



## **VICTORY NICKEL INC.**

# **UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**

**DATED NOVEMBER 11, 2013**

### **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, 2013 and 2012 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 Canadian dollars)	Notes	September 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 2,052	\$ 256
Receivables and prepaids	7	166	155
Marketable securities	8	244	557
<b>Total current assets</b>		<b>2,462</b>	968
<b>Non-current assets</b>			
Property and equipment	9	2,841	1,424
Mine property and development project	10	38,520	37,897
Exploration and evaluation projects	11	14,814	14,738
<b>Total non-current assets</b>		<b>56,175</b>	54,059
<b>Total Assets</b>		<b>\$ 58,637</b>	\$ 55,027
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	12	\$ 905	\$ 551
Loans and borrowings - current portion	13	725	1,000
<b>Total current liabilities</b>		<b>1,630</b>	1,551
<b>Non-current liabilities</b>			
Loans and borrowings - long-term portion	13	42	8
Lease obligations - long-term portion	14	129	-
Deferred tax liability		2,074	2,473
<b>Total non-current liabilities</b>		<b>2,245</b>	2,481
<b>Total Liabilities</b>		<b>3,875</b>	4,032
<b>Shareholders' equity</b>			
Share capital	15	51,907	47,683
Contributed surplus		5,424	4,397
Accumulated other comprehensive income		1,636	1,855
Deficit		(4,205)	(2,940)
<b>Total shareholders' equity</b>		<b>54,762</b>	50,995
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 58,637</b>	\$ 55,027

### NATURE OF OPERATIONS (Note 1)

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

## Condensed Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<b>Operating expenses</b>					
General and administrative		\$ (238)	\$ (235)	\$ (981)	(1,058)
Share-based payments:	17				
Options		(45)	(19)	(188)	(243)
Share Bonus Plan		(26)	-	(43)	-
Amortization of property and equipment	9	(10)	(4)	(13)	(12)
Recovery of exploration and evaluation project	11	148	450	392	1,450
Victory Silica pre-operating costs	11	(346)	(106)	(503)	(106)
<b>Operating (loss) income</b>		<b>(517)</b>	<b>86</b>	<b>(1,336)</b>	<b>31</b>
Finance income	18	7	-	11	2
Finance costs	18	(76)	(2)	(192)	(6)
<b>Net finance costs</b>		<b>(69)</b>	<b>(2)</b>	<b>(181)</b>	<b>(4)</b>
<b>(Loss) income before income taxes</b>		<b>(586)</b>	<b>84</b>	<b>(1,517)</b>	<b>27</b>
Income tax recovery (expense)		65	(24)	252	(71)
<b>Net (Loss) Income for the Period</b>		<b>\$ (521)</b>	<b>\$ 60</b>	<b>\$ (1,265)</b>	<b>\$ (44)</b>
<b>(Loss) earnings per share</b>					
	16				
Basic (loss) earnings per share		\$ (0.00)	\$ 0.00	\$ (0.00)	(0.00)
Diluted (loss) earnings per share		\$ (0.00)	\$ 0.00	\$ (0.00)	(0.00)

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

## Condensed Consolidated Statements of Comprehensive (Loss) Income

(in thousands of Canadian dollars)	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<b>Net (loss) income for the period</b>	<b>\$ (521)</b>	<b>\$ 60</b>	<b>\$ (1,265)</b>	<b>\$ (44)</b>
<b>Other comprehensive loss ("OCI")</b>				
Net change in fair value of financial assets	(19)	(63)	(254)	(599)
Income tax recovery	3	9	35	86
<b>Other comprehensive loss for the period</b>	<b>(16)</b>	<b>(54)</b>	<b>(219)</b>	<b>(513)</b>
<b>Total Comprehensive (Loss) Income for the Period</b>	<b>\$ (537)</b>	<b>\$ 6</b>	<b>\$ (1,484)</b>	<b>\$ (557)</b>

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

## Condensed Consolidated Statements of Shareholders' Equity

(unaudited) (in thousands of Canadian dollars)		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income / (Loss)	Deficit	Total Equity
<b>Balances as at January 1, 2012</b>	<b>Notes</b>	\$ 47,631	\$ 4,134	\$ 2,422	\$ (2,757)	\$ 51,430
<b>Total comprehensive loss for the period</b>						
Net loss for the period					(44)	(44)
<b>Other comprehensive loss</b>						
Net change in fair value of financial assets				(599)		(599)
Income tax expense				86		86
<b>Total other comprehensive loss</b>						(513)
<b>Total comprehensive loss for the period</b>						(557)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the period</b>						
Options granted and vesting		-	243	-	-	243
<b>Total contributions by owners</b>						243
<b>Total transactions with owners</b>						243
<b>Balances as at September 30, 2012</b>		\$ 47,631	\$ 4,377	\$ 1,909	\$ (2,801)	\$ 51,116
<b>Balances as at January 1, 2013</b>		\$ 47,683	\$ 4,397	\$ 1,855	\$ (2,940)	\$ 50,995
<b>Total comprehensive loss for the period</b>						
Net loss for the period					(1,265)	(1,265)
<b>Other comprehensive loss</b>						
Net change in fair value of financial assets				(254)		(254)
Income tax recovery				35		35
<b>Total other comprehensive loss</b>						(219)
<b>Total comprehensive loss for the period</b>						(1,484)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the period</b>						
Issue of common shares for settlement of liabilities, net	15	115	-	-	-	115
Issue of common shares under private placement, net	15	2,200	-	-	-	2,200
Issue of common shares for loan fee	15	271	-	-	-	271
Issue of common shares and warrants under private placement, net	15	179	106	-	-	285
Issue of common shares and warrants under rights offering, net	15	1,393	733	-	-	2,126
Issue of common shares under Share Bonus Plan	15	66	-	-	-	66
Options vesting	17	-	188	-	-	188
<b>Total contributions by owners</b>						5,251
<b>Total transactions with owners</b>						5,251
<b>Balances as at September 30, 2013</b>		\$ 51,907	\$ 5,424	\$ 1,636	\$ (4,205)	\$ 54,762

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

## Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Notes	Nine months ended September 30,	
		2013 (unaudited)	2012 (unaudited)
<b>Cash flows from operating activities</b>			
Net loss for the period		\$ (1,265)	\$ (44)
Adjustments for:			
Share-based payments	17	231	243
Amortization of property and equipment	9	13	12
Recovery of exploration and evaluation project	11	(392)	(1,450)
Net finance costs	18	90	3
Income tax (recovery) expense		(252)	71
Net change in working capital:			
Change in receivables		(67)	19
Change in trade and other payables		511	176
<b>Net cash used by operating activities</b>		<b>(1,131)</b>	<b>(970)</b>
<b>Cash flows from investing activities</b>			
Expenditures on mine property and development project	10	(733)	(1,621)
Expenditures on exploration and evaluation projects	11	(81)	(144)
Proceeds on sale of marketable securities		59	1,103
Proceeds from option of Lynn Lake	11	400	1,450
Deposits on equipment	9	(152)	(200)
Lease payments	14	(13)	-
Expenditures on 7P Plant	9	(1,088)	-
Net sale of furniture and equipment		48	-
<b>Net cash (used by) from investing activities</b>		<b>(1,560)</b>	<b>588</b>
<b>Cash flows from financing activities</b>			
Issue of common shares and warrants	15	4,496	-
Payment of interest accrued in prior year	13	(9)	-
<b>Net cash from financing activities</b>		<b>4,487</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,796</b>	<b>(382)</b>
Cash and Cash Equivalents, Beginning of the Period		256	517
<b>Cash and Cash Equivalents, End of the Period</b>		<b>\$ 2,052</b>	<b>\$ 135</b>

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

## Notes to the Condensed Consolidated Financial Statements

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

### NATURE OF OPERATIONS

#### 1. 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 three and nine months ended September 30, 2013 and 2012 comprise the Company and its 100%-owned subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel is primarily engaged in the acquisition, exploration and development of nickel properties and associated products in Canada and is preparing to enter the oilfield services market via the sale of frac sand through VSL. 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.

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, 2013, the Company had working capital of \$832,000 (December 31, 2012 – working capital deficiency of \$583,000). Working capital is defined as current assets less current liabilities. The Company completed a rights offering on July 30, 2013 generating net proceeds of \$2,025,000 and entered into a private placement generating net proceeds of \$279,000 as described in Note 15. The Company has additional initiatives underway to improve working capital; on November 5, 2013, the Company announced it had issued a US\$2,000,000 convertible note (Note 23).

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals 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 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 projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. Plans to enter the frac sand business and generate cash flow are significantly advanced with a view to production in early 2014. 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 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.

Should the Company not be able to continue to achieve favourable exploration results, obtain the necessary financing, achieve profitable operations on the frac sand business 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.

### 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 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, 2012 and 2011 ("2012 Audited Consolidated 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.

## Notes to the Condensed Consolidated Financial Statements

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

The management of Victory Nickel prepares the unaudited condensed consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on November 11, 2013 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**

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

### **(d) Use of Estimates and Judgements**

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

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected. The accompanying 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 8 - valuation of financial assets at fair value through operations and OCI;
- Note 10 - measurement of the recoverable amount of mine property and development project;
- Note 11 - measurement of the recoverable amount of exploration and evaluation projects;
- Note 13 - valuation of the convertibility feature of the loan; and
- Note 17 - 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 10 - classification of expenditures as mine property and development project or operating expenses;
- Note 11 - classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 10 - impairment of mine property and development project;
- Note 11 - impairment of exploration and evaluation projects; and
- Note 13 – recognition of the convertibility feature of the loan.

## Notes to the Condensed Consolidated Financial Statements

(all tabular amounts in thousands of Canadian 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 2012 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.

#### (b) New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2012 Audited Consolidated Financial Statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company.

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

#### Overview

The Company has exposure to credit risk, liquidity risk, market risk and operational risk from its use of financial instruments. A complete description of the Company's financial risk management and capital management is included in Note 4 to the 2012 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 consolidated financial statements.

#### 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.

	September 30, 2013	December 31, 2012
Shareholders' equity	\$ 54,762	\$ 50,995
Loans and borrowings - long-term portion	42	8
Lease obligations - long-term portion	129	-
Loans and borrowings - available	500	-
	<b>\$ 55,433</b>	<b>\$ 51,003</b>

Neither the Company, nor its subsidiary, are subject to externally-imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

### 5. DETERMINATION OF FAIR VALUES

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 2012 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.

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

#### (a) Property and Equipment

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

#### (b) Intangible Assets

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



## Notes to the Condensed Consolidated Financial Statements

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

### (c) Marketable Securities

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

### Fair value hierarchy

The different levels of valuation are defined as follows:

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

### (d) Receivables

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

### (e) Warrants

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

### (f) Non-derivative Financial Liabilities

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

### (g) Share-based Payment Transactions

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

## 6. CASH AND CASH EQUIVALENTS

	September 30, 2013	December 31, 2012
Bank balances	\$ 2,052	\$ 256
<b>Cash and Cash Equivalents in the Statement of Cash Flows</b>	<b>\$ 2,052</b>	<b>\$ 256</b>

## 7. RECEIVABLES AND PREPAIDS

	Note	September 30, 2013	December 31, 2012
Receivables		\$ 127	\$ 68
Prepaid expenses and deposits		39	50
Due from Nuinsco Resources Limited	20	-	37
		<b>\$ 166</b>	<b>\$ 155</b>

## Notes to the Condensed Consolidated Financial Statements

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

### 8. MARKETABLE SECURITIES

	September 30, 2013	December 31, 2012
Financial assets at fair value through OCI:		
Shares	\$ 244	\$ 557
Financial assets at fair value through operations:		
Warrants	-	-
	<b>\$ 244</b>	<b>\$ 557</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.

The financial assets at fair value through operations consisted of warrants which were not publicly-traded. However, they are susceptible to valuation using the Black-Scholes option-pricing model, the inputs for which are readily determinable. Any change in fair value after initial recognition is recorded through the consolidated statement of operations as a gain or loss on financial assets at fair value in *Finance income* or *Finance costs* (Note 18). The warrants expired unexercised on April 21, 2013.

### 9. PROPERTY AND EQUIPMENT

	Land and Building	7P Plant	Vehicles	Equipment and Furniture	Total
<b>Balance as at January 1, 2012</b>					
Cost	\$ 83	\$ -	\$ 32	\$ 1,211	\$ 1,326
Accumulated Amortization	(6)	-	(11)	(32)	(49)
<b>Carrying Amount</b>	<b>77</b>	<b>-</b>	<b>21</b>	<b>1,179</b>	<b>1,277</b>
Additions	-	-	-	200	200
Disposals - cost	-	-	-	(52)	(52)
Disposals - accumulated amortization	-	-	-	(17)	(17)
Amortization	(2)	-	(6)	(10)	(18)
<b>Balance as at December 31, 2012</b>					
Cost	83	-	32	1,359	1,474
Accumulated Amortization	(8)	-	(17)	(25)	(50)
<b>Carrying Amount</b>	<b>75</b>	<b>-</b>	<b>15</b>	<b>1,334</b>	<b>1,424</b>
Additions	-	1,088	182	160	1,430
Amortization	(2)	-	(9)	(2)	(13)
<b>Balance as at September 30, 2013</b>					
Cost	83	1,088	214	1,519	2,904
Accumulated Amortization	(10)	-	(26)	(27)	(63)
<b>Carrying Amount</b>	<b>\$ 73</b>	<b>\$ 1,088</b>	<b>\$ 188</b>	<b>\$ 1,492</b>	<b>\$ 2,841</b>

7P Plant includes capital expenditures relating to the Seven Persons frac sand plant (the "7P Plant"); such expenditures include acquisition costs and plant improvement costs. The 7P Plant is in the process of being commissioned, is not available for use and is not being depreciated. Mobile equipment used in preparation of the plant is included in Vehicles and is being depreciated.

Equipment and furniture includes payments of \$1,485,000 related to the purchase of transformers and other electrical equipment; the equipment is not available for use and is not being depreciated; payments of \$100,000 were made in the second quarter of 2013 with an additional \$52,000 in the third quarter of 2013. On May 10, 2010, the Company entered into an agreement to purchase the equipment for the Minago project. The total price is US\$2,840,000 (Note 22).

## Notes to the Condensed Consolidated Financial Statements

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

### 10. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2013	Current Expenditures	Recoveries	September 30, 2013
Minago	\$ 37,897	\$ 695	\$ (72)	\$ 38,520
	\$ 37,897	\$ 695	\$ (72)	\$ 38,520

  

	January 1, 2012	Current Expenditures	Recoveries	September 30, 2012
Minago	\$ 35,571	\$ 2,342	\$ (50)	\$ 37,863
	\$ 35,571	\$ 2,342	\$ (50)	\$ 37,863

Recoveries of \$72,000 (2012 - \$50,000) represent grants from the Manitoba Government.

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

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

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

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

### 11. EXPLORATION AND EVALUATION PROJECTS

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

	January 1, 2013	Current Expenditures	Recoveries	Excess Proceeds	September 30, 2013
Lac Rocher	\$ 7,317	\$ 35	\$ -	\$ -	\$ 7,352
Mel	7,421	37	-	-	7,458
Lynn Lake	-	8	(400)	392	-
Other	-	4	-	-	4
	\$ 14,738	\$ 84	\$ (400)	\$ 392	\$ 14,814

  

	January 1, 2012	Current Expenditures	Recoveries	Excess Proceeds	September 30, 2012
Lac Rocher	\$ 7,254	\$ 44	\$ -	\$ -	\$ 7,298
Mel	7,323	87	-	-	7,410
Lynn Lake	-	-	(1,450)	1,450	-
	\$ 14,577	\$ 131	\$ (1,450)	\$ 1,450	\$ 14,708

## Notes to the Condensed Consolidated Financial Statements

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

The expenditures on the Lynn Lake property are shown net of cumulative option payments received; these include \$150,000 in September 2013 and \$125,000 in each of May and March 2013; \$1,000,000 in February 2012 and \$450,000 in August 2012. The excess proceeds of \$392,000 and \$1,450,000 for the nine months ended September 30, 2013 and 2012, respectively, represent the excess of consideration received under the option agreement above carrying value and are reflected in *Recovery of exploration and evaluation project* through operations.

### Lac Rocher

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

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

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

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

### Mel

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

Also under the Agreement, Vale has a contractual obligation to mill ore mined from the Mel deposit at its cash cost plus 5% (provided that the product meets Vale specifications and that Vale has sufficient mill capacity).

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 on 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 2012 or in 2013 to date.

## Notes to the Condensed Consolidated Financial Statements

(all tabular amounts in thousands of Canadian 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. The Lynn Lake property is subject to an option agreement with Prophecy Platinum Corp. ("Prophecy Platinum"). The Company received \$1,000,000 in February 2012; on August 8, 2012, the Company received \$450,000 from Prophecy Platinum in consideration for removal of the remaining exploration expenditure condition from the Lynn Lake option agreement and has received all payments scheduled under the option agreement to December 31, 2012. Accordingly, under the original agreement, the sole remaining condition for the Lynn Lake property to transfer to Prophecy Platinum was the \$1,000,000 option payment which was originally due from Prophecy Platinum by March 1, 2013.

On March 1, 2013, the Company agreed to an additional amendment to the option agreement which allows Prophecy Platinum to make a series of payments through 2013 and 2014 aggregating \$1,125,000 in satisfaction of the remaining option conditions. On March 1, 2013, the Company received the first payment of \$125,000, \$125,000 was received in May 2013 and \$150,000 in September 2013; \$175,000 remains due by the end of 2013 with an additional \$550,000 being payable by August 29, 2014. Upon receipt of the final option payment in 2014, the Company will transfer ownership of Lynn Lake to Prophecy Platinum.

Failure on the part of Prophecy Platinum (if not cured by Prophecy Coal Corp.; the option agreement was assigned by them to Prophecy Platinum with the Company's consent) to meet any of the terms will result in cancellation of the option on the property and it will revert to the Company.

### Victory Silica

On June 19, 2012, the Company announced a new initiative through the creation of Victory Silica and the hiring of Ken Murdock as the CEO. The objective is to establish VSL as a supplier of premium frac sand prior to commencing frac sand production from the Minago project. Presently, VSL is in the pre-operation phase and costs have been expensed through operations as *Victory Silica pre-operating costs*. Capital equipment being used to prepare the 7P Plant has been capitalized and is being amortized; other capital is not in use and is not being amortized.

### Impairment and Pre-exploration Costs

There were no writedowns of projects or pre-exploration costs recorded in the three and nine months ended September 30, 2013 or 2012.

## 12. TRADE AND OTHER PAYABLES

	<i>Notes</i>	September 30, 2013	December 31, 2012
Trade payables			
Mine property and development project		\$ 73	\$ 293
Exploration and evaluation projects		5	3
Non-project related		535	84
Accrued liabilities			
Mine property and development project		72	2
Exploration and evaluation projects		2	1
Non-project related		93	160
Lease obligations - current portion	14	40	8
Due to Nuinsco Resources Limited			
Under the Management Agreement	20	76	-
Commitment fees	13	9	-
		<b>\$ 905</b>	<b>\$ 551</b>

Non-project related trade payables include \$263,000 of capital equipment purchases, \$205,000 of pre-operating costs; non-project related accrued liabilities include \$21,000 of capital equipment purchases, \$25,000 of pre-operating costs and lease obligations – current portion includes \$33,000 all related to Victory Silica.

## Notes to the Condensed Consolidated Financial Statements

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### 13. LOANS AND BORROWINGS

	Note	September 30, 2013	December 31, 2012
Advance for working capital		\$ 1,000	\$ 1,000
Advance under Amended Loan for standby commitment		1,207	-
Aggregate advances		2,207	1,000
Accrued interest payable		-	9
		2,207	1,009
Less: settled in Units of Victory Nickel	15	(1,207)	-
Less: unamortized loan fees		(233)	(1)
		767	1,008
Less: loans and borrowings - current portion		(725)	(1,000)
<b>Loans and borrowings - long-term portion</b>		<b>\$ 42</b>	<b>\$ 8</b>

In 2012, the Company entered into a loan agreement for \$1,000,000 with Nuinsco (the "Lender"). The loan was amended and restated on March 25, 2013 (the "Amended Loan") to up to \$3,000,000 with the additional amount being available to fund capital expenditures relating to the 7P Plant. The Amended Loan bears interest at 12% per annum and matures on January 31, 2015; the loan is secured by equipment and a general security agreement over the assets of the Company. At the option of the Lender, and under certain circumstances, the Lender can elect to receive prepayment of the loan from up to \$1,000,000 of the proceeds of the Lynn Lake option payments originally due by March 1, 2013. Accordingly, \$725,000 of the loan has been classified as a current liability due within one year since this matches the Lynn Lake option payments which are available to be diverted to the Lender at their option under the Amended Loan.

Prior to June 1, 2014, the Lender has 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 is capped at \$10,000,000, with a minimum of \$7,500,000, and is subject to adjustment under certain circumstances. On Conversion, the Amended Loan would be considered paid in full. The Lender had also agreed to backstop an equity issue, if any was announced, with cash or by converting a portion of the Amended Loan into shares, at the Lender's option to an amount up to \$1,500,000 under certain circumstances. On June 14, 2013, the Company announced a rights offering for existing shareholders to raise gross proceeds of up to approximately \$2,700,000 (see Note 15). The rights offering closed on July 30, 2013 and raised gross proceeds of \$2,400,000 which included the backstop provided by the Lender in cash of \$1,207,584. This has capped the Amended Loan at \$2,707,584 and reduced the amount available to be drawn down to \$500,000. Upon exercise of the backstop, Nuinsco increased its shareholding in the Company to approximately 12.24%, thereby becoming a related party of the Company.

The Company was to pay, with shares, an arrangement fee of up to \$300,000 plus a commitment fee of 1.5% per annum on unutilized balances. Commitment fees of \$3,000 and \$9,000 for the three and nine months ended September 30, 2013 have been accrued and are included in *Finance costs* in Note 18; shares will be issued upon the final advance under the loan terms. Effective March 2013, the Company issued 5,681,818 shares in satisfaction of the arrangement fee at that time of \$250,000; an additional 789,294 shares with a stated value of \$20,758 were issued in August 2013 under the loan terms related to the backstop of the rights offering; this satisfies the arrangement fee in full. These amounts, along with other loan fees, are being amortized as interest expense using the effective interest rate method; in the three and nine months ended September 30, 2013, \$43,000 and \$90,000 were amortized as interest expense and \$30,000 and \$99,000 interest was paid to the Lender in the respective periods. The payment in the first quarter included \$9,000 which was accrued in 2012.

## Notes to the Condensed Consolidated Financial Statements

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

### 14. LEASE OBLIGATIONS

	Note	September 30, 2013
Vehicles:		
Total present value of minimum lease payments		\$ 182
Principal payments		(13)
		169
Lease obligations - current portion	12	(40)
<b>Lease obligations - long-term</b>		<b>\$ 129</b>

The Company has finance lease obligations for equipment in use at the 7P Plant. The future minimum lease payments are as follows:

	September 30, 2013
Less than 1 year	\$ 50
Between 1 and 5 years	142
<b>Total minimum lease payments payable</b>	<b>\$ 192</b>

### 15. CAPITAL AND OTHER COMPONENTS OF EQUITY

#### Share Capital

##### Authorized

The Company is authorized to issue an unlimited number of common shares.

##### Number of shares issued and outstanding

The issued and outstanding common shares for the nine months ended September 30, 2013 are as follows:

	Notes	Number of Shares	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Income Taxes	Flow-Through Premium	Finder's Unit Warrants	Other Warrants and Options	Share Capital
<b>Balance as at January 1, 2013</b>		<b>397,347,042</b>								<b>\$ 47,683</b>
Issue of common shares for liabilities	(a)	4,720,000	\$ -	\$ 118	\$ (5)	\$ 2	\$ -	\$ -	\$ -	115
Issue of common shares for cash	(b)	44,178,500	2,209	-	(12)	3	-	-	-	2,200
Issue of common shares for loan fee	(c)	5,681,818	-	250	-	-	-	-	-	250
Issue of shares under Share Bonus Plan	(d)	367,500	-	17	-	-	-	-	-	17
Issue of shares under Share Bonus Plan	(e)	1,180,000	-	41	-	-	-	-	-	41
Issue of common shares and warrants under rights offering	(f)	100,000,000	2,400	-	(375)	101	-	-	(733)	1,393
Issue of common shares for loan fee	(g)	789,294	-	21	-	-	-	-	-	21
Issue of shares under Share Bonus Plan	(h)	266,666	-	8	-	-	-	-	-	8
Issue of common shares and warrants under private placement	(i)	12,500,000	300	-	(21)	6	-	-	(106)	179
<b>Balance as at September 30, 2013</b>		<b>567,030,820</b>	<b>\$ 4,909</b>	<b>\$ 455</b>	<b>\$ (413)</b>	<b>\$ 112</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (839)</b>	<b>\$ 51,907</b>

- (a) In January 2013, the Company issued 4,720,000 shares to satisfy \$118,000 in accounts payable owing to a vendor for settlement of outstanding amounts owed by the Company.
- (b) In March 2013, the Company entered into a private placement with a key investor and issued 44,178,500 shares at \$0.05 per share generating gross proceeds of approximately \$2,209,000.
- (c) Effective March 2013, the Company issued 5,681,818 shares to satisfy \$250,000 of the arrangement fee then outstanding on the Amended Loan.
- (d) In April 2013, the Company issued 367,500 shares under the Share Bonus Plan to an employee.
- (e) In July 2013, the Company issued 1,180,000 shares under the Share Bonus Plan to senior officers of the Company.
- (f) On June 14, 2013, the Company announced the terms of a rights offering to existing shareholders to raise gross proceeds of up to approximately \$2,700,000. The offering closed on July 30, 2013 and raised gross proceeds of \$2,400,000 (excluding any potential proceeds from the exercise of the warrants). Accordingly, the

## Notes to the Condensed Consolidated Financial Statements

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

Company issued 100,000,000 shares and 100,000,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of \$0.035 during the 12-month period beginning July 31, 2014.

- (g) In August 2013, the Company issued 789,294 shares with a stated value of \$20,758 for the arrangement fee under the terms related to the backstop of the rights offering (Note 13).
- (h) In September 2013, the Company issued 266,666 shares under the Share Bonus Plan to an officer and employee of the Company.
- (i) In September 2013, the Company entered into a private placement and issued 12,500,000 shares and 12,500,000 share purchase warrants at \$0.024 per share generating gross proceeds of \$300,000. Each warrant entitles the holder to purchase one common share at a price of \$0.035 for two years from issue date.

### 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 2012 Audited Consolidated Financial Statements.

### Shareholder Rights Plan

The Company has a Shareholder Rights Plan which is described fully in the Company's 2012 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.

## 16. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share ("EPS") for the three and nine months ended September 30, 2013 and 2012 was based on the information in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Balance as at beginning of period</b>	<b>453,475,000</b>	395,807,000	<b>397,347,000</b>	395,807,000
Effect of shares issued to settle liabilities	-	-	<b>4,444,000</b>	-
Effect of shares issued for private placements	<b>1,630,000</b>	-	<b>31,666,000</b>	-
Effect of shares issued for loan fees	<b>541,000</b>	-	<b>4,121,000</b>	-
Effect of shares issued under rights offering	<b>68,478,000</b>	-	<b>22,993,000</b>	-
Effect of shares issued under Share Bonus Plan	<b>46,000</b>	-	<b>672,000</b>	-
<b>Weighted average number of common shares as at end of period - Basic</b>	<b>524,170,000</b>	395,807,000	<b>461,243,000</b>	395,807,000
Effect of options granted and outstanding	<b>100,000</b>	-	<b>497,000</b>	29,000
Effect of warrants issued and outstanding	-	-	-	-
<b>Weighted average number of common shares as at end of period - Diluted</b>	<b>524,270,000</b>	395,807,000	<b>461,740,000</b>	395,836,000
Number of options excluded	<b>31,566,000</b>	29,751,500	<b>31,169,000</b>	29,722,500
Number of warrants excluded	<b>112,500,000</b>	4,804,786	<b>112,500,000</b>	4,804,786
<b>Net (loss) income attributable to shareholders</b>	<b>\$ (521)</b>	\$ 60	<b>\$ (1,265)</b>	\$ (44)
<b>Basic (loss) earnings per share</b>	<b>\$ (0.00)</b>	\$ 0.00	<b>\$ (0.00)</b>	\$ (0.00)
<b>Diluted (loss) earnings per share</b>	<b>\$ (0.00)</b>	\$ 0.00	<b>\$ (0.00)</b>	\$ (0.00)



## Notes to the Condensed Consolidated Financial Statements

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

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.

### 17. SHARE-BASED PAYMENTS

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

The Company's share-based payment arrangements are described in Note 18 to the Company's 2012 Audited Consolidated Financial Statements.

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

As at September 30, 2013, the Company had 53,388,000 common shares available for the granting of future options (December 31, 2012 – 30,951,000 common shares). 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 100,000,000 warrants. The Company also issued 12,500,000 warrants pursuant to a private placement on September 19, 2013. The Company does not have any cash-settled transactions.

#### Share Bonus Plan

The terms of the Share Bonus Plan are set out in Note 16 to the Company's 2012 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 18 to the Company's 2012 Audited Consolidated Financial Statements. The Company's share purchase warrants issued with the rights offering are exercisable on July 31, 2014 and expire on July 31, 2015. The Company's share purchase warrants issued pursuant to the private placement are exercisable on issue and expire on September 19, 2015.

#### Disclosure of Share-based Payment Arrangements

##### Stock Option Plan

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

As at and for the periods ended	Number of options		Weighted average exercise price	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
<b>Outstanding as at beginning of period</b>	<b>28,651,500</b>	27,074,736	\$ 0.13	\$ 0.28
Granted	8,920,000	8,050,000	\$ 0.03	\$ 0.05
Expired	(5,905,250)	(6,473,236)	\$ 0.31	\$ 0.65
<b>Outstanding as at end of period</b>	<b>31,666,250</b>	28,651,500	\$ 0.08	\$ 0.13
<b>Exercisable as at end of period</b>	<b>29,006,250</b>	26,426,500	\$ 0.08	\$ 0.15

There were no options exercised during 2013 or 2012.

## Notes to the Condensed Consolidated Financial Statements

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

As at	Number of options outstanding		Weighted average remaining contractual life (years)	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
<b>Range of exercise prices</b>				
\$0.025 to \$0.05	20,635,000	12,315,000	3.48	3.31
\$0.06 to \$0.14	4,247,500	5,322,500	2.59	2.86
\$0.15 to \$0.16	5,190,000	5,490,000	1.26	2.01
\$0.17 to \$0.25	1,593,750	1,593,750	0.32	1.07
\$0.26 to \$0.32	-	2,956,250	-	0.34
\$0.33 to \$0.50	-	974,000	-	0.40
	<b>31,666,250</b>	<b>28,651,500</b>	<b>2.84</b>	<b>2.45</b>

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Number of options granted during the period	1,100,000	-	8,920,000	8,050,000
	<b>\$0.025 and</b>		<b>\$0.025 and</b>	
Weighted average fair value of options granted at grant date	\$0.03	n/a	\$0.03	\$ 0.035
Number of options subject to vesting as at end of period	2,660,000	2,225,000	2,660,000	2,225,000
Share-based payment expense - vesting options	\$ 24	\$ 19	\$ 167	\$ 243
Share-based payment expense - extended options	\$ 21	\$ -	\$ 21	\$ -
Unvested options not yet charged to operations	\$ 39	\$ 58	\$ 39	\$ 58

### Share purchase warrants

There were no warrants outstanding as at December 31, 2012; all warrants were issued during the three months ended September 30, 2013.

As at and for the periods ended	Date Issued	Life	Number of warrants		Weighted average exercise price		
			September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	
<b>Issued pursuant to rights offering</b>							
Unit warrants	July 30, 2013	12 <sup>(a)</sup>	100,000,000	-	\$ 0.035	\$ -	-
<b>Issued pursuant to private placements</b>							
Unit warrants	September 19, 2013	24	12,500,000	-	\$ 0.035	\$ -	-
Unit warrants Expired	January 10, 2011	12		2,500,000 (2,500,000)	\$	0.140	
Unit warrants Expired	May 25, 2011	18		4,347,826 (4,347,826)	\$	0.150	
Finder's warrants Expired	May 25, 2011	18		456,960 (456,960)	\$	0.150	
<b>Outstanding as at end of period</b>			<b>112,500,000</b>	<b>-</b>	<b>\$ 0.035</b>	<b>\$</b>	<b>0.147</b>

(a) The warrants issued pursuant to the rights offering become exercisable one year from issue.

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

The grant-date fair values of share-based payments are measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. There were 1,100,000 and 8,920,000 options granted during the three and nine months ended September 30, 2013 and 112,500,000 warrants issued during the three months ended September 30, 2013.

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The inputs used in the measurement of the fair values at grant date of the share-based payments granted, modified or issued during 2013 are as follows:

	Options		Warrants	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Fair values at grant dates	\$0.016 and \$0.019	\$ 0.035	\$0.011 and \$0.019	n/a
Fair values of options modified	\$0.004 to \$0.023	n/a	n/a	n/a
Share prices at grant and modification dates	\$0.025 and \$0.03	\$ 0.050	\$ 0.024	n/a
<b>Assumptions</b>				
Exercise prices	\$0.025 to \$0.16	\$ 0.050	\$ 0.035	n/a
Expected volatilities	88% to 111%	104%	101% and 103%	n/a
Life (years)	0.5 to 4	4	2	n/a
Expected dividends	-	-	-	n/a
Risk-free interest rates	0.78% to 1.62%	1.18%	1.15% and 1.22%	n/a

### 18. FINANCE INCOME AND FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income on bank deposits	\$ 6	\$ -	\$ 11	\$ 2
Net foreign exchange gain	1	-	-	-
<b>Finance income</b>	<b>7</b>	<b>-</b>	<b>11</b>	<b>2</b>
Interest expense on loan	73	-	180	-
Commitment fee	3	-	9	-
Net change in fair value of financial assets at fair value through operations	-	2	-	3
Net foreign exchange loss	-	-	3	3
<b>Finance costs</b>	<b>76</b>	<b>2</b>	<b>192</b>	<b>6</b>
<b>Net Finance Costs</b>	<b>\$ (69)</b>	<b>\$ (2)</b>	<b>\$ (181)</b>	<b>\$ (4)</b>

### 19. OPERATING SEGMENT

#### Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company does not have formal operating segments and does not yet have operating revenues, products, processes or customers. The corporate office operates to support the Company's projects, including pre-operating projects, and receives administrative support from Nuinsco (Note 20) to do so. The projects are all located in Canada. Senior management makes decisions by considering exploration potential and results on a project basis. Any applicable amounts relating to projects are capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

## Notes to the Condensed Consolidated Financial Statements

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### Geographic Information

	September 30, 2013	December 31, 2012
<b>Canada</b>		
Corporate	\$ 5,306	\$ 2,392
Minago	38,521	37,897
Lac Rocher	7,352	7,317
Mel	7,458	7,421
<b>Total Assets</b>	<b>\$ 58,637</b>	<b>\$ 55,027</b>

Revenues in each period are wholly attributable to the corporate office. There have been no changes in the reportable segment or the treatment of segmented assets and revenues period over period. Upon commencement of production, Victory Silica will become a reportable segment.

### 20. RELATED PARTIES AND MANAGEMENT AGREEMENT WITH NUINSCO RESOURCES LIMITED

#### Related Party Balances and Transactions for Services

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 15 and 17).

Balances and transactions with related parties for services as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

	September 30, 2013	December 31, 2012
<b>Balances Outstanding</b>		
Payable to key management personnel	\$ 36	\$ 157

Key management personnel compensation comprises:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Short-term employee benefits	\$ 180	\$ 198	\$ 682	\$ 630
Share-based payments - options	6	-	124	217
Share-based payments - Share Bonus Plan	49	-	66	-
	<b>\$ 235</b>	<b>\$ 198</b>	<b>\$ 872</b>	<b>\$ 847</b>

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

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement; management operates under the supervision of the respective board of directors of each respective company; there is only one common director, Mr René Galipeau. As described in Note 13, Nuinsco became a related party of the Company effective July 30, 2013. The costs charged by Nuinsco are recorded at the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by the Company upon 180 days' notice and by Nuinsco upon 90 days' notice.

## Notes to the Condensed Consolidated Financial Statements

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

Balances and transactions with Nuinsco under the management agreement as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

	September 30, 2013		December 31, 2012	
<b>Balances Outstanding under the Management Agreement</b>				
Payable to Nuinsco Resources Limited	\$	76	\$	-
Receivable from Nuinsco Resources Limited	\$	-	\$	37
	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Transaction Values under the Management Agreement</b>				
Overhead charges from Nuinsco Resources Limited	\$	204	\$	130
Overhead charges to Nuinsco Resources Limited	\$	2	\$	6
Project costs charged to Nuinsco Resources Limited	\$	8	\$	2
Project recoveries charged by Nuinsco Resources Limited	\$	11	\$	11
	\$	517	\$	501
	\$	17	\$	21
	\$	30	\$	18
	\$	14	\$	30

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, deferred salaries 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 13.

## 21. COMPANY ENTITY

### Significant Subsidiary

	September 30, 2013		December 31, 2012	
	<b>Country of Incorporation</b>			
<b>Ownership Interest</b>				
Victory Silica Ltd.	Canada	100%		100%

On June 19, 2012, the Company announced the creation of Victory Silica. While the balances and transactions were previously minimal, the Company's activity has significantly increased during the third quarter of 2013. The Company's condensed consolidated financial statements include the following items that represent the Company's interest in the significant assets, liabilities and expenses of Victory Silica:

As at and for the periods ended	Notes	September 30, 2013		December 31, 2012	
<b>Victory Silica Ltd.</b>					
Current assets		\$	223	\$	-
Property and equipment	9	\$	910	\$	-
Current liabilities		\$	547	\$	-
Long-term lease obligation	14	\$	108	\$	-
Pre-operating costs		\$	503	\$	159

## Notes to the Condensed Consolidated Financial Statements

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

### **22. COMMITMENT**

#### **Transformer Equipment**

On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price is US\$2,840,000. The Company has made aggregate deposits of \$1,485,000 as at September 30, 2013.

### **23. SUBSEQUENT EVENT**

On November 11, 2013, the Company issued an unsecured convertible promissory note for US\$2,000,000 (the "Convertible Note"). The Convertible Note has a term of two years, bears interest at 14.8% calculated on a monthly basis and settled quarterly and may be converted in whole or in part, at any time, at the option of the holder into Victory Nickel shares at a conversion price of \$0.10 per share.



**VICTORY NICKEL INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2013**

**DATED NOVEMBER 11, 2013**

## **VICTORY NICKEL INC.**

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

#### **For the Three and Nine Months ended September 30, 2013**

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of November 11, 2013 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, 2013, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2013 and 2012 ("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 years ended December 31, 2012 and 2011 ("2012 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 2012 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 Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

#### **COMPANY OVERVIEW**

Victory Nickel is a Canadian exploration and development mineral resource company and is primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada.

Formed on February 1, 2007, Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (under option with Prophecy Coal Corp. ("Prophecy Coal" – formerly Prophecy Resource Corp.) and as transferred to Prophecy Platinum Corp. ("Prophecy Platinum") as described below) and Mel projects in Manitoba and the Lac Rocher project in Québec. The results of a feasibility study on the Minago Project ("FS") were announced in December 2009, the Environmental Impact Study ("EIS") was filed in May 2010 with subsequent improvements to the project announced in June 2010 and July 2011. Receipt of the Environmental Act Licence ("EAL") was announced in August 2011. A preliminary economic assessment of Lac Rocher ("PEA") was announced in November 2008 indicating that a nickel price in excess of US\$10 per pound is necessary to make the project economic, absent other changes. At the Mel project, now 100%-owned, ongoing updating of data is being conducted; when completed, additional modelling of the resource will be continued.

A significant product of the Minago project is frac sand. Frac sand is a silica sand meeting certain specifications and is used in drilling for oil and gas. On June 19, 2012, the Company announced the creation of Victory Silica Ltd. ("VSL" or "Victory Silica") a wholly-owned subsidiary that has been established to enter the frac sand distribution and sales market. VSL expects to establish itself as a frac sand provider by acquiring concentrated sand and processing it into finished frac sand product, for sale initially in the Alberta, Saskatchewan, Manitoba and North Dakota markets. If successful, this strategy is expected to generate significant cash flow for Victory Nickel and establish the Company as a supplier in the frac sand market in preparation for development and sale of frac sand from its Minago project. Victory Silica is in the process of preparing and upgrading a site at Seven Persons near Medicine Hat, Alberta (the "7P Plant") from a sand recycling facility to a frac sand plant.

On October 21, 2009, the Company announced that it had optioned its Lynn Lake property ("Lynn Lake") to Prophecy Coal. In 2011, the agreement, with the consent of Victory Nickel, was assigned to Prophecy Platinum pursuant to a corporate transaction between Prophecy Coal and Prophecy Platinum. The sole remaining term of the original agreement wherein Prophecy Platinum can acquire a 100% interest in Lynn Lake was the payment of \$1,000,000 due on or before March 1, 2013.

On March 1, 2013, the Company agreed to an additional amendment to the option agreement which allows Prophecy Platinum to make a series of payments through 2013 and 2014 aggregating \$1,125,000 in satisfaction of the remaining option conditions (the "Amended Option"). On March 1, 2013, the Company received the first payment of \$125,000; a further \$125,000 was received in May, \$150,000 in September and \$175,000 remains due by the end of 2013 with an additional \$550,000 being payable by August 29, 2014. Upon receipt of the final option payment in 2014, the Company will transfer ownership of Lynn Lake to Prophecy Platinum.



Failure on the part of Prophecy Platinum to meet any of the terms, as recently amended, and failure of Prophecy Coal to remedy any such deficiency will result in cancellation of the option and Lynn Lake will revert to the Company.

The Company has no reason to believe that Prophecy Platinum will not make its final payments and accordingly expects the property to be transferred at that time.

Because of the stage of the option agreement, the Company no longer considers Lynn Lake to be a material project.

On June 14, 2013, the Company announced the terms of a rights offering to existing shareholders to raise gross proceeds of up to approximately \$2,700,000. The rights offering closed on July 30, 2013 and raised gross proceeds of \$2,400,000 (excluding any potential proceeds from the exercise of the warrants). Accordingly, the Company issued 100,000,000 shares and 100,000,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of \$0.035 during the 12-month period beginning July 31, 2014.

The proceeds of the rights offering included the exercise of the backstop contemplated in the Amended Loan described below. Upon exercise of the backstop and exercise of existing rights, Nuinsco Resources Limited ("Nuinsco" or the "Lender") increased its shareholding in the Company to approximately 12.24%, thereby becoming a related party of the Company.

In September, 2013, the Company closed a private placement which raised gross proceeds of \$300,000 through the issuance of 12,500,000 common shares and 12,500,000 share purchase warrants which entitle the holder to purchase one common share at a price of \$0.035 for a two-year period.

On November 11, 2013, the Company issued an unsecured convertible promissory note for US\$2,000,000 (the "Convertible Note"). The Convertible Note has a term of two years, bears interest at 14.8% calculated on a monthly basis and settled quarterly and may be converted in whole or in part, at any time, at the option of the holder into Victory Nickel shares at a conversion price of \$0.10 per share.

Notwithstanding the significant improvement in the Company's financial condition, it is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company's projects through exploration and development to the production stage will require significant financing. Refer to the Risks and Uncertainties and Liquidity and Capital Resources sections for additional information.

The Company's Unaudited Condensed Consolidated Financial Statements have been prepared using the going concern assumption which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at September 30, 2013, the Company had working capital of \$832,000, (December 31, 2012 – working capital deficiency of \$583,000; this included approximately \$176,000 of agreed-upon deferrals owing to directors and senior management and accounts payable of \$118,000 settled in the Company's common shares post year-end). Working capital is defined as current assets less current liabilities. GAAP requires the Company to treat \$725,000 of the long-term loan due January 31, 2015 as current since the Lender has the right to require prepayment from the Lynn Lake option receipts to be received in the future. This is in spite of the fact that the receipts are not reflected in the assets of the Company; taking this into account, adjusted working capital would be \$1,557,000 which, combined with funds remaining from the Amended Loan, the Convertible Note and other financing initiatives underway should be sufficient to fund the Company's activities.

## HIGHLIGHTS

During and subsequent to the nine months ended September 30, 2013, the Company:

### Corporate

- Completed a loan agreement for \$1,000,000 (the "Facility") with Nuinsco which was subsequently increased by up to \$2,000,000 (the "Amended Loan") to be used for capital expenditures related to the 7P Plant.
- Completed a private placement financing for approximately \$2,209,000 with a key investor. Proceeds of the private placement were to be used for expenditures related to Victory Nickel and Victory Silica, and for general corporate purposes.
- Completed a rights offering to existing shareholders which closed on July 30, 2013 and raised gross proceeds of \$2,400,000.
- Completed a private placement financing for \$300,000.

- Announced the retirement of Mr Howard Stockford from the Board of Directors and the appointment of Mr Alireza Moghadam.
- Raised US\$2,000,000 by way of a Convertible Note.

### **Victory Silica**

- Completed an asset purchase agreement to acquire the 7P Plant, subject to certain conditions and made the initial payment of \$300,000.
- Filed a reclamation plan with the Alberta Energy Regulator (the “AER”, the successor to Energy Resources Conservation Board) to convert the 7P Plant site to a frac sand plant from a sand recycling facility; such plan was approved on July 11, 2013.
- Completed the restoration work and filed the final remediation report with the AER on November 2, 2013.
- Filled three senior management positions – the General Manager, the VP Marketing and the Plant Manager.
- Commenced conversion of the 7P Plant to a 400,000 ton per annum frac sand plant. Ordered sand processing equipment (including longer lead-time items) and mobile equipment required for the conversion of the plant.
- Negotiated numerous agreements including those for:
  - the transloading from truck to rail of frac sand concentrate produced in Wisconsin;
  - the purchase of and washing and concentrating of Jordan Formation sand in Wisconsin; and
- Received credit approval from Canadian Pacific for the shipping of concentrated sand from Wisconsin to the 7P Plant.
- Evaluated several options for rail car leasing; a leasing agreement is expected to be signed shortly.

### **Minago and Mel**

- Extended the Minago and Mel mining leases for 21 years.
- Received a permit from the Manitoba government to drill 12 water wells to be used for the dewatering of the Minago open pit.
- Advanced the compilation of exploration information that is required to submit an environmental impact statement for the Mel project.
- Completed a study to relocate the tailings impoundment area at Minago.

### **OUTLOOK**

Victory Nickel has achieved many major milestones since it was created in February 2007. After Nuinsco completed a PEA on its Minago project (“Minago PEA”) in November 2006, the Company was created and distributed to Nuinsco shareholders. The economic results of the Minago PEA were sufficiently robust to justify the preparation of a FS. Although the Minago PEA was prepared based on the mining of resources not only from an open pit but also from underground, under the rules for preparation of feasibility studies only measured and indicated resources can be included and, as such, the FS could only be based on the open pit portion of the resource. The decision was made to proceed with the FS without the underground portion as it would have been too costly and time consuming to complete the drilling required to upgrade the inferred resource at depth into the measured and indicated categories for use in the FS. As it turns out, this was the right decision as the open pit portion has proven to be adequate to produce a positive FS. The underground portion is there for the future and will add to the mine life at Minago. The North Limb is also turning out to be very promising for extending the mine life.

In December 2009, another milestone was achieved. The FS was completed showing very positive results indicating that the Minago project should be advanced. The next major step on the road to development was the preparation of the EIS. The preparation of this major study was a significant effort and in May 2010, the EIS was filed - another major milestone.

The Company took the concerns of all stakeholders into consideration when preparing the EIS. Numerous meetings with the federal and provincial governments and agencies, the First Nations and the Métis communities took place and on August 23, 2011, the Manitoba Government issued Victory Nickel’s final EAL for the Minago project. Receiving the EAL was the most significant milestone achieved so far. It means that Victory Nickel is one of the few companies to have successfully permitted a green-fields hard-rock mining project in Canada in many years. This licence allows us to move ahead with the development of this outstanding project. The licence expires on August 22, 2014 unless the Company completes a certain amount of work to move the project forward. During 2013, the Company has complied with the conditions of the EAL, advanced the permitting of the proposed tailings and waste rock management facility and maintained the drainage ditches installed to lower down the water table within the pit shell limits. Following our discussions with the government of Manitoba, the Company was been informed that all these aspects will be considered as project development activities and will play a major role in the decision to renew the EAL for a period of three years.

With the EAL in hand, in September, 2011, the board of directors approved Minago development and has charged management with the challenge of financing the project to development and production. One of the conditions is that the financing structure keeps shareholder dilution to a minimum.

The entry into the frac sand business as described later is such a financing mechanism which will minimize dilution to shareholders.

While waiting for the general market malaise to improve, including the price of nickel, the Company made the decision to be pro-active and established a plan to enter into the frac sand business prior to development of the Minago project. Management believes that the successful implementation of this plan will provide the confidence in the frac sand portion of the FS. Initially, frac sand will be processed from concentrated sand purchased in Wisconsin and shipped to the 7P Plant in Medicine Hat, Alberta. Once in operation, it is expected that the cash flow from the frac sand business could support financing of the Minago project and provide domestic sand to displace a portion of the purchased Wisconsin sand.

## **Frac Sand**

### *What is Fracking?*

Fracking or hydraulic fracturing is a process whereby a mixture of proppant (such as frac sand), additives and water is injected down oil and gas wells under pressure. This causes the rock layer to crack. The sand particles then enter the fissures to hold them open so that oil and natural gas can more freely flow up the well opening created by drilling.

The development of horizontal drilling has resulted in the tremendous growth of the fracking process over the last few years. According to market researcher the Freedonia Group, the quantity of sand used in North America for fracking has increased from 12.3 billion pounds in 1997 to 53.6 billion pounds in 2012. The forecast is for consumption to grow to 93.9 billion pounds by 2017. The highest annual growth rate will be in Canada at 16.3% per year.

### *How significant is Fracking?*

According to recent news articles, fracking of shale oil and natural gas have allowed the USA to rise to become the number one energy producer with the ability to be self-sufficient for the first time in history and is on the verge of energy independence. Other articles claim that last year, hydraulic fracking has been the biggest driver of employment in the USA and it has lowered utility bills. Others suggest that, by lowering the cost of energy, fracking is creating a manufacturing renaissance in the USA and attracting manufacturing back to that country.

Of course, what benefits one country could have negative impact on other countries, like certain traditional suppliers of energy such as Russia is to Europe and Saudi Arabia is to the USA. It is becoming evident that fracking is not a popular word in certain jurisdictions.

In addition, well-funded protest and activist groups have jumped into the fray and are claiming environmental issues, health issues and even the potential to cause seismic events by fracking. Hollywood has even taken up the cause and made movies that sensationalize fracking.

These protests and their claims, whether true or not, are resulting in better regulation of the industry. The fracking industry is maturing and is going through growing pains. Service companies are looking for and finding better and less threatening processes and chemical uses. In the long run, this can only be good for the industry.

### *Why is Victory Nickel so interested in frac sand?*

In Canada, there are basically three qualities of sand available which meet the specifications for frac sand. Specs include: roundness and sphericity, crush resistance and sands must be free of debris or clean. The highest quality sands are imported into Canada from the old, in geological age, deposits around the US great lakes, and more specifically from sands in Wisconsin. At times, this sand is only available to service companies in the USA. The second highest quality is domestic sand derived from sandstone deposits which is our Minago sand. The lowest quality sands are younger and more angular dune sands.

Victory Nickel's Minago project in central Manitoba has sufficient sand from the footprint of the open pit alone to produce 11 million tonnes of sand and, at the same time, produce nickel for nine years or more as described in the FS. On the surrounding property, there is potentially enough of a deposit to supply frac sand for over 100 years at one million tonnes per year.

Based on the FS, the value of the frac sand in the open pit will reduce Minago's cash operating costs per pound of nickel by close to \$3.00 per pound of nickel.

The expected cash flow from frac sand production at Minago as reflected in the FS makes a very significant contribution to the Minago economics. Although the frac sand will be mined during the first three years, the FS assumed that it will only be sold over a ten-year period. The recent growth in the frac sand market suggests that this assumption is very conservative. This market continues to expand and indications are that, if Minago was in production, Victory Nickel would sell all the frac sand it could produce. In transactions completed during 2012, Preferred Sands LLC purchased the assets of Winn Bay Sand, including its Hanson Lake frac sand mine in Saskatchewan, for \$200,000,000. Winn Bay is on the same geological structure as Minago, just a bit farther north and west. US Silica Holdings Inc. took its frac sand business public in February 2012 by completing an initial public offering ("IPO") raising US\$200,000,000 through the sale of 11,764,705 shares at US\$17. Later in the year, Hi-Crush Partners LP completed an IPO and raised US\$225,000,000. More recently, in 2013, Emerge Energy Services LP completed an IPO and raised US\$140,000,000. The total market capitalization of these three companies is in excess of US\$2,000,000,000. To Victory Nickel, these transactions are an indication of the attractiveness and value of its Minago sand deposit and its potential in the frac sand business.

To generate cash flow and at the same time enhance the profile of Minago within the frac sand industry, Victory decided to establish itself in the frac sand business. To this end, Ken Murdock joined the Company as Chief Executive Officer of Victory Silica, a wholly-owned subsidiary created for this purpose. The business plan is a three-phase approach with the first phase being the acquisition of a plant in Canada to process wet sand concentrate purchased from Wisconsin. This sand will be initially sold into the Alberta, Saskatchewan, Manitoba and North Dakota markets.

Phase one of the three-phase plan is being implemented and the Company acquired the 7P Plant in Medicine Hat, Alberta. Efforts are in full gear to upgrade the 7P Plant to produce frac sand at the annual rate of 400,000 tons with the view to be importing sand in 2013 for sale early in 2014. A second facility is planned for Winnipeg, Manitoba to produce an additional 1 million tons per annum of frac sand. This facility will be used to accommodate sand delivered from Minago once the mine is developed. In the interim, concentrated sand will be purchased in Wisconsin for final processing in Winnipeg.

Senior management positions have been filled at Victory Silica, equipment is ordered and contracts are let to fabricate and erect the plant upgrades. The restoration of the 7P Plant is complete and the closure report has been filed with the AER. The 7P Plant is well located in the centre of oil and gas drilling activity. The initial target to begin sand production in 2013 was delayed somewhat as the AER was going through an internal restructuring and the restoration plan approval was delayed. In addition, certain plant scope and design changes were made to accommodate more imported sand and to increase the equipment utilization rate from 80% to 95%. This should result in higher than expected production and higher quality sand. The availability of contractors was affected by the flooding events in Medicine Hat and elsewhere in Alberta. However, in addition to the completion of the restoration of the plant site, numerous contracts have been completed or are in the final review stage.

The Company's plan for a three-phase entry into the frac sand business is a pivotal event and deserves a summary once again. Initially, wet sand concentrate will be purchased to feed Victory Silica's 7P Plant which will produce high-grade finished product of various grades. As Victory Silica becomes established, phase 2 will be to partially replace purchased sand with sand from a mine in Wisconsin operated by Victory Silica. Phase 3 provides for building a second dry plant in Winnipeg to process both sand from Wisconsin and Minago. The plan is to eventually produce approximately 1.5 million tons of imported (from Wisconsin) and domestic (from Minago) frac sand annually.

The 400,000 ton per annum 7P Plant is expected to generate profit margins of \$25 per ton or in excess of \$10,000,000 per year. Once this facility is established, the Company plans to proceed immediately with phases 2 and 3 with the eventual production target of 1.5 million tons of frac sand per annum.

### **General**

As we wait for greater certainty and investor confidence to firm up, management intends to continue to pursue a partner in its efforts to finance the Minago mine to production. Investors are only looking to investments that are generating cash or will be generating cash in the very near term. Victory Nickel is quickly advancing to fill this investor requirement by getting into the frac sand business. Successful entry into the frac sand business by Victory Silica is expected to make a significant positive contribution by generating significant cash flow in the near term. On March 22, 2013, the Company issued 44,178,500 common shares for approximately \$2,209,000 under a private placement with a key investor giving them an interest in Victory Nickel of approximately 9.9%. Furthermore, on March 25, 2013, the Company extended its loan arrangement with Nuinsco to up to \$3,000,000 under certain circumstances. The Amended Loan is convertible to a participating interest in Victory Silica's net cash flows no later than June 1, 2014. On July 30, 2013, the Company completed a rights offering which raised gross proceeds of \$2,400,000 – this capped the Amended Loan at \$2,707,584. An additional equity financing for \$300,000 was completed in September and more recently US\$2,000,000 was raised by way of a two-year note convertible to shares at \$0.10 per share and bearing interest at the rate of 14.8% per annum.

Notwithstanding the funds available from these transactions, the Company recognizes that liquidity is a luxury due to the lack of other cash available from the equity markets. This situation is not unique to Victory Nickel, as valuations and trading volumes of junior exploration and development companies are generally low at the present time. Management has implemented a program to ensure that expenditures are only made on a "need to" basis. Unless immediate return can be measured, the expenditure is not made.

The Company expects that the Lender will convert its loan payable to a participating interest in future cash flows from the frac sand business. With the expected extinguishment of that gross liability of \$1,000,000, the cash resources available of \$2,052,000, future expected option receipts of \$725,000, the recent US\$2,000,000 financing, and the remaining advance available under the Amended Loan of \$500,000, the Company is well-positioned to be able to fund the upgrading and refurbishment costs of the 7P Plant. Some working capital financing will be required to finance the inventory and receivables until cash flow is generated.

Victory Nickel continues to review the Minago FS to make sure that all options to reduce not only the capital cost of development but also the operating costs have been considered. With that in mind, a detailed study to relocate the tailings facility has been completed and early indications are that significant savings will be realized. In addition, a study has been initiated to establish whether or not there is a better way to deliver the frac sand to the rail head at Ponton.

The expected cash flow from the proposed frac sand business is a game changer. Victory Nickel will be positioned to advance and grow its businesses and generate significant valuations for its shareholders.

## RESULTS OF OPERATIONS

### *Three Months Ended September 30, 2013 Compared with Three Months Ended September 30, 2012*

For the three months ended September 30, 2013, the Company had a net loss of \$521,000, or \$0.00 per share, (September 30, 2012 – net income of \$60,000, or \$0.00 per share).

The results are mainly a function of general and administrative expenses of \$238,000 (September 30, 2012 - \$235,000), aggregate share-based payments of \$71,000 (September 30, 2012 - \$19,000), net finance costs of \$69,000 (September 30, 2012 – \$2,000) and pre-operating costs related to Victory Silica of \$346,000 (September 30, 2012 - \$106,000); these costs were offset by a \$146,000 recovery (September 30, 2012 - \$450,000) with respect to the Lynn Lake property as a result of option payments received in excess of the recorded value of the property. Results in the three months ended September 30, 2013 also include an income tax recovery of \$65,000 (September 30, 2012 – income tax expense of \$24,000).

General and administrative expenses increased marginally by \$3,000 to \$238,000 from \$235,000, for the three months ended September 30, 2013 and 2012, respectively. The component expenses therein remain fairly consistent. Due diligence fees were incurred as part of the process to secure additional financing; these were offset by overhead recoveries from Victory Silica which costs are currently recorded in Victory Silica pre-operating costs.

General and administrative expenses include \$204,000 in costs charged by Nuinsco for administrative services, partly offset by \$2,000 charged to Nuinsco by Victory as described under Transactions with Related Parties and Management Agreement with Nuinsco Resources Limited below (September 30, 2012 - \$130,000 and \$6,000, respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the cost allocation has increased for this quarter mainly due to an increase in work related to Victory Silica. This arrangement allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel for the three months ended September 30, 2013 are approximately \$152,000 (2012 - \$112,000 on a comparable basis). The increase period over period is mainly due to higher expenditures relating to cost allocations because of activity at Victory Silica, legal fees, and investor and public relations.

There were no write-downs necessary for impairment of projects in 2013 or 2012. Furthermore, there were no pre-exploration expenditures incurred in either period.

In 2012, the Company announced the creation of Victory Silica as described earlier. Victory Silica pre-operating costs of \$346,000 for the quarter mainly consist of start-up consulting fees and related expenses, overhead allocations, additional staff costs, and repairs and maintenance of the 7P Plant during the period. In the third quarter of 2012, \$106,000 of pre-operating costs were incurred. The increase in pre-operating costs is largely due to repairs and maintenance on the 7P Plant incurred during the quarter as well as preparation for plant upgrade to convert the recycling plant to a frac sand

plant, salaries for staff hired in the quarter and planning for operations. Activities have commenced to prepare for first production now being planned for early 2014.

For the three months ended September 30, 2013, net finance costs were \$69,000 (September 30, 2012 – \$2,000). Finance costs increased to \$76,000 from \$2,000 in the three months ended September 30, 2013 and 2012, respectively, mainly due to the interest expense on the loan. There are two components to the interest expense: amortization of loan fees which include cash and share elements and cash-based interest expense. Amortization of loan fees in the period amounted to \$43,000 and \$30,000 represented cash paid for interest relating to 2013.

The Company continues to believe that it is more-likely-than-not that the benefit associated with certain of the losses and costs creating future income tax assets will be realized prior to their expiry. Accordingly, the Company may record periodic future income tax recoveries. Note that the Company has not recognized any income tax recovery for its subsidiary company Victory Silica since it has not yet commenced operations.

In the three months ended September 30, 2013, the Company recorded an income tax recovery of \$65,000 (September 30, 2012 – income tax expense of \$24,000). The change in the income tax amount is primarily a function of the difference in the amount of recovery on the option of Lynn Lake. The Company has estimated it has \$178,000 in unrecognized deferred tax assets in relation to the Victory Silica business; given this is a new venture which has not yet started operation, it is not currently assessed as more-likely-than-not that losses and costs incurred in Victory Silica will be realized prior to their expiry.

Other comprehensive income (“OCI”) in the three months ended September 30, 2013 relates to a decrease of \$19,000 (September 30, 2012 – \$63,000) in the market value of the Company’s financial assets at fair value through OCI along with income tax recoveries recorded through OCI of \$3,000 (September 30, 2012 – income tax recoveries of \$9,000). These changes are a result of net market value changes in marketable securities.

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

Marketable securities as at September 30, 2013 consist of the Company’s financial assets at fair value through OCI; the Company’s investment in shares is at fair value through OCI; the Company no longer has any investment in warrants at fair value through operations. The Company’s interest in warrants had a value of \$nil at the end of December 31, 2012 and the warrants expired unexercised in April 2013. Any volatility in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes. Marketable securities decreased by \$313,000 from December 31, 2012 as a result of sales and declines in market prices of shares. The Company generated \$59,000 in sales proceeds in the first quarter of 2013; there were no sales in the second and third quarters of 2013 (nine months ended September 30, 2012 - \$1,103,000).

Property and equipment increased to \$2,841,000 from \$1,424,000 as at December 31, 2012. The primary reason for the increase relates to expenditures on the 7P Plant and leased vehicles related thereto. The costs include acquisition costs as well as plant improvements. The vehicles are in use and are being depreciated, since the plant has not yet been commissioned, it is not being depreciated.

Project expenditures are described below in Mine Property and Development Activities (“MP&D”) and Exploration and Evaluation Activities (“E&E”).

The increase in trade and other payables of \$354,000 relates primarily to an increase in trade payables and accrued liabilities of \$514,000 pertaining to Victory Silica because of the ramp up of activity partly offset by the settlement of deferred directors’ fees of \$121,000 and settlement of \$118,000 of accounts payable in shares in the first quarter of 2013. Also, the balance includes \$40,000 of short-term lease obligation relating to vehicles.

Victory Nickel entered into a loan agreement and \$1,000,000 was advanced prior to December 31, 2012. At the option of the Lender (Nuinsco), and under certain circumstances, the Lender can elect to receive prepayment of the loan from up to \$1,000,000 of the proceeds of the Lynn Lake option payments. Accordingly, under the option agreement in effect at December 31, 2012, \$1,000,000 of the loan was classified as a current liability since this matches the Lynn Lake option payments which were available to be diverted to the Lender at their option under agreements in place as at December 31, 2012.

As described in Note 13 to the Unaudited Condensed Consolidated Financial Statements, the option agreement was amended March 1, 2013 and the classification of the loan payable as current or long-term will be based upon the ability of the lender to divert payments based on the amended schedule which included \$450,000 due in 2013 and \$550,000 due in 2014; \$125,000 was paid to Victory Nickel on March 1, 2013 and May 31, 2013, an additional payment of \$150,000 was

received in September 2013; no payment was diverted to the Lender. As at September 30, 2013, \$725,000 in future option payments are due within one year; accordingly, despite no such payments being received yet, GAAP requires \$725,000 of the loan to be classified as a current liability. The balance of the loan is disclosed as a long-term liability and is shown net of unamortized loan costs which are accounted for under the effective interest rate method. Note 13 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the loan balance.

The loan was amended and extended in the first quarter of 2013 to up to \$3,000,000 pursuant to certain conditions and is subject to conversion to a net profits interest in the Victory Silica business or repayment by January 31, 2015. With the closing of the rights offering on July 30, 2013, the Amended Loan is capped at \$2,707,584 with a remaining amount available to be advanced of \$500,000. Refer to the Liquidity and Capital Resources section for additional discussion of the Amended Loan and the impact of the rights offering on its terms and its conversion.

In August 2013, the Company entered into two finance leases to purchase vehicles with a total fair value of \$182,000; the long-term portion is \$129,000 and the short-term lease obligation of \$40,000 is included in *Trade and other payables* as described above. Note 14 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the lease obligation.

The deferred tax liability balance amounts to \$2,074,000 as at September 30, 2013, compared with \$2,473,000 as at December 31, 2012. The main components of the balance relate to the tax effects of E&E projects and the MP&D project, partly offset by the tax value of net operating tax losses carried forward.

The share capital balance has increased significantly period over period by \$4,224,000. Note 15 to the Unaudited Condensed Consolidated Financial Statements includes a detailed analysis of the account and the Liquidity and Capital Resources section describes the transactions more fully. The most significant transactions were as follows: \$2,509,000 in gross proceeds were generated from private placements and \$2,400,000 in gross proceeds were raised in the rights offering; share issue costs are applied against these balances and an apportionment of proceeds was also attributed to the warrants and recorded in *Contributed surplus* at an aggregate of \$839,000 which, combined with the issuance of options, accounts for the increase in that account of \$1,027,000.

#### ***Nine Months Ended September 30, 2013 Compared With Nine Months Ended September 30, 2012***

For the nine months ended September 30, 2013, the Company had a net loss of \$1,265,000, or \$0.00 per share, (September 30, 2012 – net loss of \$44,000, or \$0.00 per share).

The results are mainly a function of general and administrative expenses of \$981,000 (September 30, 2012 - \$1,058,000) and aggregate share-based payment expenses of \$231,000 (September 30, 2012 - \$243,000), net finance costs of \$181,000 (September 30, 2012 – \$4,000) and pre-operating costs related to Victory Silica of \$503,000 (September 30, 2012 - \$106,000); these costs were offset by a \$392,000 recovery (September 30, 2012 - \$1,450,000) with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property. Results in the nine months ended September 30, 2013 also include an income tax recovery of \$252,000 (September 30, 2012 – income tax expense of \$71,000).

General and administrative expenses decreased by \$77,000, to \$981,000 from \$1,058,000, for the nine months ended September 30, 2013 and 2012, respectively. The main reason for the decrease is that costs have been allocated to Victory Silica effective July 1 due to the increased activity at that business under the management agreement with them; presently, such costs are included in Victory Silica pre-operating costs. There were non-recurring but essentially offsetting costs in each year; in 2012 the Company incurred travel and legal costs associated with securing financing. In 2013, there was a non-recurring bonus for senior officers. This bonus was partly paid in cash and partly in shares in July. In addition, there were also some due diligence fees incurred in the third quarter as part of the process to secure additional financing.

General and administrative expenses include \$517,000 in costs charged by Nuinsco for administrative services, partly offset by \$17,000 charged to Nuinsco by Victory Nickel as described under Transactions with Related Parties and Management Agreement with Nuinsco Resources Limited below (September 30, 2012 - \$501,000 and \$21,000 respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the increase in costs is primarily a result of increased people costs allocated under the agreement due to activity at Victory Silica. This arrangement allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel for the nine months ended September 30, 2013 are approximately \$587,000, compared with \$583,000 in the nine months ended September 30, 2012, calculated on a comparable basis.

The share-based payment expense for options in the nine months ended September 30, 2013 reflects the grant and partial vesting of 8,920,000 options with fair values of \$0.016 and \$0.019. In addition, 1,814,166 shares were issued under the Share Bonus Plan with a closing price between \$0.03 to \$0.045 on grant date in consideration for bonuses which were declared in both the third and second quarters of 2013. The expense in 2012 reflects the grant and partial vesting of 8,050,000 options with a fair value of \$0.035. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 17 to the Company's Unaudited Condensed Consolidated Financial Statements.

There were no write-downs necessary for impairment of projects in 2013 or 2012. Furthermore, there were no pre-exploration expenditures incurred in either period. In the nine months ended September 30, 2013, the Company received an aggregate of \$400,000 in receipts under the Lynn Lake option; net of expenditures, \$392,000 was recorded as recovery of exploration and evaluation project. As described earlier, the Company agreed to schedule out the previously-agreed option payment, along with an additional amount of \$125,000. In 2012, the full option receipt of \$1,000,000 was received in the first quarter of that year and another \$450,000 was received in the third quarter.

In 2012, the Company announced the creation of Victory Silica as described earlier. Victory Silica's pre-operating costs of \$503,000 expensed in 2013 comprise start-up consulting fees and related expenses, overhead allocations, additional staff costs, and repairs and maintenance of the 7P Plant during the period. In 2012, pre-operating costs of \$106,000 consists mainly of start-up consulting fees and related expenses only.

For the nine months ended September 30, 2013, net finance costs were \$181,000 (September 30, 2012 – \$4,000). Finance costs increased to \$192,000 from \$6,000 in the nine months ended September 30, 2013 and 2012, respectively, mainly due to the interest expense on the loan. Amortization of loan fees in the period amounted to \$90,000 and \$90,000 represented cash paid for interest relating to 2013 (\$9,000 was paid in 2013 relating to 2012).

In the nine months ended September 30, 2013, the Company recorded an income tax recovery of \$252,000 (September 30, 2012 – income tax expense of \$71,000). The change in the income tax amount is primarily a function of an accrual made in 2012 for a change in income tax rates which was reversed as being unnecessary in the final quarter of 2012. The Company has estimated it has \$178,000 in unrecognized deferred tax assets in relation to the Victory Silica business; given this is a new venture which has not yet started operation, it is not currently assessed as more-likely-than-not that losses and costs incurred in Victory Silica will be realized prior to their expiry.

Other comprehensive income ("OCI") in the nine months ended September 30, 2013 relates to a decrease of \$254,000 (September 30, 2012 – \$599,000) in the market value of the Company's financial assets at fair value through OCI along with income tax recoveries recorded through OCI of \$35,000 (September 30, 2012 – income tax recoveries of \$86,000). These changes are a result of net market value changes in the Company's marketable securities.



## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eleven quarters ended September 30, 2013 is as follows:

<u>Fiscal year 2013</u>	<u>3rd Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Net finance costs	\$ (69)	\$ (75)	\$ (37)
Net loss	\$ (521)	\$ (429)	\$ (315)
Total comprehensive loss	\$ (537)	\$ (507)	\$ (440)
Loss per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)

  

<u>Fiscal year 2012</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Net finance (costs) income	\$ (9)	\$ (2)	\$ 2	\$ (4)
Net (loss) income	\$ (139)	\$ 60 <sup>(2)</sup>	\$ (571) <sup>(3)</sup>	\$ 467 <sup>(5)</sup>
Total comprehensive (loss) income	\$ (193) <sup>(1)</sup>	\$ 6	\$ (1,252) <sup>(4)</sup>	\$ 689 <sup>(6)</sup>
(Loss) earnings per share - basic and diluted	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ 0.00

  

<u>Fiscal year 2011</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) income	\$ (46)	\$ 82	\$ (62)	\$ (95)
Net (loss) income	\$ (328)	\$ (605) <sup>(7)</sup>	\$ (505) <sup>(9)</sup>	\$ 301
Total comprehensive (loss) income	\$ (652)	\$ 307 <sup>(8)</sup>	\$ (2,795) <sup>(10)</sup>	\$ 306
(Loss) earnings per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00

(1) Total comprehensive loss for the period includes \$49,000 net after-tax decline in the market value of securities.

(2) Net income includes \$450,000 recovery on the Lynn Lake option with Prophecy Platinum.

(3) Includes an increase in income taxes of approximately \$150,000 which was reversed in the fourth quarter as it was not necessary.

(4) Total comprehensive loss for the period includes \$681,000 net after-tax decline in the market value of securities.

(5) Net income for the period includes \$1,000,000 recovery on the Lynn Lake option with Prophecy Platinum.

(6) Total comprehensive income for the period includes the recovery noted above as well as \$222,000 net after-tax improvement in the market value of securities.

(7) Net loss for the period includes \$186,000 for share-based payments and \$97,000 for bonus expense.

(8) Total comprehensive income for the period includes \$1,054,000 improvement in the market value of the Company's securities, partly offset by income taxes of \$142,000.

(9) Net income for the period includes share-based payments of \$140,000 for options granted and vesting in the period.

(10) Total comprehensive loss for the period includes \$2,648,000 decline in market value of the Company's securities, partly offset by income taxes of \$358,000.

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2013, the Company had working capital of \$832,000, including cash and cash equivalents and marketable securities; working capital is disclosed net of approximately \$725,000 of current loans and borrowings representing option payments due within one year over which the Lender has a right to divert, despite the receipts not having yet been received. As at December 31, 2012 the Company had a working capital deficiency of \$583,000 which includes approximately \$176,000 of agreed-upon deferrals owing to directors and senior management as well as accounts payable of \$118,000 subsequently settled in shares of the Company.

The main reasons for the improvement are: the private placement of \$2,209,000 (described further below) entered into with a key investor during March 2013 along with the rights offering completed on July 30, 2013 which generated gross proceeds of \$2,400,000 through issuing 100,000,000 units, each unit comprising one common share and one common share purchase warrant. Each warrant enables the holder to buy an additional common share of the Company for \$0.035 per share for a 12-month period commencing July 31, 2014. The proceeds included provisions under the Amended Loan for a backstop and top-up which aggregated \$1,207,584 and effectively capped the Amended Loan at \$2,707,584 with future available advances to the Company being \$500,000.

In addition, a private placement was closed on September 19, 2013 generating gross proceeds of \$300,000 through issuing 12,500,000 units, each unit also comprising one common share and one common share purchase warrant. Each warrant enables the holder to buy an additional common share of the Company for \$0.035 per share for two years from the closing date of September 19, 2013.

The Company had recently relied upon its portfolio of marketable securities for the funding of its operations and programs. As the markets have declined, access to equity and debt financing became more difficult for all companies and Victory Nickel had to extend its regular payment periods. With the funds from the private placements, the Amended Loan entered into in March (see below), combined with the funds from the rights offering, the Company has access to

funds for operations and the Victory Silica initiative. The Company is continuing to seek additional financing opportunities. On November 11, 2013, the Company entered into an unsecured convertible promissory note for US\$2,000,000 (the "Convertible Note"). The Convertible Note has a term of two years, bears interest at 14.8% calculated on a monthly basis and settled quarterly and may be converted in whole or in part, at any time, at the option of the holder into Victory Nickel shares at a conversion price of \$0.10 per share. Discussions are also underway to source additional working capital financing for the frac sand business.

Recognizing the challenging financing markets, the Company entered into the loan agreement with Nuinsco, \$1,000,000 of which was advanced prior to December 31, 2012 and was used for working capital purposes; the Amended Loan provided additional funds of up to \$2,000,000 under certain circumstances which were capped as described above at \$1,707,584, \$1,207,584 of which was advanced as backstop under the rights offering. As described earlier, as at December 31, 2012, despite the loan having a contractual repayment term of January 31, 2015, the ability of the Lender to divert payments under the Lynn Lake option agreement required the Company to classify the whole principal balance as being due within one year. On March 1, 2013, the Lynn Lake option agreement was amended to include \$125,000 due March 1, 2013 which was received and retained by Victory Nickel. Other payments of \$125,000 and \$150,000 were received in May and September (and also retained by the Company) and the remaining \$175,000 is due by the end of 2013 with an additional \$550,000 due by August 29, 2014. Accordingly, ongoing assessments of the loan as being current or long-term will be driven by the updated option agreement.

As at September 30, 2013, \$725,000 of the option payments (the entirety of the remaining payments) are due within one year, therefore that amount of the net loan outstanding is classified as a current liability. This is a peculiar accounting result since the related payments are not yet due and are not recognized on the Company's balance sheet. Therefore, the Company feels that adjusted working capital which adds back the current portion of the long-term liability and amounts to \$1,557,000 is a more relevant measure of the Company's liquidity.

On March 25, 2013, the Company amended and extended the loan agreement to up to \$3,000,000 under certain circumstances – and which was capped at \$2,707,584 as described above. The Amended Loan bears interest at 12% per annum, payable quarterly, and matures on January 31, 2015. Prior to June 1, 2014, the Lender, Nuinsco, has the right to convert the outstanding balance of the Amended Loan into a 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 is capped at \$10,000,000, with a minimum of \$7,500,000, and is subject to adjustment under certain circumstances. On Conversion, the Amended Loan would be considered paid in full. Nuinsco had also agreed to backstop an equity issue, if any was announced, with cash or by converting a portion of the Amended Loan into shares, at the Lender's option to an amount up to \$1,500,000 under certain circumstances. On June 14, 2013, the Company announced a rights offering with maximum gross proceeds of approximately \$2,700,000. Under the backstop provision, Nuinsco subscribed for units of the rights offering for cash in the amount of \$1,207,584 which, along with exercise of other rights and its pre-existing shares, has resulted in Nuinsco increasing its share ownership in the Company to approximately 12.24% as at July 30, 2013 and makes Nuinsco a related party of the Company.

Presently, the frac sand business is not in operation and cash is not being generated; Nuinsco has not exercised its Conversion right. Therefore, the Company has not recognized the Conversion right. The Company will re-evaluate the probability of conversion by the Lender and will reassess the recognition and value of that right as circumstances warrant.

The Company agreed to pay, with shares, an arrangement fee of up to \$300,000 plus a commitment fee of 1.5% per annum on unutilized balances. Effective July 2013, the cumulative arrangement fee was capped at \$270,758 and was settled with shares. Such fees are amortized into interest expense using the effective interest rate method. An aggregate of \$90,000 in interest expense was paid in cash for interest accrued for the nine months ended September 30, 2013; interest is due in cash at the end of each calendar quarter. Non-cash amortization of loan fees brings interest expense on the loan to \$180,000 for the nine months. The commitment fee will be settled in shares and amounts to \$9,000 as at September 30, 2013.

On March 22, 2013, the Company issued 44,178,500 common shares under a private placement with a key investor at \$0.05 per share, generating gross proceeds of approximately \$2,209,000. This, along with the Amended Loan, has significantly improved available working capital. A further private placement completed in the third quarter generated gross proceeds of \$300,000; this placement was on similar terms to the rights offering and included warrants which are exercisable for a two-year term.

Other asset sales, as well as the sale of royalties on certain properties, are possibilities which would provide liquidity during this difficult period. With lower trading volumes, marketable securities are not as saleable as they have been in the past. Consequently, management is looking to realize on the sale of other assets as a mechanism to improve liquidity.

The Company is also investigating the possibility of generating cash through the sale of new royalty arrangements on its properties.

Cash and cash equivalents as at September 30, 2013 and December 31, 2012 were held with major Canadian banks. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. Marketable securities are available to be sold for liquidity purposes, as the Company requires, providing funds for its operations and exploration, evaluation and development activities.

For the nine months ended September 30, 2013, the Company used cash in operating activities of \$1,131,000 (September 30, 2012 - \$970,000). As the Company is in the exploration, evaluation and development stage, there are no revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company. The Company estimates that such costs in the nine months ended September 30, 2013 amounted to \$587,000. Many of these costs are incurred in the early part of the year. In the same period of 2012, such costs were approximately \$583,000, calculated on a comparable basis. Consequently, the Company's liquidity is reduced unless and until there are financing activities or sales of assets to provide funds. Note that the costs cited above do not include the costs of financing arrangements which are deducted directly from equity – these can be significant. Costs incurred to advance the Company's projects are capitalized, as summarized below under the discussion of investing activities.

During the nine months ended September 30, 2013, net cash used by investing activities was \$1,560,000, compared with cash generated of \$588,000 in the prior comparable period. Aggregate amounts of \$733,000 and \$81,000 were used to advance the MP&D project and E&E projects, respectively, during the nine months ended 2013 (2012 - \$1,621,000 and \$144,000). In 2013, \$1,088,000 was used for expenditures on the 7P Plant acquisition and improvements (2012 – \$nil).

During the early part of the year, the Company sold shares for aggregate proceeds of \$59,000 (2012 – \$1,103,000); the Company will continue to sell marketable securities for liquidity purposes when pricing is acceptable. Aggregate funds of \$400,000 were received with respect to the option agreement with Prophecy Platinum for the Lynn Lake property in 2013 to date compared with \$1,450,000 received in 2012. An additional \$175,000 is payable to the Company by the end of 2013, with an additional \$550,000 being due by the end of August 2014.

The Company made payments of \$152,000 in the nine months ended September 30, 2013 relating to the transformer equipment. In the nine months ended September 2012, \$200,000 in deposits were made under the agreement to purchase transformers and other electrical equipment at an aggregate cost of US\$2,840,000. The balance is due prior to shipping.

The Company generated \$4,487,000 in financing activities during the nine months ended September 30, 2013. This comprised net cash of \$4,496,000 from the issuance of shares and warrants; \$2,197,000 pursuant to a private placement with a key investor in the first quarter of 2013, net proceeds of \$2,025,000 from the rights offering that closed on July 30 2013 and net proceeds of \$279,000 from the private placement completed on September 19, 2013 (\$5,000 in share issue costs were incurred on a non-cash item). Loan interest of \$9,000 was paid during the nine months ended September 30, 2013 and relates to interest accrued in 2012. There were no financing activities during the nine months ended September 30, 2012.

There were no equity financings completed during the year ended December 31, 2012, although the Company received \$1,000,000 under the Facility. The Company's operations in 2012 were financed through sales of marketable securities, option payments and the loan advance noted above.

The Company's activities during the nine months ended September 30, 2013 provided cash and cash equivalents of \$1,796,000, compared with a net decrease in cash of \$382,000 during the same period of 2012.

Since there were no flow-through financings completed during 2012 there is no flow-through commitment outstanding for Victory Nickel as at December 31, 2012 or September 30, 2013.

The Company's remaining portfolio of marketable securities had a market value of \$244,000 as at September 30, 2013, the option payments remaining under the Lynn Lake option agreement have been significantly extended with \$175,000 due by the end of 2013 and the remainder of \$550,000 is due by August 29, 2014. The amount available under the Amended Loan is finite, being \$500,000.

**Table of Contractual Commitments**

	Due Date	Currency	November 11, 2013	September 30, 2013	December 31, 2012
Transformer and electrical equipment	On shipping	US Dollar	\$ 1,396	\$ 1,396	\$ 1,546
Flowthrough expenditures outstanding	Not applicable	Canadian Dollar	\$ -	\$ -	-
Loans and borrowings	January 31, 2015	Canadian Dollar	\$ 1,014	\$ 1,000	\$ 1,009
Purchase of 7P Plant	Refer to note below	Canadian Dollar	\$ -	\$ -	-
Leased vehicles	Within one year	Canadian Dollar	\$ 50	\$ 50	-
	One to five years	Canadian Dollar	\$ 138	\$ 142	-

Note that the final payment for the 7P Plant is subject to conditions precedent, including the transfer of leases which requires regulatory approval. (Note 25 to the Company's 2012 Audited Consolidated Financial Statements). Further note that the long-term loan is contractually payable on January 31, 2015; however, because up to \$725,000 of option payments due within one year may be diverted to the Lender as prepayments, that amount is classified as a current liability on the Unaudited Condensed Consolidated Balance Sheet.

As described above, exploration, evaluation and development companies such as Victory Nickel have historically been heavily reliant upon the equity markets to fund their activities as they have no short-term sources of revenue other than through monetization of assets. Opportunities available to Victory Nickel for financing would normally be through private placements in the equity markets. Despite experiencing some improvements during 2011, circumstances toughened during 2012 and today's equity markets continue to make this alternative difficult if not impossible without incurring significant dilution to existing shareholders. For this reason, the Company has recently chosen to liquidate portions of its securities holdings rather than raise equity financing. However, the results of this are also dependent upon market conditions which are outside the control of the Company, and market circumstances have also impacted the Company's investees and their market values.

In the first quarter of 2013, an opportunity was identified to enter into a private placement with a key investor at an appropriate price. On March 22, 2013, the Company completed a private placement of 44,178,500 shares which generated approximately \$2,209,000 in cash. While this is dilutive to existing shareholders, alternative financing sources, if any, take considerable time to complete – as was the case with the rights offering. This equity issue was completed with a key investor with a view to finding the funding required to develop the frac sand business and ultimately Minago.

The rights offering to existing shareholders announced mid-June raised \$2,400,000 in gross proceeds effective July 30, 2013; all shareholders at the record date had the opportunity to participate in this potentially non-dilutive financing. The warrants issued under the rights offering have the ability to generate an additional \$3,500,000 in funding between one and two years from closing. Because the standby facility was utilized in the rights offering, the funds available under the Amended Loan with Nuinsco are now \$500,000. Note that, through the backstop, Nuinsco owns shares of Victory Nickel rather than having advanced funds which would need to be repaid at a future date. Further note that advances under the backstop are considered in the same fashion as loan advances and form part of the calculation of cash flows under the convertibility feature of the Amended Loan.

Another private placement was completed mid-September 2013 generating gross proceeds of \$300,000. The warrants issued under this private placement have the potential to generate additional cash of approximately \$438,000 until September 19, 2015.

The Company will continue to balance its financing choices as a function of availability and market activity. Managing in challenging times takes as much, if not more, senior management effort. However, senior management of both the Company and Nuinsco agreed, effective August 1, 2012, to accept salary deferrals averaging 25% until better economic times prevailed. Although all deferrals have now been settled, this is a mechanism that the Company has been able to utilize on a number of occasions. Directors had also accepted deferrals of fees – these were brought up to date in the first quarter of 2013.

The Company will continue to consider all financing alternatives given acceptable pricing and other market conditions to advance its projects and maintain liquidity. The optioning of the Lynn Lake property is one example of a corporate transaction that can generate cash and add value for shareholders while maintaining participation in the upside in the subject property. Unfortunately, economic circumstances affecting the option holder caused a renegotiation of the remaining option amount of \$1,000,000 originally due by March 1, 2013. As described earlier, the Company agreed to an additional amendment to the option agreement which allows Prophecy Platinum to make a series of payments through 2013 and 2014 aggregating \$1,125,000 in satisfaction of the remaining option conditions. The payments are current with \$175,000 due by the end of 2013 and \$550,000 remains due before the end of August, 2014.

The loan advance of \$1,000,000 in 2012 was the first stage of an expanded loan agreement announced by the Company in March 2013. The initial advance was for working capital purposes and the remaining amount under the Amended Loan of \$500,000 (after taking into account the effect of the standby facility under the rights offering) is available to fund capital requirements for the Victory Silica initiative as described below and/or to support any financing initiative announced by the Company. The Amended Loan (including funds advanced under the backstop of the rights offering) is also subject to the Conversion right by the Lender which would allow the Lender to convert its debt into a cash flow participation in funds expected to be generated by the Victory Silica frac sand initiative.

In addition to generating cash flow, the Victory Silica initiative is intended to establish the Company's presence in the frac sand market. However, this initiative, while relatively near-term compared with mine-building, is not expected to begin generating cash flow from sales until early 2014. As reported already, the Company has announced the acquisition of the 7P Plant which continues to be subject to certain conditions precedent, including the transfer of leases. On July 11, 2013, the Company received approval from the AER, which allows for restoration and development of the 7P Plant. Site restoration has been completed and the closure report has been filed.

The Company expects that the Lender will convert its loan payable to a participating interest in future cash flows from the frac sand business. With the expected extinguishment of that gross liability of \$1,000,000, the cash resources available of \$2,052,000, future expected option receipts of \$725,000, combined with the remaining advance available under the Amended Loan of \$500,000 and the Convertible Note of US\$2,000,000, the Company is well-positioned to be able to fund the refurbishment costs of the 7P Plant and commence generating positive cash flows from the frac sand business. The Company is also undertaking discussions to secure a working capital facility to fund the future Victory Silica inventory and receivables activity.

As at November 11, 2013, the aggregate market value of the Company's marketable securities held in public company shares is approximately \$240,000. The market value of such shares may go up or down. Trading volumes have experienced declines and it is generally acknowledged that equities are being undervalued.

As at November 11, 2013, the Company had options outstanding which could bring in additional cash funds of approximately \$2,533,000. Most of those instruments are presently not "in-the-money" however and the receipt of such funds cannot be relied upon. Furthermore, the warrants issued under the rights offering and private placement could generate additional cash of \$3,500,000 from July 31, 2014, and \$438,000 from now.

As described above, the equity markets continue to be volatile and it is uncertain how future financing initiatives will be received, what the future market value of securities will be and how successful liquidity efforts will be in generating cash to finance activities. In particular, the financing required for the development of the Minago project is considerable.

The Company has good title to its projects and will continue to maintain the projects in good standing. Prophecy Platinum had expenditure commitments to meet on the Lynn Lake project as described earlier which maintained ongoing investment in the property. The Company expects the remaining amended option terms to be fulfilled and for the ownership of Lynn Lake to be transferred to Prophecy Platinum by the end of August 2014.

Monthly average administrative costs for 2013 are budgeted at \$119,000 – or approximately \$1,400,000 on an annual basis, most of which are incurred to meet statutory requirements; actual monthly cash-based costs for 2012 were \$123,000. These figures include amounts which have been agreed to be deferred but exclude salary amounts capitalized as part of project expenditures which need to be considered as part of annual cash requirements. Annual capitalized salaries in 2012 (including some part-time workers) amounted to \$487,000; for 2013 these are budgeted at approximately \$370,000.

The Company's budgeted cash operating requirements for 2013 are approximately \$1,800,000 before project expenditures or \$170,000 monthly average. Calculated on the same basis, average monthly cash costs in the nine months ended September 30, 2013 were approximately \$192,000 which is higher than budget; such costs are weighted towards the beginning of a year because of statutory requirements such as audit and include the effect of Victory Silica operations in its pre-operating phase.

Controls on minimizing discretionary expenditures are in place and non-essential services have been cancelled. The Company continues to control operating costs; Victory Nickel and Nuinsco did not implement an across-the-board salary increase for 2012 and such salary increases will not occur in 2013 in either company until the success of the Victory Silica initiative; executive salaries for both companies have remained at 2011 levels.

The Company continues to have amounts owing to fulfil the electrical equipment purchases initiated during 2010.

Through the combination of sales of marketable securities, the expected extinguishment of the gross liability under the Amended Loan of \$1,000,000, the cash resources available of \$2,052,000, future expected option receipts of \$725,000, combined with the remaining advance available under the Amended Loan of \$500,000 and the Convertible Note of US\$2,000,000, the Company expects to be able to meet its annual operating obligations and finance the acquisition of, and capital expenditures at, the 7P Plant. Additional working capital funding to support the operations of the frac sand business is being sought.

Development of the Minago mine will require considerable financial resources. Management is monitoring the outcome of various financing initiatives being undertaken in the marketplace. The Company has put together a financing strategy which includes several components; the relative proportion of each will be dependent upon the market conditions at the time the strategy is executed. Components include: securing a joint venture partner for nickel and/or frac sand, off-take agreements for both nickel concentrate and frac sand, plant and equipment leasing for the mine and frac sand plant, bank borrowing and/or equity issues.

The Company continues to hold discussions with local and overseas financiers and potential business partners with respect to the nickel and frac sand opportunities. The completion of the Convertible Note in November 2013 represents the culmination of some of those discussions.

**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, 2013, \$695,000 (before receipt of a government grant of \$72,000) was incurred on the Minago project (September 30, 2012 - \$2,342,000 before receipt of a government grant of \$50,000).

#### **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 hydraulic fracturing “frac” sand, which is used to improve well recoveries in the oil and gas industry. The frac sand forms part of the overburden that must be removed prior to mining the nickel ore. According to the FS, production of frac sand could begin 20 months after the start of mine development.

The analytical data and geological interpretations obtained from a work program in 2010 were incorporated into an updated geological model and resource estimate. The updated resource incorporates a 24% increase (over the previous resource estimate) in the NI-43-101-compliant measured and indicated, pit-constrained, sulphide nickel resource used in the Minago FS. The FS is posted at [www.sedar.com](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. The program comprised 8,793m of diamond drilling in 20 drill holes with associated ground and borehole electromagnetic geophysics. The program was intended to evaluate parts of the project that have seen little work to date as well as to build upon the existing data-set of the Nose Deposit nickel mineralization. The entire pit-constrained resource is located within the Nose Deposit. A total of 15 holes were collared to intersect the “North Limb”, a domain of nickel-bearing ultramafic rock extending at least 1.5km north from the Nose

Deposit. A single deep hole was collared on the Nose Deposit to evaluate the depth extension of the ultramafic host rock and nickel mineralization. The hole was drilled to a total length of 1,527m and intersected approximately 160m of ultramafic rock near the bottom of the hole – confirming the extension of the host rock to depths several hundred metres below that previously tested. A single drill hole was collared in the western part of the property in order to test the thickness of the Winnipeg Formation sand horizon. As anticipated, the hole successfully intersected the Winnipeg Formation sandstone layer (frac sand horizon) immediately above the unconformity with the Thompson Nickel Belt rocks.

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

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

#### *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. The Company has also announced the creation of Victory Silica to advance a plan which will allow the Company to exploit this long-term sand resource.

#### **Victory Silica**

On June 19, 2012, the Company announced a new initiative through the creation of Victory Silica and the hiring of Ken Murdock as its CEO. The objective is to establish VSL as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project at the same time as generating significant cash flow. Expenditures on non-capital items are presently classified as pre-operating expenditures and are charged through operations. Plant acquisition costs and plant improvement costs are capitalized as 7P Plant within Property and Equipment on the balance sheet without amortization since the plant is not available for use. Certain vehicles used in the plant improvements are being depreciated. On January 9, 2013, the Company announced that it had completed an asset purchase agreement for the purchase of the 7P Plant located near Medicine Hat, Alberta.

Site reclamation work has been completed and the final closure report has been filed with the AER. Major equipment has been ordered. Numerous contracts have been completed and others negotiated and are being documented, including agreements on the terms for purchase of, and for the washing and concentrating of, Jordan Formation frac sand in Wisconsin. A rail contract and credit facility has been approved by Canadian Pacific (“CP”) for the shipping of concentrated sand from Wisconsin for finishing at the 7P Plant, as has an agreement to provide access for private cars on the CP rail line. A rail car leasing agreement is expected to be signed in the very near future.

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

For the nine months ended September 30, 2013, the Company incurred exploration expenditures on its E&E projects of \$84,000 (September 30, 2012 - \$131,000). Expenditures have been minimal due to the tight equity markets and management’s focus on Victory Silica. The 2013 expenditures are shown before the transfer of \$392,000 through operations (September 30, 2012 - \$1,450,000) with respect to the Lynn Lake option receipts in excess of carrying value.

## Lac Rocher

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

Year round access is now available to the site. In December 2009, diamond drilling was conducted to provide geotechnical data deemed necessary for future portal and ramp development. An InfiniTem ground electromagnetic survey was conducted over a portion of the property to test for deeper extensions to the nickel mineralization. At the same time, evaluation of the availability of borrow material was also conducted in the local region. In 2013, a program to retrieve all accessible drill core from the site was conducted. This core will be securely stored in Chibougamau at the Copper Rand mine site before being moved to permanent storage.

## Mel Project

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

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

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

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

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 2012 or in 2013 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.

As discussed earlier and described in Note 12 to the 2012 Audited Consolidated Financial Statements, the Company has optioned Lynn Lake to Prophecy Coal with subsequent assignment to Prophecy Platinum. Failure on the part of Prophecy Platinum to meet any of the terms (or Prophecy Coal's rectification of Prophecy Platinum's deficiencies) will result in cancellation of the option on the property and it will revert to the Company. Among other things, the option included a commitment to make \$3,000,000 in expenditures on the property. On August 8, 2012, the Company received \$450,000 from Prophecy Platinum in consideration for waiving the remaining expenditure commitment. On March 1, 2013 the option agreement was amended to schedule out an aggregate of \$1,125,000 over the period to August 29, 2014; \$125,000 was received in each of March and May 2013 and \$150,000 in September 2013. There is no reason to believe that Prophecy Platinum will not meet its remaining option payments to acquire the property and it will transfer to Prophecy Platinum at that point in 2014. Given the stage of the option agreement, the Company no longer considers Lynn Lake to be a material mineral project of the Company; it is included here for completeness.

## IMPAIRMENT ANALYSIS UPDATE

The Company performed a detailed impairment analysis on each of its E&E projects and the MP&D project as at December 31, 2012. The Company does not believe that there have been any material changes to date which would adversely affect this analysis or would cause the Company to initiate another recoverability assessment. 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, 2013 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 loan, 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 2012 Audited Consolidated Financial Statements as updated by Note 3 to the Unaudited Condensed 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 2012 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 fair value of the stock options and warrants 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.

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 in its pre-operating phase, a full valuation allowance has been recorded against losses incurred in that subsidiary.

## **NEW ACCOUNTING POLICIES**

IFRS issued by the International Accounting Standards Board (“IASB”) have been adopted in the Company’s 2012 Audited Consolidated Financial Statements. Note 3 to those statements include the accounting policies that have been applied. Note 3 to the Unaudited Condensed Consolidated Financial Statements includes any new accounting policies – there have been none implemented to date.

## **FUTURE ACCOUNTING CHANGES**

### **New Standards and Interpretations Not Yet Adopted**

Since the issuance of the Company’s 2012 Audited Consolidated Financial Statements, the IASB and International Financial Reporting Interpretations Committee (“IFRIC”) have issued no new and revised standard and interpretations which are applicable to the Company or which have caused changes to its accounting policies. Refer to Note 3 to those statements.

## **CORPORATE GOVERNANCE**

The Company’s Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of directors, none of whom are employees or officers of the Company, meets with management to review the 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.

### **Design 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, 2013, the Certifying Officers have concluded that the design of the Company’s disclosure controls and procedures were effective as at September 30, 2013. Such controls are facilitated by the small size of the Company’s senior management team and their access to material information.

There were no changes to the Company’s disclosure controls and procedures that occurred during the quarter ended September 30, 2013 that materially affected, or are reasonably likely to affect, the Company’s disclosure controls and procedures.

### **Design 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. For the fiscal quarter ended September 30, 2013, the Certifying Officers have concluded that the design of the Company’s internal controls over financial reporting and procedures were effective as at September 30, 2013.

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, 2013 that materially affected, or are reasonably likely to affect, the Company’s internal controls over financial reporting.

## **TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT WITH NUINSCO RESOURCES LIMITED**

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

Short-term employee benefits provided by the Company to key management personnel include salaries, directors’ fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company’s non-monetary benefit package for key management personnel is the same as that

available to all full-time employees. In addition to short-term employee benefits, the Company may also issue options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 16 and 18 to the 2012 Audited Consolidated Financial Statements). Payables to key management personnel generally relate to directors' fees, consulting fees, deferred salaries and expense reimbursements.

Balances and transactions with related parties as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

	<b>September 30, 2013</b>	December 31, 2012
<b>Balances Outstanding</b>		
Payable to key management personnel	\$ 36	\$ 157

Key management personnel compensation comprises:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
Short-term employee benefits	\$ 186	\$ 198	\$ 688	\$ 630
Share-based payments - options	-	-	118	217
Share-based payments - Share Bonus Plan	49	-	66	-
	<b>\$ 235</b>	<b>\$ 198</b>	<b>\$ 872</b>	<b>\$ 847</b>

#### **Balances and Transactions with Nuinsco under the Management Agreement**

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

Balances and transactions with Nuinsco under the management agreement as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

	<b>September 30, 2013</b>	December 31, 2012
<b>Balances Outstanding under the Management Agreement</b>		
Payable to Nuinsco Resources Limited	\$ 76	\$ -
Receivable from Nuinsco Resources Limited	\$ -	\$ 37

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
<b>Transaction Values under the Management Agreement</b>				
Overhead charges from Nuinsco Resources Limited	\$ 204	\$ 130	\$ 517	\$ 501
Overhead charges to Nuinsco Resources Limited	\$ 2	\$ 6	\$ 17	\$ 21
Project costs charged to Nuinsco Resources Limited	\$ 8	\$ 2	\$ 30	\$ 18
Project recoveries charged by Nuinsco Resources Limited	\$ 11	\$ 11	\$ 14	\$ 30

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

### Balances and Transactions with Nuinsco under the Amended Loan

The terms of the Amended Loan are described in Note 13 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 of the Amended Loan is included in the table and accompanying note below:

	September 30, 2013	December 31, 2012
Advance for working capital	\$ 1,000	\$ 1,000
Advance under Amended Loan for standby commitment	1,207	-
Aggregate advances	2,207	1,000
Accrued interest payable	-	9
	2,207	1,009
Less: settled in Units of Victory Nickel	(1,207)	-
Less: unamortized loan fees	(233)	(1)
	767	1,008
Less: loans and borrowings - current portion	(725)	(1,000)
<b>Loans and borrowings - long-term portion</b>	<b>\$ 42</b>	<b>\$ 8</b>

The Company has accrued \$9,000 for commitment fees payable in shares to Nuinsco upon the final advance under the Amended Loan; \$3,000 and \$9,000 in commitment fees are included in *Finance costs* for the three and nine months ended September 30, 2013. Victory Nickel incurred interest of \$30,000 and \$90,000 for the three and nine months ended September 30, 2013 which was paid in cash at the end of each respective quarter; \$9,000 related to 2012 was paid in the first quarter of 2013.

### OUTSTANDING SHARE DATA

As at November 11, 2013, the Company had 567,030,820 common shares issued and outstanding. In addition, there were 31,666,250 stock options and 112,500,000 warrants outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 711,197,070 and would generate cash of approximately \$6,471,000. However, most of the options are not "in the money" and most of the warrants cannot be exercised until July 31, 2014.

### RECENT DEVELOPMENTS

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

### RISKS AND UNCERTAINTIES

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. The entry into the frac sand industry is a new activity for the Company. 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 in the Company's 2012 MD&A. A summary is provided 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.

#### 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. No assurance can be given that Victory Nickel's exploration programs will result in the establishment or expansion of resources or reserves.

### ***Evaluation 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. The costs estimated under the FS for Minago differed from the PEA and may differ again upon actual development.

### ***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. There is no assurance that Victory Nickel will compete successfully in acquiring exploration and development rights on such other properties.

### ***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 will 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.

In particular, Victory Silica represents a new initiative for Victory Nickel. While the Company believes it has mitigated the risks of entering a new market through the hiring of experienced personnel, there is no assurance that Victory Silica will be successful.

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

There can be no assurance that Victory Nickel will be able to complete the planned development of its projects on time or on budget due to, among other things, delays in receiving required consents, permits and registrations, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support Victory Nickel's operations. Any failure to meet development targets or other operational delays or inadequacies could have a material adverse effect. In particular, the Minago EAL was granted for a three-year period and expires on August 22, 2014. There is no guarantee that development work will commence on or before that date or that an extension will be granted.

### ***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.

### ***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. 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. Not all such risks are insurable.

### ***Financial and Investment Risks***

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

Victory Nickel will have to make substantial capital expenditures for the development of and to achieve production from its projects. 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.

**Market Perception**

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

**Metal and Mineral Prices**

There is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. 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. However, these factors are of significant importance for the FS and decisions related thereto.

**Areas of Investment Risk**

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

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

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

**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.

**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.

**Other Risks****Environmental and Health Risks**

The Company has no significant exposure to environmental or health risks, 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 subject to option by Prophecy Platinum, is a former operating mine; however indemnifications exist from the Manitoba Government with respect to any pre-existing environmental concerns at that property.

**Key Personnel**

Victory Nickel relies on a limited number of key consultants 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 of 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 and, once more, have 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.

**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. 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 natural resource interest may take years to complete and the resulting income, if any, from the sale of any natural resources produced by the Company is largely dependent upon factors that are beyond its control, such as costs of development, operating costs and the market value of the end product.

### FORWARD-LOOKING STATEMENTS

**Forward-Looking Information:** This MD&A contains forward-looking information. All statements, other than statements of historic fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow, costs, economic return, net present value, mine life and financial models, mineral resource estimates, potential mineralization, potential mineral resources, timing of possible production and the Company's development plans and objectives) constitute forward-looking information. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company.

Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; the possibility that actual circumstances will differ from estimates and assumptions; uncertainties relating to the availability and costs of financing needed in the future; failure to establish estimated mineral resources; fluctuations in commodity prices and currency exchange rates; inflation; recoveries being less than those indicated by the testwork carried out to date (there can be no assurance that recoveries in small scale laboratory tests will be duplicated in large tests under on-site conditions or during production); changes in equity markets; operating performance of facilities; environmental and safety risks; delays in obtaining or failure to obtain necessary permits and approvals from government authorities; unavailability of plant, equipment or labour; inability to retain key management and personnel; changes to regulations or policies affecting the Company's activities; 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 11, 2013**