VICTORY NICKEL INC.

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

DATED MAY 11, 2011

Management's Comments on Unaudited Interim Financial Statements

The accompanying unaudited interim financial statements of Victory Nickel Inc. for the three months ended March 31, 2011 and 2010 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 interim financial statements have not been reviewed by an auditor.

Balance Sheets

(in thousands of Canadian dollars)	*Notes*	**March 31, 2011** (unaudited)	December 31, 2010 (unaudited - Note 23)	January 1, 2010 (unaudited - Note 23)
ASSETS				
Current assets				
Cash and cash equivalents	*6*	**$ 233**	$ 170	$ 4,078
Receivables	*7*	**279**	96	329
Marketable securities	*8*	**9,633**	10,556	1,254
Total current assets		**10,145**	10,822	5,661
Non-current assets				
Property and equipment	*10*	**813**	715	88
Exploration and evaluation projects	*11*	**47,819**	44,703	40,922
Total non-current assets		**48,632**	45,418	41,010
Total Assets		**$ 58,777**	$ 56,240	$ 46,671
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables	*12*	**$ 2,386**	$ 592	$ 1,400
Total current liabilities		**2,386**	592	1,400
Non-current liability				
Deferred tax liability	*13*	**3,134**	3,314	2,659
Total Liabilities		**5,520**	3,906	4,059
Shareholders' equity				
Share capital	*14*	**46,731**	46,114	40,508
Contributed surplus		**3,721**	3,721	2,980
Accumulated other comprehensive income	*14*	**4,124**	4,119	998
Deficit		**(1,319)**	(1,620)	(1,874)
Total shareholders' equity		**53,257**	52,334	42,612
Total Liabilities and Shareholders' Equity		**$ 58,777**	$ 56,240	$ 46,671

NATURE OF OPERATIONS (Note 1)

The accompanying notes are an integral part of these financial statements

Statements of Operations

(in thousands of Canadian dollars, except per share amounts)	Notes	Three months ended March 31, 2011 (unaudited)	2010 (unaudited - Note 23)
General and administrative costs		**$ (379)**	$ (377)
Share-based payments:			
Options	*16*	**(2)**	(544)
Amortization of property and equipment	*10*	**(2)**	(1)
Recovery of exploration and evaluation projects	*11*	**599**	-
Operating profit (loss)		**216**	(922)
Finance income	*17*	**2**	459
Finance costs	*17*	**(97)**	-
Net finance (costs) income		**(95)**	459
Profit (loss) before income taxes		**121**	(463)
Income tax recovery	*18*	**180**	130
Net Profit (Loss) for the Period		**$ 301**	$ (333)
Earnings (loss) per share	*15*		
Basic earnings (loss) per share		**$ 0.00**	$ (0.00)
Diluted earnings (loss) per share		**$ 0.00**	$ (0.00)

The accompanying notes are an integral part of these financial statements

Statements of Comprehensive Income

(in thousands of Canadian dollars)	Notes	Three months ended March 31, 2011 (unaudited)	2010 (unaudited - Note 23)
Net profit (loss) for the period		**$ 301**	$ (333)
Other comprehensive income ("OCI")			
Net change in fair value of financial assets	*9*	**6**	1,712
Income tax expense	*18*	**(1)**	(209)
Other comprehensive income for the period		**5**	1,503
Total Comprehensive Income for the Period		**$ 306**	$ 1,170

The accompanying notes are an integral part of these financial statements

Statements of Shareholders' Equity

(restated - Note 23)
(unaudited)
(in thousands of Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balances as at January 1, 2010		$ 40,508	$ 2,980	$ 998	$ (1,874)	$ 42,612
Total comprehensive income for the period						
Net loss for the period					(333)	(333)
Other comprehensive income						
Net change in fair value of financial assets	*9*			1,712		1,712
Income tax expense	*18*			(209)		(209)
Total other comprehensive income						1,503
Total comprehensive income for the period						1,170
Transactions with owners, recorded directly in equity						
Contributions by owners - in the three months ended March 31, 2010						
Issue of flow-through common shares and warrants under private placement	*14*	394	70	-	-	464
Options granted and vesting	*16*	-	544	-	-	544
Total contributions by owners		**394**	**614**	**-**	**-**	**1,008**
Total transactions with owners		**394**	**614**	**-**	**-**	**1,008**
Balances as at March 31, 2010		**$ 40,902**	**$ 3,594**	**$ 2,501**	**$ (2,207)**	**$ 44,790**
Balances as at January 1, 2011		**$ 46,114**	**$ 3,721**	**$ 4,119**	**$ (1,620)**	**$ 52,334**
Total comprehensive income for the period						
Net profit for the period					301	301
Other comprehensive income						
Net change in fair value of financial assets	*9*			6		6
Income tax expense	*18*			(1)		(1)
Total other comprehensive income						**5**
Total comprehensive income for the period						**306**
Transactions with owners, recorded directly in equity						
Contributions by owners						
Issue of common shares and warrants under private placement	*14*	471	26	-	-	497
Options granted and vesting	*16*	-	2	-	-	2
Warrants exercised	*14,16*	146	(28)	-	-	118
Total contributions by owners		**617**	**-**	**-**	**-**	**617**
Total transactions with owners		**617**	**-**	**-**	**-**	**617**
Balances as at March 31, 2011		**$ 46,731**	**$ 3,721**	**$ 4,124**	**$ (1,319)**	**$ 53,257**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

(in thousands of Canadian dollars)	*Notes*	Three months ended March 31, **2011** (unaudited)	2010 (unaudited - Note 23)
Cash flows from operating activities			
Net profit (loss) for the period		**$ 301**	$ (333)
Adjustments for:			
Share-based payments	*16*	**2**	544
Amortization of property and equipment	*10*	**2**	1
Recovery of exploration and evaluation projects	*11*	**(599)**	-
Net finance costs (income)	*17*	**97**	(453)
Income tax recovery	*18*	**(180)**	(130)
Net change in working capital:			
Change in receivables		**(183)**	8
Change in trade and other payables		**131**	(168)
Net cash used by operating activities		**(429)**	(531)
Cash flows from investing activities			
Expenditures on exploration and evaluation projects	*11*	**(1,454)**	(2,223)
Purchase of marketable securities	*8*	**(114)**	(171)
Proceeds on sale of marketable securities	*8*	**946**	-
Proceeds from option of Lynn Lake	*11*	**600**	300
Deposit on equipment	*10*	**(100)**	-
Net cash used by investing activities		**(122)**	(2,094)
Cash flows from financing activity			
Issue of common shares and warrants	*14*	**614**	618
Net cash from financing activity		**614**	618
Net increase (decrease) in cash and cash equivalents		**63**	(2,007)
Cash and Cash Equivalents, Beginning of the Period		**170**	4,078
Cash and Cash Equivalents, End of the Period		**$ 233**	$ 2,071

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

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

1. NATURE OF OPERATIONS

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. Victory Nickel is primarily engaged in the acquisition, exploration and development of nickel properties in Canada. 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".

Going Concern

These 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 March 31, 2011, the Company had working capital of $7,759,000 (December 31, 2010 – $10,230,000).

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. The recoverability of the carrying value of exploration and evaluation projects, 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 for its funding.

Should the Company not be able to continue to achieve favourable exploration results, obtain the necessary financing or achieve future profitable production or sale of properties, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). These are Victory Nickel's first financial statements in accordance with IFRS and IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Victory Nickel is provided in Note 23.

As these are the Company's first set of unaudited interim financial statements prepared under IFRS, the disclosures herein exceed the minimum requirements under IAS 34, Interim Financial Reporting ("IAS 34"). In particular, the Company's accounting policies under IFRS are presented in full and certain notes include more detail than the conventional updates required under interim reporting standards in order to provide the reader with additional contextual information. In future interim reports, the Company may not provide the same amount of disclosure as the reader will be able to refer to earlier reports prepared in accordance with IFRS.

The management of Victory Nickel prepare the unaudited interim financial statements which are then reviewed by the Audit Committee and the Board of Directors. The unaudited interim financial statements were authorized for

issue by the Board of Directors on May 11, 2011. Shortly thereafter, the financial statements are made available to shareholders and others through filing on SEDAR. The shareholders approve the annual financial statements at the annual general meeting; the date of which has not yet been announced.

(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 through operations and financial assets such as marketable securities which are measured at fair value and recorded through other comprehensive income or loss ("OCI").

The methods used to measure fair values are discussed further in Note 5.

(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 and have been rounded to the nearest dollar with the exception of tabular amounts, which have been rounded to the nearest thousand.

(d) Use of Estimates and Judgments
The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates 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.

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.

The accompanying unaudited interim 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.

Information regarding significant areas of estimation uncertainty and critical judgments 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 9 valuation of financial assets at fair value through operations;
- Note 9 valuation of financial assets at fair value through OCI;
- Note 11 measurement of the recoverable amount of exploration and evaluation projects;
- Notes 13, 18 utilization of tax losses; and
- Note 16 measurement of share-based payments.

3. SIGNIFICANT ACCOUNTING POLICIES
The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign Currency
(i) *Foreign currency transactions*
Transactions in foreign currencies are translated to the respective functional currency of Victory Nickel at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate

at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized through operations, except for differences arising on the retranslation of marketable securities, which are recognized directly in OCI. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial Instruments
IFRS 9 Financial Instruments
IFRS 9 Financial Instruments ("IFRS 9"), which impacts the classification and measurement of financial assets, has been early-adopted by the Company concurrent with its implementation of IFRS. Upon recognition, the Company designates its financial assets accounted for at fair value as being accounted for either through operations or through OCI. All subsequent gains or losses arising on financial assets at fair value are recorded either through operations or through OCI in accordance with that designation. The changes in value of the Company's portfolio of shares are accounted for through OCI and changes in value of the Company's warrants are accounted for through operations.

(i) *Non-derivative financial instruments*
Non-derivative financial instruments comprise investments in equity securities, receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments, with the exception of financial assets at fair value through OCI, are recognized initially at fair value plus, for instruments not at fair value through operations, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits.

Loans, receivables and borrowings are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans, receivables and borrowings are measured at amortized cost using the effective interest method, less any impairment losses. Loans, receivables and borrowings comprise receivables or payables.

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

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

Financial assets at fair value through operations
An instrument is classified at fair value through operations if it is designated as such upon initial recognition and/or mandatorily measured at fair value in accordance with IFRS 9. Victory Nickel manages such investments and makes purchase and sale decisions based on their fair value in accordance with Victory Nickel's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized through operations when incurred. Financial instruments at fair value through operations are measured at fair value and changes therein are recognized through operations.

Financial instruments at amortized cost
Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments
Victory Nickel holds warrants as part of its portfolio of marketable securities which are financial assets at fair value through operations.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized through operations when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately through operations.

Notes to the Financial Statements

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

(c) Property and Equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within *Other income* in the statement of operations.

(ii) Depreciation

Depreciation is calculated as a function of the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognized through operations as follows over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Item	**Method**	**2011**	2010
Building	Declining-balance	**5%**	5%
Equipment	Declining-balance	**20%**	20%
Vehicle	Declining-balance	**30%**	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Exploration & Evaluation Assets

(i) Exploration & Evaluation expenditures

Exploration & Evaluation ("E&E") expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are capitalized as E&E assets on an "area of interest basis" which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises of a single mine or deposit.

E&E assets are recognized if the rights to the project are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale; or
- activities on the project have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or other otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the project are continuing.

E&E expenditures are initially capitalized as intangible E&E assets. Such E&E expenditures may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Notes to the Financial Statements

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

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, E&E assets attributable to that project are first tested for impairment and then reclassified to *mine property and development projects*. Currently, Victory Nickel does not hold any assets classified as *mine property and development projects*.

(ii) Pre-E&E (project generation) expenditures

Pre-E&E (project generation) expenditures are incurred on activities that precede exploration for an evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area. Pre-E&E expenditures are expensed immediately as *Writedown of exploration and evaluation projects* through the statement of operations.

(iii) Pre-exploration write-offs

Under IFRS 6, costs incurred prior to the obtaining of the legal rights to explore an area may not be capitalized within E&E assets.

(iv) Impairment

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount and any impairment loss is recognized as *Writedown of exploration and evaluation projects* through the statement of operations. The following facts and circumstances, among other things, indicate that E&E assets must be tested for impairment:

- the term of exploration license for the project has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and the Company plans to discontinue activities in the specific area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full through such activity.

E&E assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to *Mine property and development projects* on the balance sheet.

(e) Borrowing Costs

The Company's policy is to capitalize project-related borrowing costs related to qualifying assets as incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company presently does not have any project-related borrowings.

(f) Government Grants

Government grants that compensate Victory Nickel for expenses incurred are recognized through operations on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate Victory Nickel for the cost of an asset are recognized through operations on a systematic basis over the useful life of the asset. For assets which are not being amortized, such as E&E assets or mine property and development projects, the government grant is deducted from the related asset.

(g) Investment Tax Credits ("ITCs")

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

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is

Notes to the Financial Statements

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

impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of a financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and financial assets that are debt securities, the reversal is recognized through operations.

(ii) *Non-financial assets*

The carrying amounts of Victory Nickel's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") (see definition below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates, or has the potential to generate, cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Generally, a CGU is analogous to an individual project. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized through operations. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee Benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Victory Nickel is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Victory Nickel has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if Victory Nickel has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Notes to the Financial Statements

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

(iii) Share-based payment transactions

The grant date fair value of options granted to employees, directors and consultants is recognized as an employee expense, with a corresponding increase in equity, over the period that the individuals become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by Victory Nickel.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when the land is contaminated and there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities.

(k) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including financial assets at fair value through operations), dividend income, gains on the disposal of financial assets at fair value through operations, flow-through premium and changes in the fair value of financial assets (warrants) at fair value through operations. Interest income is recognized as it accrues through operations, using the effective interest method. Dividend income is recognized through operations on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Gains on the disposal of financial assets are recognized on the settlement date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preferred shares classified as liabilities, changes in the fair value of financial assets at fair value through operations and losses recognized on financial assets that are recognized through operations. All borrowing costs are recognized through operations using the effective interest method, except for those amounts capitalized as part of the cost of qualifying assets.

Foreign currency gains and losses are reported on a net basis.

(l) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized through operations except to the extent that it relates to items recognized either in OCI or directly in equity, in which case it is recognized in OCI or in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or

Notes to the Financial Statements

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

substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In 2009, pursuant to the receipt of a positive feasibility study for the Minago project, Victory Nickel determined that it was probable that it would be able to realize the benefit associated with its losses and costs prior to their expiry. Accordingly, the Company recognized the deferred tax assets (to the extent of the deferred tax liability) at that time. Victory Nickel continues to believe it is probable that the benefit of its losses and other costs will be realized prior to their expiry.

(m) Share Capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has financed a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature. At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a liability in *Trade and other payables* on the balance sheet (Note 12). The proceeds attributable to the warrants is also treated as equity and recorded in *Contributed surplus* on the balance sheet until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise.

The effect of renunciation of the tax benefits to holders of such shares is recognized pro rata with the associated expenditures being incurred by the Company. This could occur either before or after the formal renunciation of expenditures to the tax authorities have been made. When the eligible expenditures are incurred, the tax value of the renunciation is recorded as a deferred tax liability and charged against operations as a deferred tax provision.

Furthermore, as eligible expenditures are incurred, the Company recognises a pro rata amount of the Flow-through Premium through *Finance income* in the statement of operations (Note 17) with a decrement to the liability in *Trade and other payables* on the balance sheet.

Share-based payment arrangements

Stock Option Plan

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 16. Awards to non-employees are measured at the fair value of the goods or services received. Awards made to employees are measured at the grant date. All stock-based awards made to employees and non-employees are recognized at the date of grant using a fair-value-based method to calculate compensation expense. Compensation expense is charged to operations over the vesting period of the options or service period, whichever is shorter. Stock options vest either immediately or over a 12-month period.

Share Incentive Plan

The Company has a share incentive plan (the "Share Incentive Plan"), which includes both a share purchase plan (the "Share Purchase Plan") and a share bonus plan (the "Share Bonus Plan"). The Share Incentive Plan is administered by the Directors of the Company. The Share Incentive Plan provides that eligible persons thereunder include Directors, senior officers and employees of the Company and its designated affiliates and consultants who

are primarily responsible for the management and profitable growth of the business.

The Share Incentive Plan is described in Note 14. The Company uses the fair value method of accounting for, and to recognize as compensation expense, its share-based payments for employees. Shares issued under the Share Incentive Plan are valued based on to the quoted market price on the date of the award. This amount is expensed over the vesting period.

(n) Earnings per Share
The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise warrants and share options.

(o) New Standards and Interpretations Not Yet Adopted
A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company. The Company chose to early-adopt IFRS 9 as part of its transition to IFRS.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview
The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk Management Framework
The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

Credit Risk
Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, receivables and marketable securities.

Cash and cash equivalents
The Company's cash and cash equivalents are held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board.

Notes to the Financial Statements

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

The Company does not own asset-backed commercial paper.

Receivables

The Company's receivables consist primarily of amounts due from federal and provincial governments. Amounts due from related parties are settled on a regular basis.

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures, as described above.

Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

Marketable securities

The Company limits its exposure to credit risk by investing only in securities which are listed on public stock exchanges. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will enure to the Company. At March 31, 2011, the Company had $nil in guarantees outstanding (2010 - $nil).

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and marketable securities. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities except for deferred tax liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income, the value of its E&E properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

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

Notes to the Financial Statements

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash equivalents earn interest at variable short-term rates. The estimated effect of a 50bps change in interest rate would not have a material effect on the Company's results of operations. None of the Company's other financial instruments are interest-bearing. Consequently, the Company is not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

Other market price risk

The Company's marketable securities and strategic investments are subject to equity price risk. The values of these investments will fluctuate as a result of changes in market prices, the price of metals or other factors affecting the value of the investments.

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The value of the Company's mineral resource properties is related to the price of, and outlook for, base and precious metals. Historically, such prices have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures. The Company does not have any hedging or other commodity-based risks respecting its operations. The value of the Company's strategic investments is also related to the price of, and outlook for, base and precious metals and other minerals.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Company has a small but hands-on and experienced executive team which facilitates communication across the Company. This expertise is supplemented, when necessary, by the use of experienced consultants in legal, compliance and industry-related specialties. The Company also has standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- development of contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective and available.

Compliance with Company standards is supported by a code of conduct which is provided to employees, officers and directors. The Company requires sign off of compliance with the code of conduct.

Capital Management Disclosures

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity as well as

Notes to the Financial Statements

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

any long-term debt, equipment-based and/or project-based financing.

	March 31, 2011	December 31, 2010	January 1, 2010
Shareholders' equity	**$ 53,257**	$ 52,334	$ 42,612
	$ 53,257	$ 52,334	$ 42,612

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

5. DETERMINATION OF FAIR VALUES

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

(a) Property and Equipment

The fair value of property, plant 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.

(c) Investments in Equity

The fair value of marketable securities included in financial assets at fair value through operations or OCI is determined by reference to their quoted closing bid price 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

Notes to the Financial Statements

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

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

	March 31, 2011	December 31, 2010	January 1, 2010
Bank balances	**$ 125**	$ 12	$ (44)
Short-term deposits	**108**	158	4,122
Cash and Cash Equivalents in the Statement of Cash Flows	**$ 233**	$ 170	$ 4,078

7. RECEIVABLES

	March 31, 2011	December 31, 2010	January 1, 2010
Receivables	**$ 237**	$ 82	$ 294
Prepaid expenses and deposits	**42**	14	35
	$ 279	$ 96	$ 329

8. MARKETABLE SECURITIES

	Note	**March 31, 2011**	December 31, 2010	January 1, 2010
Financial assets at fair value through OCI:				
Shares	*9*	**$ 9,513**	$ 10,167	$ 1,254
Financial assets at fair value through operations:				
Warrants	*9*	**120**	389	-
		$ 9,633	$ 10,556	$ 1,254

The Company records its portfolio of shares at available market prices with any excess of fair value above acquisition cost being recorded as gain on financial assets at fair value through OCI.

The financial assets at fair value through operations consist of warrants which are 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 statement of operations as a gain or loss on financial assets at fair value in *Net finance costs or income*. The change in the fair value of the warrants of $97,000 in the three months ended March 31, 2011 is included in *Finance costs* (three months ended March 31, 2010 - $282,000 in *Finance income*).

Notes to the Financial Statements

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

Sensitivity Analysis – Equity Price Risk

All of the Company's financial assets at fair value through OCI are listed on public stock exchanges such as the TSX and the TSX-V. For such investments, a 5% increase in the equity prices at the reporting date would have increased equity by $411,000, after tax effects of $64,000 (as at December 31, 2010 - an increase of $440,000, after tax effects of $69,000); an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

For financial assets at fair value through operations, the impact on operations of a 5% increase in the fair value at the reporting date would have been an increase of $5,000 after tax effects of $1,000 (as at December 31, 2010 - $17,000, after tax effects of $2,000).

The analyses were performed on the same basis for 2011 and 2010.

9. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

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

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

	Notes	**March 31, 2011**	December 31, 2010	January 1, 2010
Carrying amount				
Cash and cash equivalents	*6*	**$ 233**	$ 170	$ 4,078
Receivables	*7*	**279**	96	329
Financial assets at fair value through OCI	*8*	**9,513**	10,167	1,254
Financial assets at fair value through operations	*8*	**120**	389	-
		$ 10,145	$ 10,822	$ 5,661

Liquidity Risk

The contractual maturities of financial liabilities are equal to their carrying amounts which are all due within six months or less.

Currency Risk

Exposure to currency risk

The company's exposures to foreign currency risk is immaterial; periodically the Company may have trade payables in US$. Refer also to Note 21 for commitments.

Sensitivity analysis

A 10% strengthening or weakening of the Canadian dollar would have an immaterial effect on the Company's equity or profit or loss. The analysis assumes that all other variables, in particular interest rates, remain constant.

Fair Value

Fair values versus carrying amounts

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

Notes to the Financial Statements

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

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

	Level 1	Level 2	Level 3	Total
As at March 31, 2011				
Financial assets at fair value through OCI	$ 9,513	$ -	$ -	$ 9,513
Financial assets at fair value through operations	-	120	-	120
	$ 9,513	$ 120	$ -	$ 9,633
As at December 31, 2010				
Financial assets at fair value through OCI	$ 10,167	$ -	$ -	$ 10,167
Financial assets at fair value through operations	-	389	-	389
	$ 10,167	$ 389	$ -	$ 10,556

There have been no transfers between Level 1 and Level 2 during the current and prior reporting periods. Certain warrants were exercised from the portfolio of financial assets at fair value through operations and replaced by shares which are financial assets at fair value through OCI. All of the shares owned by the Company are valued using Level 1 methodologies; warrants are not publicly-traded but are susceptible to valuation using the Black-Scholes option-pricing model, the inputs for which are readily determinable.

The warrants were valued using the Black-Scholes option-pricing model, using the following parameters and assumptions:

	March 31, 2011	December 31, 2010
Fair values	**$0.356**	$0.601 and $0.643
Share price at valuation date	**$0.980**	$1.00
Assumptions		
Exercise prices	**$0.80**	$0.80 and $0.40
Expected volatility	**72%**	42% and 149%
Expected remaining terms (years)	**1**	0.1 and 1.25
Expected dividends	**-**	-
Risk-free interest rates	**1.77%**	1.67%

10. PROPERTY AND EQUIPMENT

Balance as at January 1, 2010	Land and Building	Vehicle	Equipment	Total
Cost	$ 83	$ 11	$ 29	$ 123
Accumulated Depreciation	3	4	28	35
Carrying Amount	**80**	**7**	**1**	**88**
Additions	-	28	608	636
Disposal	-	(7)	-	(7)
Depreciation	1	3	2	6
Balance as at December 31, 2010				
Cost	83	32	637	752
Accumulated Depreciation	4	3	30	37
Carrying Amount	**79**	**29**	**607**	**715**
Additions	-	-	100	100
Depreciation	-	-	2	2
Balance as at March 31, 2011				
Cost	83	32	737	852
Accumulated Depreciation	4	3	32	39
Carrying Amount	**$ 79**	**$ 29**	**$ 705**	**$ 813**

Notes to the Financial Statements

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

Equipment includes deposits of $708,000 related to the purchase of transformers and other electrical equipment; the equipment is not in service and is not being depreciated. On May 10, 2010, the Company entered into an agreement to purchase the equipment for the Minago project. The total price of US$2,840,000 is contingent upon satisfactory testing results which have been received, with the full remaining balance due prior to shipping (Note 21).

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, 2011	Current Expenditures	Recoveries	Excess Proceeds	**March 31, 2011**
Lac Rocher	$ 7,026	$ 43	$ -	$ -	**$ 7,069**
Lynn Lake	-	1	(600)	599	**-**
Mel	6,618	558	-	-	**7,176**
Minago	31,059	2,515	-	-	**33,574**
	$ 44,703	$ 3,117	$ (600)	$ 599	**$ 47,819**

	January 1, 2010	Current Expenditures	Recoveries	Excess Proceeds	March 31, 2010
Lac Rocher	$ 6,962	$ 21	$ -	$ -	$ 6,983
Lynn Lake	1,356	22	(1,268)	-	110
Mel	6,421	76	-	-	6,497
Minago	26,183	2,862	-	-	29,045
	$ 40,922	$ 2,981	$ (1,268)	$ -	$ 42,635

The expenditures on the Lynn Lake property are shown net of a $300,000 option payment by Prophecy in the last quarter of 2009, $300,000 in January 2010, $400,000 in April 2010, $400,000 in June 2010, $600,000 in February 2011 and reflect the receipt of Prophecy common shares in January 2010 with a fair value at that time of $968,000. The excess proceeds of $599,000 and $nil for the three months ended March 31, 2011 and 2010, respectively, represent the excess of consideration received under the option agreement above carrying value and are reflected in *Recovery of exploration and evaluation projects* through the statement of 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% net smelter return royalty ("NSR").

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 positive 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

Notes to the Financial Statements

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

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.

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.

On October 21, 2009, the Company announced that it had optioned Lynn Lake to Prophecy. Under the terms of the agreement, Prophecy can acquire a 100% interest in Lynn Lake by paying the Company an aggregate of $4,000,000 over approximately four and a half years, by incurring $3,000,000 in exploration expenditures over approximately three years and by issuing a 10% equity interest in Prophecy calculated on a diluted basis after Prophecy completes a private placement; such placement was completed in January 2010. The Company also has the right to participate in future equity financings on a pro-rata basis to maintain its 10% interest. Because of delays experienced by Prophecy in receiving regulatory approvals, certain of the timing contemplated under the agreement was extended.

The agreement, as extended, provides for the $4,000,000 to be paid to the Company as follows:

- $300,000 within five business days of receiving conditional regulatory approval (such amount was received in November 2009);
- $300,000 within 60 days of October 21, 2009 (later extended to January 9, 2010 with cash received on January 6, 2010);
- $400,000 within 180 days of October 21, 2009 (cash was received on April 13, 2010); and
- $1,000,000 on March 1 of each of 2011, 2012 and 2013.

In June, 2010, the Company received an advance of $400,000 from Prophecy out of its scheduled amount of $1,000,000 due in March 2011. Accordingly, a balance of $600,000 was due by March 1, 2011. The Company received this payment on February 28, 2011.

The Company received 2,419,548 shares of Prophecy on January 6, 2010, at which date the bid price of the shares was $0.40.

Failure on the part of Prophecy to meet any of the terms will result in cancellation of the option on the property and it will revert to the Company.

As at March 31, 2011, $599,000 excess of proceeds under the option agreement above the book value of the property had been received and accordingly was recorded through the statement of operations as a recovery of exploration and evaluation projects in respect of Lynn Lake.

Mel
Effective August 27, 1999, 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 will 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.

Notes to the Financial Statements

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

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).

In the first quarter of 2011, the Company commenced a drilling program at Mel.

Minago

The 100%-owned Minago project covers approximately 28,928 hectares, 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. This work formed the basis for the FS, the results of which were announced in December 2009 and improvements thereto announced in June 2010.

In January, 2008, the Company entered into an option agreement with Xstrata Nickel ("Xstrata"), a business unit of Xstrata Canada Corporation, to acquire a 100% interest in five mineral claims ("the Properties") totalling 691 hectares located at the north end of the Company's existing Minago property package; this is approximately 2.4% of the total Minago project.

The acquisition has been ratified by Xstrata and a 100% interest in the Properties has been registered with the Company. The Properties will be subject to an NSR interest retained by Xstrata, as follows:

- In respect of nickel:
  - a 2% NSR when the LME three-month nickel price is equal to or greater than US$13,227 per tonne in that quarter; and
  - a 1% NSR when the LME three-month nickel price is less than US$13,227 per tonne in that quarter.
- In respect of other metals, minerals and concentrates:
  - a 2% NSR.

In the event that the NSR is a 2% royalty, the Company may buy back up to 50% of the NSR royalty interest for a maximum of $1,000,000. In addition, Xstrata has the right (the "Back-in Right") to earn a 50% interest in the Properties if any resource is discovered on the Properties that exceeds 500,000,000 pounds of contained nickel in measured and indicated resources. To exercise the Back-in Right, Xstrata must commit to pay direct expenditures or an amount in cash to the Company equal to twice the aggregate of all direct exploration, development and mining expenditures incurred by the Company on the Properties prior to the delivery by Xstrata of the Back-in Right notice.

The Minago project is under evaluation and is not in production. Accordingly, the Minago project is not being depreciated.

Wakami, Lar and Wellmet Projects

The Company has incurred minimal expenditures on these properties in 2011, 2010 and 2009.

Impairment

Pre-E&E (project generation) costs and/or E&E costs relating to discontinued projects in the amounts of $nil were provided for through operations as *Writedown of exploration and evaluation projects* in the statement of operations in the three months ended March 31, 2011 and 2010.

Notes to the Financial Statements

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

12. TRADE AND OTHER PAYABLES

	Note	March 31, 2011	December 31, 2010	January 1, 2010
Trade payables				
Exploration and evaluation projects		$ 1,862	$ 374	$ 976
Non-project related		135	23	24
Due to Nuinsco Resources Limited	*20*	40	21	33
Accrued liabilities				
Exploration and evaluation projects		230	55	13
Non-project related		94	92	354
Other payables		25	27	-
		$ 2,386	$ 592	$ 1,400

The following table shows the transactions and balances of the flow-through premium liability:

	Notes	March 31, 2011	December 31, 2010	January 1, 2010
Balance as at beginning of period		$ -	$ -	$ -
Flow-through premium from financing February, 2010	*14*	-	171	-
Flow-through premium adjusted through finance income		-	(171)	-
Flow-through premium from financing April, 2010	*14*	-	460	-
Flow-through premium adjusted through finance income		-	(460)	-
Balance as at end of period		$ -	$ -	$ -

13. DEFERRED TAX LIABILITIES

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying value of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are considered probable to be realized.

Significant components of the Company's deferred tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Temporary differences			
Property and equipment	$ (23)	$ (22)	$ (20)
Exploration and evaluation assets	6,006	6,071	5,557
Share issue and other costs	(344)	(377)	(477)
Net tax losses carried forward	(3,061)	(2,927)	(2,401)
Capital losses carried forward	(30)	(87)	(109)
Capital gains unrealized	586	656	-
	3,134	3,314	2,550
Unrecognized deferred tax assets	-	-	109
	$ 3,134	$ 3,314	$ 2,659

The income tax recovery represents the recognition of deferred income tax assets (to the extent of the deferred tax liability) since the Company currently believes that it is probable that the benefit associated with these losses and

Notes to the Financial Statements

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

costs will be realized prior to their expiry. It also includes the effect of enacted rate changes.

Non-capital losses expire as follows:

2014	**$**	**195**
2015		**367**
2026		**636**
2027		**1,092**
2028		**2,312**
2029		**2,492**
2030		**1,799**
2031		**1,985**
2032		**497**
	$	**11,375**

The Company also has capital losses available for carryforward of $222,000.

Movement in Temporary Differences during the Period

	As at December 31, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in share capital	As at March 31, 2011
Property and equipment	$ (22)	$ (1)	$ -	$ -	$ (23)
Exploration and evaluation projects	6,071	(65)	-	-	6,006
Share issue costs	(377)	-	-	33	(344)
Net tax losses carried forward	(2,927)	(100)	-	(34)	(3,061)
Capital losses (net)	(87)	-	57	-	(30)
Capital gains unrealized	656	(14)	(56)	-	586
	3,314	(180)	1	(1)	3,134
Unrecognized deferred tax assets	-	-	-	-	-
Deferred income tax liability, net	$ 3,314	$ (180)	$ 1	$ (1)	$ 3,134

	As at January 1, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in share capital	As at December 31, 2010
Property and equipment	$ (20)	$ (2)	$ -	$ -	$ (22)
Exploration and evaluation projects	5,557	514	-	-	6,071
Share issue costs	(477)	-	-	100	(377)
Net tax losses carried forward	(2,401)	(376)	-	(150)	(2,927)
Capital losses (net)	(109)	-	22	-	(87)
Capital gains unrealized	-	38	618	-	656
	2,550	174	640	(50)	3,314
Unrecognized deferred tax assets	109	(87)	(22)	-	-
Deferred income tax liability, net	$ 2,659	$ 87	$ 618	$ (50)	$ 3,314

Notes to the Financial Statements

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

14. 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 are as follows:

	Notes	**Three months ended March 31, 2011**	Year ended December 31, 2010
Balance as at beginning of period		**380,025,528**	328,149,761
Issue of flow-through common shares	*(a)(b)*	**-**	10,000,000
Issue of common shares	*(c)*	**5,000,000**	-
Shares issued under reciprocal placement	*(d)*	**-**	36,615,385
Issue of shares under Share Bonus Plan	*(e)*	**-**	1,571,100
Warrants exercised	*(f)(g)*	**988,385**	3,339,282
Options exercised	*(h)*	**-**	350,000
		386,013,913	380,025,528

(a) On February 26, 2010, the Company completed the first tranche of a flow-through financing of 3,429,139 units of securities at a price of $0.20 per unit generating gross proceeds of $686,000. Each unit comprises one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.26 for a period of 12 months from closing. The share issue costs were approximately $73,000 before income taxes of $17,000 and the Company apportioned proceeds of approximately $171,000 to the flow-through premium and $65,000 to the cost of the warrants, plus $5,000 for finder's warrants.

(b) On April 9, 2010, the Company completed the second tranche of a flow-through financing of 6,570,861 units of securities at a price of $0.21 per unit generating gross proceeds of $1,380,000. Each unit comprises one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.26 for a period of 12 months from closing. The share issue costs were approximately $112,000 before income taxes of $29,000 and the Company apportioned proceeds of approximately $460,000 to the flow-through premium and $110,000 to the cost of the warrants, plus $8,000 for finder's warrants. Upon closing of the second tranche, the Company issued 250,000 finder's warrants which entitle the holder to purchase one common share at an exercise price of $0.175 for a period of 12 months from issuance.

(c) On January 10, 2011, the Company completed a private placement financing of 5,000,000 units of securities at a price of $0.10 per unit generating gross proceeds of $500,000. Each unit comprises one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.14 for a period of 12 months from closing. The share issue costs were approximately $4,000 before income taxes of $1,000 and the Company apportioned proceeds of approximately $26,000 to the cost of the warrants.

(d) On May 28, 2010, the Company issued 36,615,385 common shares pursuant to the reciprocal placement with Prophecy. The common shares were issued at a price of $0.104 per share generating gross proceeds of $3,808,000. The share issue costs were approximately $15,000 before income taxes of $4,000. In turn, Victory Nickel subscribed for 7,000,000 Prophecy common shares which are held in the portfolio of marketable securities.

(e) On May 28, 2010, the Company issued 1,571,100 common shares with a fair value of $165,000 to employees and consultants as discretionary bonuses pursuant to the Company's Share Bonus Plan.

(f) In August and September, 2010, 3,339,282 warrants were exercised at an exercise price of $0.12 per share for aggregate consideration of approximately $401,000; that amount plus the aggregate amount previously recorded through contributed surplus of approximately $92,000 is reflected as an increase in share capital.

Notes to the Financial Statements

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

(g) In the first quarter of 2011, 988,385 warrants were exercised at an exercise price of $0.12 per share for aggregate consideration of approximately $118,000; that amount plus the aggregate amount previously recorded through contributed surplus of approximately $28,000 is reflected as an increase in share capital.

(h) On October 12, 2010, 350,000 options were exercised at an exercise price of $0.05 per share for aggregate consideration of approximately $18,000; that amount plus the aggregate amount previously recorded through contributed surplus of approximately $12,000 is reflected as an increase in share capital.

Share Incentive Plan
The Company has a Share Incentive Plan which includes both a Share Purchase Plan and a Share Bonus Plan.

The purpose of the Share Incentive Plan is to encourage ownership of the common shares by directors, senior officers and employees of the Company and its designated affiliates and consultants who are primarily responsible for the management and profitable growth of its business, to advance the interests of the Company by providing additional incentive for superior performance by such persons and to enable the Company and its designated affiliates to attract and retain valued directors, officers, employees and consultants.

Under the Share Purchase Plan, eligible directors, senior officers and employees of the Company and its designated affiliates and consultants can contribute up to 10% of their annual basic salary before deductions to purchase common shares. The Company matches each participant's contribution. The purchase price per common share is the volume weighted-average of the trading prices of the common shares on the TSX for the calendar quarter in respect of which the common shares are issued. Common shares acquired are held in safekeeping and delivered to employees as soon as practicable following March 31, June 30, September 30 and December 31 in each calendar year. No common shares have yet been issued pursuant to the Share Purchase Plan. The maximum number of common shares issuable under the Share Purchase Plan is the lesser of: (i) that number of common shares that can be purchased with a dollar amount equal to 20% of the gross annual salary of the Participants (as defined in the Share Incentive Plan); and (ii) 1% of the aggregate number of issued and outstanding common shares (calculated on a non-diluted basis) from time-to-time.

The Share Bonus Plan permits common shares to be issued as a discretionary bonus to eligible directors, senior officers and employees of the Company and its designated affiliates, and consultants from time to time. In 2011, no common shares were issued under the Share Bonus Plan (2010 - 1,571,100). The maximum number of common shares issuable under the Share Bonus Plan is the lesser of: (i) 2,000,000 common shares; and (ii) 2% of the aggregate number of issued and outstanding common shares (calculated on a non-diluted basis) from time-to-time.

The entitlement to shares issued under the Share Bonus Plan in 2010 vested immediately. The fair value of common share entitlements granted under the Share Bonus Plan is determined using the quoted market value on the date of grant for an aggregate fair value of $165,000 that was charged through operations immediately.

Shareholder Rights Plan
In March, 2009, the Board of Directors approved the adoption of a shareholder rights plan (the "Shareholder Rights Plan") which was subsequently confirmed by its shareholders at the Company's Annual Meeting held on June 3, 2009.

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

If a person, or a group acting in concert, acquires (other than pursuant to an exemption available under the Shareholder Rights Plan) beneficial ownership of 20% or more of the common shares, Rights (other than those held by such acquiring person which will become void) will separate from the common shares and permit the holder

Notes to the Financial Statements

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

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

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

Accumulated Other Comprehensive Income or (Loss) (“AOCI”)
AOCI is comprised of the following separate components of equity:

Net change of financial assets at fair value through OCI
This comprises the cumulative net change in the fair value of financial assets at fair value through OCI.

Income tax on other comprehensive income
This comprises the amount of income tax determined to be required on the cumulative net change in the fair value of financial assets at fair value through OCI.

15. EARNINGS PER SHARE

Basic Earnings per Share

The calculation of basic EPS for the three months ended March 31, 2011 was based on the income attributable to common shareholders of $301,000 (three months ended March 31, 2010 – loss of $333,000), and a weighted average number of common shares outstanding of 385,185,000 (March 31, 2010 – 329,445,000).

The capital transactions from the reporting date to the date of this filing outlined in Note 22 have not had a material impact on earnings per share.

Weighted Average Number of Common Shares (Basic)

	Three months ended March 31,	
	2011	2010
Balance at beginning of period	**380,026,000**	328,150,000
Effect of shares issued	**4,500,000**	1,295,000
Effect of warrants exercised	**659,000**	-
	385,185,000	329,445,000

Diluted Earnings per Share

The calculation of diluted EPS for the three months ended March 31, 2011 was based on income attributable to common shareholders of $301,000 (three months ended March 31, 2010 – loss of $333,000), and a weighted average number of common shares outstanding, after adjustment for the effects of all dilutive potential common shares of 387,819,000 (as at March 31, 2010 – 342,011,000).

Weighted Average Number of Common Shares (Diluted)

	Three months ended March 31,	
	2011	2010
Weighted average number of common shares (basic)	**385,185,000**	329,445,000
Effect of options granted and outstanding	**2,634,000**	4,634,000
Effect of warrants issued and outstanding	**-**	7,932,000
	387,819,000	342,011,000

Notes to the Financial Statements

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

For the three months ended March 31, 2011, 22,639,000 options and 34,453,000 warrants (the three months ended March 31, 2010 – 24,877,000 options and 26,527,000 warrants) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the respective periods during which the options were outstanding.

16. SHARE-BASED PAYMENTS

Description of the Share-based Payment Arrangements

The Company has the following share-based payment arrangements:

Stock Option Plan (equity-settled)

The Company has a Stock Option Plan to encourage ownership of its shares by key management personnel (directors and executive management), employees and consultants, and to provide compensation for certain services. The terms of the Stock Option Plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant. No compensation is recognized when options are exercised. The number of shares reserved for issuance is not to exceed 15% of the aggregate number of common shares issued and outstanding (calculated on a non-diluted basis) from time-to-time. At March 31, 2011, the Company had 32,629,101 (December 31, 2010 – 31,601,581) common shares available for the granting of future options. Options are exercisable at the market price of the shares at the date of grant. The Company does not have any cash-settled transactions.

Share purchase warrants (equity-settled)

Outstanding warrants as at March 31, 2011 consists of warrants issued pursuant to the rights offering in 2009 and warrants issued pursuant to the private placements. Warrants are exercisable at the market price of the shares at the date of grant. The Company does not have any cash-settled transactions.

Share Bonus Plan

The terms of the Company's Share Bonus Plan are set out in Note 14.

Terms and Conditions of Share-based Payment Arrangements

Stock Option Plan

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

- Options issued during the period and granted to executive management, consultants and employees have a maximum term of five years and are equity-settled. Of the options granted, 50% vest immediately, while the remaining options are exercisable after one year.
- Options issued during the period and granted to directors have a maximum term of five years and are equity-settled. All options granted vest immediately.
- Certain options issued upon formation of the Company under a plan of arrangement had terms of up to 10 years.
- All options are to be settled by physical delivery of shares.

Share purchase warrants

The terms and conditions relating to the grants of the share purchase warrants are as follows: all warrants are to be settled by physical delivery of shares and as such, are equity-settled. Warrants issued are generally exercisable for a period of 12 months from issue date; the warrants issued under the rights offering were not exercisable until 12 months from issue and expire 12 months thereafter.

Notes to the Financial Statements

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

Disclosure of Share-based Payment Arrangements

Stock Option Plan

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

	Number of options		**Weighted average exercise price**	
	March 31, 2011	December 31, 2010	**March 31, 2011**	December 31, 2010
Outstanding as at beginning of period	**25,402,248**	24,221,498	**$ 0.30**	$ 0.30
Granted	**-**	5,540,000	**$ -**	$ 0.16
Cancelled	**-**	(200,000)	**$ -**	$ 0.05
Exercised	**-**	(350,000)	**$ -**	$ 0.05
Expired	**(129,262)**	(3,809,250)	**$ 0.25**	$ 0.14
Outstanding as at end of period	**25,272,986**	25,402,248	**$ 0.30**	$ 0.30
Exercisable as at end of period	**25,247,986**	24,132,248	**$ 0.30**	$ 0.30

For options exercised during 2010, the weighted average share price at the date of exercise was $0.105.

	Number of options outstanding		**Weighted average remaining contractual life (years)**	
	March 31, 2011	December 31, 2010	**March 31, 2011**	December 31, 2010
Range of exercise prices				
$0.03 to $0.05	**4,565,000**	4,565,000	**2.83**	3.08
$0.06 to $0.14	**1,250,000**	1,250,000	**2.02**	2.27
$0.15 to $0.16	**5,490,000**	5,490,000	**3.76**	4.01
$0.17 to $0.25	**3,075,000**	3,204,262	**1.64**	1.82
$0.26 to $0.32	**3,445,750**	3,445,750	**1.84**	2.09
$0.33 to $0.50	**2,336,500**	2,336,500	**1.78**	2.02
$0.51 to $0.64	**2,850,000**	2,850,000	**0.94**	1.19
$0.65 to $0.82	**2,260,736**	2,260,736	**0.95**	1.20
	25,272,986	25,402,248	**2.24**	2.47

There were no options granted in the first quarter of 2011. For options granted during 2010, the weighted average fair value at the date of grant was $0.12. A total of 5,540,000 options were granted during 2010 to key management personnel, employees and consultants. This resulted in a total share-based payment expense of $657,000 in the year ended December 31, 2010. Of the 25,272,986 options outstanding at March 31, 2011, 25,000 are subject to vesting in the next fiscal year (at December 31, 2010 – 25,402,248 were outstanding of which 1,270,000 were subject to vesting in the following year). The aggregate fair value of these unvested options not yet charged to operations is $1,000 (options outstanding as at December 31, 2010 - $3,000).

Notes to the Financial Statements

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

Share purchase warrants

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

		Number of warrants		Weighted average exercise price	
	Date Issued	**March 31, 2011**	December 31, 2010	**March 31, 2011**	December 31, 2010
Issued pursuant to rights offering	August 17, 2009	32,744,976	32,744,976	**$ 0.120**	$ 0.120
Exercised		(4,327,667)	(3,339,282)		
Outstanding as at beginning of period		**28,417,309**	29,405,694	**$ 0.120**	$ 0.120
Issued pursuant to private placements:					
Unit warrants	February 26, 2010	1,714,569	1,714,569	**$ 0.260**	$ 0.260
Expired		(1,714,569)			
Unit warrants	April 9, 2010	3,285,431	3,285,431	**$ 0.260**	$ 0.260
Finder's warrants	April 9, 2010	250,000	250,000	**$ 0.175**	$ 0.175
Unit warrants	January 10, 2011	2,500,000	n/a	**$ 0.140**	n/a
Outstanding as at end of period		**34,452,740**	34,655,694	**$ 0.135**	$ 0.141

The warrants issued in the first quarter of 2011 expire twelve months from issue date. Warrants issued pursuant to the rights offering are exercisable for a period of twelve months commencing August 18, 2010; all other warrants are exercisable upon issue and have a term of twelve months.

The Company issued 2,500,000 warrants in the three months ended March 31, 2011 which required an allocation of proceeds to warrants of $26,000; in the first quarter of 2010, 1,714,569 warrants were issued with an allocation of proceeds to warrants of $65,000. In the year ended December 31, 2010, 5,250,000 warrants were issued – $175,000 was allocated from proceeds and a share issue cost of $13,000 was attributable to the finder's warrants.

Inputs for Measurement of Grant Date Fair Values

The grant-date-fair-values of share-based payments, were measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payments granted during the period are as follows:

Options granted during the period	December 31, 2010
Fair value at grant date	$0.066 and $0.119
Share price at grant date	$0.09 and $0.16
Assumptions	
Exercise price	$0.09 and $0.16
Expected volatility	108% to 110%
Option life (years)	4.0
Expected dividends	-
Risk-free interest rate	2.06% to 2.50%

Warrants issued during the period	**March 31, 2011**	December 31, 2010
Fair value at grant date	**$0.011**	$0.038 to $0.053
Share price at grant date	**$0.100**	$0.140 to $0.150
Assumptions		
Exercise price	**$0.140**	$0.175 to $0.260
Expected volatility	**56%**	115% to 116%
Warrant life (years)	**1**	1
Expected dividends	**-**	-
Risk-free interest rate	**1.69%**	1.10%

Notes to the Financial Statements

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

17. FINANCE INCOME AND FINANCE COSTS

	Three months ended March 31,	
	2011	2010
Interest income on bank deposits	**$ 1**	$ 6
Net change in fair value of financial assets at fair value through operations	**-**	282
Premium on flow-through spending	**-**	171
Net foreign exchange gain	**1**	-
Finance income	**2**	459
Net change in fair value of financial assets at fair value through operations	**(97)**	-
Finance costs	**(97)**	-
Net Finance (Costs) Income	**$ (95)**	$ 459

18. INCOME TAXES

The income tax amount in the three months ended March 31, 2011 is a recovery of $180,000 (three months ended March 31, 2010 – recovery of $130,000).

The income tax recovery differs from the amount computed by applying the statutory federal and provincial income tax rates for the three months ended March 31, 2011 and 2010, of 28.5% and 31.0% respectively, to the income before income taxes. The differences are summarized as follows:

	Three months ended March 31,	
	2011	2010
Statutory rate applied to income before income taxes	**$ 35**	$ (144)
Effect of flow-through renunciation	**-**	185
Effect of investment tax credits, net	**(228)**	(161)
Non-taxable items, net	**-**	(53)
Non-deductible items, net	**2**	171
Non-deductible portion of gain (loss) on financial assets through operations	**13**	(44)
Effect of change in expected future income tax rates	**(2)**	10
Unrecognized deferred tax assets	**-**	(94)
Income Tax Recovery	**$ (180)**	$ (130)

19. OPERATING SEGMENT

Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel. 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 and receives administrative support from Nuinsco Resources Limited ("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 *Exploration and evaluation projects* on the balance sheet.

Notes to the Financial Statements

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

Geographical Information

	March 31, 2011	December 31, 2010	January 1, 2010
Canada			
Corporate	**$ 10,958**	$ 11,537	$ 5,749
Lac Rocher	**7,069**	7,026	6,962
Lynn Lake	**-**	-	1,356
Mel	**7,176**	6,618	6,421
Minago	**33,574**	31,059	26,183
Total Assets	**$ 58,777**	$ 56,240	$ 46,671

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.

20. RELATED PARTIES & MANAGEMENT AGREEMENT

Transactions and Balances with Nuinsco and Related Parties

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement. 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.

Transactions and balances with Nuinsco and related parties are shown in the following tables:

	Three months ended March 31,	
	2011	2010
Overhead charges from Nuinsco Resources Limited	**$ 197**	$ 170
Project costs charged to Nuinsco Resources Limited	**$ 7**	$ 5
Project recoveries charged by Nuinsco Resources Limited	**$ 16**	$ 18

	March 31, 2011	December 31, 2010	January 1, 2010
Balances Outstanding			
Payable to Nuinsco Resources Limited	**$ 40**	$ 21	$ 33
Payable to key management personnel	**$ 68**	$ 34	$ 265

Amounts due to or from Nuinsco are unsecured, non-interest bearing and due on demand. Amounts due to or from Nuinsco are settled on a regular basis. Payables to key management personnel generally relate to directors' fees and expense reimbursements.

Transactions with Key Management Personnel

Short-term employee benefits provided by the Company 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 also issued options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 16 and 14).

Notes to the Financial Statements

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

Key management personnel compensation comprised:

	Three months ended March 31, 2011	2010
Short-term employee benefits	$ 223	$ 226
Share-based payments - options	-	619
	$ 223	$ 845

There were no outstanding balances as at March 31, 2011 and December 31, 2010 relating to key management personnel except as included in the tables above.

21. COMMITMENTS

Flow-through Commitment
There were no flow-through financings in the three months ended March 31, 2011. As at December 31, 2010, the Company had fulfilled its commitment to incur exploration expenditures in relation to prior flow-through share financings.

Transformer Equipment
On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price of US$2,840,000 was contingent upon satisfactory testing results, with specified amounts due prior to shipping. The Company has made aggregate deposits of $708,000 as at March 31, 2011.

22. SUBSEQUENT EVENTS

Flow-through Financing
On May 11, 2011, the Board of Directors approved the issuance of up to $1 million in flow-through shares on a private placement basis at a unit price of $0.115 per unit. Each unit comprises of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.15 for a period of 18 months from closing. Finders' warrants, up to 6% of the total sold, will also be issued.

Issuance of Share Options
On May 4, 2011, the Board of Directors granted 2,435,000 share options exercisable at $0.11 per share to directors, officers, employees and consultants. Of the options granted, 1,692,500 vest immediately and 742,500 vest over one year.

23. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2(a), these are Victory Nickel's first financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and the opening IFRS balance sheet as at January 1, 2010 (Victory Nickel's date of transition).

In preparing its opening IFRS balance sheet, Victory Nickel has adjusted amounts reported previously in financial statements prepared in accordance with predecessor Canadian GAAP in effect for the Company prior to the transition date ("pre-transition Canadian GAAP"). An explanation of how the transition from pre-transition Canadian GAAP to IFRS has affected Victory Nickel's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The Company did not identify any material errors in its application of pre-transition Canadian GAAP in effect prior to transition date.

Notes to the Financial Statements

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

Concurrent with the work performed for transition to IFRS, the Company took the opportunity to consider its financial disclosures and decided to make additional reclassifications. While these are not as a direct result of the IFRS transition, the Company has identified such reclassifications in order to assist the reader in making comparisons with historic financial information which has previously been published. These reclassifications are identified as being non-IFRS reclassifications in the notes to the reconciliations.

Reconciliation of Equity – Comparative and Transition Balance Sheets

		December 31, 2010			January 1, 2010		
(unaudited)	*Notes*	Pre-transition Canadian GAAP	Effect of Transition	IFRS	Pre-transition Canadian GAAP	Effect of Transition	IFRS
ASSETS							
Current assets							
Cash and cash equivalents		$ 170	$ -	$ 170	$ 4,078	$ -	$ 4,078
Receivables	*(b)*	82	14	96	294	35	329
Marketable securities		10,556	-	10,556	1,254	-	1,254
Prepaid expenses and deposits	*(b)*	14	(14)	-	35	(35)	-
Total current assets		10,822	-	10,822	5,661	-	5,661
Non-current assets							
Property and equipment	*(d)*	715	-	715	88	-	88
Exploration and development projects	*(e)*	37,381	(37,381)	-	33,597	(33,597)	-
Exploration and evaluation projects	*(e)(f)(g)*	-	44,703	44,703	-	40,922	40,922
Total non-current assets		38,096	7,322	45,418	33,685	7,325	41,010
Total Assets		$ 48,918	$ 7,322	$ 56,240	$ 39,346	$ 7,325	$ 46,671
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Trade and other payables	*(b)*	$ 571	$ 21	$ 592	$ 1,367	$ 33	$ 1,400
Due to Nuinsco Resources Limited	*(b)*	21	(21)	-	33	(33)	-
Total current liabilities		592	-	592	1,400	-	1,400
Non-current liability							
Deferred tax liability	*(m)*	781	2,533	3,314	682	1,977	2,659
Total Liabilities		1,373	2,533	3,906	2,082	1,977	4,059
Shareholders' equity							
Share capital	*(h)*	45,098	1,016	46,114	38,937	1,571	40,508
Contributed surplus	*(h)*	3,797	(76)	3,721	2,980	-	2,980
Accumulated other comprehensive income	*(l)*	3,922	197	4,119	998	-	998
Deficit	*(n)*	(5,272)	3,652	(1,620)	(5,651)	3,777	(1,874)
Total shareholders' equity		47,545	4,789	52,334	37,264	5,348	42,612
Total Liabilities and Shareholders' Equity		$ 48,918	$ 7,322	$ 56,240	$ 39,346	$ 7,325	$ 46,671

Notes to the Financial Statements

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

Reconciliation of Equity – Interim Comparative Balance Sheet

(unaudited)	Notes	Pre-transition Canadian GAAP (restated - see below)	Effect of Transition	IFRS
		March 31, 2010		
ASSETS				
Current assets				
Cash and cash equivalents		$ 2,071	$ -	$ 2,071
Receivables	*(b)*	252	69	321
Marketable securities		4,387	-	4,387
Prepaid expenses and deposits	*(b)*	69	(69)	-
Total current assets		6,779	-	6,779
Non-current assets				
Property and equipment	*(d)*	87	-	87
Exploration and development projects	*(e)*	35,293	(35,293)	-
Exploration and evaluation projects	*(e)(f)(g)*	-	42,635	42,635
Total non-current assets		35,380	7,342	42,722
Total Assets		$ 42,159	$ 7,342	$ 49,501
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables	*(b)*	$ 1,968	$ 22	$ 1,990
Due to Nuinsco Resources Limited	*(b)*	22	(22)	-
Total current liabilities		1,990	-	1,990
Non-current liability				
Deferred tax liability	*(m)*	555	2,166	2,721
Total Liabilities		2,545	2,166	4,711
Shareholders' equity				
Share capital	*(h)*	39,481	1,421	40,902
Contributed surplus	*(h)*	3,615	(21)	3,594
Accumulated other comprehensive income		2,501	-	2,501
Deficit	*(n)*	(5,983)	3,776	(2,207)
Total shareholders' equity		39,614	5,176	44,790
Total Liabilities and Shareholders' Equity		$ 42,159	$ 7,342	$ 49,501

Restatement of March 31, 2010 Figures

With the optioning of the Lynn Lake project, certain of the Company's tax pools acquired pursuant to the acquisition of Independent Nickel Corp. ("Independent") no longer met the test of being more-likely-than-not to be utilized. Accordingly, the Company should have recorded a valuation allowance in future income taxes against such pools of $295,000 in the fourth quarter of 2009. Therefore, as at December 31, 2009, the Company increased the future income tax liability by $295,000 and increased the deficit by the same amount. Accordingly, the January 1, 2010 balance sheet which forms the basis for the transition to IFRS, has been restated from that reported in the December 31, 2009 financial statements; the adjustment was reflected in the comparative financial statements included in the December 31, 2010 financial statements and has been reflected in the pre-transition Canadian GAAP balance sheet as at March 31, 2010.

Notes to the Financial Statements

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

Reconciliation of Profit or Loss for the Year Ended December 31, 2010 and the Three Months Ended March 31, 2010

		Year ended December 31, 2010			Three months ended March 31, 2010		
(unaudited)	**Notes**	**Pre-transition Canadian GAAP**	**Effect of Transition**	**IFRS**	**Pre-transition Canadian GAAP**	**Effect of Transition**	**IFRS**
Interest income	*(k)*	$ 10	$ (10)	$ -	$ 6	$ (6)	$ -
Gain on sale of marketable securities	*(l)*	228	(228)	-	-	-	-
Revenue		238	(238)	-	6	(6)	-
General and administrative costs		(1,393)	-	(1,393)	(377)	-	(377)
Share-based payments - options		(657)	-	(657)	(544)	-	(544)
Share-based payments - Share Bonus Plan		(165)	-	(165)	-	-	-
Amortization of property and equipment		(10)	-	(10)	(1)	-	(1)
Fee to Nuinsco Resources Limited	*(k)*	(33)	33	-	-	-	-
Recovery of exploration and evaluation projects	*(g)*	990	(313)	677	203	(203)	-
Operating loss		(1,268)	(280)	(1,548)	(719)	(203)	(922)
Finance income	*(k)*	-	1,922	1,922	-	459	459
Finance costs	*(k)*	-	(33)	(33)	-	-	-
Net finance income		-	1,889	1,889	-	459	459
Gain on financial assets at fair value through operations	*(k)*	1,281	(1,281)	-	282	(282)	-
Income (loss) before income taxes		251	90	341	(431)	(32)	(463)
Income tax recovery (expense)	*(m)*	128	(215)	(87)	99	31	130
Net Income (Loss) for the Period		$ 379	$ (125)	$ 254	$ (332)	$ (1)	$ (333)
Earnings (loss) per share							
Basic earnings (loss) per share		$ 0.00	$ (0.00)	$ 0.00	$ (0.00)	$ (0.00)	$ (0.00)
Diluted earnings (loss) per share		$ 0.00	$ (0.00)	$ 0.00	$ (0.00)	$ (0.00)	$ (0.00)

Reconciliation of Other Comprehensive Income for the Year ended December 31, 2010 and the Three Months Ended March 31, 2010

		Year ended December 31, 2010			Three months ended March 31, 2010		
(unaudited)	**Note**	**Pre-transition Canadian GAAP**	**Effect of Transition**	**IFRS**	**Pre-transition Canadian GAAP**	**Effect of Transition**	**IFRS**
Net income (loss) for the period		$ 379	$ (125)	$ 254	$ (332)	$ (1)	$ (333)
Other comprehensive income							
Net change in fair value of financial assets	*(l)*	3,511	228	3,739	1,712	-	1,712
Income tax expense	*(l)*	(587)	(31)	(618)	(209)	-	(209)
Other comprehensive income for the period		2,924	197	3,121	1,503	-	1,503
Total Comprehensive Income for the Period		$ 3,303	$ 72	$ 3,375	$ 1,171	$ (1)	$ 1,170

Notes to the Financial Statements

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

Notes to the Reconciliations

a) Adjustments to the Statement of Cash Flows for 2010

Consistent with the Company's accounting policy choice under IAS 7, Statement of Cash Flows, there were several reclassifications required as a result of the requirements for reporting finance income and finance costs. There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under pre-transition Canadian GAAP.

b) Non-IFRS reclassifications

While not specifically related to IFRS changes, the Company determined that it would reclassify certain elements on the face of the balance sheets; these elements are now included in the notes to the financial statements. Such reclassifications are summarized as follows:

Balance Sheets	December 31, 2010	March 31, 2010	January 1, 2010
Increase in receivables	$ 14	$ 69	$ 35
Decrease in prepaid expenses and deposits	(14)	(69)	(35)
Increase in trade and other payables	21	22	33
Decrease in due to Nuinsco Resources Limited	(21)	(22)	(33)
	$ -	$ -	$ -

c) IFRS 3 Business Combinations ("IFRS 3")

The Company has elected under IFRS 1, not to apply IFRS 3 retrospectively to business combinations that occurred prior to January 1, 2010 (the date of transition to IFRS). Accordingly, the Company has continued with the same accounting treatment of the business combinations under pre-transition Canadian GAAP.

d) Property and equipment

The Company has chosen to continue to account for its property and equipment using the cost model. The Company reviewed its property and equipment for impairment as at the transition date and determined that no impairment existed.

e) Exploration and evaluation projects

In accordance with IFRS 6, the Company reclassified its exploration and development projects into exploration and evaluation projects on the balance sheets. The impact arising from the changes is summarized as follows:

Balance Sheets	December 31, 2010	March 31, 2010	January 1, 2010
Decrease in exploration and development projects	$ (37,381)	$ (35,293)	$ (33,597)
Increase in exploration and evaluation projects	37,381	35,293	33,597
	$ -	$ -	$ -

The Company has elected to continue to capitalize exploration costs; furthermore, the Company believes that the value of exploration and evaluation projects does not contain any material costs which were incurred prior to securing the legal right to explore the properties.

f) Impairment of exploration and evaluation projects

Under pre-transition Canadian GAAP, the Company evaluated its exploration and development projects for impairment using information including projected cash flows. Such cash flows were not discounted. Under IFRS, impairment evaluations are performed using discounted cash flows. At the date of transition, the Company assessed its exploration and development projects using discounted cash flows at a rate of 8% where such cash flows were available and determined that no adjustment was required to writedown the value of its projects.

Notes to the Financial Statements

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

The Company was created under a plan of arrangement on February 1, 2007. Nuinsco formed the Company to spin out its three nickel projects and cash to its shareholders. The formation of Victory Nickel was a business combination under common control. As such, the Company has accounted for this transaction using continuity of interest accounting. Accordingly, any adjustments to historic costs of the properties acquired such as impairment reversals and pre-production write-offs that occurred while the properties were owned by Nuinsco have been treated as if the properties have always been owned by Victory Nickel. Accordingly, assets and liabilities were recorded at the time of the plan of arrangement at the then-carrying values on Nuinsco's accounting records.

At December 31, 2005, Nuinsco recorded a writedown of $3,906,000 against its Mel property due to non-receipt of an agreement confirming its tenure by the Company by the date the financial statements for that year had to be released. The agreements were subsequently received. Pre-transition Canadian GAAP did not permit a reversal of any previous writedown despite the fact that the writedown was technical and was not caused by any change in recoverable value. Furthermore, Nuinsco had recorded aggregate writedowns of $2,428,000 against its Lac Rocher property.

Under IFRS, reversals of writedowns are permitted and required where the recoverable value of the project is supported. The Company has determined that, at the time of the plan of arrangement, Victory Nickel constituted a "business" as defined under IFRS. Accordingly, following continuity of interest accounting, the Company has increased the value of the Mel and Lac Rocher projects which are included in exploration and evaluation projects by the amount of the previous writedowns.

The impact arising from the reversal of the writedowns is summarized as follows:

Balance Sheets	**December 31, 2010**	**March 31, 2010**	**January 1, 2010**
Increase in exploration and evaluation projects - Mel	$ 3,906	$ 3,906	$ 3,906
Increase in exploration and evaluation projects - Lac Rocher	2,428	2,428	2,428
Related tax effect	(1,710)	(1,710)	(1,710)
Decrease in deficit	$ 4,624	$ 4,624	$ 4,624

g) Accounting for Investment Tax Credits ("ITCs")

Under pre-transition Canadian GAAP, the Company accounted for ITCs by deducting the tax item from the associated exploration and evaluation project and adjusting the future income tax liability. Under IFRS, the ITC is adjusted to the income tax recovery. This also had an impact on the amount of recovery on Lynn Lake recorded due to excess proceeds under the option agreement which also created an additional tax effect.

The impact arising from the adjustment for ITCs is summarized as follows:

Balance Sheets	**December 31, 2010**	**March 31, 2010**	**January 1, 2010**
Increase in exploration and evaluation projects	$ 1,301	$ 1,211	$ 991
Decrease in exploration and evaluation projects - recovery on Lynn Lake	(313)	(203)	-
Increase in deferred tax liability on increase in projects from ITCs	(351)	(326)	(267)
Decrease in deferred tax liability on recovery on Lynn Lake	85	55	-
Decrease in deficit	$ 722	$ 737	$ 724

Notes to the Financial Statements

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

Statements of Operations		Year ended December 31, 2010		Three months ended March 31, 2010
Decrease in recovery of exploration projects - Lynn Lake	$	(313)	$	(203)
Increase in future income tax recovery from recovery on Lynn Lake		85		55
Increase in future income tax recovery from ITCs		310		220
Decrease in future income tax recovery - tax effect of ITCs		(84)		(59)
(Decrease) increase in net profit	$	(2)	$	13

h) Flow-through share financing

Under pre-transition Canadian GAAP, the Company accounted for the tax effects of renouncing expenditures in favour of its investors upon formal renunciation to the Canada Revenue Agency ("CRA") on its deadline of February 28 in each year. Furthermore, the Company recorded the entire amount of financing received, net of issue expenses and any related taxes, as equity in share capital with an appropriate apportionment of proceeds to any warrants issued. In accordance with interpretations of IFRS, the Company's selected accounting treatment requires recognition of the tax effects of renunciation upon incurring expenditures related to the flow-through shares, as well as an identification of the premium associated with the tax benefits passed on to the subscribers of the flow-through shares and amortization thereof to operations upon incurring expenditures related to the flow-through shares. Flow-through expenditures are sometimes made in different reporting periods than the one in which formal renunciation to the CRA takes place.

The accounting policy determined by the Company is reflected in Note 3.

There is no applicable exemption available to the Company and the cumulative impact of the bifurcation of the flow-through premium as well as the different treatment of renunciation must be made. The Company made a best-efforts attempt to calculate the historic impact of renunciation and premium recognition based upon the presently-available information; given that historic differences would represent a reclassification between share capital and deficit upon transition, both of which are components of equity, the Company considers that any differences are not material.

The impact arising from the change is summarized as follows:

Balance Sheets		December 31, 2010		March 31, 2010		January 1, 2010
Decrease in share capital - set up flow-through premium liability	$	631	$	171	$	-
Decrease in deficit - adjust flow-through premium liability		(631)		(171)		-
Increase in trade and other payables	$	-	$	-	$	-

Balance Sheets		December 31, 2010		March 31, 2010		January 1, 2010
Increase in deficit - adjust tax expense upon flow-through spending	$	557	$	185	$	-
Increase in deferred tax liability	$	557	$	185	$	-

Balance Sheets		December 31, 2010		March 31, 2010		January 1, 2010
Increase in trade and other payables - set up flow-through premium liability	$	(631)	$	(171)	$	-
Decrease in contributed surplus - adjust proceeds attributable to warrants		76		21		-
Increase in deficit - reverse historic renunciation		5,528		5,528		5,528
Decrease in deficit - set up historic premium		(3,957)		(3,957)		(3,957)
Increase in share capital	$	1,016	$	1,421	$	1,571

Notes to the Financial Statements

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

Statements of Operations		Year ended December 31, 2010		Three months ended March 31, 2010
Increase in finance income - record premium upon flow-through spending	$	631	$	171
Increase in future income tax expense - recognize upon flow-through spending		(557)		(185)
Increase (decrease) in net profit	$	74	$	(14)

i) Share-based payments

The Company has elected under IFRS 1 not to adopt retroactive application of fair value accounting on options issued and fully vested before the transition date (or predecessor options under the plan of arrangement or acquisition of Independent).

Accordingly, there are no differences arising from the transition to IFRS.

j) Borrowing costs

Under pre-transition Canadian GAAP, the Company's policy was to expense borrowing costs as incurred. At the date of transition and to date, the Company has no debt. The Company has elected under IFRS 1 not to adopt retroactive capitalization of borrowing costs to qualifying assets.

Accordingly, there are no differences arising from the transition to IFRS.

k) Finance income and finance costs

Under IFRS there are several reclassifications required to report components of net finance income.

The reclassifications are summarized as follows:

Statements of Operations		Year ended December 31, 2010		Three months ended March 31, 2010
Interest income	$	10	$	6
Increase in fair value of financial assets through operations		1,281		282
Record premium upon flow-through spending		631		171
Finance income	$	1,922	$	459

Statements of Operations		Year ended December 31, 2010		Three months ended March 31, 2010
Decrease in fee to Nuinsco Resources Limited	$	33	$	-
Finance costs	$	33	$	-

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2011

DATED MAY 11, 2011

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2011

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 May 11, 2011 consolidates management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2011, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited interim financial statements for the three months ended March 31, 2011 and 2010 ("Unaudited Interim Financial Statements") and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

The Unaudited Interim Financial Statements are the Company's first financial statements to be prepared in accordance with IFRS. Note 23 to those statements include reconciliations to assist the reader in understanding the effects that the transition to IFRS has had on the Company's financial statements. The reconciliations include a reconciliation of equity as at January 1, 2010, December 31, 2010 and March 31, 2010. As described in previously-filed management's discussion and analysis ("MD&A"s), the Company has had an IFRS implementation project plan which involved its advisers; this plan is drawing to a close, only post-implementation review is outstanding. However, it should be noted that, because of the nature of IFRS being principles-based, accounting practice under IFRS will continue to develop and evolve in Canada and in the junior mining sector. While the Company has been diligent in its selection of appropriate accounting policies and methodologies and has been guided by the anticipated papers of the Mining Industry Task Force on IFRS (the "Mining Industry Task Force"), it may later choose to amend those selections. Any changes will be accounted for in accordance with the accounting and disclosure requirements under IFRS, including any concessions made to first-time adopters.

Readers are also encouraged to consult the audited financial statements for the years ended December 31, 2010 and 2009 ("2010 Audited Financial Statements"), which were prepared in accordance with predecessor Canadian generally accepted accounting principles prior to the transition date to IFRS ("pre-transition Canadian GAAP").

The Unaudited Interim Financial Statements and the 2010 Audited Financial Statements are available at www.sedar.com and at the Company's website 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 evaluation-stage mineral resource company and is engaged in the acquisition, exploration and evaluation of nickel projects in Canada.

Formed on February 1, 2007, Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (refer to option agreement with Prophecy Resource Corp. ("Prophecy") 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. At the Lac Rocher Project, a review of the preliminary economic assessment ("PEA") initially announced in November 2008 is ongoing to better reflect current cost realities and permitting efforts will continue in preparation to advance to mining as metal prices are recovering. The Company expects to collar the portal in the second quarter of 2011. At the Mel project, Vale announced its decision not to exercise its back-in right, allowing the Company to determine its own strategy to advance the Mel project – drilling has been completed at Mel, assays have not yet been received.

Option of Lynn Lake Property

On October 21, 2009, the Company announced that it had optioned its Lynn Lake property ("Lynn Lake") to Prophecy. The terms of the agreement wherein Prophecy can acquire a 100% interest in Lynn Lake are outlined in Note 6 to the 2010 Audited Consolidated Financial Statements.

In accordance with the contract, two payments of $1,000,000 due by March 1 of each of 2012 and 2013 remain outstanding.

Failure on the part of Prophecy to meet any of the terms will result in cancellation of the option and Lynn Lake will revert to the Company.

HIGHLIGHTS

During and subsequent to the three months ended March 31, 2011, the Company:

Corporate

- Announced the resignation of T. Michael Young from the Board of Directors for personal reasons.

Minago

- Announced a 23.9% increase in the measured and indicated NI-43-101 pit-constrained resource to 302.3 million pounds of sulphide nickel (NiS), from the 243.9 million pounds estimated in the Minago FS.
- Began and completed an 11,000m drill program targeting the extension to depth of the Nose Deposit and the North Limb.

Mel

- Began and completed 3,500m of diamond drilling at Mel to explore for extensions of the known resource.

Lac Rocher

- Began a comprehensive re-evaluation of the Lac Rocher project in light of current metal price levels.

OUTLOOK

The price of nickel, along with other base metals, has seen a pullback from its recent highs of US$13 per pound as a result of concern that economic growth will slow but has firmed up at just over US$11 per pound. Victory Nickel considers this an attractive price and would welcome it as a long-term average, particularly given that the FS breakeven nickel price is US$5.06/lb.

Improvements in the FS economics since completion of the study in December 2009 have made the Minago project even more attractive. And now, drill results from the 2010 winter drill program have been incorporated into the resource calculation resulting in a 24% increase in pit-constrained measured and indicated resources, representing an additional 58 million pounds of nickel, mineable from the open pit alone. This does not even factor in additional potential at depth or in the North Limb. The mine life of the Nose Deposit open pit can be expected to increase from seven years to nine years as a result of last year's drilling, a very important factor when financing a project. Financing is the immediate challenge and the recent improvements which could increase open pit mining life to nine years and other potential improvements in the FS economics make this more appealing to financiers.

The Company's Mel project has been inactive for some time as we awaited a decision by Vale on the exercise of its back-in right. The Company is pleased that Vale decided not to exercise this right, as it will allow Victory Nickel to advance the project at a significantly more rapid pace going forward. With 100% ownership of Mel, the Company immediately embarked on a 3,500m drill program which is now completed and results should be available soon.

As mentioned in the last quarterly outlook, the Company plans to start collaring the portal at Lac Rocher in the second quarter of 2011 with a view to advancing the bulk sample and hopefully full production in the near term. A revised PEA is also underway at Lac Rocher.

The equity markets have been good to the major mining companies as they recovered from the lows of 2008. This recovery is not being seen in junior companies as of yet. The recent release by Victory Nickel of very positive results for Minago has had little impact on the Company's share price. We believe that once the project is permitted the market will begin to recognize that our very attractive project is also very real and development is imminent and this will be reflected in the share price.

In April 2010, the Company filed its Environmental Impact Statement with regulators in Manitoba which represents the final stage in the permitting process. This was a major achievement and was the culmination of four years of hard work by Victory Nickel and its third-party consultants. It will form the blueprint for the mine and is the final requirement to prepare the project for development. We were advised that the Company has met all its requirements and that approval is pending subject only to the Manitoba Government completing the First Nations consultation process which is expected to be finished in the very near future.

Victory Nickel's objective remains to transition from developer to nickel producer. This is eminently possible with its four sulphide nickel projects. With the Minago FS completed, we are accelerating our efforts to structure a financing proposal that will work in today's environment. At the same time, we continue to review opportunities to optimize the economics of Minago. Efforts to date have resulted in improvements to the FS base case to the tune of a 14.7% increase in undiscounted cash flow to over $1 billion, a 24.9% increase in the 8% discounted net present value ("NPV") and an 11.9% increase in internal rate of return ("IRR") to 19.8% - and we're confident that this is just the beginning. Economics should improve again when the financial effect of the recent increase in resources has been incorporated.

The 2011 winter drill program at Minago has returned significant results and continues to suggest that the North Limb contains similar geology to the Nose Deposit. The program also tested the results of a Magnetic Inversion study which suggests the presence of a large magnetic domain at depths exceeding 1.5 kilometres and a strike length of up to 3 km. It is not known if this massive structure contains nickel so we have just completed a drill hole down to 1,527m, the deepest drill hole yet at Minago. Previously, the deepest hole ended in 1.91% nickel at a depth of approximately 800 metres. The Nose Deposit pit is planned to a depth of only 365 metres. The Minago Preliminary Economic Assessment ("PEA") prepared before the FS included resources below the proposed pit depth of 365 metres which were being mined by conventional underground methods. Unfortunately this deeper mineralization could not be incorporated in the FS as drill density at this level only allowed for an inferred resource estimate which cannot be incorporated for FS purposes.

Minago will make a significant contribution to the welfare of Manitoba and its residents. Construction at Minago is expected to provide approximately 600 jobs and 400 full-time jobs during production. Although it is a long, iterative process, we are receiving the full support of the Manitoba government and communities of interest near Minago to move the project forward and are hopeful to have a fully permitted project in the very near future.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2011 Compared With Three Months Ended March 31, 2010

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Notes 3 and 23 of the Company's Unaudited Interim Financial Statements for the Company's IFRS accounting policies and a complete analysis and reconciliation of the Company's accounting under pre-transition Canadian GAAP and IFRS. The discussion below includes certain references to some of the main effects of changes under IFRS where it is considered helpful.

For the three months ended March 31, 2011, the Company had net income of $301,000 or $0.00 per share (for the three months ended March 31, 2010 - a net loss of $333,000 or $0.00 per share).

The net income resulted primarily from general and administrative costs of $379,000 (2010 - $377,000), share-based payments from options vesting of $2,000 (2010 - $544,000), recovery of exploration and evaluation projects of $599,000 (2010 - $nil), finance income of $2,000 (2010 - $459,000) and a finance cost of $97,000 (2010 - $nil). Results in 2011 also reflect a future income tax recovery of $180,000 (2010 - recovery of $130,000).

General and administrative expenses were very comparable period-over-period being $379,000 in 2011, compared with $377,000 in 2010. Expenses that decreased from 2010 to 2011 included directors' fees, investor and public relation fees, legal fees and printing and reproduction costs; these expenses were partially offset by increased consulting fees due to the IFRS engagement performed by the Company's audit firm, conference costs, bank charges related to increased sales of marketable securities, travel costs and increased costs under the management agreement charged by Nuinsco Resources Limited ("Nuinsco") as described under Transactions with Related Parties and Management Agreement below.

General and administrative expenses include $197,000 (2010 - $170,000) in management costs charged by Nuinsco. Costs allocated from Nuinsco pursuant to the management agreement are activity related; the increase in costs is primarily as a result of salary increases at Nuinsco – as well as the effects of Nuinsco hiring an extra staff member in July 2010 to support additional compliance requirements. This arrangement allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company. In common with many other companies, the efforts required to support increased corporate compliance such as for internal controls and

accounting transitions are extensive. By sharing such expertise with Nuinsco, the Company is able to realize on cost savings while maintaining regulatory adherence.

The costs of public company compliance for Victory Nickel in the first quarter of 2011 are approximately $232,000, compared with $205,000 in 2010. Such costs are non-discretionary and are generally weighted to the beginning of a financial year because of audit and other compliance requirements. The increase from 2010 to 2011 is mainly due to higher audit and consulting fees along with the management agreement charges.

Share-based payments relate to stock options granted to officers, directors, consultants and employees, some of which are vesting in future periods. The expense in 2011 and 2010 reflects the vesting of 5,540,000 options granted in 2010 at a weighted average exercise price of $0.16; most of which vested in 2010. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 16 to the Company's Unaudited Interim Financial Statements. No options were granted in the first quarter of 2011 but the Board of Directors approved a grant of 2,435,000 share options exercisable at $0.11 per share to directors, officers, employees and consultants on May 4, 2011. Of the options granted, 1,692,500 vest immediately and 742,500 vest over one year.

Management of the Company determined that no significant events had been experienced during the period which would prompt an impairment review of its exploration and evaluation projects. Metals prices and other market factors continue to improve. This conclusion is summarized under Impairment Analysis Update below. The Company received a favourable FS on its Minago project and is presently reviewing alternative financing opportunities to move development of the project ahead as well as opportunities to optimize the FS itself. In 2010, the all-season road at Minago was completed and drilling to upgrade and increase resources was substantially complete in the first quarter of 2011.

In the first quarter of 2011, the Company received additional consideration from the Lynn Lake option with Prophecy in the form of cash of $600,000 (three months ended March 31, 2010 - $300,000; plus marketable securities with a fair value of $968,000). In accordance with GAAP, the fair value of such consideration is deducted from the value of the property until it reaches $nil. Any excess of consideration over the recorded value is treated as a recovery of exploration and evaluation projects and recorded through operations. Accordingly, the Company recorded a net recovery of $599,000 through operations in 2011 (quarter ended March 31, 2010 - $nil). Note that IFRS accounting for investment tax credits ("ITCs") increased the book value of Lynn Lake and eliminated the pre-transition Canadian GAAP recovery previously recorded in the first quarter of 2010.

Also as part of the option agreement with Prophecy, the Company is entitled to maintain its 10% interest in Prophecy by participating in financings of that company. In January, 2010, the Company acquired 570,270 units comprising one share and one-half of a share purchase warrant in Prophecy at a cash cost of $0.30 per unit. At that time, the fair value of each share was $0.41. The difference of $0.11 per unit was recorded through the change in fair value of financial assets at fair value through operations in the amount of $63,000 and is included in finance income. The warrants were valued at acquisition using the Black-Scholes option-pricing model with an additional amount of $82,000 being recorded in finance income. At March 31, 2010, the warrants were revalued and a further $137,000 was recorded through finance income at that time. In aggregate, $282,000 was reflected in finance income in the first quarter of 2010 (Note 17 to the Unaudited Interim Financial Statements).

These warrants contained an acceleration clause which was invoked by Prophecy in early 2011. Accordingly, the Company exercised all of these warrants in February, 2011, thereby acquiring 285,135 Prophecy shares at a cash cost of approximately $114,000, or $0.40 per share. At the time of exercise of the warrants, the related shares had a market value of $1.00 per share which coincided with the cash cost plus carrying value of the warrants.

In April, 2010, the Company subscribed for 675,500 units in Prophecy at $0.59 per unit pursuant to a private placement as described in the Company's 2010 Audited Financial Statements. At the time of issue, the fair value of each share was $0.99. At March 31, 2011, the net decline in the fair value of those warrants amounted to approximately $97,000 and was recorded in finance costs. The assumptions used in determining the fair value of the warrants at March 31, 2011 are disclosed in Note 9 to the Company's Unaudited Interim Financial Statements.

It is important to note that any future changes in the value of the Prophecy shares will be reflected through other comprehensive income ("OCI") and changes in the value of warrants until their exercise or expiry will be reflected

through operations in finance income or costs as appropriate. Given the high level of volatility being experienced by Prophecy shares in the marketplace, such changes could be significant.

In the first three months of 2010, $171,000 was recorded in finance income and reflects the portion of the premium on flow-through spending which is recorded through income as applicable expenditures related to that flow-through financing in February 2010 were incurred. The Company completed its obligations under flow-through financings from February and April 2010 in the third quarter of 2010, accordingly, all of the flow-through premium was reflected through operations by the end of that accounting period. No additional flow-through financing has occurred since those financings. The flow-through premium concept is one of the more significant changes to the Company's accounting as a result of transition to IFRS.

The Company believes 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. The expiry of non-capital losses is detailed in Note 18 to the Company's Unaudited Interim Financial Statements. Accordingly, the Company may record periodic future income tax recoveries. In the first quarter of 2011, the Company recorded an income tax recovery of $180,000 (in the first quarter of 2010 – recovery of $130,000). Approximately 95% of the Company's non-capital losses do not expire until at least 2026.

OCI in the first quarter of 2011 of $5,000 relates to an increase of $6,000 in the market value of the Company's financial assets at fair value through OCI (combined with a charge for income tax recorded through OCI of $1,000). Note that under IFRS 9, all changes in market value on financial assets at fair value through OCI are reflected in OCI; this includes realized gains which, under pre-transition Canadian GAAP, were formerly reflected through operations.

In the first quarter of 2011, OCI was comprised of a decrease in the fair value of Prophecy shares which had a market price of $0.98 per share as at March 31, 2011; offset by a gain on sale of Prophecy shares and an increase in the fair value of Wallbridge Mining Company Limited ("Wallbridge") shares which had a market price of $0.27 per share as at March 31, 2011. OCI in the first quarter of 2010 of $1,503,000 was related to an increase of $1,712,000 in the market value of the Company's financial assets at fair value through OCI net of income tax expense of $209,000. In the first quarter of 2010, the most significant change was in the value of Prophecy shares which were $0.94 per share as at March 31, 2010.

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

Receivables increased by $183,000 from December 31, 2010, primarily due to a significant increase in the GST/HST receivable as a result of expenditures on the drilling programs at the Minago and Mel projects during the three months ended March 31, 2011.

Marketable securities as at March 31, 2011 consist of the Company's financial assets at fair value through OCI and operations; the Company's investment in shares is at fair value through OCI and the investment in warrants is at fair value through operations. Accordingly, any volatility in the market price of warrants will impact the statement of operations but changes in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes. The balance decreased by $923,000 from December 31, 2010. The largest component of the decrease was from the sale of Prophecy shares during the three months ended March 31, 2011 combined with a decrease in the fair value of the warrants. In February, the Company exercised warrants at a cash cost of $114,000 which moved part of the Company's portfolio from financial assets with value changes through operations to financial assets with value changes recorded through OCI. As at March 31, 2011, the Company owned 8,555,853 Prophecy shares which represented an approximate 4.5% interest as at that date, as well as 337,750 warrants in Prophecy – see Liquidity and Capital Resources below.

Property and equipment increased over December 31, 2010 as a result of deposits of US$100,000 made in the quarter ended March 31, 2011, relating to the purchase of transformers and other electrical equipment for the Minago project. The total price of US$2,840,000 was contingent upon satisfactory testing results which have been received, with the full remaining balance due prior to shipping. A further deposit of US$50,000 was made in April 2011.

Trade and other payables consist primarily of project-related expenditures. The balance increased by $1,794,000 when compared with December 31, 2010 primarily because of the significant drilling programs being undertaken at Minago and Mel. Project expenditures are discussed in Exploration and Evaluation Activities below.

The deferred tax liability balance amounts to $3,134,000 as at March 31, 2011 compared with $3,314,000 as at December 31, 2010. The change in balance from December 31, 2010 is analysed in Note 13 to the Unaudited Interim Financial Statements. The main components of the balance relate to the tax effects of exploration and evaluation properties, including the effect of renunciation of flow-through expenditures to investors, partly offset by the tax value of net operating tax losses carried forward. The conversion to IFRS included some significant changes to tax-related elements including flow-through financing and investment tax credits as well as the effects of the reversal of previously-recorded impairment provisions on Mel and Lac Rocher.

Share capital has increased by $617,000 over December 31, 2010 primarily as a result of shares issued pursuant to a private placement and exercise of warrants that generated gross proceeds of $500,000 and $118,000 respectively. This is discussed more fully under Liquidity and Capital Resources below. The conversion to IFRS also had significant impact on the components of shareholders' equity; in particular, as a result of changes in flow-through accounting and the reversal of previously-recorded impairment.

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last nine quarters ended March 31, 2011 is as follows:

The information for 2011 and 2010 is accounted for in accordance with IFRS

Fiscal year 2011		1st Quarter
Net finance costs	$	(95)
Net income	$	301
Total comprehensive income	$	306
Income per share - basic and diluted	$	0.00

Fiscal year 2010		4th Quarter		3rd Quarter		2nd Quarter		1st Quarter
Net finance income	$	232 (1)	$	58	$	1,140 (3)	$	459 (6)
Net income (loss)	$	27	$	(299)	$	859 (4)	$	(333)
Total comprehensive income (loss)	$	4,619 (2)	$	(234)	$	(2,180) (5)	$	1,170 (7)
Income (loss) per share - basic and diluted	$	0.00	$	(0.00)	$	0.00	$	(0.00)

The information for 2009 is accounted for in accordance with pre-transition Canadian GAAP

Fiscal year 2009		*4th Quarter (restated) (8)*		*3rd Quarter*		*2nd Quarter*		*1st Quarter*
Revenue and other income	*$*	*8*	*$*	*220 (11)*	*$*	*39*	*$*	*27*
Net (loss) income	*$*	*(524) (9)*	*$*	*35*	*$*	*(343)*	*$*	*(48)*
Total comprehensive income (loss)	*$*	*64 (10)*	*$*	*145 (12)*	*$*	*(471)*	*$*	*380*
(Loss) income per share - basic and diluted	*$*	*(0.00)*	*$*	*0.00*	*$*	*(0.00)*	*$*	*(0.00)*

The information for 2011 and 2010 is accounted for in accordance with IFRS and the notes thereto are as follows:

(1) Finance income for the period includes a net change in fair value of financial assets through operations of $231,000.
(2) Comprehensive income for the period includes $5,189,000 OCI related to the increase in market value of the Company's financial assets at fair value through OCI, offset by income taxes of $597,000.
(3) Finance income for the period includes a net change in fair value of financial assets through operations of $807,000 and a flow-through premium recorded through operations of $331,000.
(4) Net income for the period includes $685,000 recovery on the Lynn Lake option with Prophecy.
(5) Comprehensive loss for the period includes $3,229,000 decline in market values of the Company's financial assets at fair value through OCI, offset by income tax recoveries of $209,000.
(6) Finance income for the period includes a net change in the fair value of financial assets through operations of $282,000 and a flow-through premium recorded through operations of $171,000.

(7) Comprehensive income for the period includes $1,712,000 increase in market values of the Company's financial assets at fair value through OCI, offset by income taxes of $209,000.

The information for 2009 is accounted for in accordance with pre-transition Canadian GAAP and the notes thereto are as follows:

(8) Restated to reflect unrecognized deferred tax assets against certain tax pools associated with the acquisition of Independent Nickel Inc. The restatement was reflected in the Company's 2010 Audited Financial Statements.
(9) Net loss was increased by $295,000 as a result of the restatement described above.
(10) Comprehensive income for the period includes an increase in the market value of financial assets at fair value through OCI.
(11) Revenue for the period includes $211,000 gain on sale of shares.
(12) Comprehensive income for the period reflects the partial recovery of the market value of financial assets at fair value through OCI.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2011, the Company had working capital, including cash and cash equivalents and marketable securities, totalling $7,759,000 (December 31, 2010 - $10,230,000). Cash equivalents include a guaranteed investment certificate. 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 for sale for liquidity purposes, as the Company requires, to fund its operations and exploration and evaluation activities. The Company sold marketable securities in the first quarter of 2011 and continues to do so.

In the first quarter ended March 31, 2011, the Company used cash from operating activities of $429,000 (quarter ended March 31, 2010 - $531,000). As the Company is in the exploration 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 first quarter of 2011 amounted to $232,000 (2010 - $205,000). Many of these costs are incurred in the early part of the year. In 2010, such costs were estimated to be $639,000 annually. Consequently, the Company's liquidity is reduced unless and until there are financing activities to provide funds. Note that the costs cited above do not include the costs of financing arrangements which are deducted directly from equity. Costs incurred to advance the Company's projects are capitalized, as summarized below under the discussion of investing activities.

During the three months ended March 31, 2011, net cash used by investing activities was $122,000, compared with $2,094,000 in the three months ended March 31, 2010. An aggregate of $1,454,000 was used to advance exploration and evaluation projects (March 31, 2010 - $2,223,000). Deposits of $100,000 were made in the first quarter of 2011 on the purchase of transformers and other electrical equipment, as referenced above (2010 - $nil). The Company has entered an agreement to purchase an aggregate of US$2,840,000 of such electrical equipment with remaining balances due prior to shipping.

In February, 2011, the Company exercised certain Prophecy warrants for cash of $114,000 as discussed above thereby reclassifying the amount previously in financial assets through operations to financial assets in OCI. During the three months ended March 31, 2010, the Company acquired additional Prophecy shares for $171,000. During the three months ended March 31, 2011, the Company sold Prophecy shares for aggregate proceeds of $946,000 (March 31, 2010 - $nil). Funds of $600,000 were received with respect to the option agreement with Prophecy for the Lynn Lake property (March 31, 2010 - $300,000).

Financing activities in the first three months of 2011 generated net proceeds of $614,000 (March 31, 2010 - $618,000) after issue costs of approximately $4,000 (March 31, 2010 - $73,000). This represented a private placement financing of 5,000,000 units at a price of $0.10 per unit generating gross proceeds of $500,000. Each unit comprises one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.14 for a period of 12 months from closing. Financing activities in 2011 also included the exercise of 988,385 warrants that were issued pursuant to a rights offering in August 2009 at an exercise price of $0.12 per share for aggregate consideration of approximately $118,000.

In the first quarter of 2010, financing activities represented the completion of the first tranche of a flow-through financing. The first tranche of the flow-through financing closed on February 26, 2010 and generated gross proceeds of $686,000 through the issuance of 3,429,139 units of securities at a price of $0.20 per unit. Cash-settled share issue costs before income taxes were $68,000. Each unit comprises one common share and one-half of one

common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.26 for a period of 12 months from closing.

Flow-through financings do not provide the funding necessary to meet corporate expenditures which do not qualify for flow-through eligibility. The significant cost to maintain and comply with regulatory requirements for the Company's public listing cannot be financed with flow-through shares. Proceeds from the Company's warrants are "hard" dollars and can be utilized without restriction.

These activities generated cash and cash equivalents of $63,000 during the three months ended March 31, 2011, compared with cash requirements of $2,007,000 during the three months ended March 31, 2010.

As described above, exploration and evaluation companies such as Victory Nickel are 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 and in 2010, 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 financing. However, the results of this are also dependent upon market conditions which are outside the control of the Company.

The Company will continue to consider all financing alternatives given appropriate pricing and other market conditions to advance its projects. The optioning of the Lynn Lake property is one way in which a corporate transaction to generate cash can be structured to add value for shareholders while maintaining participation in the upside in the subject property. The Company expects to receive additional amounts of $1,000,000 by March 1 of each of 2012 and 2013 in accordance with the Lynn Lake option agreement.

As at May 11, 2011, the Company owns 6,750,853 shares in Prophecy with a market value as at May 11, 2011 of $0.68 per share as well as 337,750 Prophecy warrants exercisable at $0.80. The Company sold 1,805,000 shares in the second quarter of 2011 to date for gross proceeds of $1,648,000. As outlined earlier, such sales occur for liquidity purposes. The Company also owns 4,174,500 shares with a market value of $0.23 per share and 350,000 warrants of Wallbridge and 862,415 special warrants in Miocene Metals Inc., distributed by Wallbridge to its shareholders, which are also available for sale.

As at May 11, 2011, the aggregate market value of the Company's marketable securities held in public company shares is approximately $5,551,000. The market value of such shares may go up or down.

However, despite recent improvements, the market continues 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 Minago project is considerable.

The Company has good title to its projects and will continue to maintain the projects in good standing. Prophecy has expenditure commitments to meet on the Lynn Lake project as described earlier which mitigates the pressure on the Company to do so and maintains ongoing investment in the property. In the option to Prophecy, Victory Nickel made provisions to ensure that any failure on the part of Prophecy to meet its contractual commitments would result in the Lynn Lake property reverting to full ownership by Victory Nickel.

The Company's working capital requirements continue to be modest. At March 31, 2011, the major item requiring financing was an HST/GST receivable of $191,000, which should be received in May, 2011. The HST/GST receivable is a function of project activity and averaged approximately $87,000 in 2010; the average balance in 2011 is likely to be higher due to a full year of HST. Monthly average administrative costs for 2011 are estimated at $146,000, most of which are incurred to meet statutory requirements. As at December 31, 2010, the Company had fulfilled its commitment to incur exploration expenditures in relation to flow-through share financings in February and April 2010. The Company continues to have amounts owing to fulfil the electrical equipment purchases initiated during 2010.

In addition to current cash resources and expected inflows as described, the Company has non-core liquid assets which can be liquidated to support core activities. However, it will monitor its activities closely and continue to spend wisely until additional financing is available. The Company continues to monitor operating costs.

On May 11, 2011, the Board of Directors approved the issuance of up to $1 million in flow-through shares on a private placement basis at a unit price of $0.115 per unit. Each unit comprises of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.15 for a period of 18 months from closing. Finders' warrants, up to 6% of the total sold, will also be issued.

Results from the 2010 drilling program have been added to the resource and reserve models to determine whether resources and reserves can be upgraded at the Minago project. This exercise resulted in the Company's recent announcement of a 24% increase in the pit-constrained measured and indicated resource. Results from the FS continue to be optimized with respect to capital cost reductions and other enhancements and further potential improvements, including the incorporation of 2011 drill results for additional improvement in resources, are being evaluated on an ongoing basis. Improvements in resources of such a magnitude should improve the probability of successful financing.

The 2011 drill program is discussed further in Exploration and Evaluation Activities below. Note that this has not been included in the resource update at April, 2011.

Development of the Minago mine will require considerable financial resources. Management is monitoring the outcome of financing initiatives being undertaken in the marketplace. The Company is actively putting together a financing strategy which is expected to include several components; the relative proportion of each will be dependent upon the market conditions at the time the strategy is executed. Anticipated components include: off-take agreements for both nickel concentrate and frac sand, plant and equipment leasing for the mine and frac sand processing plant, bank borrowing and/or equity issues (which may include one or more of: rights offering, private placement or a fully-marketed prospectus issue).

EXPLORATION AND EVALUATION ACTIVITIES

For the quarter ended March 31, 2011, the Company incurred exploration costs on its nickel properties of $3,117,000 (March 31, 2010 - $2,981,000). This includes $2,515,000 on the Minago project, $558,000 on the Mel project, $1,000 on Lynn Lake (before $600,000 option payment received from Prophecy) and $43,000 at the Lac Rocher project (March 31, 2010 - $2,862,000; $76,000; $22,000 (before $300,000 option payment received from Prophecy and fair value of Prophecy shares of $968,000) and $21,000, respectively). The 2011 expenditures are shown before the effect of transfer of $599,000 through operations with respect to the Lynn Lake option receipts in excess of carrying value.

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.

Minago Project

The Company's 100%-owned Minago project is located on the Thompson Nickel Belt in Manitoba, and is one of Canada's largest undeveloped sulphide nickel deposits. Minago has been shown to be capable of producing a nickel concentrate grading from 22.3% up to 35.0%, making it reportedly the world's highest grade nickel concentrate. In addition to metal by-products such as copper, cobalt, gold, platinum, palladium, silver and rhodium, a layer of silica sand averaging approximately nine metres thick overlies the nickel mineralization within the open pit. Approximately 84% of the sand is marketable as "frac sand", 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.

A winter work program was conducted at Minago in 2011. The program consisted of diamond drilling, 20 drill holes comprising 8,793m, and ground and borehole electromagnetic geophysics. The program was designed to evaluate parts of the project that have seen little work to date as well as build upon the existing data-set of the Main Zone nickel mineralization. Assaying is ongoing and analytical results are expected to be released in the second quarter of 2011 when full QA/QC evaluation has been completed.

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 Main Zone, at Minago (where all of the currently-defined resource is located). The purpose of this drilling is to evaluate the nickel mineralization along the North Limb in order to begin to define the possible scale of the nickel endowment there. Limited drilling on the North Limb by the Company has shown the host rock and mineralization there to be very similar to that observed in the Main Zone.

Three drill holes were collared at the western extremity of the Main Zone to evaluate the possibility of extensions to the existing resource. Nickel mineralization in this area is often of higher grade than the average for the deposit hence an increase in resource from this area may have a positive impact on the overall deposit grade.

A single deep hole was collared on the Main Zone 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.

The analytical data and geological interpretations obtained from the 2010 drilling program have been incorporated into an updated geological model and resource estimate. The updated resource incorporates a 24% increase in the NI 43-101-compliant measured and indicated, pit-constrained, sulphide nickel resource used in the Minago FS. The FS is posted at ***www.sedar.com***. Note that the update below does not include the results of the 2011 drilling program.

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

[1] Lerch-Grossman pit optimization shell
[2] Whittle pit optimization shell

Frac Sand
An indicated resource of 15 million tonnes of sand has been estimated to occur within the current Minago pit shell. The frac sand component of this resource 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. Considerable potential exists to expand the resource beyond the limits of the current pit.

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. The Mel project has been idle for some time, awaiting a decision by Vale as to whether it would exercise its 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 dispositions is currently being transferred to the Company. All documentation to accomplish this has been completed. 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. Eight drill holes, totalling 2,720m, were collared to test the down-dip extension of the Mel resource shell. Assaying is ongoing and analytical results are expected to be released in the second quarter of 2011 when full QA/QC evaluation has been completed.

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. 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.

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 in the 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.

A road connecting the end of the existing logging road to the site of the proposed Lac Rocher portal was completed in August 2009. The road allows year-round ground access to the site. In December 2009, diamond drilling was conducted to provide geotechnical data deemed necessary for portal and ramp development which is planned to start in the second quarter of 2011. An InfiniTem ground electromagnetic survey was conducted over a portion of the property to test for deeper extensions to the nickel mineralization. At the same time, evaluation of the availability of borrow material was also conducted in the local region. No work was conducted on the site during the first quarter of 2011.

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. Lynn Lake is the former Sherritt producing mine site known as the Lynn Lake A Mine and Farley Mine. The mines were first operated by Sherritt-Gordon from 1953 to 1976. During their 23 years of operation, the mine produced over 20 million tonnes of nickel-copper ore at a grade of 1.02% nickel and 0.54% copper, making Lynn Lake the third largest nickel producer in North America. The mines closed in 1977 due to a period of stagnant growth in the nickel market, not because the ore was mined out.

From an updated resource estimate released in February 2010 by Prophecy, Lynn Lake has 22.9 million tons of measured and indicated resources grading 0.57% nickel or 263 million pounds of in-situ nickel as well as 8.1 million tons inferred resources grading 0.51% nickel which contains an additional 81.6 million pounds of in-situ nickel. In addition, it announced the resource contained measured and indicated resources grading 0.30% copper or 136 million pounds of in-situ copper plus inferred resources grading 0.28% copper or 45.6 million pounds of in-situ copper.

As discussed earlier and described in Note 6 to the 2010 Audited Financial Statements, the Company has optioned Lynn Lake to Prophecy. Failure on the part of Prophecy to meet any of the terms will result in cancellation of the option on the property and it will revert to the Company. Among other things, Prophecy has committed to make

$3,000,000 in expenditures on the property. By optioning Lynn Lake, the Company has ensured that the property will have expenditures made upon it whilst the Company maintains an upside in the property through its ownership interest in Prophecy shares.

IMPAIRMENT ANALYSIS UPDATE

While the metals markets and other general economic factors have improved over the prior year, the Company performed a detailed impairment analysis, which considered factors pertinent to IFRS such as the reversals of prior writedowns, on each of its exploration and evaluation projects as at December 31, 2010. 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 March 31, 2011 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

Critical accounting estimates used in the preparation of the financial statements include determining the carrying value of investments and exploration and evaluation projects, assessing the impairment of long-lived assets, determining deferred income taxes and the valuation of share-based payments. These estimates involve considerable judgment 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 and measurement uncertainty, reference should be made to Notes 2 and 3 to the Company's Unaudited Interim Financial Statements. The reader may also choose to review Notes 2 and 3 to the Company's 2010 Audited Financial Statements however, the reader is cautioned that these were prepared under pre-transition Canadian GAAP and are no longer directly comparable to the present basis of accounting under IFRS. Note 23 to the Unaudited Financial Statements does provide the reader with information, analyses and reconciliations of historic information from pre-transition Canadian GAAP to IFRS. The Company's financial statements have been prepared using the going concern assumption; reference should be made to Note 1 to the Company's 2010 Audited Financial Statements as well as Note 1 to the Company's Unaudited Interim Financial Statements.

The recorded value of the Company's exploration and evaluation projects 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 an 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.

NEW ACCOUNTING POLICIES

IFRS issued by the International Accounting Standards Board ("IASB") have been adopted in the Company's Unaudited Interim Financial Statements. Note 3 thereto includes the accounting policies that have been applied in preparing the financial statements for the three months ended March 31, 2011 and 2010. The comparative information presented in the financial statements for the year ended December 31, 2010 and the opening IFRS balance sheet as at January 1, 2010 (date of transition) were also compiled using IFRS. Note 23 to the Unaudited Interim Financial Statements details the adjustments made and the reconciliations between pre-transition Canadian GAAP and IFRS.

SUMMARY OF IFRS IMPLEMENTATION

Overview

As discussed above and in the Company's previous MD&As, the Company implemented a project plan to guide its transition to IFRS. The project plan is essentially complete with only post-implementation review outstanding. However, the Company will continue to monitor the publications of the Mining Industry Task Force and how practice develops with respect to some of the more industry-specific matters such as accounting for flow-through financings.

Note 23 to the Unaudited Interim Financial Statements includes detailed reconciliations of the effects of IFRS on the Company's previously-published financial statements issued under pre-transition Canadian GAAP. The reader is encouraged to refer to that information for a full description of matters summarized below. Furthermore, the Company has identified the more significant adjustments to IFRS throughout this MD&A in places where it was considered helpful.

The Company's guiding principle during the transition has been to manage the number of changes and to minimize the effect of implementation of IFRS unless there was a compelling reason for change. Where pre-transition Canadian GAAP was consistent with IFRS, the Company generally made no change to its accounting policies. Certainly the volume of disclosure has increased. At present, the Company took a more conservative approach to disclosure but it expects to streamline future disclosures as part of its post-implementation review and ongoing monitoring of industry practice.

IFRS 1 Elections

The Company elected under IFRS 1, as follows:

- not to apply IFRS 3 Business Combinations ("IFRS 3") retrospectively;
- not to adopt retroactive application of fair value accounting on options issued and fully vested before the transition date; and
- not to adopt retroactive capitalization of borrowing costs to qualifying assets.

Summary of Significant Accounting Policy Differences and/or Choices under IFRS

Property and equipment

The Company has chosen to continue to account for its property and equipment using the cost model.

Exploration costs

The Company has chosen to continue to capitalize exploration costs.

Impairment of exploration and evaluation projects

Under IFRS, impairment provisions must be reversed where there is evidence supporting the recoverable value. The Company was created under a plan of arrangement which was a business combination under common control. Under IFRS, the transaction was accounted for using continuity of interest accounting whereby the historic impairments that occurred to the properties have been treated as if they occurred under the Company's ownership. Accordingly, the values of the Mel and Lac Rocher projects as at each of the reported dates of December 31, March 31 and January 1 of 2010 have been increased by $3,906,000 and $2,428,000 respectively. The tax effect of this was to increase deferred tax liabilities by $1,710,000. The net effect on deficit was a decrease of $4,624,000.

Accounting for ITCs

Under IFRS, the Company does not credit the value of the exploration and evaluation project, but credits the income tax recovery in the statement of operations. This had consequential effects on the recovery on the Lynn Lake project through option receipts in excess of carrying values being reduced. Furthermore, the adjustment to exploration and evaluation projects created timing differences which were also tax-effected. The net effect on deficit was a decrease of $722,000, $737,000 and $724,000 as at each of December 31, March 31 and January 1 of 2010 respectively.

Flow-through share financing

In accordance with interpretations of IFRS, the Company's selected accounting treatment requires recognition of the tax effects of renunciation upon incurring expenditures related to the flow-through shares, as well as an identification of the premium associated with the tax benefits passed on to the subscribers of the flow-through shares and amortization thereof to operations upon incurring expenditures related to the flow-through shares. The Company has chosen to record the flow-through premium as an element of finance income.

The accounting treatment has impacts upon trade and other payables, share capital, contributed surplus, deficit, tax expense and deferred tax liability as well as finance income. Since there is no applicable exemption, the Company made a best-efforts attempt to calculate the historic impact of renunciation and premium recognition; given that historic differences would represent a reclassification between share capital and deficit upon transition, the Company considers that any differences are not material. The following table summarizes the effects on the balance sheets of flow-through accounting.

Balance Sheets	December 31, 2010	March 31, 2010	January 1, 2010
Net change in trade and other payables	$ -	$ -	$ -
Increase in deferred tax liability	557	185	-
Decrease in contributed surplus	(76)	(21)	-
Increase in share capital - net	1,016	1,421	1,571
Increase in deficit, net	(1,497)	(1,585)	(1,571)
	$ -	$ -	$ -

Finance income and finance costs

Under IFRS there are several reclassifications required to report the components of finance income and finance costs. The Company has chosen to record the premium on flow-through as a component of finance income. The components are reported in Note 17 to the Unaudited Interim Financial Statements.

IFRS 9 – Financial Instruments

The Company has chosen to early-adopt the provisions of IFRS 9 in order to avoid a subsequent change to IFRS. The means that all gains and losses on marketable securities selected as being financial assets through OCI are recorded through OCI including realized gains. Accordingly, the Company has reclassified its applicable gains or losses, along with any related income taxes through OCI. This is applicable from January 1, 2010 onwards with no historic adjustment required. Because of the timing of transactions, the only applicable reportable effect is as at December 31, 2010 where a net reclassification was required of $197,000, after income taxes of $31,000, to decrease net profit through operations and to increase OCI.

Deferred tax liability

The combined effects of the IFRS accounting changes with respect to impairment reversals, flow-through financing and ITCs were to increase the deferred tax liabilities by $2,533,000, $2,166,000 and $1,977,000 as at each of December 31, March 31 and January 1 of 2010 respectively.

Deficit

The combined effects of the matters discussed above on deficit are as follows:

Balance Sheets	December 31, 2010	March 31, 2010	January 1, 2010
Effect of exploration and evaluation projects impairment reversals	$ 4,624	$ 4,624	$ 4,624
Effect of accounting for ITCs	722	737	724
Effect of flow-through financing	(1,497)	(1,585)	(1,571)
Effect of implementation of IFRS 9	(197)	-	-
	$ 3,652	$ 3,776	$ 3,777

Involvement by Advisers

The Company engaged its auditors, BDO Canada LLP, to conduct a special consultation with respect to its IFRS transition project. While the consultation was neither an audit nor a review, as such terms are formally defined and therefore cannot and should not be relied upon, it was undertaken to assist the Company in ensuring that its IFRS adjustments were complete and appropriate and that its Unaudited Interim Financial Statements, in particular Note 23 thereto, contain materially complete and appropriate disclosures. The IFRS consultation is complete.

FUTURE ACCOUNTING CHANGES

The Company may enter into joint venture arrangements with third parties. Presently, the Company's accounting policy is to account for these using the proportionate consolidation method. IFRS may remove this alternative and require equity accounting. This is not expected to represent a major change for the Company.

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 interim financial statements to satisfy itself that management is properly discharging its responsibilities to the directors who approve the unaudited interim 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 March 31, 2011, the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at March 31, 2011. 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 March 31, 2011 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 financial statements for external purposes in accordance with IFRS. The Company used the COSO control framework. For the fiscal quarter ended March 31, 2011, the Certifying Officers have concluded that the design of the Company's internal controls over financial reporting and procedures were effective as at March 31, 2011.

The management of the Company was required to apply its judgment 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 March 31, 2011 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT

Included in trade and other payables at March 31, 2011 are amounts due to officers and directors of the Company in the amount of $68,000 (December 31, 2010 - $34,000). These amounts relate primarily to directors' fees payable and expense reimbursements.

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement. The costs payable by the Company under the arrangement are recorded at the exchange amount which is equal to the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by Nuinsco upon 90 days notice and by the Company upon 180 days notice. Costs charged to the Company in the three months ended March 31, 2011 amounted to $197,000

(March 31, 2010 - $170,000) and have been included in general and administrative expenses. In addition, project-related costs aggregating $16,000 have been charged to the Company by Nuinsco during the three months ended March 31, 2011 (March 31, 2010 - $18,000) and are included in exploration and evaluation costs on the balance sheet. The Company charged Nuinsco $7,000 for the three months ended March 31, 2011 for project-related costs incurred by it on behalf of Nuinsco (March 31, 2010 - $5,000).

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

OUTSTANDING SHARE DATA

At May 11, 2011, the Company had 386,014,194 common shares issued and outstanding. In addition, there were 27,707,986 stock options and 30,917,028 warrants outstanding, which if exercised and issued would bring the fully diluted issued common shares to a total of 444,639,208, and would generate cash of approximately $11,610,000.

RISKS AND UNCERTAINTIES

The exploration and evaluation of natural resources are speculative activities that involve a high degree of financial risk. 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 2010 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, development projects have no operating history upon which to base estimates of future cash operating costs. For 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.

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.

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.

Resources, Reserves and Production
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 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 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. 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 the takeover bid for Independent and subject to option by Prophecy, 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 have previously accepted deferrals of remuneration in order to assist the Company through the economic turmoil; however, this potentially adds to the risk of losing experienced personnel.

Conflicts of Interest
Certain of the Company's directors and officers are also directors and officers of other natural resource companies. Consequently, there exists the possibility for such directors and officers to be in a position of conflict.

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 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.

May 11, 2011

Notes to the Financial Statements

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

l) IFRS 9 – Financial instruments

The Company has chosen to early-adopt the provisions of IFRS 9 whereby it has made a determination for each of its marketable securities as to whether it will be accounted for through operations or through OCI. This will not be a retroactive adjustment but will be treated as if in force from January 1, 2010. Once a determination is made, all gains or losses arising on each marketable security is recorded either through operations or through OCI; the concepts under pre-transition Canadian GAAP of realized and unrealized gains being treated differently and permanent impairment no longer exist. The Company has determined to account for the changes in value of its portfolio of shares through OCI and changes in value of its warrants through operations.

Statements of Operations	**Year ended December 31, 2010**	**Three months ended March 31, 2010**
Decrease in gain on sale of marketable securities	$ 228	$ -
Effect of income taxes	(31)	-
Decrease in net profit and increase in OCI	$ 197	$ -

m) Deferred tax liability and income tax expense

The combined effects of the adjustments outlined above on the deferred tax liability are as follows:

Balance Sheets	**December 31, 2010**	**March 31, 2010**	**January 1, 2010**
Effect of reversal of writedown of exploration and development properties	$ 1,710	$ 1,710	$ 1,710
Effect of flow-through financing	557	185	-
Effect of ITCs	351	326	267
Effect of ITCs on Lynn Lake recovery	(85)	(55)	-
Increase in deferred tax liability	$ 2,533	$ 2,166	$ 1,977

The combined effects of the adjustments outlined above on the income tax expense are as follows:

Statements of Operations	**Year ended December 31, 2010**	**Three months ended March 31, 2010**
Effect of flow-through financing	$ (557)	$ (185)
Effect of ITCs	310	220
Effect of ITCs - tax effect thereon	(84)	(59)
Effect of ITCs on Lynn Lake Recovery - tax effect thereon	85	55
Effect of implementation of IFRS 9 - reclassification of tax to OCI	31	-
(Decrease) increase in income tax recovery and net profit	$ (215)	$ 31

Notes to the Financial Statements

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

n) Deficit

The impact arising from the matters discussed above, have the following effects on the Company's deficit:

Balance Sheets	December 31, 2010	March 31, 2010	January 1, 2010
Effect of reversal of property writedowns	$ 6,334	$ 6,334	$ 6,334
Effect of reversal of property writedowns - tax effects	(1,710)	(1,710)	(1,710)
Effect of flow-through financing - historic premium	3,957	3,957	3,957
Effect of flow-through financing - recognition of premium on 2010 financings	631	171	-
Effect of flow-through financing - historic renunciation	(5,528)	(5,528)	(5,528)
Effect of flow-through financing - recognition of expenditures	(557)	(185)	-
Effect of implementation of IFRS 9 - reclassification in OCI	(228)	-	-
Effect of implementation of IFRS 9 - reclassification of tax to OCI	31	-	-
Effect of accounting for ITCs - on properties	1,301	1,211	991
Effect of accounting for ITCs - on recovery related to Lynn Lake option	(313)	(203)	-
Effect of accounting for ITCs - on recovery related to Lynn Lake option - tax	85	55	-
Effect of accounting for ITCs - on future income tax recovery	(351)	(326)	(267)
	$ 3,652	$ 3,776	$ 3,777

o) Future considerations

The Company may enter into joint venture arrangements with third parties. Presently, the Company's accounting policy is to account for these using the proportionate consolidation method. IFRS may remove this alternative and require equity accounting. This is not expected to represent a major change for the Company.

Should the Company raise debt financing in the future for any of its specific projects, under IFRS interest must be capitalized to that project if it qualifies.