nickel were mitigated by sharing arrangements under the Management Agreement with Nuinsco but are still significant. For the year ended December 31, 2014 they are estimated to be $894,000 compared with $802,000 for 2013 on a comparable basis. The increase is due to higher investor relations support involved in educating stakeholders about the frac sand business as well as increased compliance costs as the Company engaged its auditors to perform a review on its interim financial statements effective with second quarter reporting.

The share-based payment expense for options for the year ended December 31, 2014 of $344,000 reflects the grant and partial vesting of 1,063,000 options (after giving retroactive effect to the Share Consolidation, refer to Note 19 to the 2014 Audited Consolidated Financial Statements) with a weighted average fair value at grant date of C$0.39. In 2013, the share-based payment expense for options reflects the grant and partial vesting of 9,370,000 options with a weighted average fair value at grant date of C$0.18 for an expense of $197,000. In addition, 181,417 shares were issued under the Share Bonus Plan with a closing price on grant date of between C$0.30 and C$0.45 in consideration for bonuses which were declared in 2013. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 21 to the 2014 Audited Consolidated Financial Statements.

Net finance costs

Years ended December 31,		**2014**		2013
Interest income on bank deposits	**$**	**1**	$	14
Net change in fair value of financial liabilities at fair value through operations		**1,943**		-
Gain on adjustment of estimated cash flows		**225**		-
Finance income		**2,169**		14
Interest expense on loans				
Cash settled		**1,274**		160
Amortization of loan fees		**770**		130
Amortization of embedded option derivatives		**339**		11
Commitment fee		**3**		10
Loss on adjustment of estimated cash flows		**-**		3,100
Net change in fair value of financial liabilities at fair value through operations		**-**		165
Net foreign exchange loss		**243**		57
Finance costs		**2,629**		3,633
Net Finance Costs	**$**	**(460)**	$	(3,619)

For the year ended December 31, 2014, net finance costs were $460,000 (December 31, 2013 - $3,619,000). The Company considers financing activities, other than those related to equipment leased in the frac sand segment, to be part of the Corporate segment.

Finance income increased to $2,169,000 from $14,000 in the comparative period; primarily due to the reduction in the value of the embedded option derivatives related to the Company's convertible debt of $1,481,000 combined with a $462,000 reduction in the fair value of the warrants issued in connection with the SPA Loan which have a cashless exercise feature. Both of these instruments and their accounting are described below and most of the changes in the year occurred in the third quarter. In addition, the value of the estimated cash flows associated with the Participating Interest decreased by $225,000 in 2014 compared with an increase of $3,100,000 in 2013. The decrease is primarily a function of probability-weighted estimates and the expectation of the ceiling of funds applicable. Refer below.

Finance costs were $2,629,000 and reduced from the prior year by $1,004,000. The components were quite different year over year. Cash interest expense was $1,274,000 for the year ended December 31, 2014 (2013 - $160,000). The increase in interest expense during 2014 was primarily attributable to interest on the SPA Loan and the Convertible Notes issued to fund the construction and working capital for the frac sand business. (Trade accounts receivable and inventory attributable to the frac sand business amounted to an aggregate of $5,702,000 as at December 31, 2014.) As at December 31, 2013, the only debt related to the predecessor loan to the Participating Interest plus one convertible note for $2,000,000.

The change in finance costs above was affected by the change to a gain from a loss on estimated cash flows related to the Participating Interest of $225,000 which reduced the unamortized cost of the asset to $3,548,000 compared with an increase of $3,100,000 to $3,855,000 in 2013; other differences relate to changes in foreign exchange. The fair value of the Participating Interest will increase as it moves closer to the period when payments will begin due to the passage of time, ceteris paribus. However, changes in assumptions were made during the last quarter of 2014 relating to the expected production of the 7P Plant and the underlying cash flow model was changed accordingly. Note that although it was announced in February 2015 that the move to Phase Two of the frac sand business will be delayed, the Company still expects that it will enter that phase before the ceiling for Phase Two payments of C$7,677,124 (approximately $6,609,000) is reached. The Company applied probability weightings of 5%, 40% and 55% as risk factors to varying levels of expected cash flows. The probability weighted average cash flows has increased to 75% from 58% used in the model as at December 31, 2013. The percentage participation in net cash flows is 52.16%. As well, the Company incurred $243,000 in net foreign exchange loss on transactions and balances denominated in the Canadian dollar compared with $57,000 in the prior year.

The Company has issued several tranches of convertible notes. There are several elements of finance expense associated with these: cash-settled interest expense paid on a calendar quarter basis, non-cash amortization of loan fees, non-cash amortization of the embedded derivative related to the value of the convertibility feature at inception and the change in the value of that embedded derivative at the end of a reporting period. All amortizable elements are calculated using the effective interest rate method. Convertible notes were issued in 2013 and 2014 with similar terms and requiring similar accounting treatments. Collectively, these are termed the “Convertible Notes”. The aggregate outstanding principal value of the Convertible Notes as at December 31, 2014 is $5,979,000 (December 31, 2013 - $2,000,000).

Aggregate interest settled in cash for the year ended December 31, 2014 amounted to $1,274,000, of which $666,000 relates to Convertible Notes, $352,000 relates to the SPA Loan, and $178,000 relates to short-term loans. The balance of interest is on leased mobile equipment and other items. In the prior year, interest was $160,000 of which $115,000 related to the Amended Loan prior to its conversion to a Participating Interest and $41,000 related to the Convertible Note outstanding at that time. The balance of interest relates to leased mobile equipment.

Amortization of cash-settled loan fees in the year amounted to $770,000 with an additional $339,000 for amortization of a portion of the embedded option derivatives related to the Convertible Notes remaining of $1,003,000 calculated at inception ($160,000 of which was recorded in 2013). The value of the embedded option derivatives at December 31, 2014 decreased by $1,316,000 due to reductions in the value of the embedded option derivatives from their inception values and, accordingly, $1,481,000 was credited through operations as finance income during 2014.

The embedded option derivatives are calculated using the Black-Scholes option-pricing methodology and are a function of share price, the C$1.00 conversion price (after the retroactive effect of the Share Consolidation), risk-free interest rate, length of time to expiry and share price volatility as well as the US dollar exchange rate for loans denominated in US dollars but convertible using a Canadian price. All other things being equal, one would expect the value of the option to decline as time approaches the expiry date. However, because of the volatility of exchange rates and the Company’s share price, this may not always be the case. Further, since one Convertible Note was exchanged into a portion of the SPA Loan in the second quarter of 2014, a portion of the embedded option derivative was de-recognized. The SPA Loan does not contain an embedded option derivative feature, however, the warrants which were issued therewith may be exercised on a cashless basis. The value of the warrants is considered to be debt rather than equity and changes in the fair value of the warrants is also recorded through net finance income. For the year ended December 31, 2014, this amounted to $462,000 in finance income.

We remarked in the first quarter MD&A that whether any increases in values of financial instruments would continue was speculative. But what is certain is that it has caused a significant amount of variability in the finance income and finance costs in the statement of operations.

Income tax recovery

The Company does not allocate income taxes between segments. In the year ended December 31, 2014, the Company recorded an income tax recovery of $513,000 (2013 – income tax recovery of $778,000). This is primarily a function of higher taxable losses. Furthermore, because the losses are expected to be used to shelter frac sand income in a lower tax rate jurisdiction, the income tax rate in place is expected to be 25%; this was adjusted at the end of 2013.

Other comprehensive income

Other comprehensive income (“OCI”) for the year ended December 31, 2014 relates to a decrease of $104,000 (2013 – decrease of $217,000) in the market value of the Company’s financial assets at fair value through OCI along with an income tax recovery recorded through OCI of $12,000 (2013 – income tax recovery of $30,000). These changes are a result of net market value changes in the Company's marketable securities. There were no sales of securities during 2014; sales generated $57,000 of proceeds during 2013. Furthermore, foreign exchange loss in OCI of $2,338,000 was incurred compared with $3,390,000 in the comparative period due to the change in functional and presentation currency to the US$ from the C$, as described earlier.

Other significant changes
The changes in other balances not specifically addressed in other sections of this MD&A are described herein.

Cash and cash equivalents have decreased from $1,338,000 to $712,000 excluding restricted deposits of $271,000 which support several letters of credit provided to facilitate its frac sand business with certain vendors. The Liquidity and Capital Resources section describes the cash flows in the year in detail.

Receivables and prepaids as at December 31, 2014 increased from $358,000 to $3,367,000 and primarily include $2,725,000 trade accounts receivable from frac sand sales compared with $nil as at December 31, 2013. While some balances are in excess of 30-day terms, we do not expect to experience any losses given the quality of our customers. The Company has received payments to date for the majority of its trade accounts receivable outstanding as at December 31, 2014. Prepaids include $555,000 of deposits to sand suppliers as at December 31, 2014 (December 31, 2013 - $117,000).

Marketable securities as at December 31, 2014 decreased by $108,000 to $153,000 from the prior year as a result of declines in market prices of shares. The Company generated $57,000 in sales proceeds in the first quarter of 2013, no sales occurred during 2014.

Inventory of $2,977,000 comprises various grades of finished product and concentrated sand at various locations from the transload facilities in Wisconsin and Minnesota, in transit to Seven Persons and at the 7P Plant itself. Valuation of the inventory is based on normalized costs anticipated during normal production levels. Unit costs are approaching normalized levels since the plant was operating more steadily towards the end of 2014.

Property, plant and equipment increased to $6,179,000 from $4,963,000 as at December 31, 2014 primarily due to expenditures on the 7P Plant and related leased mobile equipment. The mobile equipment is in use and is being depreciated; amortization on the plant commenced in the second quarter given its availability for use in production. The first sand was processed through the 7P Plant in March, 2014 and commissioning occurred during the second quarter of 2014.

Project expenditures are described below in Mine Property and Development Activities and Exploration and Evaluation Activities.

The increase in trade and other payables of $1,512,000 to $3,032,000 relates primarily to an increase in trade payables of $1,294,000 for supplies, transportation and property, plant and equipment for the 7P Plant combined with an increase in accrued liabilities of $228,000 related to the frac sand business. This is due to the increased activity of the frac sand operation.

Victory Nickel has several loans and borrowings; current amounts due within one year amount to $7,493,000 and long-term loans aggregate $2,957,000; a total increase of $8,307,000 over the loans and borrowings as at December 31, 2013 of $2,143,000. Additional Convertible Notes aggregating $5,000,000 were entered into during 2014. In the second quarter, a Convertible Note with principal of $1,000,000 was extinguished and replaced with a SPA Note as part of the SPA Loan. The SPA Loan of $4,000,000 was entered into in the second quarter and was fully drawn in August, 2014; the SPA Loan is due on July 30, 2015 and is accordingly now classified as a current liability due within one year. An additional Convertible Note of $3,000,000 was also entered into during the third quarter of 2014. Furthermore, a short-term facility of $2,000,000 was fully drawn down by October, 2014. The short-term facility originally had a term of one month. It has been successively renewed on a monthly basis upon payment of extension fees. Presently, the facility is due April 30, 2015 with a principal balance outstanding of $1,000,000. Changes in the embedded option derivatives described earlier, account for the remaining changes in loans and borrowings.

Note 15 to the 2014 Audited Consolidated Financial Statements includes an analysis of the loans and borrowings balances. Refer to the Liquidity and Capital Resources section for additional discussion.

The Company has entered into several finance leases to purchase mobile equipment with a total fair value of $666,000 at various acquisition dates; the long-term portion of the related obligation is $275,000 (December 31, 2013 - $384,000) and the short-term lease obligation of $137,000 (December 31, 2013 - $150,000) is included in *Trade and other payables*. Note 17 to the 2014 Audited Consolidated Financial Statements includes an analysis of the lease obligation.

The Participating Interest is a financial liability carried at amortized cost. The valuation thereof is determined by a model of estimated cash flows. As at December 31, 2014, the estimated value of the Participating Interest was $3,548,000 which decreased by $307,000 compared with $3,855,000 as at December 31, 2013, a result of changes in amortized loan fees combined with changes in the effect of foreign exchange. Refer to further analysis below.

The deferred tax liability balance amounts to $817,000 as at December 31, 2014 (December 31, 2013 - $1,430,000). The main components of the balance relate to the tax effects of E&E projects and the MP&D project, offset by the tax value of net operating tax losses carried forward. Due to changes in the expected future income tax rate because of the frac sand activity in Alberta, the deferred tax liability amount reflects a rate of 25%. The Company estimates that it has approximately $242,000 (December 31, 2013 - $172,000) in unrecognized deferred tax assets in relation to Victory Silica.

The share capital balance has increased to $52,570,000 as at December 31, 2014 (December 31, 2013 - $52,048,000). On September 12, 2014, the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"); any reference to the numbers of common shares, options and warrants, weighted average number and per share information has been adjusted retroactively to be comparable using that basis as if the Share Consolidation had been effective on the first day of the reporting period referred to in this MD&A.

The increase in share capital of $522,000 was primarily due to the exercise of 463,000 options (after giving retroactive effect to the Share Consolidation) in the first quarter of 2014 generating cash of $201,000 and requiring a transfer from contributed surplus to share capital of $144,000. As well, 450,065 shares (after giving retroactive effect to the Share Consolidation) were issued during the third and fourth quarter upon the exercise of warrants issued as part of the rights offering completed in July 2013 generating cash of $144,000 and requiring a transfer from contributed surplus to share capital of $30,000. Furthermore, 18,268 common shares were issued to Nuinsco in settlement of commitment fees on the Amended Loan (see Note 16 to the 2014 Audited Consolidated Financial Statements).

Contributed surplus has increased to $5,644,000 from $5,431,000 primarily as a result of options vesting during the year of $344,000, partly offset by transfers to share capital as mentioned above for options and warrants exercised during the year.

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

For the year ended December 31, 2013, the Company had a net loss of $4,890,000, or $0.10 per share (after giving retroactive effect to the Share Consolidation), (2012 – net loss of $183,000, or $0.00 per share).

The results are mainly a function of general and administrative expenses of $1,582,000 (2012 - $1,320,000), aggregate share-based payment expenses of $239,000 (2012 - $263,000), net finance costs of $3,619,000 (2012 – $13,000) and pre-operating costs related to Victory Silica of $585,000 (2012 - $159,000); these costs were offset by a $383,000 recovery (2012 - $1,449,000) with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property. Results in the year also include an income tax recovery of $778,000 (2012 – income tax recovery of $141,000).

General and administrative expenses increased by $262,000, to $1,582,000 from $1,320,000, for the years ended December 31, 2013 and 2012, respectively. The main reason for the increase is because of activity creating the frac sand business. Costs under the management agreement with Nuinsco alone have increased by approximately $100,000 due to that activity. There were finance consulting and due diligence fees of approximately $58,000 and increases in directors fees and meeting expenses because of a higher number of meetings, increases in investor relations expenses because of the new business as well as increased legal and insurance costs also for the new business. Costs include a bonus to senior officers which was partly paid in cash and partly in shares in July, 2013. In 2012, the Company incurred travel and legal costs associated with securing financing.

As mentioned above, general and administrative expenses include costs charged by Nuinsco for administrative services, partly offset by costs charged to Nuinsco by Victory Nickel as described under Transactions with Related Parties and Management Agreement with Nuinsco Resources Limited below; these amounted to $733,000 and $17,000 (2012 - $654,000 and $27,000 respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the increase in costs is primarily a result of increased people costs allocated under the agreement due to activity at Victory Silica and on the frac sand business. This arrangement with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel for the year ended December 31, 2013 are estimated to be approximately $802,000, compared with $730,000 in the year ended December 31, 2012, calculated on a comparable basis. As described above, investor relations costs have increased because of the frac sand business.

The share-based payment expense for options in the year ended December 31, 2013 reflects the grant and partial vesting of 937,000 options (after taking retroactive effect of the Share Consolidation) with a weighted average fair value at grant date of C$0.18. In addition, 181,410 shares were issued under the Share Bonus Plan with a closing price on grant date of between C$0.30 to C$0.45 in consideration for bonuses which were declared in 2013. The expense in 2012 reflects the grant and partial vesting of 805,000 options with a weighted average fair value at grant date of C$0.35. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 19 to the Company's 2013 Audited Consolidated Financial Statements.

There were no write-downs necessary for impairment of projects in 2013 or 2012. Furthermore, there were no pre-exploration expenditures incurred in either year. In the year ended December 31, 2013, the Company received an aggregate of $391,000 in receipts under the Lynn Lake option; net of expenditures, $383,000 was recorded as recovery of exploration and evaluation project. The Company had agreed to schedule out the previously-agreed option payment, along with an additional amount of C$125,000. In 2012, the full option receipt of C$1,000,000 was received in the first quarter of that year and another C$450,000 was received in the third quarter. Also as described above, Wellgreen has relinquished the Lynn Lake option and no further option payments under this option agreement will be received.

In 2012, the Company announced the creation of Victory Silica as described earlier; VSL's executive and staff are responsible for managing the frac sand business. Pre-operating costs of $585,000 expensed in 2013 comprise start-up consulting fees and related expenses, overhead allocations, additional staff costs, and repairs and maintenance of the 7P Plant during the period. In 2012, pre-operating costs of $159,000 consist mainly of start-up consulting fees and related expenses only.

For the year ended December 31, 2013, net finance costs were $3,619,000 (for the year ended December 31, 2012 – $13,000). Finance costs increased to $3,633,000 from $16,000 in the years ended December 31, 2013 and 2012, respectively, mainly due to the interest expense on the loans and related items; in particular, given the potential conversion to a participating interest by Nuinsco at that time, the Company recorded an increase in the fair value of the loan of $3,100,000 effective December 31, 2013.

The accounting of the Conversion feature and the determination of estimated future cash flows is described above. Refer also to Note 16 to the 2014 Audited Consolidated Financial Statements.

In the fourth quarter of 2013, the Company entered into a Convertible Note for $2,000,000. There are several elements of finance expense associated with this: cash-settled interest expense paid on a calendar quarter basis, non-cash amortization of loan fees, non-cash amortization of the embedded derivative related to the value of the convertibility feature at inception and the change in the value of that embedded derivative at the end of a reporting period. All amortizable elements are calculated using the effective interest rate method.

Aggregate interest settled in cash for the year ended December 31, 2013 amounted to $160,000. Approximately $117,000 was on account of the Participating Interest/Amended Loan ($9,000 was paid in 2013 relating to 2012) and $43,000 was on account of the Convertible Note. Amortization of loan fees in the year amounted to $130,000 and $11,000 represented amortization of a portion of the embedded derivative in the Convertible Note of $160,000 calculated at inception. The value of the embedded derivative increased to $325,000 as at December 31, 2013 and, accordingly, $165,000 was charged through operations.

In the year ended December 31, 2013, the Company recorded an income tax recovery of $778,000 (2012 – income tax recovery of $141,000). This is primarily a function of higher taxable losses partly offset by the tax effect of non-capital losses of $183,000 which expired in 2013. Furthermore, because of the frac sand business activity expected to be in place when the losses are utilized, the income tax rate in place is expected to be 25%; this reduced the required future income tax liability by $284,000 which is recorded in the income tax recovery. The Company has estimated it has $183,000 in unrecognized deferred tax assets in relation to Victory Silica; given this is a new venture which has not yet started operation, it is not currently assessed as more-likely-than-not that losses and costs incurred in Victory Silica will be realized prior to their expiry.

Other comprehensive income ("OCI") in the year ended December 31, 2013 relates to a decrease of $217,000 (December 31, 2012 – $655,000) in the market value of the Company's financial assets at fair value through OCI along with income tax recoveries recorded through OCI of $30,000 (December 31, 2012 – income tax recoveries of $88,000). In addition, the Company recorded $3,390,000 as the effect of foreign currency conversion for the year ended December 31, 2013 pursuant to the Company's decision to change the functional and presentation currency to the US Dollar.

The changes in other balances not specifically addressed in other sections of this MD&A are as follows:

Receivables and prepaids as at December 31, 2013 include $110,000 in sand purchases prepaid in accordance with the purchase contract signed late December. Sand commenced being delivered to the 7P Plant in February, 2014.

Marketable securities as at December 31, 2013 consist of the Company's financial assets at fair value through OCI; the Company's investment in shares is at fair value through OCI; the Company no longer has any investment in warrants at fair value through operations. Marketable securities decreased by $299,000 from December 31, 2012 as a result of sales and declines in market prices of shares. The Company generated $57,000 in sales proceeds in the first quarter of 2013; there were no sales in the balance of 2013.

Property and equipment increased to $4,963,000 from $1,431,000 as at December 31, 2012. The primary reason for the increase relates to expenditures on the 7P Plant and leased mobile equipment related thereto. The costs include acquisition costs as well as plant improvements. The mobile equipment is in use and is being depreciated; since the plant had not yet been commissioned as at December 31, 2013, it was not depreciated during 2013.

Project expenditures are described below in Mine Property and Development Activities and Exploration and Evaluation Activities.

The increase in trade and other payables of $966,000 relates primarily to an increase in trade payables of $448,000 and accrued liabilities of $313,000 pertaining to property and equipment at the 7P Plant as well as $150,000 increase in the current portion of lease obligations for mobile equipment because of the ramp up of activity. Such increases are partly offset by the settlement of 2012 balances being: deferred directors' fees of $121,000 and settlement of $115,000 of accounts payable in shares in the first quarter of 2013.

Victory Nickel entered into a loan agreement and C$1,000,000 was advanced prior to December 31, 2012. At the option of the Lender (Nuinsco), and under certain circumstances, the Lender could elect to receive prepayment of the loan from up to $1,000,000 of the proceeds of the Lynn Lake option payments. Accordingly, under the option agreement in effect at December 31, 2012, C$1,000,000 of the loan was classified as a current liability since this matched the Lynn Lake option payments which were available to be diverted to the Lender at their option under agreements in place as at December 31, 2012. The option has been relinquished by Wellgreen and no further option payments are due.

Due to the Conversion of the loan in early 2014, it became the Participating Interest and includes a loss on adjustment of estimated cash flows of $3,100,000 calculated as described above. Note 16 to the 2014 Audited Consolidated Financial Statements includes an analysis of the loan balance.

Refer to the Liquidity and Capital Resources section for additional discussion of the Amended Loan and the impact of the rights offering on its terms and its conversion.

On November 11, 2013, the Company entered into a Convertible Note for $2,000,000. This has a two-year term and is convertible into the Company's shares at a conversion price of C$1.00 (after taking retroactive effect of the Share Consolidation) at the holder's option in part or in whole at any time prior to due date. When shown net of unamortized fees and including the value of the embedded option derivative as described above, the value of this financial liability is $2,143,000 as at December 31, 2013.

In the latter half of 2013, the Company entered into several finance leases to purchase mobile equipment with a total fair value of $595,000 at acquisition date; the long-term portion is $384,000 and the short-term lease obligation of $150,000 is included in *Trade and other payables* as described above. Note 17 to the 2014 Audited Consolidated Financial Statements includes an analysis of the lease obligation.

The deferred tax liability balance amounts to $1,430,000 as at December 31, 2013, compared with $2,486,000 as at December 31, 2012. The main components of the balance relate to the tax effects of E&E projects and the MP&D project, partly offset by the tax value of net operating tax losses carried forward. In 2013, $183,000 of available operating losses expired and $50,000, the tax effect of that amount, reduced the income tax recovery in the year. Due to changes in the expected future income tax rate, the deferred tax liability amount was reduced by $284,000 in the year ended December 31, 2013. The Company estimates that it has approximately $172,000 (2012 - $42,000) in unrecognized deferred tax assets in relation to Victory Silica.

The share capital balance has increased significantly year over year by $4,122,000. Note 19 to the 2014 Audited Consolidated Financial Statements includes a detailed analysis of the account and the Liquidity and Capital Resources section describes the transactions more fully. The most significant transactions were as follows: $2,449,000 in gross proceeds were generated from private placements and $2,332,000 in gross proceeds were raised in the rights offering; share issue costs are applied against these balances and an apportionment of proceeds was also attributed to the warrants and recorded in *Contributed surplus* at an aggregate of $816,000 which, combined with the issuance of options, accounts for the increase in that account of $1,011,000.

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eight quarters ended December 31, 2014 is as follows:

Fiscal year 2014	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Revenue	$ 7,203 (1)	$ 5,463 (1)	$ 1,310 (1)	$ -
Gross margin (loss)	$ 670 (2)	$ 689 (2)	$ (146) (2)	$ -
Net finance income (costs)	$ 714 (3)	$ (255) (5)	$ (47) (7)	$ (872) (9)
Net income (loss)	$ 96 (4)	$ (373) (6)	$ (693) (8)	$ (1,446) (10)
Total comprehensive loss	$ (2,287)	$ (464)	$ (724)	$ (1,371)
Earnings (loss) per share - basic and diluted (14)	$ 0.00	$ (0.01)	$ (0.01)	$ (0.02)

Fiscal year 2013	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net finance costs	$ (3,443) (11)	$ (66)	$ (73)	$ (37)
Net loss	$ (3,656) (12)	$ (503)	$ (417)	$ (313)
Total comprehensive loss	$ (3,628) (13)	$ (518)	$ (493)	$ (436)
Loss per share - basic and diluted (14)	$ (0.07)	$ (0.01)	$ (0.01)	$ (0.01)

(1) Revenue represents sales of frac sand (first sales were recognized in the second quarter).
(2) Gross margin (loss) includes cost of goods sold which include operating costs for a full period despite production being at less-than-full capacity.
(3) Net finance costs include $708,000 change in the fair value of the embedded option derivatives related to the Convertible Notes partly offset by $493,000 gain on adjustment of estimated cash flows for the Participating Interest.
(4) Includes the effects noted above.
(5) Net finance costs include $827,000 change in the fair value of the embedded option derivatives related to the Convertible Notes as well as $20,000 loss on adjustment of estimated cash flows for the Participating Interest.
(6) Includes the effects noted in (1), (2), and (5).
(7) Net finance costs include $450,000 change in the fair value of the embedded option derivatives related to the Convertible Notes as well as $135,000 loss on adjustment of estimated cash flows for the Participating Interest.
(8) Includes the effects noted in (1), (2), and (7).
(9) Net finance costs include $505,000 change in the fair value of the embedded derivatives related to the Convertible Notes as well as $97,000 loss on adjustment of estimated cash flows for the Long-term liability with Nuinsco.
(10) Includes the effects noted above combined with increased costs relating to the frac sand business and net frac sand pre-operating costs of $194,000.
(11) Net finance costs for the period includes $3,133,000 for the loss on adjustment of estimated cash flows for the Long-term liability with Nuinsco and $154,000 for the increase in value of the embedded derivative related to the convertible promissory note.
(12) Net loss for the period includes $229,000 for costs charged under the management agreement with Nuinsco and reflects increased activity on the frac sand business and an income tax recovery of $532,000.
(13) Total comprehensive loss for the period includes the effects noted above.
(14) After the retroactive effect of the Share Consolidation.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2014, the Company had a working capital deficiency of $3,316,000, including cash and cash equivalents (but not restricted cash), receivables and prepaids, marketable securities, inventory, accounts payable, and current portion of long-term borrowings. As at December 31, 2013, the Company had working capital of $437,000.

Working capital deteriorated from the prior year despite the fact that the frac sand operation is generating revenue. This is largely because the SPA Loan amounting to $3,585,000 has been classified as current as at December 31, 2014 as it is due July 30, 2015. As well, a Convertible Note of $1,908,000 issued under the Company's program is due on November 10, 2015. Furthermore, the Company completed the arrangement of short-term financing on October 1, 2014 by way of a promissory note amounting to $2,000,000. The lender has agreed several monthly extensions upon payment of extension fees. On January 31, 2015, February 6, 2015, and February 27, 2015 the Company repaid $500,000, $250,000, $250,000 respectively. A fourth amendment extended the short-term loan to March 31, 2015 under similar terms; the balance presently outstanding is $1,000,000. On March 31, 2015, the Company agreed an additional extension of the short-term loan with the lender. The balance outstanding is $1,000,000 and is now due on or before April 30, 2015 under similar terms. On March 31, 2015, the Company paid an extension fee of $10,000 along with a penalty for not repaying the amount originally due on March 31, 2015 of $15,000.

In 2014, the Company's Convertible Note program raised gross aggregate funds of $5,000,000 in principal; $4,000,000 net of the conversion to the SPA Loan referred to above (2013 - $2,000,000).

These financings were used to fund the construction and upgrading of the 7P Plant as well as to fund the working capital for the frac sand business comprised of receivables from sales of frac sand, prepaids on deposits for sand, inventory, and trade payables on supplies, transportation, and property, plant and equipment.

The 500,000 tpa frac sand plant cost $4,774,000 and mobile equipment related thereto acquired mostly under leases cost $666,000. Inventory and trade accounts receivable related to the frac sand business amounted to $2,977,000 and $2,725,000, respectively, as at December 31, 2014.

The main financings occurring during the year and related events are described in the following sections.

Loan and Amended Loan with Nuinsco of up to $3,000,000 which, upon Conversion, became the Participating Interest was entered into in 2012 and was amended in March 2013. Under the loan agreement with Nuinsco, C$1,000,000 was advanced prior to December 31, 2012; the Amended Loan provided additional funds of up to C$2,000,000 by way of loan or backstop for a unit issue. Pursuant to the results of the rights offering, this amount was capped at C$1,707,584. Nuinsco's backstop to the rights offering was C$1,207,584. By providing the backstop and participating in the rights offering to the extent of its existing share position, Nuinsco increased its ownership in the Company to approximately 12.24% as at July 30, 2013 on a non-diluted basis and made Nuinsco a related party of the Company.

Prior to June 1, 2014, Nuinsco, had the right to convert the outstanding balance of the Amended Loan into a participating interest (the "Conversion") whereby Nuinsco is entitled to receive a share of net cash flows, calculated after recoupment of Phase One capital and pre-operating costs, earned from the sale of frac sand from the 7P Plant. Nuinsco's participation is capped at C$10,222,831, with a minimum of C$7,667,124, or approximately $8,812,000 and $6,609,000, respectively, should the Company enter Phase Two operations.

On April 22, 2014, Nuinsco exercised its conversion option and converted its loan to the Participating Interest, at the same time, it relinquished its security over the assets of the Company since the Conversion constituted payment of the loan in full. This obligation will be settled through a 52.16% participation in net operating cash flows from the frac sand business after recoupment of capital costs for Phase One and pre-operating expenses.

Cash payments of $46,000 for interest expense were made during the year ended December 31, 2014 (2013 - $115,000); interest was due in cash at the end of each calendar quarter. Non-cash amortization of loan fees is also included in interest expense on the loan with Nuinsco.

As at December 31, 2013, the carrying value of the Amended Loan was revalued to take into account future expected cash flows. The amortized cost at that time was estimated to be $3,855,000. The Company has reviewed the expected future cash flows along with assumptions and has revalued the obligation at $3,548,000 as at December 31, 2014. The change in value of $225,000 in 2014 has been recorded through *Finance Costs* in the statement of operations.

These amounts were determined as described earlier and will be subject to the ongoing revaluation as the frac sand business develops and cash flow amounts become more certain. Under present assumptions and business expectations, contractual payments to Nuinsco would not commence until approximately fourth quarter of 2016 when Phase One capital costs and pre-operating expenditures are expected to have been recovered. The Company significantly increased the probability-weighted estimates applied to varying cash flows to approximately 73% in the year from 55%. The Company retained the cash flow ceiling of $6,609,000 despite the announcement in February 2015 that entry into Phase Two of the frac sand business plan has been delayed. The net effect of these assumption changes required a decrease in the Participating Interest year over year.

The Company created a model reflecting the pre-operating and Phase One capital costs to be recouped along with its sales, production and cost forecasts to derive the probability-weighted estimates of zero, 50% and 100% of the applicable cash flow ceiling.

The Company will continue to reassess the carrying value of the Participating Interest as circumstances warrant.

Convertible Notes – a convertible promissory note for $2,000,000 was issued on November 11, 2013. Additional Convertible Notes were issued in 2014 of $4,750,000 and C$265,000 under similar terms; $1,000,000 of that amount was extinguished and reissued as a SPA Note. The aggregate principal amount outstanding as at December 31, 2014 is $5,979,000. The accounting complexities of these financial liabilities have been described earlier. The Convertible Notes have terms of two years, bear interest at 14.8% calculated on a monthly basis and settled quarterly and may be converted in whole or in part, at any time, at the option of the holders into Victory Nickel shares at a conversion price of C$1.00 per share (after giving retroactive effect to the Share Consolidation).

SPA Loan - on May 15, 2014, the Company announced that it had executed a securities purchase and senior secured line of credit agreement in the amount of $4,000,000. The SPA Loan bears interest of 14.8% per annum and matures on July 30, 2015; accordingly, the SPA Loan is classified as a current liability due within one year. The lender previously purchased a convertible note in the amount of $1,000,000 and this was extinguished and became a SPA Note on the initial closing date of May 15, 2014 (the "Initial Closing Date").

As part of the SPA Loan, the Company issued 2,000,000 common share purchase warrants (after giving retroactive effect to the Share Consolidation). For each $1,000,000 advanced under the SPA Loan, the lender is entitled to exercise 500,000 common share purchase warrants (after giving retroactive effect to the Share Consolidation) to acquire shares at C$1.00 per share (after giving retroactive effect to the Share Consolidation) for a period of three years. The number of warrants is subject to an increase to 1,000,000 Warrants (after giving retroactive effect to the Share Consolidation) for each $1,000,000 drawn under the SPA Loan if the loan is prepaid and the closing price of the Company's common shares is C$2.00 or lower (after giving retroactive effect to the Share Consolidation) on the trading day preceding the date of such prepayment. The Company has valued the prepayment right at $nil given that there is a cost to issue additional warrants upon prepayment of any of the SPA Loan.

The terms of the SPA warrants contain a cashless exercise feature which requires the warrants to be recognized as a liability rather than as equity within contributed surplus. Accordingly, the fair value of the warrants at inception of $554,000 is recorded as a liability with the balance of the SPA Loan. Any change in the fair value of the warrants is also recorded as a component of the SPA Loan and charged to finance income or costs in the statement of operations. The fair value change amounted to a decrease of $462,000 during 2014 since inception bringing the fair value of the cashless warrants to $121,000 as at December 31, 2014.

In the year ended December 31, 2014, the Company paid $370,000 in cash for interest and amortized $450,000 in loan fees into interest expense.

Loan Facility – on October 1, 2014, the Company completed an arrangement of short-term financing by way of a promissory note amounting to $2,000,000. The promissory note bears interest at 28%, calculated and settled monthly. This short-term loan has been renewed on a monthly basis upon payment of extension fees and penalties. The Company has made repayments aggregating $1,000,000 during the first two months of 2015. The remaining balance is $1,000,000. On March 31, 2015, the Company agreed an additional extension of the short-term loan with the lender. The balance outstanding of $1,000,000 is now due on or before April 30, 2015 under similar terms. On March 31, 2015, the Company paid an extension fee of $10,000 along with a penalty for not repaying the amount originally due on March 31, 2015 of $15,000.

Cash flows in 2014 - Cash and cash equivalents as at December 31, 2014 and 2013 were held with major Canadian banks. The Company has a 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. Marketable securities are available to be sold for liquidity purposes, as the Company requires; this source is limited.

For the year ended December 31, 2014, the Company used cash in operating activities of $5,574,000 (2013 - $2,296,000). As the Company is in the exploration, evaluation and development stage and continues to ramp up to produce commercial quantities of frac sand at the 7P Plant, there are limited revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred to maintain a public company and to set up the frac sand operations, including building inventory and paying in advance for sand purchases.

The Company estimates that public company costs for the year ended December 31, 2014 amounted to $894,000. Many of these costs are incurred in the early part of the year. In the same period of 2013, such costs were approximately $802,000, calculated on a comparable basis. Consequently, the Company's liquidity is reduced unless and until there are significant increases in revenues, financing activities or sales of assets to provide funds. Note that the costs cited above do not include the costs of financing arrangements which are deducted directly from equity – these can be significant.

Costs incurred to advance the Company's exploration, evaluation and development projects are capitalized, as summarized below under the discussion of investing activities. Costs to set up the Company's frac sand operations and operating costs were recorded as part of pre-operating expenditures net of sales revenue for the first three months and thereafter are part of cost of goods sold or other expense lines. For the year ended December 31, 2014, $12,854,000 was charged to cost of goods sold and $194,000 to pre-operating expenses, compared with $585,000 net pre-operating expenses in the prior year (with no offsetting revenue). Revenue in 2014 amounted to $13,976,000.

The adjustment for net finance costs of $136,000 primarily relates to the net effects of the non-cash changes in the carrying value of the Participating Interest and the embedded option derivatives on the Convertible Notes as described above. While the adjustment on the Participating Interest is similar to a fair value adjustment it is an estimation of future cash flows to be paid under the Participating Interest created on Conversion which occurred in April, 2014. Distributions under the Participating Interest terms are calculated based on operating cash flow after recovery of capital and pre-operating costs and take into account working capital. It is presently anticipated that the first payment under the Participating Interest could occur in the fourth quarter of 2016.

As operating activity has begun to ramp up, receivables, inventory and trade and other payables have also grown. Receivables – mostly trade accounts receivable from frac sand sales – used $3,009,000 in working capital and the build-up of inventory used $2,977,000. The Company is looking to find cost-effective ways to manage this growth rather than relying on trade and other payables which provided a source of funds of $2,248,000 in the year.

For the year ended December 31, 2014, net cash used by investing activities was $2,990,000, compared with cash used of $2,743,000 in 2013. Aggregate amounts of $396,000 and $160,000 were used to advance the MP&D project and E&E projects, respectively, during the year (2013 - $945,000 and $134,000). In 2014, $2,334,000 was used for expenditures on the 7P Plant acquisition, equipment and improvements (2013 – $1,962,000).

During 2013, the Company sold shares for aggregate proceeds of $57,000. Funds of $391,000 were received with respect to the option agreement with Wellgreen for the Lynn Lake property in 2013; as described above, the option agreement has been terminated and no additional funds are forthcoming. Deposits on transformers of $100,000 were made in 2014, compared with $150,000 in 2013.

The Company generated $7,938,000 in financing activities for the year ended December 31, 2014 compared with $6,120,000 in 2013. In 2014, the main source of funds, $9,291,000, was from the Convertible Notes, the SPA Loan, and the short-term loan; all net of loan fees. In 2013, debt financing represented $2,000,000 from a Convertible Note and aggregate equity financing was $4,382,000, net of fees; $2,449,000 was raised in equity pursuant to private placements and another $2,332,000 was raised through a rights offering (all before fees). Loan interest of $1,274,000 was paid during 2014; $168,000 in 2013, of which $9,000 related to interest accrued in 2012. Aggregate payments under leases for deposits and other principal payments totalled $146,000 for mobile equipment used in the frac sand business compared with payments of $94,000 in 2013. The Company also deposited $271,000 of funds to support letters of credit issued to facilitate the Company's frac sand business.

There were no equity financings completed during 2014 other than $201,000 received through the exercise of options and $144,000 received through the exercise of warrants issued as part of the rights offering in July 2013; aggregate share issue expenses were $7,000.

The Company's activities for the year ended December 31, 2014 used cash and cash equivalents of $626,000, compared with a net increase in cash of $1,081,000 in 2013.

Table of Contractual Commitments

	Due Date	Currency	December 31, 2014	December 31, 2013
Transformer and electrical equipment	On shipping	US Dollar	$ 1,296	$ 1,396
Loans and borrowings (including unpaid accrued interest)				
Amended Loan	January 31, 2015	Canadian Dollar	$ -	$ 1,000
Participating Interest	Refer to note below	Canadian Dollar	$ -	$ -
Convertible Notes	November 11, 2015 to July 7, 2016	US Dollar	$ 5,750	$ 2,000
Convertible Notes	January 30, 2016 to March 13, 2016	Canadian Dollar	$ 265	$ -
SPA Loan	July 30, 2015	US Dollar	$ 4,000	$ -
Promissory Note (1)	January 31, 2015	US Dollar	$ 2,000	$ -
Purchase of 7P Plant	Refer to note below	Canadian Dollar	$ -	$ -
Leased mobile equipment	Within one year	Canadian Dollar	$ 179	$ 190
	One to five years	Canadian Dollar	$ 328	$ 447

(1) The short-term note in place as at December 31, 2014 was due by January 31, 2015. The note has been renewed on a monthly basis upon payment of extension fees and penalties. As at March 31, 2015, the amount outstanding is $1,000,000 and is due April 30, 2015.

Note that the final acquisition of the 7P assets was subject to conditions precedent, including the transfer of leases which continues to require regulatory approval. Effective May 20, 2014, through the acquisition of 100% of BG Solutions, the company which owned the leases, the Company completed the purchase of the 7P assets including the land lease. The Asset Purchase Agreement was cancelled. Further note that the Amended Loan was contractually payable on January 31, 2015 but, in April 2014, was converted to the Participating Interest. The Participating Interest has no specific payment dates and is dependent upon cash flows from the frac sand business after having recouped the capital cost of the 7P Plant and the pre-operating expenses. The Convertible Notes may also be settled in part or in whole through the issuance of the Company's shares at a price of C$1.00 per share (after giving retroactive effect to the Share Consolidation) at the holders' option at any time prior to repayment.

During the first quarter of 2014, 463,000 stock options were exercised (after giving retroactive effect to the Share Consolidation) which generated $201,000 in cash for the Company. Also, note that all 12,799,935 of the Company's outstanding warrants (after giving retroactive effect to the Share Consolidation) are exercisable. The 10,000,000 warrants (after giving retroactive effect to the Share Consolidation) issued pursuant to the rights offering in 2013 became exercisable on July 31, 2014, 1,250,000 warrants (after giving retroactive effect to the Share Consolidation) issued pursuant to a private placement wee exercisable on issue. The 2,000,000 warrants (after giving retroactive effect to the Share Consolidation) issued in 2014 under the SPA Loan are three year warrants exercisable at C$1.00 (after giving retroactive effect to the Share Consolidation); furthermore, these warrants have a cashless exercise feature which, if selected, would cause shares to be issued but without a cash infusion to the Company. Typically, warrants tend not to be exercised until close to their expiry. All except the 2,000,000 warrants issued pursuant to the SPA loan are exercisable at C$0.35 (after giving retroactive effect to the Share Consolidation). In 2014, 450,065 warrants (after giving retroactive effect to the Share Consolidation) were exercised which generated $144,000 in cash.

The Company will continue to balance its financing choices as a function of availability and market activity. Managing in challenging times takes as much, if not more, senior management effort. More recently, the Company has issued Convertible Notes. The SPA Loan, executed in May, 2014, provided a facility of $4,000,000 to be used to fund working capital related to the frac sand initiative. This was supplemented on October 1, 2014 by the completion of a short-term financing by way of a promissory note aggregating $2,000,000. This was a preliminary step towards the objective of securing receivables financing through factoring or similar activities. The Company is in the process of documenting a bank facility to factor certain of its receivables.

Commissioning of the 7P Plant commenced in March until early August. Approximately 99% of sales in 2014 were collected from customers to the date of this report and inventories valued at $2,977,000 as at December 31, 2014 were built which includes $1,445,000 of finished product.

Using March 30 2015 prices, the aggregate market value of the Company's marketable securities held in public company shares is approximately $279,000.

As at March 31, 2015, the Company had options outstanding which could bring in additional funds of approximately C$1,731,000. Most of those instruments are not "in-the-money" and the receipt of such funds cannot be relied upon. Furthermore, the remaining warrants issued under the rights offering and private placement could generate additional cash of C$3,780,000. Approximately C$158,000 of warrants from the rights offering have been exercised as of the date of this report; the figures exclude potential proceeds from the warrants issued with the SPA Loan which are subject to a cashless exercise feature.

The Company has good title to its projects and will continue to maintain the projects in good standing.

The Company recognizes the imminent cash requirement to repay debt and is actively considering restructuring of its debt to term it out for several years. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring.

Development of the Minago mine will require considerable financial resources. The Company recognizes that the state of the financial markets and the apparent lack of support for mining projects will make financing this project difficult. However, validating the frac sand portion of the project should provide leverage to get potential partners interested in the nickel portion of the project.

The Company continues to hold discussions with local and overseas financiers and potential business partners with respect to the nickel and frac sand opportunities.

BUSINESS UPDATE
Reporting Segment
The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company also now produces frac sand for the oil and gas industry in Canada and the northern US. Accordingly, the Company has commenced reporting on a segmented basis in 2014. The Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment supports all of the Company's activities.

Senior management makes decisions with respect to Exploration and Development by considering exploration and development potential and results on a project basis. The exploration and development projects are all located in Canada.

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 24 in the 2014 Audited Consolidated Financial Statements). The segment is located in Canada although sand as raw material is imported from the US.

The following table provides information on the Company's segmented assets. The segmented Statement of Operations for 2014 has been presented earlier in the MD&A in the discussion of operating results for 2014 and 2013.

	December 31, 2014	December 31, 2013	January 1, 2013
Canada			
Corporate	**$ 1,860**	$ 2,290	$ 2,404
Exploration and Development	**49,734**	51,764	52,904
Frac Sand	**11,300**	3,654	-
Intersegment elimination	**(962)**	(455)	-
Total Assets	**$ 61,932**	$ 57,253	$ 55,308

EXPLORATION AND DEVELOPMENT ACTIVITIES
Paul Jones, Vice-President, Exploration, is a "qualified person" as defined under NI-43-101, and he has supervised and approved the preparation of the information relating to the material mineral projects of the Company described herein.

MINE PROPERTY AND DEVELOPMENT ACTIVITIES

<u>NICKEL</u>
Minago Project
During the year ended December 31, 2014, expenditures of $372,000 (December 31, 2013 -$819,000 (before receipt of a government grant of $70,000)) was incurred on the Minago project.

The Company's 100%-owned Minago project is a permitted project ready for development. It is located on the unexposed southern part of the Thompson Nickel Belt in Manitoba, and is one of Canada's largest undeveloped sulphide nickel deposits. Minago has been shown to be capable of producing a nickel concentrate grading from 22.3% up to 35.0%, making it reportedly the world's highest grade nickel concentrate. In addition to metal by-products such as copper, cobalt, gold, platinum, palladium, silver and rhodium, a layer of silica sand averaging approximately nine metres thick overlies the nickel mineralization within the open pit. Approximately 84% of the sand is marketable as frac sand. The frac sand forms part of the overburden that must be removed prior to mining the nickel ore. According to the FS, production of frac sand could begin 20 months after the start of mine development.

The analytical data and geological interpretations obtained from a work program in 2010 were incorporated into an updated geological model and resource estimate. The updated resource incorporates a 24% increase (over the previous resource estimate) in the NI-43-101-compliant measured and indicated, pit-constrained, sulphide nickel resource used in the Minago FS. The FS is posted at www.sedar.com. Note that all resources are contained in the Nose Deposit and the update below does not include the results of the 2011 drilling program.

	April 2011 Pit-Constrained Resource[1]			March 2010 In-Pit Resource[2]			Increase (Decrease) in Contained Metal	
	Tonnes	**Grade**	**Ni Content**	Tonnes	Grade	Ni Content	**Ni Content**	**Change**
Category	**Millions**	**%NiS[3]**	**M Lb**	Millions	%NiS[3]	M Lb	**M Lb**	**%**
Measured	**8.2**	**0.473**	**85.0**	6.6	0.488	71.4	**13.7**	**19.2**
Indicated	**22.8**	**0.432**	**217.2**	19.1	0.410	172.6	**44.6**	**25.9**
M&I	**31.0**	**0.443**	**302.2**	25.7	0.430	243.9	**58.3**	**23.9**
Inferred	**0.2**	**0.380**	**1.4**	1.4	0.402	12.2	**(10.8)**	**(88.4)**

[1] Lerch-Grossman pit optimization shell [2] Whittle pit optimization shell [3] Nickel in sulphide form

A winter work program was conducted at Minago in 2011. The program comprised 8,793m of diamond drilling in 20 drill holes with associated ground and borehole electromagnetic geophysics. The program was intended to evaluate parts of the project that have seen little work to date as well as to build upon the existing data-set of the Nose Deposit nickel mineralization. The entire pit-constrained resource is located within the Nose Deposit. A total of 15 holes were collared to intersect the "North Limb", a domain of nickel-bearing ultramafic rock extending at least 1.5km north from the Nose Deposit. A single deep hole was collared on the Nose Deposit to evaluate the depth extension of the ultramafic host rock and nickel mineralization. The hole was drilled to a total length of 1,527m and intersected approximately 160m of ultramafic rock near the bottom of the hole – confirming the extension of the host rock to depths several hundred metres below that previously tested. A single drill hole was collared in the western part of the property in order to test the thickness of the Winnipeg Formation sand horizon. As anticipated, the hole successfully intersected the Winnipeg Formation sandstone layer (frac sand horizon) immediately above the unconformity with the Thompson Nickel Belt rocks.

A 3,500m winter work program was conducted in early 2012. The program tested a number of targets around the property that have been identified in previous work programs as well as areas that are scheduled for Minago mine infrastructure development. In part, the drilling evaluated the nickel-bearing Ospwagan Group/Pipe Formation rocks in the vicinity of the Minago Nose Deposit. Given the widespread nature of nickel mineralization on the Minago property and the number of targets identified, the possibility of intersecting completely new nickel mineralization was considered good. The drilling intersected magnetite-bearing amphibolite domains, pyrite-pyrrhotite intervals and minor serpentinite.

Importantly, two holes of the 2012 program tested known nickel-bearing serpentinite that underlies mining lease ML-003 approximately 5km south of the Nose Deposit. Thirteen historic drill holes are known to have been drilled by previous operators in the area between 1968 and 1971. Ten of the thirteen holes intersected serpentinized ultramafic rock, while seven of these holes obtained significant intersections of nickel-mineralized serpentinite from within a body interpreted to be >2 km long. The most extensive intersection, in MXB-70-60, was 605m grading 0.3% Ni from 154m down hole. DDHs V-12-07 and V-12-09 completed in the winter of 2012 both intersected significant widths of serpentinite and obtained analytical results consistent with historic results.

No exploration or development programs have been conducted on the project subsequent to the winter 2012 work program; current work is related to reporting and evaluation of existing results as well as gathering additional geochemical information from existing drill core. An application to renew the Minago mining leases ML-002 and ML-003 was successful and both leases have been renewed for a 21-year term.

On August 23, 2011, the Manitoba Government issued Victory Nickel's final EAL for the Minago project. The licence expires on August 22, 2014 unless the Company completes a certain amount of work to move the project forward. During 2013, the Company has complied with the conditions of the EAL and, in December, filed an Environmental Act Proposal ("EAP") to amend the EAL to relocate the proposed tailings and waste rock management facility. The construction of drainage ditches installed to lower the water table within the pit shell limits, the installation of Flow Gauging and Telemetry systems and the implementation of a comprehensive environmental monitoring program are considered part of the site development necessary to maintain the EAL which would have otherwise expired in August, 2014.

Minago Frac Sand

An indicated resource of 15 million tonnes of sandstone has been estimated to occur within the current Minago pit shell. The frac sand component of this resource of approximately 11 million tonnes is a significant contributor to the positive economics at Minago. As part of the FS, Outotec produced a feasibility-level design for a frac sand plant complete with capital and operating costs to produce 1,140,000 tonnes of frac sand annually for a ten-year period. Considerable potential exists to expand the resource beyond the limits of the current pit.

EXPLORATION AND EVALUATION ACTIVITIES

For the year ended December 31, 2014, the Company incurred exploration expenditures on its E&E projects of $160,000 (December 31, 2013 - $131,000). Expenditures have been minimal due to the tight equity markets and management's focus on Victory Silica and the frac sand business. The 2013 expenditures are shown before the transfer of $383,000 through operations with respect to the Lynn Lake option receipts in excess of carrying value.

FRAC SAND

Bear Coulee Property

In October 2014, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in south western Wisconsin, USA (the "Bear Coulee Property"). The option agreement provides for a cash payment of $10,000 on signing of the agreement (and paid in 2014), a second cash payment on delivery of permits and a third cash payment on exercise of the option. The option is valid for six months with two equivalent extensions available under certain circumstances. Prior to production, the Company will be required to pay $40,000 per annum as advance royalties on the initial 20,000 tons of sand production. Once the Bear Coulee Property is in production, the Company will be required to pay a royalty of $2.00 per ton of frac sand sold from the property.

In February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed by Summit on the Bear Coulee Property and will be incorporated into a National Instrument 43-101 technical report. The Bear Coulee frac sand property is located in Trempeleau County, Wisconsin.

NICKEL

Lac Rocher

Lac Rocher is located in northwestern Québec and has measured (0.29 million tonnes grading 1.23% Ni) and indicated (0.51 million tonnes grading 1.05% Ni) resources of 0.80 million tonnes grading 1.12% nickel, at a 0.5% nickel cutoff, for approximately 20 million pounds of in-situ nickel located between surface and 125 vertical metres. Additional inferred resources total 0.44 million tonnes grading 0.65% Ni. Mineralization remains open to the southwest. The breakeven price of nickel per lb in the Lac Rocher PEA was $9.74 with copper at $3.65.

The Lac Rocher property is subject to a discovery incentive plan (the "DIP") to reward certain individuals involved in the discovery of Lac Rocher with a 2% net smelter royalty ("NSR") for mines that were discovered on certain properties prior to the expiry of the DIP. The NSR is payable only on revenues earned after recovery of all development costs for any mine on the property. The terms of the DIP provide the Company with a right of first refusal on any proposed disposition of the NSR. In addition, the DIP contains put/call provisions under which the Company may be required to purchase, or may exercise an option to purchase, the NSR at the value of its discounted cash flows, as defined therein. The Lac Rocher property is the only property subject to the DIP. As the Lac Rocher property is not yet in production, no royalties are currently payable.

Year round access is now available to the site. In December 2009, diamond drilling was conducted to provide geotechnical data deemed necessary for future portal and ramp development. An InfiniTem ground electromagnetic survey was conducted over a portion of the property to test for deeper extensions to the nickel mineralization. At the same time, evaluation of the availability of borrow material was also conducted in the local region. No work was conducted at the site in 2014.

Mel Project

The Mel project is located on the Thompson Nickel Belt, just north of Thompson, Manitoba. It is a large property, approximately 25km east-west by about 6km north-south, and remains underexplored.

Mel has an indicated resource of 4.3 million tonnes grading 0.88% nickel (approximately 83 million pounds in-situ nickel) and an additional inferred resource of one million tonnes grading 0.84% nickel (approximately 19 million pounds in-situ nickel) and offers significant exploration upside as well as near-term production potential.

The Company had earned a 100% ownership of Mel subject to a 51% Vale back-in right. During the third quarter of 2010, the Company announced that Vale had determined that it would not exercise its back-in right. Title to the property has been transferred. Accordingly, the Company is in a position to determine future programs at Mel in its sole discretion.

Ten drill holes, totalling 3,459m, comprised the 2011 winter work program on the Mel Property, the first managed by the Company. Two drill holes, totalling 739m, were collared to test a UTEM geophysical anomaly approximately 700m north of the Mel deposit associated with earlier prospective nickel results; no sulphide mineralization was encountered. Eight drill holes, totalling 2,720m, were collared to test the down-dip extension of the Mel resource shell; all holes intersected nickel mineralization of grade and width comparable to that obtained in holes that comprise the existing resource.

A re-evaluation of the Mel dataset has been completed for both the drill hole data on the Mel deposit and the considerable drilling (111 drill holes) conducted of the claims portion of the property. The study has included reinterpretation of the geological context in order to evaluate new or under-tested target areas, particularly on the portion of the property comprised of claims, for future work and that can be incorporated into further, more refined, modelling of the Mel resource. No fieldwork was conducted during 2014. An application to renew Mel mining lease ML-007 was successful and the lease has been renewed for a 21-year term.

Under the terms of the option agreement, Vale must mill ore from the Mel project at cash costs plus 5% subject to capacity availability and metallurgy – this is unaffected by Vale's decision not to exercise its back-in right. Furthermore, in accordance with the terms of the agreement with Vale, they now are entitled to a 10% royalty on "distributable earnings" as defined in the agreement. Distributable earnings is defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

Lynn Lake

The Lynn Lake property is located in the historic mining town of Lynn Lake in northern Manitoba, about 320km by road northwest of the Thompson mining camp. The property is the former Sherritt Gordon Mines Limited ("Sherritt") mine site known as the Lynn Lake A Mine and Farley Mine, comprised of 13 mining claims, 14 mining claim leases and 2 mineral leases covering an area of 2,170.26 hectares. The property was operated by Sherritt from 1953 to 1976 with reported production of 22.2 million tons at an average grade of 1.023% nickel and 0.535% copper.

As discussed earlier and described in Note 12 to the 2013 Audited Consolidated Financial Statements, the Company had optioned Lynn Lake to Prophecy Coal with subsequent assignment to Wellgreen. In March, 2014, Wellgreen relinquished the option on the property and it has reverted to the Company. On November 4, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area. Under the terms of the agreement, Corazon can acquire a 100% interest in Lynn Lake by issuing 40 million Corazon shares to the Company upon closing and incurring A$3,500,000 in exploration expenditures or in payments (in cash or Corazon shares at Corazon's option) to Victory Nickel over five years. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from the Lynn Lake nickel project, and receive a payment of A$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of the commencement of ore processing activities at the Lynn Lake nickel project.

FRAC SAND SEGMENT

As explained above, the Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 24 in the 2014 Audited Consolidated Financial Statements). The segment is located in Canada although sand as raw material is currently imported from the US. The plan is to eventually produce both domestic and imported sand.

On June 19, 2012, the Company announced this initiative through the creation of Victory Silica. The objective is to establish the Company as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project at the same time as generating cash flow. On January 9, 2013, the Company announced that it had completed an asset purchase agreement for the purchase of the 7P Plant assets.

The Company then proceeded to implement Phase One of its three phase business plan. Phase One provided for the refurbishment and upgrading of the 7P Plant to a capacity of 500,000 tpa of high-quality frac sand.

The 7P Plant was completed in March 2014 followed by commissioning until early August. During commissioning and to December 31, 2014, the 7P Plant produced 109,155 tons of frac sand and, to the end of December 2014, 90,731 tons of this sand was sold. In addition, 16,830 tons of finished goods inventory was built up. Production tonnage includes approximately 90 tons of sand which have been included in raw materials inventory. The balance of 1,504 tons represents losses. The cost to purchase and complete the 7P Plant upgrade was approximately $4,774,000; $5,440,000 including the cost of leased equipment (and before amortization). The 7P Plant reached full staff complement early in the fourth quarter with the addition of the fourth crew. Unfortunately, start-up issues described earlier prevented the 7P Plant from operating at full capacity. This, compounded by the impact of the recent unprecedented decline in the price of oil has left a confused environment resulting in price decreases which we believe are not sustainable. This, combined with the typically slow season during spring breakup has necessitated the reduction of three crews until demand returns. In the interim, the Company has built up significant finished frac sand inventory that is ready for sale and concentrated sand inventory ready to be processed and the 7P Plant is prepared to increase production as required.

Successful completion of Phase One was expected to lead to Phase Two which provides for the building of a wash plant in Wisconsin, US followed by Phase Three which provides for the construction of a second dry processing facility in Manitoba with a capacity of approximately 1,000,000 tpa. With the completion of Phase One, the Board of Directors has approved proceeding with Phase Two provided non-dilutive financing can be arranged. The uncertainty caused by the drop in the price of oil will make financing Phase Two more challenging.

IMPAIRMENT ANALYSIS

There has been no marked recovery in the metals markets and more general economic indicators except for a strengthening US dollar, a small increase in the nickel price and a reduction in the oil and gas prices. The Company performed a detailed impairment analysis on each of its E&E projects and the MP&D project as at December 31, 2014. 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 for the projects which would cause a reassessment.

The challenge facing all junior mining companies 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 continued 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 2014, the Company's market capitalization was below its net book value – being approximately 20% of net book value which remained consistent from December 31, 2013. A 100% ratio would require a share price of approximately $0.09 (after retroactive effect of the Share Consolidation) which was most recently achieved in late 2011. However, many resource companies continue to experience similar circumstances in present markets despite having good projects. In particular, the Company continues 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 and the MP&D project.

The impairment analysis reviewed historic expenditures recorded on each project along with any purchase price allocations from acquisitions, reflected the existence of previous writedowns or reversals of impairment 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 third-party arrangements, such as the Lynn Lake option, were also taken into consideration.

Forecast metals prices were estimated from third-party sources such as analyst consensus reports and other available documentation which were considered to be reasonable by management. In particular, for the FS base case, long-term annual forecast nickel prices averaging $11.19 and an exchange rate of US$0.9116 : C$1.00 were used. Since the FS was performed, metals prices and exchange rates have changed. The Company continues to work on updating the FS for improved economics and announced updated resource estimates in 2011 as a result of the drilling performed in 2010.

For the purposes of impairment testing, the economic model in the FS was used as a base. The business model used in the FS and the intention of management is to develop and produce the nickel and frac sand co-product simultaneously. For the purposes of assessing the impairment of Minago, frac sand is treated as a raw material for sale into the market and is not processed to a finished product. This required elimination from the FS economic model of the following: processing plant capital, processing operating costs, transportation costs and the finished goods margin. This does not reflect how management intends to develop Minago, nor, in management's opinion, does it reflect how any other organization would develop the project.

In addition, adjustments were made for prices derived from the forecasted average of $9.29 for nickel and an exchange rate of US$0.80:C$1.00. A discount rate of 11% was used in the analysis and includes estimates for income taxes.

Capital and operating cost estimates generally were reduced from those used in historic studies if documentary evidence supporting such reductions had recently been obtained as part of the review work which had been undertaken for the Minago FS. For the Minago project in particular, the transformer commitment has been made at a much-reduced cost than was used in the FS. Used equipment prices cannot be typically reflected in a FS, as the market is unpredictable, except where firm pricing has been negotiated. Often cost estimates used in previous studies had been derived when such were universally recognized to be at historic highs. We have continued to see evidence of engineering firms broadly announcing price freezes. Experience with equipment strategies at the 7P Plant has proved that good quality used equipment can be sourced and equipment financing is available. This represents an additional cost-saving opportunity which has not been quantified in the impairment analysis.

These factors resulted in a recoverable amount in excess of the book value of Minago. Accordingly, no impairment exists on the Minago project.

The impairment model is sensitive to several of the model key input variables. The following table indicates the estimated impact on the recoverable amount:

Change in Model Key Input	**Change in Recoverable Amount of Minago**
Effect of:	
Increase discount rate by 1%	(55%)
Increase exchange rate by 0.05	(65%)
Increase frac sand and nickel prices by 1%	14%
Increase operating costs by 5%	(30%)

Furthermore, management's intentions with respect to future expenditures and plans for the projects were considered. With the exception of some small projects, all projects have had recent expenditures and are considered to be active. All of the Company's projects were tested for impairment as at the balance sheet dates.

Management concluded that no impairment existed in each of its projects effective December 31, 2014 and that costs incurred to date 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 and judgements used in the preparation of the consolidated financial statements include determining the carrying value of investments, MP&D and E&E projects, assessing the impairment and classification of long-lived assets, determining the recoverability of deferred income tax assets, the valuation of the Participating Interest and the convertibility feature of the promissory notes, the valuation of share-based payments 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 Note 3 to the Company's 2014 Audited Consolidated Financial Statements. The Company's financial statements have been prepared using the going concern assumption; reference should be made to Note 1 to the Company's 2014 Audited Consolidated Financial Statements.

The recorded value of the Company's E&E projects and the MP&D project is based on historic costs that are expected to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, 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 there is always the potential for a material adjustment to the value assigned to these assets. Such risks also extend to the evaluation of fair values of net assets upon acquisition.

The value of the Participating Interest is a significant estimate which uses a model of estimated cash flows and applies probability-weighted estimates to the model. Assumptions are made about the phase at which the frac sand business will be when payments are being made as well as production costs and volumes and sales prices and volumes.

The fair value of the stock options and warrants, as well as the embedded option derivative in the promissory note, is calculated using the Black-Scholes option-pricing model that takes into account the exercise price, 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 or embedded option derivative.

The Company has determined that it is highly probable that Victory Nickel 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 Victory Silica is not revenue-generating, a full valuation allowance has been recorded against losses incurred in that subsidiary. The Company will monitor any changes in circumstances which could require a reversal of the valuation allowance.

NEW ACCOUNTING POLICIES

IFRS issued by the International Accounting Standards Board ("IASB") have been adopted in the Company's 2014 Audited Consolidated Financial Statements. Note 3 to those statements include the accounting policies that have been applied.

FUTURE ACCOUNTING CHANGES

New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2014 Audited Consolidated Financial Statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no new and revised standard 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 2014 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, 2014, 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 disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2014. 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, 2014 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 the future. The COSO Board has made the COSO (1992) framework available for use until an unspecified date at which point it is expected to be considered superseded. For the fiscal year ended December 31, 2014, 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, 2014.

During the year, the Company made improvements to the controls over financial reporting as part of its continuous improvement process and as part of its frac sand initiative. As may reasonably be expected, the entry into a new business requires new processes and controls which evolve as the business matures. As the frac sand business is still in the very early stages of the project initiative, changes in day-to-day operations are being experienced and therefore, the processes and controls required are still evolving. Controls around processes that have material impact to the financial statements such as Sales and Inventory are not operating in accordance to the design of the Company's internal control. As a result, alternative procedures were implemented and reliance was placed on these alternative procedures by management and will continue to be until the frac sand business matures.

In particular, certain inventory components were not measured adequately at the December 31, 2014 inventory count. In order to address this, a second inventory count including all the appropriate measurements was performed in the first quarter of 2015 and was rolled back to December 31, 2014 to support the quantities of all inventory components at that date. Apart from inconvenience and a relatively small extra cost, there was no loss to the Company as a result of this. The failure in the designed internal control was identified by management and was fully remediated through alternative procedures. This is not expected to be a recurring situation.

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 quarter ended December 31, 2014 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting. However, reliance was placed on mitigating controls around processes that are currently still evolving to reduce risk of material misstatement on the financial statements to an acceptable level.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT WITH NUINSCO RESOURCES LIMITED

Related Party Balances and Transactions for Services

Short-term employee benefits provided by the Company to key management personnel include salaries, 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 options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 19 and 21 to the 2014 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 and for the year ended December 31, 2014 and 2013 are shown in the following tables:

As at December 31,		**2014**		2013
Balances Outstanding				
Payable to key management personnel	**$**	**251**	$	112

Key management personnel compensation comprises:

Years ended December 31,		**2014**		2013
Short-term employee benefits	**$**	**891**	$	924
Share-based payments - options		**233**		115
Share-based payments - Share Bonus Plan		**-**		64
	$	**1,124**	$	1,103

Balances and Transactions with Nuinsco Resources Limited under the Management Agreement

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement; 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 in Note 16 to the 2014 Audited Consolidated Financial Statements, Nuinsco became a related party of the Company effective July 30, 2013. The costs charged by Nuinsco are recorded at the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by the Company upon 180 days' notice and by Nuinsco upon 90 days' notice. The Company served notice of termination on September 5, 2014; accordingly, the management agreement will cease around the end of February 2015. The Company expects to continue to share resources and costs with Nuinsco under a cost sharing arrangement.

Balances and transactions with Nuinsco under the management agreement as at and for the years ended December 31, 2014 and 2013 are shown in the following tables:

	December 31, 2014	December 31, 2013	January 1, 2013
Balances Outstanding under the Management Agreement			
Payable to Nuinsco Resources Limited	**$ 45**	$ 53	$ -
Receivable from Nuinsco Resources Limited	**$ -**	$ -	$ 37

Years ended December 31,	2014	2013
Transaction Values under the Management Agreement		
Overhead charges from Nuinsco Resources Limited	**$ 671**	$ 733
Overhead charges to Nuinsco Resources Limited	**$ -**	$ 17
Project costs charged to Nuinsco Resources Limited	**$ 21**	$ 36
Project recoveries charged by Nuinsco Resources Limited	**$ 70**	$ 29

Amounts due to or from Nuinsco under the management agreement are unsecured, non-interest bearing and due on demand. Amounts due to or from Nuinsco thereby are settled on a regular basis.

Balances and Transactions with Nuinsco under the Amended Loan/Participating Interest

The terms of the Participating Interest are described in Note 16 to the 2014 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 related thereto is included in the table and accompanying note below:

Participating Interest	December 31, 2014	December 31, 2013	January 1, 2013
Advance for working capital	**$ 940**	$ 940	$ 1,005
Advance under Amended Loan for standby commitment	**1,135**	1,135	-
Accrued interest payable	**-**	-	8
Aggregate advances	**2,075**	2,075	1,013
Less: settled in Units of Victory Nickel	**(1,135)**	(1,135)	-
Less: unamortized loan fees	**(51)**	(185)	-
	889	755	1,013
Change in fair value	**2,875**	3,100	-
Effect of foreign exchange	**(216)**	-	-
Participating Interest	**$ 3,548**	$ 3,855	$ 1,013
Current portion - due within one year (1)	**$ -**	$ -	$ 1,005
Long-term portion (2)	**3,548**	3,855	8
Participating Interest	**$ 3,548**	$ 3,855	$ 1,013

The Company accrued $11,000 commitment fees payable in shares to Nuinsco upon the final advance under the Amended Loan and these are included in *Finance costs*. In December 2014, the Company issued 18,268 common shares to settle the commitment fees owed to Nuinsco. Victory Nickel paid interest of $46,000 for the year ended December 31, 2014 (December 31, 2013 - $115,000 of which $9,000 related to 2012 was paid in the first quarter of 2013).

OUTSTANDING SHARE DATA

As at March 31, 2015, the Company had 57,634,578 common shares issued and outstanding. In addition, there were 3,036,000 stock options and 10,799,935 warrants outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 71,470,513 and would generate cash of approximately C$5,510,000. However, none of the options are “in the money”, all the warrants are exercisable.

RECENT DEVELOPMENTS

On October 1, 2014, the Company completed the arrangement of short-term financing by way of a promissory note amounting to $2,000,000. The promissory note has been fully drawn down. The promissory note bears interest at an annual rate of 28% and was originally due on December 1, 2014. The lender has agreed to several monthly extensions upon payment of extension fees and penalties. On January 31, 2015, February 6, 2015, and February 27, 2015 the Company repaid $500,000, $250,000 and $250,000 respectively. A fourth amendment extended the short-term loan to March 31, 2015 under similar terms. The balance owing is $1,000,000.

On March 31, 2015, the Company agreed an additional extension of the short-term loan with the lender. The balance outstanding is $1,000,000 and is now due on or before April 30, 2015 under similar terms. On March 31, 2015, the Company paid an extension fee of $10,000 along with a penalty for not repaying the amount originally due on March 31, 2015 of $15,000. In addition, with respect to the promissory note, the Company agreed upon an extension of a $73,000 interest payment required on March 31, 2015 to be paid on April 1, 2015.

RISKS AND UNCERTAINTIES

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. Additionally, there are specific risks related to the Company's presence in the frac sand market. The risk factors which should be taken into account in assessing Victory Nickel's activities and an investment in its securities include, but are not necessarily limited to, those set out in detail 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 Victory Nickel'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 Victory Nickel and the business, financial condition, operating results or prospects of Victory Nickel and should be taken into account in assessing Victory Nickel's activities.

Financial and Investment Risks

Going Concern

None of the Company's mining 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 and/or the ability to generate sufficient cash flow from its other operating activities for its funding. The Company's 7P Plant completed commissioning during the third quarter 2014 and is capable of producing at a commercial level. However, the recent decrease in drilling activity due to the decrease in the price of oil, may delay the Company's ability to generate sufficient cash flow to meet operating requirements.

The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon either 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 such as royalty interests for its funding or the success of the frac sand business referred to above.

However, should the Company not be able to reach successful cash flow generation and achieve profitable operations from frac sand business or continue to achieve favourable exploration results, obtain the necessary financing or achieve future profitable production or sale of properties, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to the financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty, especially in the present environment, that the Company's initiatives to improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including project expenditures and corporate costs. 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.

Substantial Capital Requirements

Victory Nickel will have to make substantial capital expenditures for the development of, and to achieve production from, its nickel projects. Production will only be reached a number of years following the start of development. Until that time, the Company is reliant on cash flows generated by its nascent frac sand business, on the equity markets and asset sales to generate cash for ongoing operations and programs. There can be no assurance that any debt or equity financing or cash generated by operations or asset sales 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 Victory Nickel.

Moreover, future activities may require Victory Nickel to alter its capitalization significantly. The inability of Victory Nickel 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.

The 7P Plant has been substantially completed. Future capital requirements for the 7P Plant are not expected to be significant. However, future phases will require additional capital; these phases are independent of the 7P Plant. This capital requirement may be in excess of the net funds generated by the business. The frac sand operations have ongoing requirements for working capital financing. There is a risk that sufficient working capital financing may not be available at suitable prices.

The Company recognizes the imminent cash requirement to repay debt and is actively considering restructuring of its debt to term it out for several years. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring.

Market Perception

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

By entering the frac sand market and becoming an operating company with operating cash flows, Victory Nickel is attempting to distinguish itself from other juniors. This represents a risk in itself.

Metal and Frac Sand 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. Nickel and by-product prices fluctuate on a daily basis and are affected by numerous factors beyond Victory Nickel's control – including factors which are influenced by worldwide circumstances. The level of interest rates, the rate of inflation, world supply and demand for commodities and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The prices of nickel and by-products 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 Victory Nickel's business, financial condition and prospects. As Victory Nickel has historically been in the exploration and development stage, the above factors have had no material impact on present operations but were considered in evaluating the impairment of long-lived assets. However, these factors are of significant importance for the FS and decisions related thereto as well as being important to the developing frac sand business.

The business case developed to support the Company's entry into the frac sand business made significant assumptions on pricing of frac sand as well as for important cost elements of production and transportation. While many of the important costs have been fixed contractually, the price for frac sand sales is subject to market forces beyond the Company's control. The impact of the oil and gas pricing cycle is uncertain.

Areas of Investment Risk

The common shares of Victory Nickel 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 Victory Nickel.

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 Victory Nickel's net assets or its ongoing operations. The price at which investors may dispose of their securities may be influenced by a number of factors, some of which may pertain to Victory Nickel and others of which are extraneous. On any disposal of their common shares, investors may realize less than the original amount invested.

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 Victory Nickel's exploration efforts 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 Victory Nickel'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, such as has been released with respect to Minago, on Victory Nickel's projects or the current or proposed exploration programs on any of the properties in which Victory Nickel has exploration rights will result in a profitable commercial mining operation. As a result of these uncertainties, no assurance can be given that Victory Nickel's exploration programs will result in the establishment or expansion of resources or 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 the mineral resource properties owned by Victory Nickel, 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/or 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. The costs estimated under the FS for Minago differed from the PEA and may differ again upon actual development.

Frac Sand Industry

Frac sand processing is a new business for Victory Nickel. The industry is closely linked to the oil and gas industry and is therefore affected by economic factors impacting that industry, including the effect of future cycles based on historic experience. Demand for frac sand is influenced by many factors, including: global and regional economic and political events and conditions, fluctuations in pricing and availability of oil and gas and other energy sources, demand for oil and gas products, demand for cars and other vehicles, technological innovation impacting alternative energy sources, changes in the regulatory framework for mining and processing frac sand and the hydraulic fracturing industry. The oil and gas industry can be prone to sudden, unexpected production slowdowns which may impact exploration, development, production and well completion activities. These factors, such as the recent unprecedented drop in the price of oil, cannot readily be predicted or controlled. Negative developments could cause the demand for frac sand products to decline which could have adverse effects on business, financial condition, results of operations, cash flows and prospects.

With respect to the frac sand industry itself, risks include: changes in transportation availability and pricing, inclement or hazardous weather conditions from flooding or climate change, environmental hazards, industrial accidents, changes in the regulatory framework impacting mining, processing and the fracking industries in both Canada and the US, inability to procure sand in the required quantities or qualities, inability to obtain replacement parts or equipment on a timely basis, reduction in the availability of water for processing, inability to hire, train and retain qualified staff at acceptable rates; and other technical difficulties or failures. Any prolonged downtime could impact deliveries and reputation.

The fracking industry has been hailed as significantly contributing to North America's energy self-sufficiency. A combination of techniques is used, any changes impacting the use of frac sand as a proppant through regulation or technological innovation may negatively impact the frac sand industry. In addition, heightened political, regulatory and public scrutiny of hydraulic fracturing practices could potentially expose the Company or its customers to increased legal and regulatory proceedings, and any such proceedings could be time-consuming, costly or result in substantial legal liability or significant reputational harm.

Competition

The mineral exploration business is highly competitive in all of its phases. Victory Nickel competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Victory Nickel, in the search for and acquisition of exploration and development rights on attractive mineral properties. Victory Nickel'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 Victory Nickel will compete successfully in acquiring exploration and development rights on such other properties or in securing customers, sand supplies or other resources such as transportation.

Victory Nickel also faces competition in the frac sand market with respect to its frac sand business and there is no assurance that Victory Nickel will compete successfully processing and selling frac sand in such market. Frac sand is a proppant used in the completion and re-completion of oil and natural gas wells to stimulate and maintain oil and natural gas production through the process of hydraulic fracturing. Frac sand is the most commonly used proppant and is less expensive than other proppants, such as resin-coated sand and manufactured ceramics. A significant shift in demand from frac sand to other proppants, or the development of new processes to replace hydraulic fracturing altogether, could cause a decline in the demand for the frac sand the Company processes and result in a material adverse effect on the Company's financial condition and results of operations. If significant new reserves of raw frac sand are discovered and developed, and those frac sands have similar characteristics to the raw frac sand processed by the Company, the Company's ability to maintain or acquire contracts may be negatively impacted which could have a material adverse effect on the Company's results of operations and cash flows over the long term. Additionally, quality sand supply is a limited resource and the presently-identified sources are a significant distance away from the 7P Plant which provides logistical challenges in securing timely railcar and other transportation at acceptable prices.

Operational Risks

Limited History of Operations

Victory Nickel has no history of earnings and limited financial resources. Victory Nickel currently has no operating mines and its ultimate success may depend on the ability of active mining operations to generate cash flow in the future, as well as its ability to access capital markets for its development requirements. There is no assurance that Victory Nickel will earn profits in the future. Significant capital investment will be required to achieve commercial production at Victory Nickel's existing nickel projects. There is no assurance that Victory Nickel will be able to raise the required funds to continue these activities.

In particular, frac sand processing represents a new initiative for Victory Nickel which is expected to generate significant cash flow for the Company, if successful. While the Company believes it has mitigated the risks of entering a new market through the hiring of experienced personnel, there is no assurance that this initiative will be successful.

Frac Sand Processing Operations

The 7P Plant is freshly-built. Production risks might be expected to be higher for a new operation than one which has been in operation routinely. However, a new plant may have a reduced risk profile as far as reliability is concerned. Refurbishment of equipment may be more risky than acquiring new plant. Despite hiring experienced management, many new operators have been hired, while risks have been mitigated by training, it is possible that early production may experience excessive downtime. The availability of suitably-qualified staff at acceptable prices also represents a risk.

The procurement, production and delivery of frac sand can be logistically complex – transportation costs represent a significant portion of frac sand costs. Unavailability of appropriate transportation and rail cars or lines on a timely basis may impact turnaround and cause delays in deliveries. Changes in respective transportation costs or decreases in dependability may also impair the Company's ability to receive and/or deliver product with adverse effects on costs, revenues and reputation. Further, changes to logistics to reflect changed demand may not be able to occur on a timely basis, resulting in adverse effects on the cost profile.

Processing frac sand includes substantial costs for energy – electricity and gas – as well as water. Problems in securing sufficient energy supply at appropriate prices would have impact on operating costs and the ability to recover those increased costs may be impaired.

The specifications for frac sand are detailed; maintaining a robust quality control process is key to producing a high-quality product. Failure to do so could cause lost revenues and lost reputation.

Development Targets, Permitting and Operational Delays

There can be no assurance that Victory Nickel will be able to complete the planned development of its 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 Victory Nickel's operations. Any failure to meet development targets or other operational delays or inadequacies could have a material adverse effect. In particular, the Minago EAL was granted for a three-year period and expired on August 22, 2014. There is no guarantee that development work will commence on or before that date or that an extension will be granted. The Company believes that it has mitigated this risk through work performed on relocating tailings impoundments and the regulatory filings related thereto should either represent development or should extend the expiry.

The Company's frac sand business in its present phase, is reliant upon a third-party supplier of sand; any difficulties the supplier experiences with respect to securing, maintaining or extending permits for its properties and operations including appropriate water rights, may have adverse effects on the supply of sand.

Resources and Reserves
The figures for 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.

The Company's frac sand business in its present phase is reliant upon a handful of suppliers for its product. The Company has no resources or reserves of its own that can presently be exploited; although it recently announced reserves on the Bear Coulee option in Wisconsin. Permitting this property for production is expected to take one to two years. The frac sand resource at Minago is not contemplated to be developed until either Phase Three of the frac sand initiative or as part of the Minago FS which requires significant financing to be developed.

Title Risks
Victory Nickel'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 Victory Nickel currently holds or has applied for all necessary licences, permits and authorizations to carry on the activities which Victory Nickel is currently conducting and to hold the mineral rights Victory Nickel currently holds under applicable laws and regulations in effect at the present time. Management also believes that Victory Nickel is complying in all material respects with the terms of such licences, permits and authorizations. However, Victory Nickel'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
Victory Nickel faces all of the hazards and risks normally incidental to the exploration and development of 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. Victory Nickel's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which Victory Nickel has interests; not all such risks are insurable.

Similarly, the frac sand processing plant faces many hazards and risks arising from the transportation and processing of frac sand materials, any of which could result in the matters described above. Again, not all such risks are insurable.

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 activities, the extent of which cannot be predicted and which may well be beyond Victory Nickel's capacity to fund. Environmental laws are becoming more stringent and 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
Victory Nickel may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors in the areas in which Victory Nickel does or will operate and holds its interests, as well as unforeseen matters. In particular, the fracking industry is often at the forefront of public attention whether or not deserved. Nonetheless, this provokes attention and scrutiny.

Other Risks
Environmental and Health Risks
The Company has no significant exposure to environmental or health risks from its exploration and development activities, although this will change as the Company's projects approach production (a normal characteristic of mineral industry

projects). Lynn Lake, acquired pursuant to a takeover bid and recently subject to option with Corazon, is a former operating mine; however indemnifications exist from the Manitoba Government with respect to any pre-existing environmental concerns at that property.

The frac sand operation involves processing silica sand. In addition to environmental regulation, the Company is subject to laws and regulations relating to human exposure to crystalline silica under the *Occupational Health and Safety Act*. Workplace exposure to crystalline silica is monitored; the occupational exposure limits in Alberta for respirable crystalline silica are among the lowest in Canada and the US.

Key Personnel
Victory Nickel relies on a limited number of key consultants and senior management and there is no assurance that Victory Nickel will be able to retain such key consultants or other senior management. The loss of one or more such key consultants or members of senior management, if not replaced, could have a material adverse effect on Victory Nickel's business, financial condition and prospects. Directors and management had 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 the Company'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 Victory Nickel will be made in accordance with their duties and obligations to deal fairly and in good faith with Victory Nickel and such other companies.

Investments and Other Agreements with Resource Companies
In addition, Victory Nickel 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 Victory Nickel, and Victory Nickel's investments in and agreements with these companies are subject to similar areas of risk as noted above. Victory Nickel seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's or assignee's failure to meet contractual obligations.

Summary
The future success of the Company is subject to a number of risk factors that are common to the junior natural resources sector and is now exposed to risks associated with frac sand production. 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 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 nickel resource interest may take years to complete and the resulting income, if any, from the sale of any nickel or by- or co-products 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.

The Company has attempted to mitigate some of the risks associated with securing financing through its entry into the frac sand processing business. This is expected to generate significant cash flows to the Company and should enable it to become financially stable. In turn, this could be leveraged to assist in securing funds to ultimately develop Minago. However, the frac sand business also has its own set of risks as indicated earlier, and of which investors should be aware.

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, 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 needed in the future; 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 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 in exploration and development and the frac sand processing business; 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, 2015