



## **VICTORY NICKEL INC.**

# **UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

**DATED NOVEMBER 12, 2015**

### **Management's Comments on Unaudited Condensed Consolidated Financial Statements**

The accompanying unaudited condensed consolidated financial statements of Victory Nickel Inc. for the three and nine months ended September 30, 2015 and 2014 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited condensed consolidated financial statements have not been reviewed by an auditor.

## Condensed Consolidated Balance Sheets

(in thousands of United States dollars)	<i>Notes</i>	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 9	\$ 712
Restricted deposits	6	37	271
Receivables and prepaids	7	350	3,367
Marketable securities	8	262	153
Inventory	9	3,367	2,977
<b>Total current assets</b>		<b>4,025</b>	<b>7,480</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	5,761	6,179
Mine property and development project	11	35,007	34,893
Exploration and evaluation projects	12	13,406	13,380
<b>Total non-current assets</b>		<b>54,174</b>	<b>54,452</b>
<b>Total Assets</b>		<b>\$ 58,199</b>	<b>\$ 61,932</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	13	\$ 3,411	\$ 3,032
Loans and borrowings - current	14	11,271	7,493
<b>Total current liabilities</b>		<b>14,682</b>	<b>10,525</b>
<b>Non-current liabilities</b>			
Loans and borrowings - long-term	14	-	2,957
Participating Interest	15	1,979	3,548
Lease obligations - long-term	16	170	275
Deferred tax liability		256	817
<b>Total non-current liabilities</b>		<b>2,405</b>	<b>7,597</b>
<b>Total Liabilities</b>		<b>17,087</b>	<b>18,122</b>
<b>Shareholders' equity</b>			
Share capital	17	52,570	52,570
Contributed surplus		5,696	5,644
Accumulated other comprehensive loss		(4,118)	(4,144)
Deficit		(13,036)	(10,260)
<b>Total shareholders' equity</b>		<b>41,112</b>	<b>43,810</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 58,199</b>	<b>\$ 61,932</b>

### NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

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

## Condensed Consolidated Statements of Operations

(in thousands of United States dollars, except per share amounts)	Notes	Three months ended Sept 30,		Nine months ended Sept 30,	
		2015 (unaudited)	2014 (unaudited) (Note 2)	2015 (unaudited)	2014 (unaudited) (Note 2)
<b>Revenues</b>		\$ 325	\$ 5,463	\$ 2,478	\$ 6,773
Cost of goods sold		(888)	(4,774)	(3,212)	(6,230)
<b>Gross margin</b>		<b>(563)</b>	689	<b>(734)</b>	543
<b>Operating expenses</b>					
General and administrative		(313)	(579)	(952)	(1,847)
Share-based payments:	19				
Options		(5)	(235)	(53)	(312)
Amortization of property, plant and equipment	10	(161)	(174)	(491)	(390)
Recovery (Writedown) of E and E projects	12	-	(24)	186	(50)
Pre-exploration costs		-	(4)	-	(4)
Net frac sand pre-operating costs	23	-	-	-	(194)
Non-recurring plant costs	21	13	-	(643)	-
<b>Operating loss</b>		<b>(1,029)</b>	(327)	<b>(2,687)</b>	(2,254)
Finance income	20	185	987	1,944	1,569
Finance costs	20	(755)	(1,242)	(2,595)	(2,742)
<b>Net finance income (costs)</b>		<b>(570)</b>	(255)	<b>(651)</b>	(1,173)
<b>Loss before income taxes</b>		<b>(1,599)</b>	(582)	<b>(3,338)</b>	(3,427)
Income tax recovery (expense)		-	209	562	915
<b>Net Loss for the Period</b>		<b>\$ (1,599)</b>	\$ (373)	<b>\$ (2,776)</b>	\$ (2,512)
<b>Loss per share</b>	18				
Basic loss per share		\$ (0.03)	\$ (0.01)	\$ (0.05)	\$ (0.04)
Diluted loss per share		\$ (0.03)	\$ (0.01)	\$ (0.05)	\$ (0.04)

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

## Condensed Consolidated Statements of Comprehensive Loss

(in thousands of United States dollars)	Notes	Three months ended Sept 30,		Nine months ended Sept 30,	
		2015 (unaudited)	2014 (unaudited) (Note 2)	2015 (unaudited)	2014 (unaudited) (Note 2)
<b>Net loss for the period</b>		\$ (1,599)	\$ (373)	\$ (2,776)	\$ (2,512)
<b>Other comprehensive (loss) income ("OCI")</b>					
Net change in fair value of financial assets	8	(69)	(105)	(83)	(54)
Income tax expense		8	14	0	7
Foreign exchange on change in functional currency	2	(20)	-	57	-
<b>Other comprehensive income (loss) for the period</b>		<b>(80)</b>	(91)	<b>(26)</b>	(47)
<b>Total Comprehensive Loss for the period</b>		<b>\$ (1,679)</b>	\$ (464)	<b>\$ (2,802)</b>	\$ (2,559)

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

## Condensed Consolidated Statements of Shareholders' Equity

(unaudited) (in thousands of United States dollars)		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income / (Loss)	Deficit	Total Equity
<b>Balances as at January 1, 2014</b>	<i>Notes</i>	\$ 52,048	\$ 5,431	\$ (1,714)	\$ (7,844)	\$ 47,921
<b>Total comprehensive loss for the period</b>						
Net loss for the period					(2,512)	(2,512)
<b>Other comprehensive loss</b>						
Net change in fair value of financial assets				(54)	-	(54)
Income tax expense				7	-	7
<b>Total other comprehensive income (loss)</b>				<b>(47)</b>	<b>-</b>	<b>(47)</b>
<b>Total comprehensive loss for the period</b>						<b>(2,559)</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the period</b>						
Options vesting	19	-	313	-	-	313
Warrants exercised	14, 17	185	(29)	-	-	156
Options exercised	17, 19	378	(145)	-	-	233
<b>Total contributions by owners</b>		<b>563</b>	<b>139</b>	<b>-</b>	<b>-</b>	<b>702</b>
<b>Total transactions with owners</b>		<b>563</b>	<b>139</b>	<b>-</b>	<b>-</b>	<b>702</b>
<b>Balances as at September 30, 2014</b>		<b>\$ 52,611</b>	<b>\$ 5,570</b>	<b>\$ (1,761)</b>	<b>\$ (10,356)</b>	<b>\$ 46,064</b>
<b>Balances as at January 1, 2015</b>		<b>\$ 52,570</b>	<b>\$ 5,644</b>	<b>\$ (4,144)</b>	<b>\$ (10,260)</b>	<b>\$ 43,810</b>
<b>Total comprehensive loss for the period</b>						
Net loss for the period					(2,776)	(2,776)
<b>Other comprehensive income</b>						
Net change in fair value of financial assets				83	-	83
Income tax expense				0	-	0
Foreign exchange on change in functional currency				(57)	-	(57)
<b>Total other comprehensive income (loss)</b>				<b>26</b>	<b>-</b>	<b>26</b>
<b>Total comprehensive loss for the period</b>						<b>(2,750)</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the period</b>						
Options vesting	19	-	52	-	-	52
<b>Total contributions by owners</b>		<b>-</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>52</b>
<b>Total transactions with owners</b>		<b>-</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>52</b>
<b>Balances as at September 30, 2015</b>		<b>\$ 52,570</b>	<b>\$ 5,696</b>	<b>\$ (4,118)</b>	<b>\$ (13,036)</b>	<b>\$ 41,112</b>

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

## Condensed Consolidated Statements of Cash Flows

(in thousands of United States dollars)	Notes	Nine months ended Sept 30,	
		2015 (unaudited)	2014 (unaudited) (Note 2)
<b>Cash flows from operating activities</b>			
Net loss for the period		\$ (2,776)	\$ (2,512)
Adjustments for:			
Share-based payments	19	53	312
Amortization of property, plant and equipment	10	491	390
Provision for inventory	9	494	84
Recovery (Writedown) of exploration and evaluation project	12	186	-
Net finance costs	20	651	710
Income tax recovery		(562)	(915)
Net change in working capital:			
Change in receivables	7	3,017	(3,946)
Change in inventory	9	(884)	(3,190)
Change in accrued interest	14	804	-
Change in trade and other payables	13	(579)	3,115
<b>Net cash from (used by) operating activities</b>		<b>895</b>	<b>(5,953)</b>
<b>Cash flows from investing activities</b>			
Expenditures on mine property and development project	11	(114)	(271)
Expenditures on exploration and evaluation projects	12	(26)	(79)
Deposits on equipment	11	-	(49)
Expenditures on 7P Plant	10	(33)	(2,056)
<b>Net cash used by investing activities</b>		<b>(173)</b>	<b>(2,455)</b>
<b>Cash flows from financing activities</b>			
Issue of common shares	17	-	341
Payments of interest	14, 15, 16	(677)	(765)
Payments under leases	16	(132)	(128)
Net (repayment) proceeds of loans	14	(850)	8,040
Deposits of restricted cash	6	234	(279)
<b>Net cash from (used by) financing activities</b>		<b>(1,425)</b>	<b>7,209</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(703)</b>	<b>(1,199)</b>
<b>Cash and Cash Equivalents, Beginning of the Period</b>		<b>712</b>	<b>1,338</b>
<b>Cash and Cash Equivalents, End of the Period</b>		<b>\$ 9</b>	<b>\$ 139</b>

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

## 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 condensed consolidated financial statements as at and for the nine months ended September 30, 2015 and 2014 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”) capacity 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. On August 4, 2015, the Company received a letter from the TSX advising that its eligibility for continued listing on the TSX is under review. Under the TSX’s Remedial Review Process, the Company has been granted 60 days from that date to comply with all requirements for continued listing. On October 2, 2015, the Company announced that the TSX’s Continued Listing Committee had granted an extension of its delisting review, deferring its delisting decision until no later than December 4, 2015. By that date the Company is required to comply with all requirements for continued listing. It is the intent of the Company to maintain a public listing for the Company’s shares. In addition to working with the TSX during this period, management will evaluate alternative listing options. There can be no assurance that either the Company will be able to achieve compliance with the TSX’s listing requirements within the required time frame or will secure an alternative listing.

### 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 condensed 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 September 30, 2015, the Company had a working capital deficiency of \$10,657,000. The Company generated net cash from operating activities of \$895,000 during the nine months ending September 30, 2015 but this is not yet at levels sufficient to wholly fund its activities. As a result the Company is in default on its secure debt and as of the date of November 11, 2015 is in default on \$2,000,000 of unsecured Promissory convertible Notes..

On May 15, 2014, the Company announced that it had executed 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”).

In October 2014, the Company obtained a short-term facility of \$2,000,000 through the issuance of a promissory note. This facility was paid down to \$1,000,000 and the due date extended on a monthly basis by the lender to May 31, 2015 (Note 14).

On June 3, 2015, the Company announced it had entered into an amending agreement (the “Amending Agreement”) with respect to the SPA loan. Under terms of the Amending Agreement, the SPA Loan was amended to permit the issuance of additional notes by the Company for an additional sum of \$1,150,000, the proceeds of which were used to repay the \$1,000,000 owed under the promissory note and for working capital purposes. The aggregate amount of \$5,150,000 under the amended loan was due on July 30, 2015. The interest rate on the Amended Loan is 14.8% per annum. As noted earlier, the Company was unable to repay the principal amounts due under the SPA Loan on July 30, 2015.

In addition to the SPA loan, the Company issued two year unsecured promissory convertible notes aggregating approximately \$6,000,000 (the “Promissory Convertible Notes”). One Promissory Convertible Note in the amount of \$2,000,000 is in default as it was due i November 11, 2015, three Promissory Convertible Notes aggregating \$750,000 are due in February 2016, four Promissory Convertible Notes aggregating to C\$265,000 are due at various times between January and March, 2016 and one Promissory Convertible Note in the amount of

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

\$3,000,000 is due in July, 2016, accordingly, they are classified as current liabilities, due within one year. Interest due on the Promissory Convertible Notes is due quarterly in arrears. As noted earlier, the Company was not able to make the interest payment due on June 30, 2015 and September 30, 2015.

On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the securities purchase and line of credit agreement (the "SPA Loan") and on the Promissory Convertible Notes outlined below, and that it was in discussion with its lenders and other potential financiers to restructure the Company's debt and recapitalize the Company. On July 30, 2015, the Company announced it had not repaid the principal amounts due under the SPA Loan. The Company was unable to make interest payments due on September 30, 2015. On November 12, 2015, the Company announced it had not repaid \$2,000,000 in principal due under the Promissory Convertible Notes. The Company is continuing with discussions among the holder of the SPA Loan and other potential financing sources to restructure the Company's debt and recapitalize the Company. To date, the Company has not received acceptable expressions of interest and has not completed the debt restructuring. Without an injection of capital until the demand for frac sand returns to allow the Company to sell its inventory, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. There can be no assurance that the Company will be able to restructure its debt and/or recapitalize and there is no certainty as to what steps the secured lenders may take in light of these defaults.

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, 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. 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. On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improves; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014. On June 23, 2015, the Company announced that there were no sales made during the period from March 14 to May 12, 2015 at which time frac sand sales activity resumed. Sales activity has not resumed at the rates achieved during 2014 and the 7P Plant operates temporarily on an as-needed basis in order to fulfil customer needs.

Despite these sales, the near-term outlook in the frac sand market remains unclear due to the continuing downward pressure on the oil price and related impact on exploration and production ("E&P") and oilfield services companies. The strength of the US dollar is also impacting demand for high-quality Wisconsin sand as the price for domestic sand has dropped and service companies appear satisfied with using lower quality domestic sand because of the price differential. This will continue to stress the Company's liquidity until such time as the market demand recovers and operations can resume on a consistent basis.

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.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

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 restructure its debt and improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including debt servicing, 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. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ from the going concern basis.

### 2. BASIS OF PREPARATION

#### (a) Statement of Compliance

The condensed 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") and in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). This is GAAP for a Canadian public company.

These unaudited condensed consolidated financial statements reflect the accounting policies described in Note 3 to the Company's Audited Consolidated Financial Statements for the years ended December 31, 2014 ("2014 "Audited Financial Statements") (with the exception of any changes set out in Note 3 below) and accordingly, should be read in conjunction with those financial statements and the notes thereto.

The management of Victory Nickel prepares the condensed consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. The condensed consolidated financial statements were authorized for issue by the Board of Directors on November 12, 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 changed 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.

These condensed consolidated 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 Unaudited 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 unaudited condensed consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The results of operations and cash flows for the current periods as presented are not necessarily indicative of the results to be expected for the full year.

### **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 11 - measurement of the recoverable amount of mine property and development project;
- Note 12 - measurement of the recoverable amount of exploration and evaluation projects;
- Note 14 - measurement and valuation of the embedded options in Promissory Convertible Notes;
- Note 15 – measurement and valuation of the participating interest; and
- Note 19 - 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 11 - classification of expenditures as mine property and development project or operating expenses;
- Note 12 - classification of expenditures as exploration and evaluation projects or operating expenses.

### **Share Consolidation**

On September 12, 2014, as described more fully in Note 17, 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 17, 18 and 19.

### **Reclassifications**

Certain of the prior period balances have been reclassified to conform to the current presentation.

## Notes to the Unaudited 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 in Note 3 to the 2014 Audited Consolidated Financial Statements. Such policies have been applied consistently to all periods presented in these condensed 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) 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 several new and revised standards and interpretations. However, the revised standards and interpretations are not applicable to the Company or are expected to have minimal impact.

#### (c) 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.

#### (d) 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 write-down is recognized when carrying cost exceeds net realizable value. The write-down may be reversed if the circumstances which caused it no longer exist.

#### (e) Property, Plant and Equipment

The 7P Plant has commenced operation mid-2014 and accordingly, amortization of plant equipment commenced during the period. Plant and equipment at the 7P Plant (other than mobile equipment) is being amortized on a straight-line basis based on estimated useful lives of between five and ten years.

### 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.

A complete description of the Company's financial risk management and capital management is included in Note 4 to the 2014 Audited Consolidated Financial Statements.

This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these condensed consolidated financial statements.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 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.

	Sept 30, 2015	December 31, 2014
Shareholders' equity	41,112	\$ 43,810
Loans and borrowings - long-term portion	-	2,957
Participating Interest	1,979	3,548
Lease obligations - long-term portion	170	275
	<b>\$ 43,261</b>	<b>\$ 50,590</b>

Neither the Company, nor its subsidiary, is 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

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 5 to the Company's 2014 Audited Consolidated Financial Statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### 6. CASH AND CASH EQUIVALENTS

	Sept 30, 2015	December 31, 2014
Bank balances	\$ 9	\$ 707
Short-term deposits	-	5
<b>Cash and Cash Equivalents in the Statement of Cash Flows</b>	<b>\$ 9</b>	<b>\$ 712</b>

The Company has placed \$37,000 (December 31, 2014 - \$271,000) on deposit with a Canadian chartered bank to support a letter of credit being used to facilitate business activity and are presented as restricted cash on the condensed consolidated balance sheet. The term deposit matures within one year.

### 7. RECEIVABLES AND PREPAIDS

	Sept 30, 2015	December 31, 2014
Trade accounts receivable	\$ 226	\$ 2,725
Other receivables	-	48
Prepaid expenses and deposits	124	594
	<b>\$ 350</b>	<b>\$ 3,367</b>

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

The aging of trade accounts receivable is as follows:

	Sept 30, 2015	December 31, 2014
Trade accounts receivable		
Current	\$ 132	\$ 1,945
Past due 0-30 days	94	454
Past due 31-60 days	-	253
Past due 61-90 days	-	42
Past due > 90 days	-	31
	<b>\$ 226</b>	<b>\$ 2,725</b>

As at September 30, 2015, the Company determined that it had no exposure to losses due to the quality of customers; the majority of the balances outstanding had been collected by the date of this report.

### 8. MARKETABLE SECURITIES

	Sept 30, 2015	December 31, 2014
Financial assets at fair value through OCI:		
Shares	\$ 262	\$ 153
	<b>\$ 262</b>	<b>\$ 153</b>

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.

On April 6, 2015, the Company received 40,000,000 shares of Corazon Mining Limited valued at \$192,000 as part of the option agreement of Lynn Lake as described in Note 12.

### 9. INVENTORY

	Sept 30, 2015	December 31, 2014
Raw material		
At transload facility	\$ 168	\$ 118
In transit	300	951
Stored at 7P Plant	577	463
	<b>1,045</b>	<b>1,532</b>
Finished goods	<b>2,322</b>	<b>1,445</b>
	<b>\$ 3,367</b>	<b>\$ 2,977</b>

The Company determined that a writedown of inventory of \$494,00 against finished goods was required during the period.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 10. PROPERTY, PLANT, AND EQUIPMENT

	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
<b>Balances as at January 1, 2014</b>					
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)
<b>Carrying Amount</b>	<b>58</b>	<b>2,912</b>	<b>594</b>	<b>1,399</b>	<b>4,963</b>
Additions	-	1,852	73	115	2,040
Amortization	(2)	(382)	(168)	(2)	(554)
<b>Balances as at December 31, 2014</b>					
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)
<b>Carrying Amount</b>	<b>64</b>	<b>4,205</b>	<b>459</b>	<b>1,451</b>	<b>6,179</b>
Additions	-	30	-	3	33
Amortization	(1)	(389)	(97)	(4)	(491)
<b>Balances as at Sept 30, 2015</b>					
Cost	83	4,804	708	1,644	7,239
Accumulated Amortization	(12)	(771)	(299)	(34)	(1,116)
Effect of Foreign Exchange (Note 2)	(8)	(147)	(47)	(160)	(362)
<b>Carrying Amount</b>	<b>\$ 63</b>	<b>\$ 3,886</b>	<b>\$ 362</b>	<b>\$ 1,450</b>	<b>\$ 5,761</b>

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. Vehicles and Mobile Equipment include \$666,000 (December 31, 2014 - \$666,000) of equipment acquired under leases (Note 16).

### 11. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2015	Effect of Foreign Exchange (Note 2)	Current Expenditures	Recoveries	Sept 30 2015
Minago	\$ 34,893	\$ -	\$ 114	\$ -	\$ 35,007
	\$ 34,893	\$ -	\$ 114	\$ -	\$ 35,007
	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

#### Minago

The 100%-owned Minago project covers approximately 19,661 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, feasibility study 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 ("EAL"). On April 30, 2014, the Company announced the filing of an Environmental Act Proposal ("EAP") to amend the EAL to allow for the relocation of the proposed tailings impoundment. Approval of the EAP is in progress; the EAL remains in good standing. The results of the Minago Feasibility Study ("FS") were announced in December 2009 and improvements thereto announced in June 2010 and July 2011.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

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.

### 12. 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, 2015	Effect of Foreign Exchange (Note 2)	Current Expenditures	Writedowns/ Recoveries	Excess Proceeds	Sept 30, 2015
Lac Rocher	\$ 6,609	\$ -	8	\$ -	\$ -	\$ 6,617
Mel	6,771	-	18	-	-	6,789
Lynn Lake	-	-	7	(199)	192	-
	\$ 13,380	\$ -	\$ 33	\$ (199)	\$ 192	\$ 13,406

	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

#### 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 \$0.50 per ton on any ores mined and milled from the property and a 2% NSR described below.

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

The Company purchased a 100% interest in the Mel Properties located near Thomson, Manitoba from Vale. Vale is entitled to a 10% royalty on "distributable earnings" 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.

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. Additional modelling of the resource will be continued. No fieldwork has been conducted during 2015.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 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.).

On March 17, 2014, Wellgreen formally confirmed to the Company that it was relinquishing the Lynn Lake option.

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).

On April 6, 2015, the Company received 40,000,000 shares of Corazon Mining Limited valued at \$192,000 as part of the option agreement.

### Bear Coulee

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 from receipt of permits 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 was incorporated into a National Instrument 43-101 technical report. The Bear Coulee frac sand property is located in Trempeleau County, Wisconsin.

## 13. TRADE AND OTHER PAYABLES

	<i>Notes</i>	<b>Sept 30, 2015</b>	December 31, 2014
Accounts payable			
Mine property and development project		\$ 19	\$ 13
Exploration and evaluation projects		-	1
Property and equipment		225	402
Other accounts payable		2,085	1,708
Accrued liabilities			
Mine property and development project		-	22
Other accrued liabilities		937	683
Other payables		-	21
Lease obligations - current portion	16	140	137
Due to Nuinsco Resources Limited			
Under the Management Agreement	22	6	45
		<b>\$ 3,411</b>	<b>\$ 3,032</b>



## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 14. LOANS AND BORROWINGS

	<i>Notes</i>	Sept 30, 2015	December 31, 2014
Current loans			
SPA Loan	(a)	\$ 5,150	\$ 3,585
Short-term loan	(b)	-	2,000
Current portion of long-term loans	(c)	5,317	1,908
Accrued interest		804	-
<b>Total current loans</b>		<b>11,271</b>	<b>7,493</b>
Long-term loans			
Promissory convertible notes	(c)	-	2,957
<b>Total long-term loans</b>		<b>-</b>	<b>2,957</b>
		<b>\$ 11,271</b>	<b>\$ 10,450</b>

  

	Sept 30, 2015	December 31, 2014
<b>(a) SPA Loan</b>		
Principal balance	5,150	4,000
Add: fair value of warrants with a cashless exercise feature	-	121
Less: unamortized loan fees	-	(536)
<b>SPA Loan</b>	<b>\$ 5,150</b>	<b>\$ 3,585</b>

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").

On June 3, 2015, the Company announced it had entered into an amending agreement (the "Amending Agreement") with respect to the SPA loan. Under terms of the Amending Agreement, the SPA Loan was amended to permit the issuance of additional notes by the Company for an additional sum of \$1,150,000, the proceeds of which were used to repay the \$1,000,000 owed under the Promissory Convertible Note, as outlined in note 14 (b), and for working capital purposes. The aggregate principal amount of \$5,150,000 under the amended loan was due on July 30, 2015.

On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the SPA Loan. On July 30, 2015, the Company announced it had not repaid the amounts due, including the principal amount, under the SPA Loan, and that it was continuing with discussions among the holder of the SPA Loan and other potential financing sources to restructure the Company's debt and recapitalize the Company.

The Company has issued to the purchaser 2,000,000 common share purchase warrants (after giving retroactive effect to the Share Consolidation Note 17). The number of warrants is subject to an increase from 500,000 to 1,000,000 warrants (after giving retroactive effect to the Share Consolidation Note 17) 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 17) 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 Original Warrant (after giving retroactive effect to the Share Consolidation Note 17) 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 17) for a period of 36 months from the Initial Closing Date. The Original 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 June 30, 2015 at \$0 with the aggregate change in fair value of \$584,000 being recorded in finance income, of which \$121,000 (2014 - \$147,000) was recorded in the nine months ending September 30, 2015 (Note 20).



## Notes to the Unaudited Condensed Consolidated Financial Statements

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

Pursuant to the Amending Agreement, the terms of the Original Warrants were amended to reduce the exercise price to \$0.50 and to extend the expiry date to June 3, 2017 (from May 15, 2017). Additionally, as partial consideration for entering into the Amended Loan, the Company has issued to the lender an additional 575,000 common share purchase warrants on the same terms, including the pre-payment terms, as the Original Warrants, as amended (together with the Original Warrants, the "Warrants").

In the nine months ended September 30, 2015, the Company paid \$148,000 and accrued \$376,000 in interest and amortized \$543,000 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:

<b>(after retroactive effect of Share Consolidation - Note 17)</b>	<b>Sept 30 2015</b>	December 31, 2014	May 15, 2014 (At inception)
Fair values	<b>C\$0.00</b>	C\$0.07	C\$0.31
Share prices at valuation dates	<b>\$ 0.00</b>	C\$0.24	C\$0.60
<b>Assumptions</b>			
Exercise price	<b>C\$1.00</b>	C\$1.00	C\$1.00
Expected volatilities	<b>134%</b>	111%	101%
Expected remaining terms (years)	<b>1.62</b>	2.37	3.00
Expected dividends	-	-	-
Risk-free interest rates	<b>0.53%</b>	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 agreed to several monthly extensions of the short-term facility upon payment of extension fees, and penalties. During the first quarter ended March 31, 2015 the Company repaid \$1,000,000 and paid interest expense, extension fees, and penalties aggregating \$179,000. The outstanding balance of \$1,000,000 was due on or before May 31, 2015. On June 3, 2015, the Company announced it had entered into the Amending Agreement with respect to the SPA loan as explained in Note 14 (a). Under terms of the Amending Agreement, the SPA Loan was amended to permit the issuance of additional notes by the Company for an additional sum of \$1,150,000, the proceeds of which were used to repay the \$1,000,000 owed under the promissory note.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

<b>(c) Promissory Convertible Notes</b>	<b>Notes</b>	<b>Sept 30 2015</b>	<b>December 31, 2014</b>
Total Principal Outstanding		<b>5,979</b>	5,979
Embedded option derivatives at inception	\$	<b>(1,420)</b>	\$ (1,420)
Less: effect of conversion to SPA Loan		<b>417</b>	417
Less: accumulated amortization	20	<b>707</b>	339
		<b>(296)</b>	(664)
Less: unamortized loan fees		<b>(74)</b>	(108)
Add: Effect of foreign exchange		<b>(14)</b>	19
Less: Equity component of debt		<b>(48)</b>	(48)
Net promissory convertible notes		<b>5,547</b>	5,178
Embedded option derivatives at inception		<b>1,420</b>	1,420
Less: effect of conversion to SPA Loan		<b>(417)</b>	(417)
Change in value of embedded option derivatives	20	<b>(1,420)</b>	(1,316)
		<b>(417)</b>	(313)
		<b>5,317</b>	4,865
Less: current portion of promissory notes		<b>(5,317)</b>	(1,908)
<b>Promissory Convertible Notes - long-term portion</b>		<b>\$ -</b>	<b>\$ 2,957</b>

On November 11, 2013 and during 2014, the Company entered into several unsecured Promissory Convertible Notes for \$6,750,000 and C\$265,000 by way of private placements; \$1,000,000 was converted into a SPA Note as referred to above. The Promissory 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 Promissory Convertible Notes have two-year terms.

In the nine months ended September 30, 2015 the Company paid \$220,000 for interest in cash and accrued another \$428,000 of interest expense; amortization of \$43,000 in loan fees and 531,000 for the embedded option derivatives at inception using the effective interest rate method (2014 - \$666,000, \$58,000 and \$455,000, respectively).

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

<b>(after retroactive effect of Share Consolidation - Note 17)</b>	<b>Sept 30 2015</b>	December 31, 2014	(Various inception dates)	November 11, 2013 (At inception)
Fair values	<b>C\$0.00</b>	C\$0.00 to C\$0.03	C\$0.22 to C\$0.40	C\$0.08
Share prices at valuation dates	<b>C\$0.002</b>	C\$0.24	C\$0.50 to C\$0.70	C\$0.30
<b>Assumptions</b>				
Exercise price	<b>C\$1.00</b>	C\$1.00	C\$1.00	C\$1.00
Expected volatilities	<b>72%</b>	82% to 109%	116%	103%
Expected remaining terms (years)	<b>0.11 to 0.77</b>	0.86 to 1.52	2.00	2.00
Expected dividends	<b>-</b>	-	-	-
Risk-free interest rates	<b>1.18%</b>	1.00%	1.20%	1.20%

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 15. PARTICIPATING INTEREST

Participating Interest	Note	Sept 30 2015	December 31, 2014
Advance for working capital		\$ -	\$ 940
Advance under Amended Loan for standby commitment		-	1,135
Aggregate advances		-	2,075
Less: settled in Units of Victory Nickel		-	(1,135)
Less: unamortized loan fees		-	(51)
Opening balance		<b>3,548</b>	889
Change in fair value	20	<b>(1,569)</b>	2,875
Effect of foreign exchange		-	(216)
<b>Participating Interest</b>		<b>\$ 1,979</b>	<b>\$ 3,548</b>
Current portion - due within one year <sup>(1)</sup>		\$ -	-
Long-term portion <sup>(2)</sup>		<b>1,979</b>	3,548
<b>Participating Interest</b>		<b>\$ 1,979</b>	<b>\$ 3,548</b>

(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. 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.

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. Pursuant to the Amended Loan the Lender provided a backstop of C\$1,207,584 in cash to a rights offering which closed on July 30, 2013. 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, the Lender increased its shareholding in the Company to approximately 12.24% on a non-diluted basis, thereby becoming a related party of the Company. The lender is no longer a related party as its shareholding in the Company has fallen below 10%.

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 20; 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 prior to conversion of loan into participating interest; in the nine months ended September 30, 2015, there was no amortization of loan fees as interest expense and or interest paid to the Lender in cash (2014 - \$119,000 and \$46,000, respectively).

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

On February 4, 2014, the Lender 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 September 30, 2015, these limits approximate \$7,660,000 and \$5,745,000.

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 the Lender 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 June 30, 2015, the probability weightings used in the model were 5%, 40% and 55%; representing a probability-weighted average of 75% (December 31, 2014 – 75%).

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 \$1,979,000 and, accordingly \$1,156,000 was recorded as a *gain on adjustment of estimated cash flows* through the statement of operations. As at December 31, 2014, the Participating Interest was estimated to be \$3,548,000 with \$225,000 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.

### 16. LEASE OBLIGATIONS

<i>Note</i>	Sept 30, 2015	December 31, 2014
Vehicles and Mobile Equipment:		
Total present value of minimum lease payments	\$ 570	\$ 570
Principal payments	(260)	(158)
<b>Total present value of minimum lease payments remaining</b>	<b>310</b>	<b>412</b>
Lease obligations - current portion	13	(137)
<b>Lease obligations - long-term</b>	<b>\$ 170</b>	<b>\$ 275</b>

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 \$1.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

The future minimum lease payments are as follows:

	Sept 30, 2015	December 31, 2014
Less than 1 year	\$ 156	\$ 160
Between 1 and 5 years	249	293
<b>Total minimum lease payments payable</b>	<b>405</b>	<b>453</b>
Future finance charges on minimum lease payments	23	41
<b>Present value of minimum lease payments</b>	<b>\$ 382</b>	<b>\$ 412</b>

### 17. 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, 18 and 19.

##### **Number of shares issued and outstanding**

As at September 30, 2015, the Company had 57,634,578 shares outstanding. There were no common shares issued during the nine months ended September 30, 2015. In January and February 2014, various officers, employees and consultants of the Company exercised 4,630,000 (after giving retroactive effect to the Share Consolidation) options generating aggregate cash proceeds of \$201,000; \$144,000 was transferred from contributed surplus. As at September 30, 2014, the number of shares outstanding was 57,130,600 (after giving retroactive effect to the Share Consolidation).

##### **Share Incentive Plan**

The Company has a Share Incentive Plan which includes a Share Purchase Plan and a Share Bonus Plan. Both are described fully in the Company's 2014 Audited Consolidated Financial Statements.

##### **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.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 18. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the three and nine months ended September 30, 2015 and 2014 was based on the information in the table below.

(after retroactive effect of Share Consolidation - Note 17)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2015	2014	2015	2014
<b>Balance as at beginning of the period</b>	<b>57,634,578</b>	56,703,100	<b>57,634,578</b>	56,703,100
Effect of options exercised	-	-	-	439,500
Effect of warrants exercised	-	229,300	-	229,300
<b>Weighted average number of common shares as at end of period - Basic and Diluted</b>	<b>57,634,578</b>	56,932,400	<b>57,634,578</b>	57,371,900
<b>Weighted average number of common shares as at end of the period - Diluted</b>	<b>57,634,578</b>	57,579,600	<b>57,634,578</b>	58,019,100
Number of options excluded	<b>2,701,000</b>	3,590,000	<b>2,701,000</b>	3,590,000
Number of warrants excluded	<b>3,825,000</b>	12,806,929	<b>3,825,000</b>	12,806,929
Number of shares from conversion of promissory notes excluded	<b>6,935,575</b>	7,825,000	<b>6,935,575</b>	7,825,000
<b>Net loss attributable to shareholders - Basic</b>	<b>\$ (1,599)</b>	\$ (373)	<b>\$ (2,776)</b>	\$ (2,512)
<b>Net loss attributable to shareholders - Diluted</b>	<b>\$ (1,599)</b>	\$ (373)	<b>\$ (2,776)</b>	\$ (2,512)
<b>Basic loss per share</b>	<b>\$ (0.03)</b>	\$ (0.01)	<b>\$ (0.05)</b>	\$ (0.04)
<b>Diluted loss per share</b>	<b>\$ (0.03)</b>	\$ (0.01)	<b>\$ (0.05)</b>	\$ (0.04)

The disclosures in the table above are provided after giving retroactive effect to the share consolidation on a one-for-ten basis described in Note 17.

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 period which would have had a significant effect on the EPS.

### 19. SHARE-BASED PAYMENTS

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

The Company's share-based payment arrangements are described in the Company's 2014 Audited Consolidated Financial Statements.

#### Stock Option Plan (equity-settled)

As at September 30, 2015, the Company had 5,944,186 common shares available for the granting of future options (December 31, 2014 – 5,125,187 common shares) after giving retroactive effect to the Share Consolidation in Note 17. 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.

#### 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 17); 9,549,420 of these warrants expired unexercised on July 31, 2015. The Company also issued 1,250,000 warrants (after giving retroactive effect to the Share Consolidation in Note 17) pursuant to a share private placement on September 19, 2013. The 2,575,000 Warrants (after giving retroactive effect to the Share Consolidation in Note 17) issued on June 3, 2015 pursuant to the SPA Loan may be settled without cash and are, accordingly, classified as debt (Note 14).

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### Share Bonus Plan

The terms of the Share Bonus Plan are set out in Note 21 to the Company's 2014 Audited Consolidated Financial Statements.

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

#### Stock Option Plan and Share purchase warrants

The terms and conditions relating to the grants of the Company's Stock Option Plan are set out in Note 21 to the Company's 2014 Audited Consolidated Financial Statements. The warrants issued under the rights offering in 2013 are exercisable on July 31, 2014 and expired 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 are as follows:

(after retroactive effect of Share Consolidation - Note 17) (amounts in Canadian dollars) As at and for the periods ended	Number of options		Weighted average exercise price	
	Sept 30 2015	December 31, 2014	Sept 30 2015	December 31, 2014
<b>Outstanding as at beginning of period</b>	<b>3,555,000</b>	3,204,125	<b>\$ 0.72</b>	\$ 0.80
Granted	-	1,063,000	\$ -	\$ 0.66
Exercised	-	(463,000)	\$ -	\$ 0.46
Expired or forfeit	<b>(854,000)</b>	(249,125)	<b>\$ 1.33</b>	\$ 1.70
<b>Outstanding as at end of period</b>	<b>2,701,000</b>	3,555,000	<b>\$ 0.57</b>	\$ 0.72
<b>Exercisable as at end of period</b>	<b>2,512,250</b>	3,209,750	<b>\$ 0.57</b>	\$ 0.73

  

(after retroactive effect of Share Consolidation - Note 17)	Number of options outstanding		Weighted average remaining contractual life (years)	
	Sept 30 2015	December 31, 2014	Sept 30 2015	December 31, 2014
<b>Range of exercise prices (Canadian dollars)</b>				
\$0.25 to \$0.50	<b>1,492,000</b>	1,587,000	<b>2.21</b>	2.96
\$0.55 to \$0.55	<b>243,000</b>	263,000	<b>3.35</b>	4.10
\$0.60 to \$1.40	<b>966,000</b>	1,186,000	<b>2.73</b>	3.22
\$1.50 to \$1.60	-	519,000	-	0.01
	<b>2,701,000</b>	3,555,000	<b>2.50</b>	2.61

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

(after retroactive effect of Share Consolidation - Note 17)	Sept 30 2015	December 31, 2014
Number of options granted during the period	-	1,063,000
Weighted average fair value of options granted at grant date (Canadian dollars)	n/a	\$ 0.39
Number of options subject to vesting as at end of period	<b>188,750</b>	345,250
Share-based payment expense - vesting options	<b>\$ 66</b>	\$ 344
Unvested options not yet charged to operations	<b>\$ -</b>	\$ 58



## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### Share purchase warrants

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

(after retroactive effect of Share Consolidation - Note 17) (amounts in Canadian dollars) As at and for the periods ended			Number of warrants		Weighted average exercise price	
			Sept 30 2015	December 31, 2014	Sept 30 2015	December 31, 2014
	Date Issued / Cancelled	Life				
<b>Issued pursuant to rights offering</b>						
Unit warrants	July 30, 2013	12 <sup>(a)</sup>	9,549,935	10,000,000	\$	0.35 \$
Exercised			-	(450,065)		
Expired	July 30, 2015		(9,549,935)	n/a		n/a
<b>Issued and cancelled pursuant to private placements</b>						
Unit warrants	Sept. 19, 2013	24	1,250,000	1,250,000	\$	0.35 \$
SPA warrants	May 15, 2014	36	2,000,000	2,000,000	\$	1.00 \$
SPA warrants cancelled <sup>(d)</sup>	June 3, 2015	36	(2,000,000)	n/a		n/a
New SPA warrants <sup>(d)</sup>	June 3, 2015	24	2,575,000	n/a	\$	0.50 \$
<b>Outstanding as at end of the period</b>			<b>3,825,000</b>	<b>12,799,935</b>	<b>\$</b>	<b>0.75 \$</b>

(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. The warrants expired July 30, 2015 unexercised.

(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 17.

(d) On June 3, 2015 the Company entered into an Amending Agreement with respect to the SPA Loan (Note 14). Under the Amending Agreement the 2,000,000 SPA warrants issued on May 15, 2014 were cancelled and were replaced with New SPA warrants with a life of 24 months and an exercise price of C\$0.50.

### 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.

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 17) (amounts in Canadian dollars)	Options		Warrants	
	Sept 30, 2015	December 31, 2014	Sept 30, 2015	December 31, 2014
Fair values at grant dates	n/a	\$0.31 and \$0.42	n/a	n/a
Fair values of options modified	n/a	n/a	n/a	n/a
Share prices at grant and modification dates	n/a	\$0.70 and \$0.50	n/a	n/a
<b>Assumptions</b>				
Exercise prices	n/a	\$0.70 and \$0.55	n/a	n/a
Expected volatilities	n/a	93% and 91%	n/a	n/a
Life (years)	n/a	4	n/a	n/a
Expected dividends	n/a	-	n/a	n/a
Risk-free interest rates	n/a	1.23% and 1.01%	n/a	n/a



## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 20. FINANCE INCOME AND FINANCE COSTS

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2015	2014	2015	2014
Interest income on bank deposits	\$ -	\$ -	\$ -	\$ -
Net change in fair value of financial liabilities at fair value through operations	-	987	226	1,569
Gain on adjustment of estimated cash flows	73	-	1,566	-
Net foreign exchange gain	112	-	152	-
<b>Finance income</b>	<b>185</b>	<b>987</b>	<b>1,944</b>	<b>1,569</b>
Interest expense on loans				
Accrued and Cash settled	494	376	1,477	765
Amortization of loan fees	102	277	587	466
Amortization of embedded option derivatives	159	175	531	277
Commitment fee	-	1	-	3
Loss on adjustment of estimated cash flows	-	20	-	269
Net change in fair value of financial liabilities at fair value through operations	-	(73)	-	-
Net foreign exchange loss		464		963
<b>Finance costs</b>	<b>755</b>	<b>1,242</b>	<b>2,595</b>	<b>2,742</b>
<b>Net Finance Income/(Costs)</b>	<b>\$ (570)</b>	<b>\$ (255)</b>	<b>\$ (651)</b>	<b>\$ (1,173)</b>

### 21. OPERATING SEGMENT

#### Reporting Segments

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 January 1, 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 22) 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 23). The segment is located in Canada although raw materials purchases are sourced from the US.

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

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

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

	Sept 30, 2015	December 31, 2014
<b>Canada</b>		
Corporate	\$ 1,415	\$ 1,860
Exploration and Development	49,958	49,734
Frac Sand	7,895	11,300
Intersegment elimination	(1,068)	(962)
<b>Total Assets</b>	<b>\$ 58,199</b>	<b>\$ 61,932</b>

Nine months ended Sept 30, 2015	Corporate	Exploration and Development	Frac Sand	Intersegment Reclassification	Total
<b>Revenues</b>	\$ -	\$ -	\$ 2,478	\$ -	\$ 2,478
Cost of goods sold	-	-	(3,212)	-	(3,212)
<b>Gross margin</b>	-	-	(734)	-	(734)
<b>Operating expenses</b>					
General and administrative	(741)	(25)	(186)	-	(952)
Share-based payments:					
Options	(53)	-	-	-	(53)
Amortization of property, plant and equipment	(3)	(3)	(485)	-	(491)
Recovery (writedown) of E and E projects	-	186	-	-	186
Pre-exploration costs	-	-	-	-	-
Net frac sand pre-operating costs	-	-	-	-	-
Non-recurring plant costs <sup>(1)</sup>	-	-	(643)	-	(643)
<b>Operating income (loss)</b>	<b>(797)</b>	<b>158</b>	<b>(2,048)</b>	<b>-</b>	<b>(2,687)</b>
Finance income	1,962	-	2	(20)	1,944
Finance costs	(2,592)	-	(23)	20	(2,595)
<b>Net finance costs</b>	<b>(630)</b>	<b>-</b>	<b>(21)</b>	<b>-</b>	<b>(651)</b>
<b>Income (loss) before income taxes</b>	<b>(1,427)</b>	<b>158</b>	<b>(2,069)</b>	<b>-</b>	<b>(3,338)</b>
Income tax recovery	562	-	-	-	562
<b>Net Income (loss) for the Period</b>	<b>\$ (865)</b>	<b>\$ 158</b>	<b>\$ (2,069)</b>	<b>\$ -</b>	<b>\$ (2,776)</b>

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

Three months ended Sept 30, 2015	Corporate	Exploration and Development	Frac Sand	Intersegment Reclassification	Total
<b>Revenues</b>	\$ -	\$ -	\$ 325	\$ -	\$ 325
Cost of goods sold	-	-	(888)	-	(888)
<b>Gross margin</b>	-	-	(563)	-	(563)
<b>Operating expenses</b>					
General and administrative	(185)	(22)	(106)	-	(313)
Share-based payments:	-	-	-	-	-
Options	(5)	-	-	-	(5)
Amortization of property, plant and equipment	(2)	(2)	(157)	-	(161)
Recovery (write-down) of E and E projects	-	-	-	-	-
Pre-exploration costs	-	-	-	-	-
Net frac sand pre-operating costs	-	-	-	-	-
Non-recurring plant costs <sup>(1)</sup>	-	-	13	-	13
<b>Operating income (loss)</b>	(192)	(24)	(813)	-	(1,029)
Finance income	185	-	-	-	185
Finance costs	(755)	-	-	-	(755)
<b>Net finance costs</b>	(570)	-	-	-	(570)
<b>Income (loss) before income taxes</b>	(762)	(24)	(813)	-	(1,599)
Income tax expense	-	-	-	-	-
<b>Net Income (loss) for the Period</b>	\$ (762)	\$ (24)	\$ (813)	\$ -	\$ (1,599)

(1) Costs of \$417,000 were incurred relating to 7P Plant being placed on care and maintenance as a result of reduced production from unexpected decline in sales during the first nine months of 2015. Another \$118,000 was incurred relating to railcar storage costs and one-time preparation costs for railcars to be leased that was later cancelled. Furthermore, \$108,000 was incurred relating to additional equipment rental and casual labour to move frozen sand as a result of the unexpected spring break-up.

## 22. 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 17 and 19).

Balances and transactions with related parties as at September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and 2014 are shown in the following tables:

	Sept 30, 2015	December 31, 2014
<b>Balances Outstanding</b>		
Payable to key management personnel	\$ 152	\$ 251

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

Key management personnel compensation comprises:

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2015	2014	2015	2014
Short-term employee benefits	\$ 53	\$ 215	\$ 310	\$ 826
Share-based payments - options	-	168	-	233
	\$ 53	\$ 383	\$ 310	\$ 1,059

### Balances and Transactions under the Management Agreement

The Company shared 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. As described in Note 15, Nuinsco became a related party of the Company effective July 30, 2013. The costs charged by Nuinsco were recorded at the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and was 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 ceased in March 2015. The Company has continued to share resources and costs with Nuinsco under a cost sharing arrangement. Nuinsco's shareholding in the Company has fallen below 10% and is no longer considered a related party.

Balances and transactions with Nuinsco under the management agreement as at September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and 2014 are shown in the following tables:

	Sept 30, 2015	December 31, 2014
<b>Balances Outstanding under the Management Agreement</b>		
Payable to Nuinsco Resources Limited	\$ 6	\$ 45

	Three months ended Sept 30,		Six months ended Sept 30,	
	2015	2014	2015	2014
<b>Transaction Values under the Management Agreement</b>				
Overhead charges from Nuinsco Resources Limited	\$ 28	\$ 174	\$ 221	\$ 501
Project costs charged to Nuinsco Resources Limited	\$ 18	\$ 6	\$ 24	\$ 18
Project recoveries charged by Nuinsco Resources Limited	\$ -	\$ 22	\$ 16	\$ 48

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

The terms of the Amended Loan with Nuinsco and the balances and transactions related thereto are described in Note 15.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 23. 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 of 2014, 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 of 2014 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.

	Sept 30, 2015	December 31, 2014
<b>Victory Silica Ltd.</b>		
Current assets	\$ 3	\$ 46
Current liabilities	\$ 194	\$ 143
Pre-operating costs	\$ -	\$ 194

### 24. 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 September 30, 2015.

### 25. SUBSEQUENT EVENT

#### Extension of short-term loan

As of the date of these financial statements, the Company is continuing with discussions among the holder of the SPA Loan, the holders of the unsecured Promissory Convertible Notes and other potential financing sources to restructure the Company's debt and recapitalize the Company.

On October 2, 2015, the Company announced that the TSX's Continued Listing Committee had granted an extension of its delisting review, deferring its delisting decision until no later than December 4, 2015. By that date the Company is required to comply with all requirements for continued listing. It is the intent of the Company to maintain a public listing for the Company's shares. In addition to working with the TSX during this period, management will evaluate alternative listing options. There can be no assurance that either the Company will be able to achieve compliance with the TSX's listing requirements within the required time frame or will secure an alternative listing.

The Company has not repaid \$2,000,000 in principal due under the Promissory Convertible Notes due November 11, 2015.



**VICTORY NICKEL INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS  
ENDED SEPTEMBER 30, 2015**

**DATED NOVEMBER 12, 2015**

## **VICTORY NICKEL INC.**

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

#### **For the Three and Nine Months ended September 30, 2015**

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 November 12, 2015 consolidates management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2015, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2015 ("Unaudited Condensed Consolidated Financial Statements") and the notes thereto.

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.

Readers are also encouraged to consult the audited consolidated financial statements for the year ended December 31, 2014 ("2014 Audited Consolidated Financial Statements") which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). The Unaudited Condensed Consolidated Financial Statements and the 2014 Audited Consolidated Financial Statements are available at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.victorynickel.ca](http://www.victorynickel.ca). All amounts disclosed are in United States dollars ("US\$" or "US dollars") unless otherwise stated. All tabular amounts are in thousands of US dollars.

Shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol NI. On August 4, 2015, the Company received a letter from the TSX advising that its eligibility for continued listing on the TSX is under review. Under the TSX's Remedial Review Process, the Company has been granted 60 days from that date to comply with all requirements for continued listing. On October 2, 2015, the Company announced that the TSX's Continued Listing Committee had granted an extension of its delisting review, deferring its delisting decision until no later than December 4, 2015. By that date the Company is required to comply with all requirements for continued listing. It is the intent of the Company to maintain a public listing for the Company's shares. In addition to working with the TSX during this period, management will evaluate alternative listing options. There can be no assurance that either the Company will be able to achieve compliance with the TSX's listing requirements within the required time frame or will secure an alternative listing.

#### **Change in Functional and Presentation Currency**

Effective October 1, 2014, the Company changed its functional currency to the 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.

#### **COMPANY OVERVIEW**

Victory Nickel is a Canadian producer of high-quality "Northern White" frac sand sourced from Wisconsin, USA, 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 to enhance 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") and a fully-operational dry plant with a nominal capacity of 500,000 tpa (the "7P Plant"). In April 2015 the Company announced the temporary suspension of production at its 7P Plant as demand for frac sand dropped off during the spring break-up season and due to the decrease in activity related to the sudden drop in the price of oil. In May 2015, spot sales of frac sand from the 7P Plant resumed and the 7P Plant operates on an as-needed basis only.

In addition to the significant frac 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 from receipt of permits with two equivalent extensions available under certain circumstances. Prior to production the Company will be required to pay \$40,000 per annum as an advance royalty 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 Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

The Company has considered 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 or near Winnipeg, Manitoba. Market conditions necessitate the deferral of any such construction until more certainty returns to the oil and gas sector.

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. The Company was able to establish itself as a preferred supplier in the areas around Medicine Hat, Alberta through spot-market sales and short-term contracts. The Company's 7P Plant is located in close proximity to oil and gas producing plays 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 frac sand directly to the wellhead. A small portion of finished sand 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. In April 2014 the Company announced the filing of an amendment to the EAL. 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 2014, 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 received 40,000,000 shares of Corazon in April 2015.

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 exist 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, USA and processing it into four main categories of finished frac sand products at the 7P Plant. 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. Due to the sudden drop in the price of oil during late 2014, drilling activities by E&P companies has decreased and sales of frac sand have been significantly affected in 2015. The drop in sales required a temporary suspension in production in 2015.

### **Going Concern**

These condensed 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 September 30, 2015, the Company had a working capital deficiency of \$10,657,000. The Company generated net cash from operating activities of \$895,000 during nine months ended September 30, 2015 but this is not yet at levels sufficient to wholly fund its activities.

On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the securities purchase and line of credit agreement (the "SPA Loan") and on the unsecured promissory convertible notes (the "Promissory Convertible Notes") outlined below, and that it was in discussion with its lenders and other potential financiers to restructure the Company's debt and recapitalize the Company. On July 30, 2015, the Company announced it had not repaid the principal amounts due under the SPA Loan. On September 30, 2015 the Company was unable to make the quarterly interest payments on the SPA Loan and the Promissory Convertible Notes due then. On November 12, 2015, the Company announced it had not repaid \$2,000,000 in principal due under the



Promissory Convertible Notes. The Company is continuing with discussions among the holder of the SPA Loan and other potential financing sources to restructure the Company's debt and recapitalize the Company. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring. Without an injection of capital until the demand for frac sand returns to allow the Company to sell its inventory, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. There can be no assurance that the Company will be able to restructure its debt and/or recapitalize and there is no certainty as to what steps the lenders may take in light of these defaults.

On May 15, 2014, the Company announced that it had executed 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").

In October 2014, the Company obtained a short-term facility of \$2,000,000 through the issuance of a promissory note. This facility was paid down to \$1,000,000 and the due date extended on a monthly basis by the lender to May 31, 2015 (Note 14).

On June 3, 2015, the Company announced it had entered into an amending agreement (the "Amending Agreement") with respect to the SPA loan. Under terms of the Amending Agreement, the SPA Loan was amended to permit the issuance of additional notes by the Company for an additional sum of \$1,150,000, the proceeds of which were used to repay the \$1,000,000 owed under the promissory note and for working capital purposes. The aggregate amount of \$5,150,000 under the amended loan is due on July 30, 2015. The interest rate on the Amended Loan is 14.8% per annum. As noted earlier, the Company was unable to repay the amounts due under the SPA Loan on July 30, 2015.

In addition to the SPA loan, the Company issued two year unsecured promissory convertible notes aggregating approximately \$6,000,000 (the "Promissory Convertible Notes"). One Promissory Convertible Note in the amount of \$2,000,000 is in default as it was due November 11, 2015, three Promissory Convertible Notes aggregating \$750,000 are due in February 2016, four Promissory Convertible Notes aggregating to C\$265,000 are due at various times between January and March, 2016 and one Promissory Convertible Note in the amount of \$3,000,000 is due in July, 2016, accordingly, they are classified as current liabilities, due within one year. Interest due on the Promissory Convertible Notes is due quarterly in arrears. As noted earlier, the Company was not able to make the interest payment due on June 30, 2015 and September 30, 2015.

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, 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. 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. On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improves; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014. On June 23, 2015, the Company announced that there were no sales made during the period from March 14 to May 12, 2015 at which time frac sand sales activity resumed. Sales activity has not resumed at the rates achieved during 2014 and the 7P Plant operates temporarily on an as-needed basis in order to fulfil customer needs.

Despite these sales, the near-term outlook in the frac sand market remains unclear due to the continuing downward pressure on the oil price and related impact on exploration and production on oilfield services companies. The strength of the US dollar is also impacting demand for high-quality Wisconsin sand as the price for domestic sand has dropped and service companies appear satisfied with using lower quality domestic sand because of the price differential. This will continue to stress the Company's liquidity until such time as the market demand recovers and operations can resume on a consistent basis.

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 its 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 restructure its debt and improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including debt servicing, 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. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ from the going concern basis.

## OUTLOOK

As a typical junior resource company with little to no access to financial and capital markets necessary to move mineral projects forward, the Company had to find an alternative. Waiting for the resource markets, more specifically the nickel 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 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. With an entry fee of approximately \$6,000,000 to build a frac sand processing facility, the risk was considered acceptable based on expected cash flows. Suddenly, toward the end of 2014 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 \$40s. There were indications of a recovery to \$60 during the first quarter but this appears to have disappeared as the price retreated. In the United States, 2014 production of 9.42 million barrels was the highest since 1983. Aided by fracking, the United States was on its way to becoming energy self-sufficient. One can only assume that the U.S. would rather provide their own oil than have to be dependent on other nations.

During the first quarter of 2015 we saw demand for frac sand come to a full stop as exploration and production ("E&P") companies cancelled or deferred capital programs. To further exaggerate the slowdown caused by a decline in drilling due to the price drop, this all happened during the typical slow period while road restrictions are in place due to spring breakup. We are now in November and the reduced demand for sand is continuing into the fourth quarter. However, we have seen some signs of returning demand. The price of oil necessary to create a resurgence of demand is yet to be understood. Major suppliers of frac sand have said that the long-term fundamental trends for sand demand remain favorable and that the price discounts are not sustainable in the long term.

The sudden negative turn of events could not have come at a more crucial time in our development and entry into the frac sand industry. Production was ramping up but the sudden slowdown in demand required that the Company temporarily suspend production at its 7P Plant. Once demand returns, the Company has in excess of 40,000 tons of sand at various stages of completion to enable the Company to immediately respond to customer needs.

The 7P plant is Phase One of the Company's three-phased plan to enter the frac sand business. During the ongoing temporary suspension of production at the 7P Plant, small plant improvements are being made which should reduce or eliminate issues experienced during the commissioning and start up stages.

The Company has reduced staffing but kept a core group of employees to ensure that the plant can be operated as needed and reactivated without delay. The Company has reduced its fixed costs by returning equipment under lease

such as rail cars and unloaders. In addition, the marketing and logistics team are developing programs which should allow the Company to better compete in the Canadian market where exchange rates now make domestic sand more competitive compared to imported tier one sand.

The business plan has not changed; it is only deferred. Having completed Phase One, the board of directors approved moving forward to Phase Two of the Company's three phase business plan. With the decline in demand caused by the drop in the price of oil, Phase Two will be difficult to finance. However, Phase Two 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 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 has historically contracted out the wet stage in Wisconsin prior to shipping the wet sand to its 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 several 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.

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 plant production capacity. This represents approximately 30% of the expected capital required to build a new plant. The capital recovery period is generally in excess of two years with a new plant; In Victory Nickel's case, this period is approximately six months at full pricing and production levels.

Phase Three of the business plan is to build a second dry processing facility in or around Winnipeg, Manitoba capable of producing 1,000,000 tpa. 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 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 located at Minago 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 Wisconsin 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

E&P companies continue to squeeze oil 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.

We cannot change the market. All we can do is work with it and within it. The immediate concern is to satisfy the secured lender and to implement an acceptable an achievable debt restructuring plan to allow the Company to bridge the gap until markets recover. Management has been working with not only its secured lender but also with unsecured lenders and suppliers to implement an acceptable recapitalization plan. Management believes that a solution is near and expects to have the restructuring completed during the fourth quarter.

Management salaries and director's fees currently due are being deferred or eliminated. To this end we thank our employees, many suppliers and our lenders who are showing patience.

## **RESULTS OF OPERATIONS**

### **Overall**

For the three months ended September 30, 2015, the Company had a net loss of \$1,599,000 and a net loss of \$2,776,000 for the nine months ended September 30, 2015, or a loss of \$0.03 and \$0.05 per share for both the three and nine month periods (losses for the three months ended September 30, 2014 - \$373,000 or \$0.01 per share and nine months ended

September 30, 2014 - \$2,512,000 or \$0.04 per share). The following narrative discusses the relevant operations of the Frac Sand and Exploration and Development segments first, and then addresses more general and corporate activities.

**Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014**

Three months ended Sept 30, 2015	Corporate	Exploration and Development	Frac Sand	Intersegment Reclassification	Total	Sept 30, 2014 Total
<b>Revenues</b>	\$ -	\$ -	\$ 325	\$ -	\$ 325	\$ 5,463
Cost of goods sold	-	-	(888)	-	(888)	(4,774)
<b>Gross margin</b>	-	-	(563)	-	(563)	689
<b>Operating expenses</b>						
General and administrative	(185)	(22)	(106)	-	(313)	(579)
Share-based payments:	-	-	-	-	-	-
Options	(5)	-	-	-	(5)	(235)
Amortization of property, plant and equipment	(2)	(2)	(157)	-	(161)	(174)
Recovery (writedown) of E and E projects	-	-	-	-	-	(24)
Pre-exploration costs	-	-	-	-	-	(4)
Net frac sand pre-operating costs	-	-	-	-	-	-
Non-recurring plant costs <sup>(1)</sup>	-	-	13	-	13	-
<b>Operating income (loss)</b>	(192)	(24)	(813)	-	(1,029)	(327)
Finance income	185	-	-	-	185	987
Finance costs	(755)	-	-	-	(755)	(1,242)
<b>Net finance costs</b>	(570)	-	-	-	(570)	(255)
<b>Income (loss) before income taxes</b>	(762)	(24)	(813)	-	(1,599)	(582)
Income tax expense	-	-	-	-	-	209
<b>Net Income (loss) for the Period</b>	\$ (762)	\$ (24)	\$ (813)	\$ -	\$ (1,599)	\$ (373)

**Frac Sand**

Due to the recent sudden decline in the price of oil combined with the spring break up period when road restrictions are in place, demand for frac sand in the Company's target markets basically came to a full stop in the first quarter of 2015. The Company accumulated inventory of in excess of 40,000 tons at various stages of the process. Until inventories are drawn down through sales, the Company temporarily suspended production. Sales resumed on a spot basis in May, 2015. During this period, operating personnel were trained and equipment was debugged.

The commissioning of the Company's 7P Plant was completed during the third quarter of 2014 and, during that three-month period, produced 39,121 tons of various grades of frac sand.

*Revenues*

During the third quarter ended September 30, 2015, revenue was \$325,000 or \$114.88 per ton on sales of 2,829 tons resulting in a negative gross margin of \$563,000. This period was not a typical sales period as the sudden and material drop in the price of oil caused such uncertainty in the market that E&P companies effectively stopped activities in our market area.

Revenues of \$5,463,000 for the three months ended September 30, 2014 were generated from the sale of 34,892 tons of frac sand. The three-month period included approximately one month of commissioning

*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. These costs are capitalized as a component of inventory on a normalized basis and are charged to cost of goods sold when title to the product passes to the customer.

The cost of goods sold was \$888,000, or \$313.89 per ton of frac sand sold for the three months ended September 30, 2015, including an inventory write-down of \$494,000 as the Company wrote off obsolete inventory and recorded finished inventory at the lower of cost or net realizable value. The price per ton of frac sand after the inventory adjustment was \$138.92. This compares with \$4,774,000 for the same period of 2014 or \$136.82 per ton; a portion of the sales are priced

on a delivered basis and include transportation costs to the customer. Included in the three month period of 2014 is approximately one month of commissioning during which time production and sales were below full capacity levels as the plant was not operating at its design level.

Costs incurred from the 2015 temporary suspension are included in *Non-recurring plant costs* and do not form part of the cost of sales or inventory. The Company has now reduced manpower to a skeleton crew sufficient to start production as demand returns on a consistent basis.

Costs per ton are per dry ton, unless otherwise stated.

Concentrated wet sand is purchased through long-term supply agreements with third parties at specified prices per ton. For the three months ended September 30, 2015 the cost of washed concentrated sand delivered to rail and included as a component of inventory was \$32.81 per ton. Transportation costs including freight charges and fuel surcharges when transporting sand from Wisconsin to the 7P Plant, transload costs at the source and at the 7P Plant, as well as railcar lease payments were \$59.79 per ton for the three months ended September 30, 2015. Other elements of cost of goods sold were \$25.78 per ton during the three months ended September 30, 2015 and were primarily operating expenditures at the plant and mobile equipment lease payments. This adds to a finished goods inventory cost of \$119.4 per ton. Finish goods inventory was written-down to the net realizable value of \$105.00 per ton to reflect current market conditions in the quarter. Finished goods inventory does not include freight for sales sold delivered to the customer.

#### *Gross margin*

The 7P Plant generated a negative gross margin of \$563,000 (2014-gross margin of \$689,000).(2014-\$19.75) for the three months ended September 30, 2015 on sales revenue of \$325,000 (2014-\$5,463,000). The negative gross margin was affected by a combination of price reductions and cost increases due to the low production level during 2015 and the inventory adjustment. The sustained drop in the price of oil is putting pressure on the price of frac sand as producers discount excess inventory.

#### *General and administrative and other costs*

General and administrative (“G&A”) costs for the frac segment amounted to \$106,000 for the three months ended September 30, 2015. These costs include Victory Silica administration, marketing and logistics management. The Company has now reduced manpower to a skeleton crew and overhead sufficient to start production as demand requires.

Amortization of property, plant and equipment of \$157,000 was recorded for the quarter, compared with \$171,000 for the same period of 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.

#### *Net income/ (loss)*

All of the above items combined to produce a net loss for the frac sand segment of \$813,000 for the three months ended September 30, 2015.

### **Exploration and Development**

There were no write-downs necessary for impairment of projects and no pre-exploration expenditures for the three months ended September 30, 2015 and \$24,000 for the same period in 2014. On November 4, 2014, the Company announced it had optioned the Lynn Lake project to Corazon. As part of that transaction, the Company received 40,000,000 shares of Corazon on April 6, 2015 valued at \$192,000.

### **Net Loss for the three month period ended September 30, 2014 – Corporate and Total**

The net loss for the three months ended September 30, 2015 was \$1,599,000, compared with \$373,000 for the same period of 2014, including operating expenses of \$466,000 (2014 - \$1,016,000), net finance costs of \$570,000 (net finance costs 2014 – \$255,000) and an income tax loss of \$nil (2014 recovery - \$209,000).

G&A expenses were \$313,000 as the Company has reduced its overhead due to the slowdown in the market for frac sands, as compared with \$579,000 incurred in the third quarter of 2014.

G&A costs include: statutory costs incurred as a public company, general investor relations expenses, consulting, travel costs, health benefits and director costs. G&A expenses include costs charged by Nuinsco for administrative services described under Transactions with Related Parties and Management Agreement with Nuinsco below. Effective March



2015, the Management Agreement has been terminated by Victory Nickel but the Company continues to share resources and costs with Nuinsco under a cost sharing arrangement.

The share-based payment expense for options for the three months ended September 30, 2015 of \$5,000 reflects partial vesting of 671,875 options with a weighted average fair value of C\$0.42. There were no options granted during the current quarter.

On September 12, 2014, the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"). In the prior comparative period, share-based payment expense of \$235,000 reflects 443,071 shares (after giving retroactive effect to the Share Consolidation) issued during the third quarter 2014 upon the exercise of warrants issued as part of the rights offering completed in July 2013.

*Net finance income (costs)*

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2015	2014	2015	2014
Interest income on bank deposits	\$ -	\$ -	\$ -	\$ -
Net change in fair value of financial liabilities at fair value through operations	-	987	226	1,569
Gain on adjustment of estimated cash flows	73	-	1,566	-
Net foreign exchange gain	112	-	152	-
<b>Finance income</b>	<b>185</b>	<b>987</b>	<b>1,944</b>	<b>1,569</b>
Interest expense on loans				
Accrued and Cash settled	494	376	1,477	765
Amortization of loan fees	102	277	587	466
Amortization of embedded option derivatives	159	175	531	277
Commitment fee	-	1	-	3
Loss on adjustment of estimated cash flows	-	20	-	269
Net change in fair value of financial liabilities at fair value through operations	-	(73)	-	-
Net foreign exchange loss		464		963
<b>Finance costs</b>	<b>755</b>	<b>1,242</b>	<b>2,595</b>	<b>2,742</b>
<b>Net Finance Income/(Costs)</b>	<b>\$ (570)</b>	<b>\$ (256)</b>	<b>\$ (651)</b>	<b>\$ (1,174)</b>

For the three months ended September 30, 2015 and 2014, net finance cost was \$570,000 and \$256,000 respectively. The Company considers financing activities, other than those related to equipment leased in the frac sand segment, to be part of the Corporate segment.

The finance income decreased \$802,000 from \$987,000 from the corresponding prior year quarter due to the income from the fair value of the warrants issued in connection with the SPA Loan which have a cashless exercise feature and from a gain of \$73,000 (2014 – loss of \$20,000) from the estimated cash flows from the Participating Interest. Both of these instruments and their accounting are described below. The recent slowdown in demand and the losses incurred during the first nine months of 2015 necessitated deferral for payment of the Participating Interest and resulted in a gain. 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 remained at 75% as at September 30 2015 (2014 – 75%) The percentage participation in net cash flows under the Participation Interest is 52.16%.

Finance costs were \$755,000 for the three months ended September 30, 2015, compared with \$1,242,000 for the same period of 2014. The components were quite different when comparing the quarters. Cash and accrued interest expense was \$494,000 for the quarter ended September 30, 2015 (2014 - \$376,000). The increase in interest expense during 2015 was primarily attributable to interest on the SPA Loan, an additional Promissory Convertible Note issued in July 2014, and another short-term loan issued to fund the construction and working capital for the frac sand business.

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. Promissory Convertible notes were issued in 2013 and 2014 with similar terms and requiring similar accounting treatments. The aggregate outstanding principal value of the Promissory Convertible Notes as at September 30, 2015 is \$5,979,000, which are due at various times over the next 12 months.

Aggregate interest settled in cash or accrued for the three months ended September 30, 2015 amounted to \$494,000. On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the SPA Loan and the approximately \$6.0 million of Promissory Convertible Notes. On July 30, 2015 the Company announced that it had not repaid the amounts due, including the principal amount, on July 30, 2015, under the SPA Loan. The Company was also unable to make the quarterly interest payments due September 30, 2015.

Amortization of cash-settled loan fees in the quarter ended September 30, 2015 amounted to \$102,000 with an additional \$159,000 for amortization of a portion of the embedded option derivatives related to the convertible Promissory Convertible Notes remaining of \$580,000 calculated at inception (\$878,000 of which was recorded in 2014). The value of the embedded option derivatives did not decrease in the third quarter and, accordingly, \$nil was credited through operations as finance income during the quarter ending September 30, 2015.

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 dollar 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 Promissory 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.

#### *Income tax recovery*

The Company does not allocate income taxes between segments. In the three months ended September 30, 2015, the Company did not record any tax losses or recovery. In 2014 it recorded an income tax recovery of \$228,000. This was 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%.

**Nine Months Ended September 30, 2015 Compared With Nine Months Ended September 30, 2014**

Nine months ended Sept 30, 2015	Corporate	Exploration and Development	Frac Sand	Intersegment Reclassification	Total	Sept 30, 2014 Total
<b>Revenues</b>	\$ -	\$ -	\$ 2,478	\$ -	\$ 2,478	\$ 6,773
Cost of goods sold	-	-	(3,212)	-	(3,212)	(6,230)
<b>Gross margin</b>	-	-	(734)	-	(734)	543
<b>Operating expenses</b>						
General and administrative	(741)	(25)	(186)	-	(952)	(1,847)
Share-based payments:						-
Options	(53)	-	-	-	(53)	(312)
Amortization of property, plant and equipment	(3)	(3)	(485)	-	(491)	(390)
Recovery (writedown) of E and E projects	-	186	-	-	186	(50)
Pre-exploration costs	-	-	-	-	-	(4)
Net frac sand pre-operating costs	-	-	-	-	-	(194)
Non-recurring plant costs <sup>(1)</sup>	-	-	(643)	-	(643)	-
<b>Operating income (loss)</b>	(797)	158	(2,048)	-	(2,687)	(2,254)
Finance income	1,962	-	2	(20)	1,944	1,569
Finance costs	(2,592)	-	(23)	20	(2,595)	(2,742)
<b>Net finance costs</b>	(630)	-	(21)	-	(651)	(1,173)
<b>Income (loss) before income taxes</b>	(1,427)	158	(2,069)	-	(3,338)	(3,427)
Income tax recovery	562	-	-	-	562	915
<b>Net Income (loss) for the Period</b>	\$ (865)	\$ 158	\$ (2,069)	\$ -	\$ (2,776)	\$ (2,512)

For the nine months ended September 30, 2015, the Company had a net loss of \$2,776,000, or \$0.05 per share, compared with a net loss of \$2,512,000, or \$0.04 per share, for the nine months ended September 30, 2014 on sales of \$2,478,000 and \$6,773,000 respectively.

The main components creating the net loss were G&A expenses of \$952,000 (2014 - \$1,847,000), amortization of property and equipment of \$491,000 (2014-\$390,000), net frac sand pre-operating costs of \$nil (2014 - \$194,000), non-recurring plant costs of 643,000 (2014 - \$nil.) and net finance costs of \$651,000 (2014 - \$1,173,000). The results in 2014 also included a recovery of \$244,000 related to the Lynn Lake option which is no longer in force. Furthermore, income tax recoveries were recorded in both nine month periods being \$562,000 in 2015 and \$706,000 in 2014.

G&A expenses decreased by \$895,000 in 2015 compared with the same period of 2014. The main reason for the decrease is related to the Company reducing its overhead due to the slowdown in the market for frac sand and the reversal of \$225,000 of accrued bonuses.

*Income tax recovery*

The Company does not allocate income taxes between segments. In the quarter ended September 30, 2015, the Company recorded an income tax recovery of \$562,000, compared with an income tax recovery of \$915,000 for the same period of 2014. This is primarily a function of higher taxable losses.

*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 \$712,000 to \$9,000 excluding restricted deposits of \$37,000 which support a letter of credit provided to one equipment supplier. The Liquidity and Capital Resources section describes the cash flows for the period in detail.

Inventory of \$3,367,000 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. Obsolete inventory was written off and finished goods inventory was written-down to its net realizable value during the third quarter of 2015.

Property, plant and equipment decreased to \$5,761,000 at the end of September 2015 from \$6,179,000 as at December 31, 2014 primarily due to amortization. The mobile equipment is in use and is being depreciated; amortization on the plant commenced in the second quarter 2014 given its availability for use in production. The first sand was processed through the 7P Plant in March, 2014 and commissioning occurred in early August 2014.

Receivables and prepaids decreased from \$3,367,000 to \$350,000 during the nine months ended September 30, 2015. The decrease of \$2,499,000 to \$226,000 in trade accounts receivable from frac sand sales reflects the slowdown in demand. The majority of the receivables have been collected by the date of this report and we do not expect to experience any losses given the quality of our customers. Prepaids include \$50,000 of deposits to sand suppliers as at September 30, 2015 (December 31, 2014 - \$555,000).

Marketable securities as at September 30, 2015 increased by \$109,000 from December 31, 2014, primarily as a result of the Company receiving 40,000,000 shares of Corazon Mining Limited on April 6, 2015 valued at \$192,000 as part of the option agreement of Lynn Lake offset by market adjustments. No sales occurred during 2015 or 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 \$379,000 to \$3,411,000 relates primarily to an increase in days outstanding for trade payables of \$200,000 for supplies, transportation and property, plant and equipment for the 7P Plant and an increase in accrued liabilities of \$254,000 related to the frac sand business. With the slowdown in sales and the resulting impact on cash availability, the Company has had to defer payments to suppliers.

As previously described, Victory Nickel has several loans and borrowings due within one year amounting to \$11,271,000 a total decrease of \$821,000 over the loans and borrowings as at December 31, 2014 of \$10,450,000. Changes in the embedded option derivatives described earlier, account for the remaining changes in loans and borrowings.

Note 14 to the Unaudited Condensed Consolidated Financial Statements include 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 \$570,000 at various acquisition dates; the long-term portion of the related obligation is \$170,000 at the end of September 2015 (December 31, 2014 - \$275,000) and the short-term lease obligation of \$140,000 (December 31, 2014 - \$137,000) is included in *Trade and other payables*. Note 16 to the Unaudited Condensed 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 a result of changes in model assumptions resulted in revised amortized cost carrying amount of the Participating Interest of \$1,979,000 (December 31, 2014 - \$3,548,000) and, accordingly \$1,569,000 was recorded as a *gain on adjustment of estimated cash flows* through the statement of operations.

The deferred tax liability balance amounts to \$264,000 as at September 30, 2015 (December 31, 2014 - \$817,000). 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. The deferred tax liability amount reflects a rate of 25%.

The share capital balance has not changed as at September 30, 2015 (December 31, 2014 - \$52,570,000). On September 12, 2014, the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"); any reference to the number 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. In 2014, the increase in share capital of \$344,000 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.

Contributed surplus has increased to \$5,696,000 from \$5,644,000 as at December 31, 2014 primarily as a result of options vesting during the first nine months of 2015 of \$52,000.

Costs of \$417,000 were incurred during the nine months ending September 30, 2015 related to 7P Plant being placed on care and maintenance as a result of reduced production from the unexpected decline in sales during the first nine months of 2015. Another \$118,000 was incurred relating to railcar storage costs and one-time preparation costs for railcars to be leased that was later cancelled. Furthermore, costs totalling \$108,000 relating to additional equipment rental and casual labour to move frozen sand as a result of the protracted spring break-up were incurred.

The finance income of \$1,944,000 for the nine month period ending September 30, 2015 primarily relates to the gain on the estimated cash flows from the Participating Interest discussed above. Finance income of \$1,569,000 for the nine month period ending September 30, 2014 primarily due to the reduction in the value of the embedded option derivatives related to the Company's convertible debt combined with a reduction in the fair value of the warrants issued in connection with the SPA Loan which have a cashless exercise feature.

Finance costs for the first nine months of 2015 were to \$2,595,000 compared to \$2,742,000 for the same period in 2014. These include cash-settled and accrued interest, amortization of cash and non-cash-based fees, changes in embedded option values associated with the convertible debt and amortization of inception values of embedded option derivatives related to debt as well as the change in value of estimated cash flows associated with the Participating Interest. Note 19 to the Unaudited Condensed Consolidated Financial Statements provides an analysis of the costs. Of all the elements in the table, the only ones which are immediately cash-settled are interest income on bank deposits (which is insignificant) and cash-settled interest expense.

The income tax recovery has increased significantly, as has the pre-tax loss. Certain of the elements in finance costs are not taxable and their volatility has an apparent effect on the effective income tax recovery rate.

## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eleven quarters ended September 30, 2015 is as follows:

<u>Fiscal year 2015</u>	<u>3rd Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Revenue	\$ 325 <sup>(1)</sup>	\$ 631 <sup>(1)</sup>	\$ 1,522 <sup>(1)</sup>
Gross margin (loss)	\$ (563) <sup>(2)</sup>	\$ 76 <sup>(2)</sup>	\$ (247) <sup>(2)</sup>
Net finance income (costs)	\$ (570) <sup>(3)</sup>	\$ (794) <sup>(3)</sup>	\$ 713 <sup>(3)</sup>
Net income (loss)	\$ (1,599) <sup>(4)</sup>	\$ (906) <sup>(4)</sup>	\$ (271) <sup>(4)</sup>
Total comprehensive loss	\$ (1,679)	\$ (945)	\$ (178)
Earnings (loss) per share - basic and diluted <sup>(16)</sup>	\$ (0.03)	\$ (0.02)	\$ (0.00)

  

<u>Fiscal year 2014</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Revenue	\$ 7,203 <sup>(1)</sup>	\$ 5,463 <sup>(1)</sup>	\$ 1,310 <sup>(1)</sup>	\$ -
Gross margin (loss)	\$ 670 <sup>(2)</sup>	\$ 689 <sup>(2)</sup>	\$ (146) <sup>(2)</sup>	\$ -
Net finance income (costs)	\$ 714 <sup>(5)</sup>	\$ (255) <sup>(7)</sup>	\$ (47) <sup>(9)</sup>	\$ (872) <sup>(11)</sup>
Net income (loss)	\$ 96 <sup>(6)</sup>	\$ (373) <sup>(8)</sup>	\$ (693) <sup>(10)</sup>	\$ (1,446) <sup>(12)</sup>
Total comprehensive loss	\$ (2,287)	\$ (464)	\$ (724)	\$ (1,371)
Earnings (loss) per share - basic and diluted <sup>(16)</sup>	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)

  

<u>Fiscal year 2013</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Net finance costs	\$ (3,443) <sup>(13)</sup>	\$ (66)	\$ (73)	\$ (37)
Net loss	\$ (3,656) <sup>(14)</sup>	\$ (503)	\$ (417)	\$ (313)
Total comprehensive loss	\$ (3,628) <sup>(15)</sup>	\$ (518)	\$ (493)	\$ (436)
Loss per share - basic and diluted <sup>(16)</sup>	\$ (0.07)	\$ (0.01)	\$ (0.01)	\$ (0.01)

(1) Revenue represents sales of frac sand (first sales were recognized in the second quarter of 2014).

(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 income include the change in the fair value of the embedded option derivatives related to the Convertible Notes, a reduction in fair value of warrants issued in connection with SPA Loan, and a gain on adjustment of estimated cash flows for the Participating Interest, offset by amortization of embedded derivatives and loan fees.

(4) Includes the effects noted above.

- (5) 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.
- (6) Includes the effects noted in (1), (2), and (5).
- (7) 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.
- (8) Includes the effects noted in (1), (2), and (7).
- (9) 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.
- (10) Includes the effects noted in (1), (2), and (9).
- (11) 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.
- (12) 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.
- (13) 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.
- (14) Net loss for the period includes \$229,000 for costs charged under the Management Agreement with Nuinsco and cost sharing arrangement and reflects increased activity on the frac sand business and an income tax recovery of \$532,000.
- (15) Total comprehensive loss for the period includes the effects noted above.

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2015, the Company had a working capital deficiency of \$10,657,000, compared with a working capital deficiency of \$3,045,000 as at December 31, 2014.

The increase in working capital deficiency of \$7,612,000 since December 31, 2014 resulted primarily from the outstanding financing and accrued interest of \$11,271,000 used to fund the construction and upgrading of the 7P Plant and working capital, coming due within one year. Of this amount, \$5,150,000 is secured by the assets of the Company. Working capital was also affected, an increase in accounts payable of \$379,000 as well as a large decrease in accounts receivable balance, offset by a \$1,046,000 increase in inventory, both of which are due to the decline in frac sand demand during the first half of 2015.

### Participating Interest

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. The participation is capped at \$6,053,000 provided the Company proceeds with Phase Two, otherwise the cap is approximately \$8,071,000. 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 second quarter of 2017.

As at September 30, 2015 the carrying value of the Participating Interest was revalued at \$1,979,000 to take into account future expected cash flows based on current market information. This compares with \$3,548,000 at December 31, 2014. The change in value of \$1,569,000 in the nine months ended September 30, 2015 has been recorded through *Finance Income* in the statement of operations (for further description see Note 15 to the Unaudited Condensed Consolidated Financial Statements).

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

**Convertible Notes** – During 2013 and 2014 two-year Promissory Convertible Notes bearing interest at the rate of 14.8% per annum and aggregating \$5,979,000 were issued to fund the construction of the 7P Plant and working capital requirements. The accounting complexities of these financial liabilities have been described earlier. The Promissory Convertible Notes 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.

**SPA Loan** - On May 15, 2014, the Company entered into a senior secured line of credit agreement in the amount of \$4,000,000 (the “SPA” Loan”). The SPA Loan bears interest of 14.8% per annum and matures on July 30, 2015 and is now is classified as a current liability due within one year. Full details of the SPA Loan are described in the 2014 Audited Consolidated Financial Statements.

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 \$7,000 in the three months ended September 30, 2015 (a net decrease of \$554,000 since inception) bringing the fair value of the cashless warrants to \$0 as at September 30, 2015.

In the three months ended September 30, 2015, the Company paid \$nil in cash and accrued \$410,000 for interest and amortized \$102,000 in loan fees into interest income.

In June 2015 the SPA loan was increased by \$1,150,000 to \$5,150,000. Of the increase, \$1,000,000 was used to repay its short-term facility and \$150,000 was made available for working capital purposes. As consideration, the warrant price was reduced from \$1.00 per share to \$0.50 per share and additional warrants of 575,000 were granted.

On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the SPA Loan and on the Promissory Convertible Notes outlined above, and that it was in discussion with its lenders and other potential financiers to restructure the Company's debt and recapitalize the Company.

On July 30, 2015, the Company announced it had not repaid the principal amounts due under the SPA Loan, and that it was continuing with discussions among the holder of the SPA Loan and other potential financing sources to restructure the Company's debt and recapitalize the Company. The Company was unable to make the interest payment due September 30, 2015. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring. Without an injection of capital until the demand for frac sand returns to allow the Company to sell its inventory, the Company will not be able to meet its outstanding obligations or any new obligations as they become due.

**Short Term Facility** – On October 1, 2014, the Company completed a short-term financing by way of a \$2,000,000 promissory note. 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 repaid \$1,000,000 during the first two months of 2015 and in June the Company announced it had entered into an amending agreement (the "Amending Agreement") whereby the short-term facility and the SPA loan were combined to create the Amended Loan Facility.

**Cash flows in the first nine months of 2015** - Cash and cash equivalents as at September 30, 2015 and December 31, 2014 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.

For the nine months ended September 30, 2015, the Company generated cash from operating activities of \$895,000 compared with cash used of \$5,953,000 during the same period of 2014. The build-up of receivables as at December 31, 2014 was essentially all collected during the first nine months of 2015 and provided an increase in cash of \$3,017,000 compared to the first half of 2014 and extending payables and accrued interest contributed \$225,000. However, there continues to be limited revenues due to the slowdown in operating activity during the first nine months of 2015 as mentioned earlier. The Company will require a restructuring of its debt and likely an infusion of new capital while ramping up operations to the level where cash flow is sufficient to meet its needs.

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 of \$194,000 for the first nine months of 2014 and thereafter are part of cost of goods sold or other expense lines. In the nine months ended September 30, 2015, \$3,212,000 was charged to cost of goods sold, including a write-down of finished goods inventory to the lower of cost or net realizable value and the write off of obsolete inventory in the third quarter of 2015 in the amount of \$495,000. Revenue in 2015 amounted to \$2,478,000.

As operating activity began to slow down during the first nine months of 2015 due the sudden and material drop in the price of oil and the spring breakup period as mentioned earlier, receivables decreased to \$350,000 as at September 30, 2015 compared with \$3,367,000 as at December 31, 2014, while inventory and trade and other payables continue to grow. The Company continues to hold discussions with financiers and potential business partners to fund the working capital deficit.

During the nine months ended September 30, 2015, costs incurred by investing activities were \$173,000, compared with cash used of \$2,455,000 in the prior comparable period. Aggregate amounts of \$26,000 and \$114,000 were used to advance the MP&D project and E&E projects, respectively, during the periods (2014 - \$1,566,000 and \$608,000). In the first nine months of 2015, \$33,000 was used for expenditures on the 7P Plant acquisition, equipment and improvements (2014 – \$2,056,000).

The Company used \$1,425,000 in financing activities during the nine months ended September 30, 2015 compared with \$7,209,000 generated in the corresponding period in 2014. In 2014, the main source of funds was an additional \$4,000,000 from various Promissory Convertible Notes issued to March 2014. In 2015, \$1,000,000 of the short-term facility was repaid. Loan interest was \$1,481,000 compared with \$765,000 in 2014. The increase is due to the increased debt described elsewhere. Aggregate payments under leases for deposits and other principal payments totalled \$102,000 for mobile equipment used in the frac sand business, compared with payments of \$101,000 in 2014. The Company also deposited \$37,000 (2014 – \$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 the period. During the same period in 2014 the Company received \$341,000 through the exercise of options.

The Company's activities during the nine months ended September 30, 2015 used cash and cash equivalents of \$703,000, compared with \$1,199,000 during the first nine months of 2014.

#### Table of Contractual Commitments

	Due Date	Currency	September 30, 2015	December 31, 2014
Transformer and electrical equipment	On shipping	US Dollar	\$ 1,296	\$ 1,296
Loans and borrowings (including unpaid accrued interest)				
Amended Loan	January 31, 2015	Canadian Dollar	\$ -	\$ -
Participating Interest	Refer to note below	Canadian Dollar	\$ -	\$ -
Convertible Notes	November 11, 2015 to July 7, 2016	US Dollar	\$ 5,750	\$ 5,750
Convertible Notes	January 30, 2016 to March 13, 2016	Canadian Dollar	\$ 265	\$ 265
SPA Loan	July 30, 2015	US Dollar	\$ 5,150	\$ 4,000
Promissory Note <sup>(1)</sup>	May 31, 2015	US Dollar	\$ -	\$ 2,000
Purchase of 7P Plant	Refer to note below	Canadian Dollar	\$ -	\$ -
Leased mobile equipment	Within one year	Canadian Dollar	\$ 187	\$ 179
	One to five years	Canadian Dollar	\$ 227	\$ 328

Using November 12, 2015 prices, the aggregate market value of the Company's marketable securities held in public company shares is approximately \$221,000.

As at November 12, 2015, the Company had options and warrants outstanding which could bring in additional funds. Most of those instruments are not "in-the-money" and the receipt of such funds cannot be relied upon.

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 pursuing 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 current 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 could provide leverage to get potential partners interested in the nickel portion of the project.

The Company has in excess of 40,000 tons of sand in inventory which should generate cash to bring suppliers debt up-to-date. The Company is also reducing all discretionary costs which should not have a negative impact on its ability to resume production. Staffing, salaries, and director fees have been reduced or deferred where possible.



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 produces frac sand for the oil and gas industry in Canada and the northern US. Accordingly, the Company 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 20 in the Unaudited Condensed Consolidated Financial Statements). The segment is located in Canada although sand as raw material is imported from the US.

The following table provides additional information on the Company's total segment assets. The segmented Statement of Operations has been presented earlier in the MD&A in the discussion of operating results for the nine months ended September 30, 2015.

	<b>Sept 30, 2015</b>	December 31, 2014
<b>Canada</b>		
Corporate	\$ 1,415	\$ 1,860
Exploration and Development	49,958	49,734
Frac Sand	7,895	11,300
Intersegment elimination	(1,068)	(962)
<b>Total Assets</b>	<b>\$ 58,199</b>	<b>\$ 61,932</b>

### 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

During the nine months ended September 30, 2015, \$114,000 was incurred on the Minago project (September 30, 2014 - \$271,000).

#### 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 and pit-constrained sulphide nickel resource used in the Minago FS. The FS is posted at [www.sedar.com](http://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 <sup>1</sup>			March 2010 In-Pit Resource <sup>2</sup>			Increase (Decrease) in Contained Metal	
	Tonnes	Grade	Ni Content	Tonnes	Grade	Ni Content	Ni Content	Change
Category	Millions	%NiS <sup>3</sup>	M Lb	Millions	%NiS <sup>3</sup>	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)

<sup>1</sup> Lerch-Grossman pit optimization shell

<sup>2</sup> Whittle pit optimization shell

<sup>3</sup> Nickel in sulphide form

A winter work program was conducted at Minago in 2011 comprised 8,793m of diamond drilling in 20 drill holes with associated ground and borehole electromagnetic geophysics. 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 3,500m winter work program was conducted in early 2012 to test 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.

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 serpentinitized 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 fieldwork has 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 2014, 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 down 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 otherwise expire in August, 2014.

#### *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 nine months ended September 30, 2015, the Company incurred exploration expenditures on its E&E projects of \$26,000 for (September 30, 2014 – \$79,000). Expenditures have been minimal due to the tight equity markets and management’s focus on Victory Silica and the frac sand business.



## **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 Trempeleau County 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 following receipt of permits 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 the completion of a National Instrument 43-101 technical report describing a resource estimate of approximately 11 million tons of frac sand on the Bear Coulee Property.

## **NICKEL**

### **Lac Rocher**

Lac Rocher, with year round access, 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 US\$9.74 with copper at US\$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.

### **Mel Project**

The 100% owned 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 re-evaluation of the Mel dataset is continuing 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 for future work and that can be incorporated into further, more refined, modelling of the Mel resource. No fieldwork was conducted during 2013, 2014 or in 2015 to date. 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 2014 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.

On April 6, 2015 Corazon Mining Ltd. ("Corazon") issued 40,000,000 Corazon shares to Victory Nickel as part of the terms of the option agreement between the two companies.

Also under the agreement, Victory Nickel retains a 1.5% net smelter return royalty on any production from the claims and leases transferred by Victory Nickel to Corazon, 1% of which can be purchased by Corazon for A\$1M. Corazon must spend A\$3.5M in exploration and resource development over five years upon execution of the agreement - should Corazon fail to make the expenditures, the difference between the expenditure requirement and the actual expenditures must be paid to Victory Nickel in cash or shares of Corazon, or the project is returned to Victory Nickel. Within 30 days of the commencement of commercial ore processing at Lynn Lake, Corazon is required to make a payment of A\$1M in cash and/or shares of Corazon to Victory Nickel.

#### **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 21 in the Unaudited Condensed 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.

The Company completed 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.

Successful completion of Phase One was expected to lead to Phase Two which provides for the building of a wash plant in Wisconsin, USA 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 approved proceeding with Phase Two provided non-dilutive financing can be arranged. However, in February 2015, the Company announced that Phase Two had been deferred due to the uncertainty caused by the drop in the price of oil.

As mentioned above, sales decreased monthly from January to March and, as a result of commodity market uncertainty and longer than expected spring break-up conditions, the Company temporarily suspended the frac sand operations on April 14, 2015. In May, spot sales of frac sand from the 7P Plant resumed and the 7P Plant continues to operate on an as-needed basis only. Frac sand sales typically slow down during spring break-up road restrictions in Alberta. This year, the spring break-up slowdown was more pronounced than in prior years as the majority of E&P companies to conserve capital by postponing drilling activity to less costly periods after spring break-up. Since that time due to continued uncertainty in the oil price E&P companies are reducing capital expenditure programs and, as a result, drilling activity has slowed. The market uncertainty is placing pressure on Victory Nickel's oilfield service company customers to reduce E&P company drilling costs.

These companies, in turn, look to their suppliers, including frac sand producers, to help lower their costs. Accordingly, frac sand prices in Canada have decreased to levels that do not appear to be sustainable over the long term. The weakness of the Canadian dollar has made domestic sand more competitive over this period and is taking some of the market previously available for imported sand.

The Company has built approximately 40,000 tons of finished product and raw material inventory at its 7P Plant which is using to supply its customers as fracking activity warrants.

## **IMPAIRMENT ANALYSIS UPDATE**

While the metals markets and other general economic factors continue to be relatively stable, there has been no marked recovery except for a strengthening US dollar. 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.

Management concluded that no impairment existed in each of its projects effective September 30, 2015 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 convertibility feature of the loans and 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. There have been no new accounting policies adopted by the Company, except as noted Note 3 to those statements.

## **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 several new and revised standards and interpretations. However, the revised standards and interpretations are not applicable to the Company or are expected to have minimal impact.

## **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 Unaudited Condensed 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 quarter ended September 30, 2015, 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 September 30, 2015. 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 quarter ended September 30, 2015 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 quarter ended September 30, 2015, 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 September 30, 2015.

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 September 30, 2015 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 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 17 and 19 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 September 30, 2015 and December 31, 2014 and for the three and nine

	Sept 30, 2015	December 31, 2014
<b>Balances Outstanding</b>		
Payable to key management personnel	\$ 152	\$ 251

months ended September 30, 2015 and 2014 are shown in the following tables:

Key management personnel compensation comprises:

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2015	2014	2015	2014
Short-term employee benefits	\$ 53	\$ 215	\$ 310	\$ 826
Share-based payments - options	-	168	-	233
	<b>\$ 53</b>	<b>\$ 383</b>	<b>\$ 310</b>	<b>\$ 1,059</b>

### Balances and Transactions with Nuinsco Resources Limited under the Management Agreement

The Company shared 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. As described in Note 15 to the Unaudited Condensed Consolidated Financial Statements, Nuinsco, who became a related party of the Company effective July 30, 2013, is no longer considered a related party as their shareholding in the Company decreased below 10%. 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 ceased in March 2015. The Company has continued to share resources and costs with Nuinsco under a cost sharing arrangement.

Balances and transactions with Nuinsco under the management agreement as at September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and 2014 are shown in the following tables:

	Sept 30, 2015	December 31, 2014
<b>Balances Outstanding under the Management Agreement</b>		
Payable to Nuinsco Resources Limited	\$ 6	\$ 45



	Three months ended Sept 30,		Six months ended Sept 30,	
	2015	2014	2015	2014
<b>Transaction Values under the Management Agreement</b>				
Overhead charges from Nuinsco Resources Limited	\$ 28	\$ 174	\$ 221	\$ 501
Project costs charged to Nuinsco Resources Limited	\$ 18	\$ 6	\$ 24	\$ 18
Project recoveries charged by Nuinsco Resources Limited	\$ -	\$ 22	\$ 16	\$ 48

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 Participating Interest

The terms of the Participating Interest are described in Note 14 to the Unaudited Condensed 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	Note	Sept 30, 2015	December 31, 2014
Advance for working capital		\$ -	\$ 940
Advance under Amended Loan for standby commitment		-	1,135
Aggregate advances		-	2,075
Less: settled in Units of Victory Nickel		-	(1,135)
Less: unamortized loan fees		-	(51)
Opening balance		3,548	889
Change in fair value	20	(1,569)	2,875
Effect of foreign exchange		-	(216)
<b>Participating Interest</b>		<b>\$ 1,979</b>	<b>\$ 3,548</b>
Current portion - due within one year <sup>(1)</sup>		\$ -	\$ -
Long-term portion <sup>(2)</sup>		1,979	3,548
<b>Participating Interest</b>		<b>\$ 1,979</b>	<b>\$ 3,548</b>

### OUTSTANDING SHARE DATA

As at November 12, 2015, the Company had 57,634,578 common shares issued and outstanding. In addition, there were 2,701,000 stock options and 3,825,000 warrants outstanding. However, none of the options and warrants are "in the money", all the warrants are exercisable.

### RECENT DEVELOPMENTS

The slowdown in demand for frac sand and the necessary temporary suspension of production has required the Company to implement initiatives to conserve cash. The rail car leases were cancelled and arrangements are being made with other suppliers to bridge the period until sales resume. Funds placed on deposit to support letters of credit to facilitate the railcar leases have been redeemed by the lessor to reduce the Company's payables.

The Company has in excess of 40,000 tons of sand in inventory which could generate cash when sold to bring suppliers debt up-to-date. The Company has eliminated all discretionary costs which should not have a negative impact on its ability to resume production. Staff, salaries, and director fees are being reduced or deferred where possible.

In June the Company announced it had entered into the Amending Agreement whereby the short-term facility and the SPA loan were restructured to create the Amended Loan Facility in the aggregate amount of \$5,150,000.

On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the Amended Loan Facility and approximately \$6.0 million of unsecured Promissory Convertible Notes. On July 30, 2015, the Company announced it had not repaid the principal amounts due under the SPA Loan, and on September 30,

2015, the Company was unable to make any of its quarterly interest payments. Discussions with the holder of the SPA Loan and other potential financing sources to restructure the Company's debt and recapitalize the Company continue with the fourth quarter set as a target for settlement. Without an injection of capital until the demand for frac sand returns to allow the Company to sell its inventory, the Company will not be able to meet its outstanding obligations or any new obligations as they become due.

There can be no assurance that the Company will be able to restructure its debt and/or recapitalize and there is no certainty as to what steps the lenders may take in light of these defaults.

Shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol NI. On August 4, 2015, the Company received a letter from the TSX advising that its eligibility for continued listing on the TSX is under review. Under the TSX's Remedial Review Process, the Company has been granted 60 days from that date to comply with all requirements for continued listing. On October 2, 2015, the Company announced that the TSX's Continued Listing Committee had granted an extension of its delisting review, deferring its delisting decision until no later than December 4, 2015. By that date the Company is required to comply with all requirements for continued listing.

## **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***

On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the SPA Loan and on the Promissory Convertible Notes outlined above, and that it was in discussion with its lenders and other potential financiers to restructure the Company's debt and recapitalize the Company. On July 30, 2015, the Company announced it had not repaid the amounts due, including the principal amount, under the SPA Loan. On September 30, 2015 the Company was unable to make the quarterly interest payments on the SPA Loan and the Promissory Convertible Notes due then. On November 12, 2015, the Company announced it had not repaid \$2,000,000 in principal due under the Promissory Convertible Notes. The Company is continuing with discussions among the holder of the SPA Loan, unsecured creditors and other potential financing sources to restructure the Company's debt and recapitalize the Company. To date, the Company has not received acceptable expressions of interest and has not completed any debt restructuring. Without an injection of capital until the demand for frac sand returns to allow the Company to sell its inventory, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. There can be no assurance that the Company will be able to restructure its debt and/or recapitalize and there is no certainty as to what steps the lenders may take in light of these defaults.

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, has delayed 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 its 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 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, however additional capital will be required. Future phases of the business plan as outlined earlier in this MD&A 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 requirement to repay outstanding principal and interest on existing debt and is actively working on restructuring its obligations. To date, the Company has not finalized any debt restructuring.

### ***Market Perception***

Market perception of junior exploration, development and mining companies and frac sand companies may continue to shift such that companies in these sectors continue to be viewed unfavourably by investors. This could impact the value of investors' holdings and Victory Nickel's ability to raise further funds by issue of additional securities or debt.

### ***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 must be considered in evaluating the impairment of long-lived assets. 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. The price for frac sand sales is subject to market forces beyond the Company's control. Over the past 12 months or more, the impact of such market forces has negatively impacted demand and pricing for frac sand and there can be no assurance that these impacts will not continue in the future.

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

The Company's Common Shares are listed on the TSX. The share prices of publicly-traded companies can be volatile as the price of shares is dependent upon a number of factors, some of which are general or market or sector specific and others that are specific to Nuinsco. On August 4, 2015, the Company received a letter from the TSX advising that its eligibility for continued listing on the TSX is under review. Under the TSX's Remedial Review Process, the Company had been granted 60 days from that date to comply with all requirements for continued listing. On October 2, 2015, the Company announced that the TSX's Continued Listing Committee had granted an extension of its delisting review, deferring its delisting decision until no later than December 4, 2015. By that date the Company is required to comply with all requirements for continued listing. It is the intent of the Company to maintain a public listing for the Company's shares. In addition to working with the TSX during this period, management will evaluate alternative listing options. There can be no assurance that either the Company will be able to achieve compliance with the TSX's listing requirements within the required time frame or will secure an alternative listing.

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 the Company's net assets. The price at which investors may dispose of their securities may be influenced by a number of factors, some of which may pertain to the Company 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 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 in 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; from the Company's Northern White frac sand sourced in the United States which is generally of higher quality than, and sells at higher prices than, Canadian domestically-sourced frac sand; 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.

Frac sand processing represents a relatively new initiative for Victory Nickel. While the Company attempted to mitigate the risks of entering the frac sand market through the hiring of experienced personnel, initial business projections have not yet

been achieved primarily due to circumstances outside of the Company's control, as discussed above. While the 7P Plant continues to operate on an as-needed basis, there can be no assurance when or if full-time operations will resume.

### ***Frac Sand Processing Operations***

The 7P Plant is the Company's only frac sand processing facility. Any adverse development at the 7P Plant or in the end markets the 7P Plant serves, including adverse developments due to catastrophic events or weather, decreased demand for commercial silica products, a decrease in the availability of transportation services or adverse developments affecting the Company's customers, could have a material adverse effect on the Company's financial condition and results of operations. 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, while the Company is confident it has complied with the conditions of the EAL and has filed, with the government of Manitoba, an EAP to amend its EAL providing for the relocation of the Minago project tailings impoundment to an area much more suitable than previously proposed in the FS, there is no guarantee that the EAP will be approved or that an amendment to the EAL will be granted.

The Company's frac sand business has since its inception been reliant upon third parties to supply Northern White feedstock for its 7P Plant. Any difficulties on the part of these suppliers 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 has announced reserves on the Bear Coulee option in Wisconsin. Permitting this property for production is expected to take several 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 frac sand producers. 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 for the maintenance and advancement of its nickel properties through its entry into the frac sand processing business, 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, the Company's development plans and objectives and the ability of the Company to restructure its debt with the relevant lenders and the ability of the Company to pay future interest and other payments in connection with such debts) constitute forward-looking information

The forward-looking information contained in this MD&A 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 current expectations, including, but not limited to, an unwillingness of the Company's lenders to refinance the Company's debts on terms favourable to the Company or at all and the ability of the Company to continue selling frac sand. Additionally, if the Company is unable to restructure its debts, obtain additional financing and/or continue generating revenue through the sale of frac sand, the Company may be required to curtail activities and/or liquidate its assets or the Company's creditors may seek to seize its assets.

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.

**November 12, 2015**