# VICTORY NICKEL INC.

# UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE THREE MONTHS ENDED MARCH 31, 2017

# DATED MAY 23, 2017

# Condensed Interim Consolidated Balance Sheets

| (in thousands of United States dollars) | *Notes* | | **March 31, 2017 (unaudited)** | | December 31, 2016 (unaudited) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | $ | **78** | $ | **197** |
| Receivables and prepaids | *4* | | **269** | | **78** |
| Marketable securities | *5* | | **230** | | **158** |
| Inventory | *6* | | **2,089** | | **2,223** |
| **Total current assets** | | | **2,666** | | **2,656** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *7* | | **3,426** | | **3,567** |
| Mine property and development project | *8* | | **34,978** | | **34,974** |
| Exploration and evaluation projects | *9* | | **8,724** | | **8,718** |
| **Total non-current assets** | | | **47,128** | | **47,259** |
| **Total Assets** | | $ | **49,794** | $ | **49,915** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | *10* | $ | **2,154** | $ | **2,141** |
| Loans and borrowings | *11* | | **12,781** | | **6,073** |
| **Total current liabilities** | | | **14,935** | | **8,214** |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | *11* | . | **-** | | **5,871** |
| Participating Interest | *12* | | **933** | | **933** |
| Lease obligations | *13* | | **2** | | **5** |
| Deferred tax liability | | | **3,376** | | **3,809** |
| **Total non-current liabilities** | | | **4,311** | | **10,618** |
| **Total Liabilities** | | | **19,246** | | **18,832** |
| **Shareholders' equity** | | | | | |
| Share capital | *14* | | **53,241** | | **53,241** |
| Contributed surplus | | | **6,000** | | **5,696** |
| Accumulated other comprehensive loss | | | **(3,786)** | | **(3,855)** |
| Deficit | | | **(24,907)** | | **(23,999)** |
| **Total shareholders' equity** | | | **30,548** | | **31,083** |
| **Total Liabilities and Shareholders' Equity** | | $ | **49,794** | $ | **49,915** |

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

## Condensed Interim Consolidated Statements of Operations

| (in thousands of United States dollars, except per share amounts) | *Notes* | | Three months ended<br>**March 31, 2017**<br>**(unaudited)** | | March 31, 2016<br>(unaudited) |
|---|---|---|---|---|---|
| Sales | | **$** | **249** | $ | 65 |
| Cost of goods sold | | | **(241)** | | (85) |
| **Gross margin** | | | **8** | | (20) |
| **Operating expenses** | | | | | |
| General and administrative | | | **(139)** | | (329) |
| Share based payments: | | | | | |
| Options | *16* | | **(304)** | | - |
| Amortization of property, plant and equipment | *7* | | **(133)** | | (189) |
| **Operating loss** | | | **(568)** | | (538) |
| Finance income | *17* | | **28** | | 1,877 |
| Finance costs | *17* | | **(801)** | | (278) |
| **Net finance (costs) income** | | | **(773)** | | 1,599 |
| **(Loss) income before income taxes** | | | **(1,341)** | | 1,061 |
| Income tax recovery | | | **433** | | - |
| **Net (loss) income for the period** | | **$** | **(908)** | $ | 1,061 |
| **(Loss) income per share** | *15* | | | | |
| Basic and diluted (loss) income per share | | **$** | **(0.01)** | $ | 0.02 |

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

## Condensed Interim Consolidated Statements of Comprehensive (Loss) Income

| (in thousands of United States dollars) | *Notes* | | Three months ended<br>**March 31, 2017**<br>**(unaudited)** | | March 31, 2016<br>(unaudited) |
|---|---|---|---|---|---|
| **Net (loss) income for the period** | | **$** | **(908)** | $ | 1,061 |
| **Other comprehensive income** | | | | | |
| Net change in fair value of financial assets | *5* | | **72** | | 139 |
| Income tax loss | | | **-** | | (21) |
| Foreign exchange loss | | | **(3)** | | (33) |
| **Other comprehensive income for the period** | | | **69** | | 85 |
| **Total Comprehensive (Loss) Income for the period** | | **$** | **(839)** | $ | 1,146 |

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

# Condensed Interim Consolidated Statements of Shareholders' Equity

| (in thousands of United States dollars) | *Notes* | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balances as at January 1, 2016** | | $ 52,570 | $ 5,696 | $ (4,130) | $ (15,372) | $ 38,764 |
| **Total comprehensive loss for the period** | | | | | | |
| Net loss for the year | | | | | (8,627) | (8,627) |
| **Other comprehensive income (loss)** | | | | | | |
| Net change in fair value of financial assets | | | | 347 | | 347 |
| Income tax gain | | | | 4 | | 4 |
| Foreign exchange on change in functional currency | | | | (76) | | (76) |
| **Total other comprehensive income** | | | | 275 | | 275 |
| **Total comprehensive loss for the period** | | | | | | (8,352) |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| **Contributions by owners** | | | | | | |
| Issuance of shares on settlement of debt | | 671 | | | | 671 |
| **Total contributions by owners** | | 671 | | | | 671 |
| **Total transactions with owners** | | 671 | | | | 671 |
| **Balances as at December 31, 2016** | | $ 53,241 | $ 5,696 | $ (3,855) | $ (23,999) | $ 31,083 |
| **Total comprehensive loss for the period** | | | | | | |
| Net Loss for the year | | | | | (908) | (908) |
| **Other comprehensive income (loss)** | | | | | | |
| Net change in fair value of financial assets | *5* | | | 72 | | 72 |
| Foreign exchange on change in functional currency | | | | (3) | | (3) |
| **Total other comprehensive income** | | | | 69 | | 69 |
| **Total comprehensive loss for the period** | | | | | | (839) |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| **Contributions in the year** | | | | | | |
| Options granted and vesting | *16* | | 304 | | | 304 |
| **Total contributions** | | | 304 | | | 304 |
| **Total transactions with owners** | | | 304 | | | 304 |
| **Balances as at March 31, 2017** | | **$ 53,241** | **$ 6,000** | **$ (3,786)** | **$ (24,907)** | **$ 30,548** |

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

# Condensed Interim Consolidated Statements of Cash Flows

| (in thousands of United States dollars) | *Notes* | Three months ended March 31, 2017 | March 31, 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net (loss) income for the period | | **$ (908)** | $ 1,061 |
| Adjustments for: | | | |
| Share-based payments | *16* | **304** | - |
| Amortization of property, plant and equipment | *7* | **133** | 189 |
| Net finance costs (income) | *17* | **798** | (2,343) |
| Income tax (recovery) loss | | **(433)** | 21 |
| Net change in working capital: | | | |
| Change in receivables and prepaids | *4* | **(191)** | 220 |
| Change in inventory | *6* | **134** | 23 |
| Change in accrued interest | *11* | **67** | - |
| Change in trade and other payables | *10* | **45** | 835 |
| **Net cash (used in) from operating activities** | | **(51)** | 6 |
| **Cash flows from investing activities** | | | |
| Expenditures on mine property and development project | *8* | **(4)** | - |
| Expenditures on exploration and evaluation projects | *9* | **(6)** | - |
| **Net cash used by investing activities** | | **(10)** | - |
| **Cash flows from financing activities** | | | |
| Payments of interest | *11* | **(20)** | - |
| Payments under leases | *13* | **(35)** | (37) |
| Deposits of restricted cash | | **-** | 36 |
| **Net cash used by financing activities** | | **(55)** | (1) |
| **Net (decrease) increase in cash and cash equivalents** | | **(116)** | 5 |
| Foreign exchange effect on cash and cash equivalents | | **(3)** | - |
| **Cash and cash equivalents, beginning of the period** | | **197** | 85 |
| **Cash and cash equivalents, end of the period** | | **$ 78** | $ 90 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

**Nature of Operations**

Victory Nickel Inc. ("Victory Nickel" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The condensed interim consolidated financial statements as at and for the three months ended March 31, 2017 and 2016 comprise the Company and its subsidiaries Victory Silica Ltd. ("VSL" or "Victory Silica") and BG Solutions Ltd. ("BG") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel was primarily engaged in the acquisition, exploration and development of nickel properties and associated products in Canada until the second quarter of 2014 when the Company became a producer and supplier of premium frac sand from its frac sand plant (the "7P Plant"), having a nominal capacity of 500,000 tons per annum ("tpa"), located near the town of Seven Persons, approximately 18 kilometres southwest of Medicine Hat, Alberta. Frac sand is specialized sand that is used as a proppant to enhance recovery from oil and gas wells. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

On February 22, 2016, the Company commenced trading its common shares on the Canadian Securities Exchange ("CSE") under the symbol NI. Previously, the Company was listed on the Toronto Stock Exchange ("TSX") under the symbol NI.

All dollar amounts are quoted in United States dollars ("USD$" or "US dollars"), except for those denoted as Canadian dollars ("CAD$") or Australian dollars ("AU$").

**Going Concern**

These condensed interim consolidated financial statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at March 31, 2017, the Company had a working capital deficiency of $12,269,000, calculated as current assets less current liabilities, an increase from a working capital deficiency of $5,558,000 as at December 31, 2016. At March 31, 2017, the debts of $12,501,000 were the largest factor in the Company's working capital deficiency, as the Company was in default on its promissory convertible notes, as described in Note 11.

The Company's main assets are its nickel projects. Minago, the most advanced of its projects is permitted and ready for development. However, development costs are in excess of $500,000,000 and given the current price of nickel, it is unlikely that financing for this project will be available in the near future.

On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improved; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014. Since March 2015, sales have been significantly below rates achieved during 2014 and continue well below the level required to generate positive cash flow. The 7P Plant continues to operate on an as-needed basis in order to fulfil customer needs, as the Company works to sell its existing inventory of frac sand. Early 2017 has shown some improvement in the slowdown in drilling activity due to the severe drop in the price of oil, but sales have yet to recover to levels that would generate positive cash flow.

The near-term outlook in the frac sand market remains unclear. The strength of the US dollar is also impacting demand for high-quality Wisconsin sand in Canada as the price for domestic sand has dropped and service companies appear satisfied with using lower-quality domestic sand, because of the price differential. As the Company's inventory is Wisconsin frac sand, this will continue to stress the Company's liquidity until such time as the market demand recovers and operations can resume on a consistent basis.

Cash flows from frac sand sales were not sufficient to cover operating costs and the Company was not able to make a portion of its interest payments due during 2016 and the first quarter of 2017.

On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan (as defined and outlined in Note 11), which included terms of a debt restructuring package (the "Debt Restructuring Agreement") for the holders of the promissory convertible notes (the "Promissory Convertible Notes") and the Company's trade creditors. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018 (the "Senior Secured Debt").

Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt until the Senior Secured Debt is repaid. Only a portion of the interest due under the Senior Secured Debt was paid in the first quarter of 2017. The lender of the Senior Secured Debt (the "Secured Lender") provided a forbearance agreement for the balance of the accrued interest and made short term advances to cover non-discretionary costs, such as equipment lease payments. All advances were included in trade payables and were paid during 2016. Barring a significant improvement in the sales of frac sand, the Company is unlikely to be able to repay the Senior Secured Debt in full when it matures in January 2018. The Company's ability to make the required interest payments in 2017 is also in doubt and dependent upon frac sand sales. To date, the Company's Secured Lender has communicated its commitment to ensuring the protection of the Company's core assets, including the advances noted above and the forbearance agreement. Should the support of the Secured Lender change, the going concern assumption would be in doubt.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of a $3,000,000 Promissory Convertible Note (the "Outstanding Note"). On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due, which has resulted in the Company defaulting on the note.

On March 7, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed private placements with certain of its unsecured lenders, trade creditors and management in settlement of the Promissory Convertible Notes and debt owed, as per the terms of the Debt Restructuring Agreement, as described in Note 11. The Company has not paid interest payments due on its New Promissory Convertible Notes (as defined in Note 11), which has resulted in the Company defaulting its New Promissory Convertible Notes.

The ability of the Company to continue as a going concern is heavily dependent on the frac sand market improving, both in demand and in price, and the Company's ability to resume operations at its 7P Plant. In addition to the liquidity and solvency uncertainties described above, the ability to resume full operations at the 7P Plant will require additional financing. In order to resume purchasing and shipping supplies of frac sand and full operations at the 7P Plant, the Company will require additional working capital. As noted, the Company's Secured Lender has been supportive to date. However, there are no assurances that the Company will be able to obtain the working capital to resume operations at the level sufficient to generate cash flows to repay its outstanding obligations.

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. During 2016, the Company, with the agreement of its Secured Lender, sold non-core assets, including marketable securities and its interest in a general partnership agreement (the "Partnership"), to provide operating funds. However, without an injection of capital and/or until the demand for frac sand returns to pre-2015 levels, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company's existing obligations add to the challenge of obtaining additional capital.

There can be no assurance that the Company will be able to restructure its debt further and/or recapitalize, and there is no certainty as to what further steps, if any, the secured and unsecured lenders may take. To date, the Secured Lender has been supportive and has provided limited working capital needed to protect the Company's core assets, and management and the board of directors have reduced and/or deferred salaries and director fees until business recovers, but there is no certainty that this will continue.

In addition to the above liquidity issues, 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, a continued prolonged slowdown in the frac sand market which would limit the Company's ability to generate cash flow from the 7P Plant, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully fund its projects and operating expenses.

None of the Company's mining projects have commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, the optioning and/or sale of resource or resource-related assets or interests, exploration results which have the potential for the discovery of economically-recoverable reserves and resources, and/or the ability to generate sufficient cash flow from its other operating activities for its funding. Development of the Company's current nickel mining projects to the production stage will require significant

financing. Given the current economic climate, including the low nickel price, and the Company's existing liquidity challenges, the ability to raise sufficient funds will be difficult.

Should the Company not be able to overcome the risks described in this section, the carrying value of the Company's assets would be subject to material adjustment and, in addition, other adjustments may be necessary to these condensed interim consolidated financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty that the Company will be able to generate sufficient cash to fund its activities including debt servicing, project expenditures and corporate costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ significantly from the going concern basis.

## 2. BASIS OF PREPARATION

The condensed interim consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") applicable to the preparation of the interim financial statements, including IAS 34. The accounting policies, methods of computation and presentation applied in these condensed interim consolidated financial statements are consistent with those of the previous fiscal year.

These unaudited condensed interim consolidated financial statements reflect the accounting policies and disclosures described in Notes 2, 3, 4 and 5 to the Company's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 ("2016 Audited Financial Statements") (with the exception of changes set out below, if any) and accordingly, should be read in conjunction with those financial statements and the notes thereto.

The management of the Company prepares the condensed interim consolidated financial statements, which are then reviewed by the Audit Committee and the Board of Directors. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 23, 2017 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail in Note 3 to the 2016 Audited Financial Statements. Such policies have been applied consistently by all Victory Nickel entities and to all periods presented in these condensed interim consolidated financial statements.

There have been no new accounting policies adopted by the Company.

## 4. RECEIVABLES AND PREPAIDS

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Trade accounts receivable | **$ 216** | $ 41 |
| Less: Allowance for doubtful accounts | **-** | (23) |
| | **216** | 18 |
| Other receivables | **53** | 51 |
| Prepaid expenses and deposits | **-** | 9 |
| | **$ 269** | $ 78 |

The aging of trade accounts receivable is as follows:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Trade accounts receivable | | |
| Current | $ 198 | $ 16 |
| Past due 0-30 days | 18 | 2 |
| Past due 31-60 days | - | - |
| Past due 90 days | - | 23 |
| | $ 216 | $ 41 |

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures. During the first quarter of 2017, the previous allowance for doubtful accounts of $23,000 at December 31, 2016 was written off. As at March 31, 2017, one of the Company's customers accounted for 75% of the trade accounts receivable balance (2015 – two customers for 100%).

## 5. MARKETABLE SECURITIES

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Financial assets at fair value through OCI: | | |
| Shares | $ 230 | $ 158 |
| | $ 230 | $ 158 |

## 6. INVENTORY

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Raw material | | |
| At transload facility | $ 188 | $ 188 |
| Stored at 7P Plant | 531 | 568 |
| | 719 | 756 |
| Finished goods & other inventory | 1,370 | 1,467 |
| | $ 2,089 | $ 2,223 |

## 7. PROPERTY, PLANT AND EQUIPMENT

| | Land and Building | 7P Plant | Vehicles and Mobile Equipment | Equipment and Furniture | Total |
|---|---|---|---|---|---|
| **Balances as at January 1, 2017** | | | | | |
| Cost | 83 | 4,804 | 708 | 220 | 5,815 |
| Accumulated Amortization | (13) | (1,415) | (418) | (39) | (1,885) |
| Effect of Foreign Exchange | (8) | (145) | (41) | (169) | (363) |
| **Carrying Amount** | **$ 62** | **$ 3,244** | **$ 249** | **$ 12** | **$ 3,567** |
| Disposals - cost | - | - | (23) | - | - |
| Disposals - accumulated amortization | - | - | 15 | - | 15 |
| Amortization | - | (114) | (18) | (1) | (133) |
| **Balances as at March 31, 2017** | | | | | |
| Cost | 83 | 4,804 | 731 | 220 | 5,815 |
| Accumulated Amortization | (13) | (1,529) | (421) | (40) | (2,003) |
| Effect of Foreign Exchange | (8) | (191) | (41) | (169) | (409) |
| **Carrying Amount** | **$ 62** | **$ 3,084** | **$ 269** | **$ 11** | **$ 3,426** |

## 8. MINE PROPERTY AND DEVELOPMENT PROJECT

| | January 1, 2017 | Current Expenditures | **March 31, 2017** |
|---|---|---|---|
| Minago | $ 34,974 | $ 4 | **$ 34,978** |
| | $ 34,974 | $ 4 | **$ 34,978** |

### Minago

The 100%-owned Minago project covers approximately 19,799 ha, through a combination of mining claims, mineral leases and a mineral exploration licence, on Manitoba's Thompson Nickel Belt. The property encompasses the Nose Deposit, which contains the entire current nickel mineral resource, and the North Limb, a zone of nickel mineralization with a known strike length of 1.5 kilometres located to the north of the Nose Deposit.

From 2006 to date, considerable work has been performed, including diamond drilling, metallurgical testing and engineering studies and all the studies required to complete the Environmental Impact Study that was filed in May 2010. As a result, in August 2011, the Company received its Environmental Act Licence ("EAL"). In April 2014, the Company announced the filing of an amendment to the EAL to relocate the permitted Minago tailings facilities, such that it will not interfere with potential nickel resources and also reduce operating costs. Consultations with First Nations by the Government of Manitoba continue. On completion, the government is expected to issue the amendment to the existing EAL which continues to be valid. The results of the Minago Feasibility Study ("FS") were announced in December 2009 and improvements thereto announced in June 2010 and July 2011.

Five mineral claims totalling 691 ha located at the north end of the Company's existing Minago property package are subject to a maximum 2% net smelter return royalty ("NSR") with a 50% back-in right; these claims represent approximately 2.4% of the total Minago project and are not contained in the FS pit footprint.

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

## 9. 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, 2017 | Current Expenditures | Writedowns/ Recoveries | **March 31, 2017** |
|---|---|---|---|---|
| **Lac Rocher** | $ 1,922 | $ 6 | $ - | **$ 1,928** |
| **Mel** | 6,796 | - | - | **6,796** |
| | $ 8,718 | $ 6 | $ - | **$ 8,724** |

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

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

### Mel

The Company purchased a 100% interest in the Mel properties located near Thomson, Manitoba from Vale. Vale is entitled to a 10% royalty on "distributable earnings" defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

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

**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. In November 2014, the Company announced that it had optioned the Lynn Lake property to Corazon Mining Ltd. ("Corazon"). Under the terms of the option agreement, subject to any required regulatory approvals, Corazon can acquire a 100% interest in Lynn Lake by issuing to Victory Nickel, 40,000,000 Corazon shares upon closing and incurring AU$3,500,000 in exploration expenditures or payments (in cash or Corazon shares at Corazon's option) to Victory Nickel over five years. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from Lynn Lake and receive a payment of AU$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of ore processing activities. In April 2015, the Company received 40,000,000 shares of Corazon valued at $192,000 as part of the option agreement.

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

In February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed on the Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

## 10. TRADE AND OTHER PAYABLES

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Accounts payable | | |
| Mine property and development project | **$ 12** | $ 11 |
| Exploration and evaluation projects | **4** | 3 |
| Other accounts payable | **1,953** | 1,775 |
| Accrued liabilities | | |
| Other accrued liabilities | **92** | 227 |
| Lease obligations - current portion | **93** | 125 |
| | **$ 2,154** | $ 2,141 |

As part of the SPA Amended Loan (defined in Note 11) with the Secured Lender, the Company agreed to not make any payments to settle past unsecured debt or balances outstanding with trade creditors who did not agree to the Debt Restructuring Agreement, prior to the repayment of the Senior Secured Debt, without the Secured Lender's approval.

## 11. LOANS AND BORROWINGS

| | *Notes* | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|---|
| Current loans and borrowings | | | | | |
| Senior Secured Debt | *(a)* | **$** | **5,490** | $ | - |
| Current portion of Promissory Convertible Notes | *(b)* | | **3,000** | | 3,000 |
| Current portion of New Promissory Convertible Notes | *(b)* | | **1,770** | | 1,298 |
| Debt due to management & directors | *(b)* | | **280** | | - |
| Accrued interest | | | **2,166** | | 1,775 |
| Other current loans | | | **75** | | - |
| Total current loans and borrowings | | | **12,781** | | 6,073 |
| Long-term loans and borrowings | | | | | |
| Senior Secured Debt | *(a)* | **$** | **-** | $ | 5,468 |
| New Promissory Convertible Notes | *(b)* | | **-** | | 123 |
| Long term debt due to management & directors | *(b)* | | **-** | | 280 |
| Total long-term loans and borrowings | | | **-** | | 5,871 |
| | | **$** | **12,781** | $ | 11,944 |

During the first quarter of 2017, the Company made interest payments of $18,000 (March 31, 2016 - $24,000), incurred interest expense of $407,000 (March 31, 2016 - $278,000), amortized loan fees of $5,000 (March 31, 2016 - $nil) and amortized embedded derivatives of $63,000 (March 31, 2016 - $nil).

### (a) Senior Secured Debt

| | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| Carrying balance at beginning of the year | **$** | **5,468** | $ | 5,150 |
| Conversion from accrued interest | | **-** | | 350 |
| Add: change in fair value of warrants with a cashless exercise feature | | **36** | | 6 |
| Less: change in unamortized fair value of warrants | | **4** | | (15) |
| Less: unamortized loan fees | | **(18)** | | (23) |
| **Senior Secured Debt** | **$** | **5,490** | $ | 5,468 |

In May 2014, the Company announced that it had executed the SPA Loan ("SPA Loan"), to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of $4,000,000. In June 2015, the Company announced it had entered into an amending agreement (the "SPA Amended Loan") with respect to the SPA Loan. On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan per the terms of the Debt Restructuring Agreement. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018.

The interest rate on the Senior Secured Debt remained unchanged at 14.8% with interest payable in arrears. The Senior Secured Debt will be due in full on the date of maturity, subject to a cash sweep of 75% of free cash flow ("Free Cash Flow") payable within 45 days following the end of each fiscal quarter and 90 days from each fiscal year end. Free Cash Flow will be calculated based on the Company's quarterly unaudited and annually audited consolidated statement of cash flows, as net cash from operating and investing activities, plus interest and lease payments from financing activities. Allowable investing activities must be approved in advance by the Secured Lender.

**Warrants issued to the Secured Lender**

Under the terms of the SPA Loan, the Company issued 2,000,000 common share purchase warrants. The number of warrants is subject to an increase from 500,000 to 1,000,000 warrants for each $1,000,000 note issued under the SPA Loan, if any of the notes are prepaid and the closing price of the Company's share price is CAD$2.00 or lower on the trading day preceding the date of such prepayment (the "Original Warrants"). Given that there are costs

associated with the prepayment right, the Company has valued the prepayment right at $nil. Each original warrant entitled the holder to purchase one common share of the Company at an exercise price of CAD$1.00 for a period of 36 months from the initial closing date.

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

Under the terms of the Senior Secured Debt, the Warrants were amended to reduce the exercise price to CAD$0.25 and to extend the expiry date to January 31, 2018. Additionally, as partial consideration for entering into the Senior Secured Debt, the Company issued an additional 175,000 common share purchase warrants on the same terms, including the amended pre-payment terms, as the Warrants (together with the Warrants, the "New Warrants").

The New Warrants are subject to a cashless exercise provision and are considered a component of debt rather than equity; the fair value at inception of the Senior Secured Debt was calculated at $26,000 and was revalued at March 31, 2017 to $42,000, with the change in fair value was recorded in finance income (Note 17).

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

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Fair values | **C$0.02** | C$0.00 |
| Share prices at valuation dates | **C$0.07** | C$0.02 |
| **Assumptions** | | |
| Exercise price | **C$0.25** | C$0.25 |
| Expected volatilities | **172%** | 167% |
| Expected remaining terms (years) | **0.83** | 1.08 |
| Risk-free interest rates | **0.75%** | 0.73% |

**(b) Promissory Convertible Notes**

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Total Principal Outstanding at beginning of the period | **$ 4,421** | $ 5,942 |
| Less: refinancing of Promissory Convertible Notes | **-** | (1,475) |
| Add: refinancing of debt owed to trade creditors, directors and management | **-** | 512 |
| Less: change in present value discount on debt | **43** | (473) |
| Add: change in fair value of warrants with a cashless exercise feature | **282** | 70 |
| Less: change in unamortized fair value of warrants | **24** | (155) |
| Carrying balance at the end of the period | **4,770** | 4,421 |
| Less: current portion of Promissory Convertible Notes | **(3,000)** | (3,000) |
| Less: current portion of New Promissory Convertible Notes | **(1,770)** | (1,298) |
| **New Promissory Convertible Notes - Long term portion** | **$ -** | $ 123 |

In November 2013 and during 2014, the Company entered into several unsecured Promissory Convertible Notes and incurred interest payable quarterly at 14.8% and were convertible at the option of the holder into the Company's common shares at CAD$1.00. All Promissory Convertible Notes had a two-year term.

On March 6, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed restructuring a portion of its debt through private placements of common shares and unsecured promissory convertible notes (the "New Promissory Convertible Notes") in settlement of current indebtedness to certain of its unsecured lenders and trade creditors (collectively the "Unsecured Debt Restructuring"). Completion of the Unsecured Debt Restructuring

represented 50% of the value owed to the Promissory Convertible Note Holders and Trade Creditors. The Unsecured Debt Restructuring included issuing 27,698,443 common shares of the Company and issuing New Promissory Convertible Notes of USD$1,481,000 and CAD$933,000.

**Promissory Convertible Note Holders**
Debt of $2,750,000 and CAD$265,000 held by the Promissory Convertible Note holders was repaid under the following terms:

1) 50% of the value of the Promissory Convertible Notes issued between November 2013 and July 2014, with an interest rate of 14.8% per annum, was converted to 8,876,350 of common shares of the Company.
2) The remaining 50% of the value of the Promissory Convertible Notes were replaced with the New Promissory Convertible Notes, having the following terms:
   - A maturity date of July 31, 2018;
   - An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
   - Convertible at CAD$0.25 per share; and
   - Holders of the New Promissory Convertible Notes will also receive one common share purchase warrant for every four common shares acquired upon conversion of the New Promissory Convertible Notes, with an exercise price of CAD$0.50 per share, exercisable for a five year period from the date of conversion.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of the $3,000,000 Outstanding Note. On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt until the Senior Secured Debt is repaid. As a result, the Company has not paid interest accrued on the Outstanding Note. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due. This has resulted in the Company defaulting on the Outstanding Note.

**Trade Creditors**
Restructuring of debt owed to certain trade creditors, directors and management of $211,000 and CAD$1,600,000 was repaid under the following terms:

1) 50% of debt owed to trade creditors, directors and management, was converted to 18,822,093 of common shares of the Company.
2) The remaining 50% of the debt owed to trade creditors was paid with the New Promissory Convertible Notes, having the same terms as outlined above in the section 'Promissory Convertible Note Holders'.
3) The remaining 50% of debt owed to directors and management will be deferred for payment no sooner than January 31, 2018.

The option to convert the New Promissory Convertible Notes to common shares of the Company, have been calculated using the Black-Scholes option-pricing model using the following parameters:

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Fair values | **C$0.03** | C$0.00 to C$0.01 |
| Share prices at valuation dates | **C$0.07** | C$0.02 |
| **Assumptions** | | |
| Exercise price | **C$0.25** | C$0.25 |
| Expected volatilities | **162.9% to 169.0%** | 158% to 163% |
| Expected remaining terms (years) | **1.33** | 1.58 |
| Expected dividends | **-** | - |
| Risk-free interest rates | **0.75%** | 0.73% |

The Company has not made interest payments due on its New Promissory Convertible Notes, which has resulted in the Company defaulting on these New Promissory Convertible Notes.

## 12. PARTICIPATING INTEREST

Pursuant to a participating interest loan (the “Participating Interest”) with Nuinsco Resources Limited (“Nuinsco” or the “Lender”), the Lender has the right to convert the outstanding balance into a limited participating interest (the “Conversion”), whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. The Lender’s participation was capped at CAD$10,000,000, with a minimum of CAD$7,500,000, and was subject to adjustment under certain circumstances.

The Participating Interest is classified as a financial liability carried at amortized cost. The estimated future cash flows discounted at 15% were determined using a probability-weighted estimation of future expected cash flow scenarios from the three-phased frac sand business based on current expectations of business results, capital costs and pre-operating expenditures. An assessment is made regarding the applicable ceiling for the cash flows which is dependent upon the phase attained by the Company when payments under the Participating Interest are anticipated. These cash flows were on the basis of completion of phase two; the Company expects to enter phase two before paying out the expected cash flows, despite announcing during February 2015, a deferral of phase two. The Company also included probability weightings of 50%, 25% and 25% as risk factors applied to varying levels of expected cash flows – being zero, 50% and 100% of the applicable ceiling maximum of CAD$7,667,000.

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for phase two is CAD$7,667,000 (phase one - CAD$10,222,000). As a result of the continued slowdown in demand for frac sand, the continued suspension of operations at the 7P Plant and the losses incurred during the last few years, the estimated fair value of the Participating Interest was valued at $933,000 at March 31, 2017. This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will continue to review and revise its estimates of expected future cash flows, as the expectations of payments of the Participating Interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows paid**.**

## 13. LEASE OBLIGATIONS

| | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| Vehicles and Mobile Equipment: | | | | |
| Total present value of minimum lease payments | **$** | **516** | $ | 516 |
| Principal payments | | **(421)** | | (386) |
| **Total present value of minimum lease payments remaining** | | **95** | | 130 |
| Lease obligations - current portion | | **(93)** | | (125) |
| **Lease obligations - long-term** | **$** | **2** | $ | 5 |

The Company has finance lease obligations for equipment in use at the 7P Plant. At the end of the lease obligations, ownership is transferred to the Company for all leases except two, whereby an election is to be made 60 days prior to the end of the lease term at the purchase option price of CAD$1.00 and CAD$10.00.

The future minimum lease payments are as follows:

| | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| Less than 1 year | **$** | **97** | $ | 130 |
| Between 1 and 5 years | | **2** | | 5 |
| **Total minimum lease payments payable** | | **99** | | 135 |
| Future finance charges on minimum lease payments | | **4** | | 5 |
| **Present value of minimum lease payments** | **$** | **95** | $ | 130 |

## 14. CAPITAL AND OTHER COMPONENTS OF EQUITY

The issued and outstanding common shares are as follows:

| | Number of Shares | Share Capital |
|---|---|---|
| **Balance as at January 1 and March 31, 2017** | **92,370,968** | **$ 53,241** |

## 15. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the period ended were as follows:

| | | March 31, 2017 |
|---|---|---|
| **Balance as at beginning of the period** | | **92,370,968** |
| **Weighted average number of common shares at end of the period - Basic** | | **92,370,968** |
| Effect of options granted and outstanding | | 8,200,000 |
| **Weighted average number of common shares at end of the period - Diluted** | | **100,570,968** |
| Number of options excluded | | 5,390,000 |
| Number of warrants excluded | | 2,750,000 |
| Number of shares from conversion of New Promissory Notes excluded | | 10,590,642 |
| **Net loss attributable to shareholders - Basic and Diluted** | **$** | **(908)** |
| **Weighted Average Basic Loss Per Share** | **$** | **(0.01)** |
| **Weighted Average Diluted Loss Per Share** | **$** | **(0.01)** |

The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses. The table above provides the weighted average number of shares on a diluted basis for periods where losses are incurred for information only. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on quoted market prices for the respective periods during which the options were outstanding.

## 16. SHARE-BASED PAYMENTS

### Stock Options

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

| (amounts in Canadian dollars) | Number of options<br>March 31, 2017 | | Weighted average exercise price<br>March 31, 2017 |
|---|---|---|---|
| **Outstanding as at beginning of the period** | 2,235,000 | $ | 0.49 |
| Granted | 11,400,000 | $ | 0.05 |
| Expired or forfeit | (45,000) | $ | 0.30 |
| **Outstanding as at end of the period** | **13,590,000** | **$** | **0.12** |
| **Exercisable as at end of the period** | **10,390,000** | **$** | **0.14** |

| | Number of options outstanding | Weighted average remaining contractual life (years) |
|---|---|---|
| | March 31, 2017 | March 31, 2017 |
| **Range of exercise prices (Canadian dollars)** | | |
| $0.05 | 11,400,000 | 4.90 |
| $0.30 | 697,000 | 1.24 |
| $0.50 | 655,000 | 0.24 |
| $0.55 | 213,000 | 1.85 |
| $0.70 | 625,000 | 2.31 |
| | **13,590,000** | **4.32** |

During the first quarter of 2017, the Company recorded $304,000 in share-based payments upon the vesting of options. At March 31, 2017, an additional $103,000 in share-based payments remains to be recognized up until February 2018. Options outstanding at March 31, 2017 expire between June 2017 and February 2022.

The grant-date fair values of share-based payments were measured based on the Black-Scholes option pricing model. The inputs used in the measurement of the fair values at grant date were as follows:

| | March 31, 2017 |
|---|---|
| Fair values | **C$0.047** |
| Share prices at valuation dates | **C$0.05** |
| **Assumptions** | |
| Exercise price | **C$0.05** |
| Expected volatilities | **169.73%** |
| Expected remaining terms (years) | **5.00** |
| Expected dividends | **-** |
| Risk-free interest rates | **0.99%** |

**Share purchase warrants**

The number and weighted average exercise prices of warrants at the period ended were as follows:

| (in Canadian dollars) | Date Issued | Life (mths) | Number of warrants | Weighted average exercise price |
|---|---|---|---|---|
| **Issued pursuant to private placements** | | | | |
| New Warrants (a) | March 3, 2016 | 23 | **2,750,000** | **$ 0.25** |
| **Outstanding as at end of the period** | | | **2,750,000** | **$ 0.25** |

(a) These warrants may be settled without cash and are, accordingly, classified as debt rather than as a component of contributed surplus. Refer to Note 11 for more details on the issuance of warrants related to the Senior Secured Debt.

## 17. FINANCE INCOME AND FINANCE COSTS

| | Three months ended | |
|---|---|---|
| | **March 31, 2017** | March 31, 2016 |
| Change in value of options and warrants under Debt Restructuring Agreement | **$ -** | $ 59 |
| Gain on Debt Restructuring Agreement | **-** | 1,766 |
| Change on the value of Participating Interest | **-** | 52 |
| Net foreign exchange gain | **28** | - |
| **Finance income** | **28** | 1,877 |
| Interest expense on loans | | |
| Accrued and/or cash settled | **407** | 278 |
| Amortization of loan fees | **5** | - |
| Amortization of embedded derivatives | **63** | - |
| Change in value of options and warrants under Debt Restructuring Agreement | **318** | - |
| Other | **8** | - |
| **Finance costs** | **801** | 278 |
| **Net Finance (Costs) Income** | **$ (773)** | $ 1,599 |

## 18. OPERATING SEGMENT

### Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products; since January 1, 2014, it also is a producer and supplier of premium frac sand from its 7P Plant. Accordingly, the Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment operates to support the Company's activities, including exploration and development projects and the frac sand business.

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

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 20). The segment is located in Canada although raw materials purchases are sourced from the United States.

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

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| **Canada** | | |
| Corporate | **$ 1,877** | $ 1,863 |
| Exploration and Development | **43,702** | 43,692 |
| Frac Sand | **5,658** | 5,803 |
| Intersegment elimination | **(1,443)** | (1,443) |
| **Total Assets** | **$ 49,794** | $ 49,915 |

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

| Period ended March 31, 2017 | Corporate | Exploration and Development | Frac Sand | Total | March 31, 2016 |
|---|---|---|---|---|---|
| **Revenues** | $ - | $ - | $ 249 | $ 249 | $ 65 |
| Cost of goods sold | - | - | (241) | (241) | (85) |
| **Gross margin** | - | - | 8 | 8 | (20) |
| **Operating expenses** | | | | | |
| General and administrative | (95) | - | (44) | (139) | (329) |
| Share-based payments: | | | | | |
| Options | (304) | - | - | (304) | - |
| Amortization of property, plant and equipment | (1) | - | (132) | (133) | (189) |
| **Operating loss** | (400) | - | (168) | (568) | (538) |
| Finance income | 28 | - | - | 28 | 1,877 |
| Finance costs | (801) | - | - | (801) | (278) |
| **Net finance (costs) income** | (773) | - | - | (773) | 1,599 |
| **(Loss) Income before income taxes** | (1,173) | - | (168) | (1,341) | 1,061 |
| Income tax recovery | 433 | - | - | 433 | - |
| **Net (loss) income for the period** | $ (740) | $ - | $ (168) | $ (908) | $ 1,061 |

## 19. RELATED PARTIES AND MANAGEMENT AGREEMENT

### Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. In addition to short-term employee benefits, the Company may also issue options and shares as part of the stock option plan and share bonus plan. Payables to key management personnel generally relate to directors' fees, consulting fees and expense reimbursements.

Balances and transactions with related parties for the periods ended are shown in the following tables:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| **Balances Outstanding** | | |
| Debt due to key management personnel | $ 280 | $ 280 |
| Other payables due to key management personnel | 438 | 440 |
| | $ 718 | $ 720 |

Key management personnel compensation is comprised of:

| | Three months ended | |
|---|---|---|
| | March 31, 2017 | March 31, 2016 |
| Short-term employee benefits | $ 64 | $ 84 |
| | $ 64 | $ 84 |

## 20. COMPANY ENTITY

**Significant Subsidiary - Victory Silica**

On June 19, 2012, the Company announced the creation of Victory Silica to establish the Company as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project. Victory Silica manages the frac sand business on behalf of the Company.

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| **Victory Silica Ltd.** | | |
| Current Assets | **$ 19** | $ 20 |
| Current Liabilities | **$ 20** | $ 33 |

## 21. SUBSEQUENT EVENT

**Appointment of Chief Financial Officer**

On May 23, 2017, the Company announced the appointment of Ms. Margaret Lai, CPA, CA, to the position of Chief Financial Officer, effective immediately. In connection with the appointment, the Company announced the grant to Ms. Lai of 500,000 stock options at an exercise price of $0.06 per share.

# VICTORY NICKEL INC.

# MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2017

## DATED MAY 23, 2017

**VICTORY NICKEL INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**For The Three Months Ended March 31, 2017**

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 23, 2017 consolidates management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2017, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2017 (the "Unaudited Condensed Interim Consolidated Financial Statements") and the notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain information and discussion included in this management's discussion and analysis ("MD&A") constitutes forward-looking information. Readers are encouraged to refer to the cautionary notes contained in the section Forward-Looking Statements at the end of this MD&A.

Readers are also encouraged to consult the audited consolidated financial statements for the years ended December 31, 2016 and 2015 ("2016 Audited Financial Statements"). The Unaudited Condensed Interim Consolidated Financial Statements and the 2016 Audited Financial Statements are available at www.sedar.com and at the Company's website www.victorynickel.ca. All amounts disclosed are in United States dollars ("US$" or "US dollars") unless otherwise stated as Canadian dollars ("CAD$") or Australian dollars ("AU$"). All tabular amounts are in thousands of US dollars.

Shares of the Company trade on the Canadian Securities Exchange ("CSE") under the symbol NI as of February 22, 2016. Prior to that date, shares of the Company traded on the Toronto Stock Exchange.

## COMPANY OVERVIEW

The Company was formed on February 1, 2007 as an exploration and development mineral resource company and was primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada. Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (under option with Corazon Mining Ltd. ("Corazon"), an Australian public company (ASX: CZN)) and Mel projects in Manitoba, and the Lac Rocher project in Québec. The Minago project is the Company's most advanced nickel project. A feasibility study on the Minago Project ("Minago FS") was completed and the results were announced in December 2009, the Environmental Impact Study ("EIS") was filed in May 2010 and receipt of the Environmental Act Licence ("EAL") was announced in August 2011. Subsequent improvements to the project were announced in June 2010 and July 2011. In April 2014, the Company announced the filing of an amendment to the EAL to relocate the permitted Minago tailings facilities such that it will not interfere with potential nickel resources and also reduce operating costs. Consultations with First Nations by the Government of Manitoba are ongoing. On completion, it is expected that the Government will issue the requested amendment to the existing EAL.

Victory Nickel is also a producer and supplier of premium Wisconsin frac sand from its frac sand plant (the "7P Plant") located near Seven Persons, Alberta, approximately 18 kilometres southwest of Medicine Hat, Alberta. High-quality Northern White frac sand is sourced from Wisconsin, USA, through the Company's wholly-owned subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica"). Northern White occurs predominantly in the US Mid-West and generally exceeds American Petroleum Institute ("API") specifications for frac sand. For this reason, it is a highly-desirable and preferred frac sand. Frac sand is used as a proppant to enhance the recovery from oil and gas wells. The 7P Plant comprises a wet plant with a nominal capacity of approximately 120,000 tons per annum ("tpa") and a fully-operational dry plant with a nominal capacity of 500,000 tpa. The Company established itself as a frac sand producer by acquiring concentrated sand in Wisconsin, USA, washing it prior to shipping the concentrate to the Company's 7P Plant for processing into four main categories of finished frac sand products.

Crucial to the success of its frac sand operations is the Company's ability to build a solid customer base within an economic distance of its production facilities. The Company was able to establish itself as a preferred supplier in the areas around Medicine Hat, Alberta through spot-market sales and short-term contracts. The Company's 7P Plant is located in close proximity to oil and gas producing plays in Alberta, BC, Saskatchewan and North Dakota, allowing customers to purchase sand FOB the 7P Plant and use their own trucks to deliver to the wellhead or, alternatively, to have the Company deliver frac sand directly to the wellhead. A small portion of finished sand is delivered by rail.

The Company's decision to enter the frac sand business was initially based on the need to generate cash flow and the desire to highlight the value of the frac sand as a co-product at its Minago nickel project in Manitoba. Based on the Minago FS, approximately 11 million tonnes of frac sand exist within the Minago pit footprint. The pit footprint represents only a small portion of the Minago property. The frac sand is a significant contributor to the economics of the Minago project.

To ensure long-term supply of concentrated sand, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in south western Wisconsin, USA (the "Bear Coulee Property"). The option is valid for six months from receipt of permits with two equivalent extensions available under certain circumstances. Prior to production the Company will be required to pay $40,000 per annum as an advance royalty on the initial 20,000 tons of sand production. Once the Bear Coulee Property is in production, the Company will be required to pay a royalty of $2.00 per ton of frac sand sold from the property. The Bear Coulee frac sand property is located in Trempeleau County, Wisconsin. In February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed by Summit Envirosolutions Inc. on the Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

The Company's board of directors approved the construction of a wet plant in Wisconsin or Minnesota and has considered building a second 1,000,000 tpa dry plant in or near Winnipeg, Manitoba. Market conditions necessitate the deferral of any such construction until more certainty returns to the oil and gas sector.

Due to the sudden drop in the price of oil during late 2014, drilling activity by oil and gas exploration and production ("E&P") companies decreased significantly, and sustained relatively low oil and gas prices continued to negatively affect frac sand demand through 2016 and into 2017. The drop in sales required a temporary suspension in production in April 2015. The 7P Plant operates on an as-needed basis only (see Going Concern below). In March 2017, the Company announced that due to the current increasing market demand for frac sand, it has restarted the dry plant at its 7P Plant.

**Going Concern**

The Unaudited Condensed Interim Consolidated Financial Statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at March 31, 2017, the Company had a working capital deficiency of $12,269,000, calculated as current assets less current liabilities, an increase from a working capital deficiency of $5,558,000 as at December 31, 2016. At March 31, 2017, the debts of $12,501,000 were the largest factor in the Company's working capital deficiency, as the Company was in default on its promissory convertible notes.

The Company's main assets are its nickel projects. Minago, the most advanced of its projects is permitted and ready for development. However, development costs are in excess of $500,000,000 and given the current price of nickel, it is unlikely that financing for this project will be available in the near future.

On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improved; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014 and continued through the current year. Since March 2015, sales have been significantly below rates achieved during 2014 and continue well below the level required to generate positive cash flow. The 7P Plant continues to operate on an as-needed basis in order to fulfil customer needs, as the Company works to sell its existing inventory of frac sand. Early 2017 has shown some improvement in the slowdown in drilling activity due to the severe drop in the price of oil, but sales have yet to recover to levels that would generate positive cash flow.

The near-term outlook in the frac sand market remains unclear. The strength of the US dollar is also impacting demand for high-quality Wisconsin sand in Canada as the price for domestic sand has dropped and service companies appear satisfied with using lower-quality domestic sand, because of the price differential. As the Company's inventory is Wisconsin frac sand, this will continue to stress the Company's liquidity until such time as the market demand recovers and operations can resume on a consistent basis.

Cash flows from frac sand sales were not sufficient to cover operating costs and the Company was not able to make a portion of its the interest payments due during 2016 and the first quarter of 2017.

On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan (as defined and outlined in Note 11 to the Unaudited Condensed Interim Consolidated Financial Statements), which included terms of a debt restructuring package (the "Debt Restructuring Agreement") for the holders of the promissory convertible notes (the

“Promissory Convertible Notes”) and the Company’s trade creditors. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018 (the “Senior Secured Debt”).

Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt until the Senior Secured Debt is repaid. Only a portion of the interest due under the Senior Secured Debt was paid in the first quarter of 2017. The lender of the Senior Secured Debt (the “Secured Lender”) provided a forbearance agreement for the balance of the accrued interest and made short term advances to cover non-discretionary costs, such as equipment lease payments. All advances were included in trade payables and were paid during 2016. Barring a significant improvement in the sales of frac sand, the Company is unlikely to be able to repay the Senior Secured Debt in full when it matures in January 2018. The Company’s ability to make the required interest payments in 2017 is also in doubt and dependent upon frac sand sales. To date, the Company’s Secured Lender has communicated its commitment to ensuring the protection of the Company’s core assets, including the advances noted above and the forbearance agreement. Should the support of the Secured Lender change, the going concern assumption would be in doubt.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of a $3,000,000 Promissory Convertible Note (the “Outstanding Note”). On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company’s debt. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due, which has resulted in the Company defaulting on the note.

On March 7, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed private placements with certain of its unsecured lenders, trade creditors and management in settlement of the Promissory Convertible Notes and debt owed, as per the terms of the Debt Restructuring Agreement, as described in Note 11 of the Unaudited Condensed Interim Consolidated Financial Statements. The Company has not paid interest payments due on its New Promissory Convertible Notes (as defined below), which has resulted in the Company defaulting on its New Promissory Convertible Notes.

The ability of the Company to continue as a going concern is heavily dependent on the frac sand market improving, both in demand and in price, and the Company’s ability to resume operations at its 7P Plant. In addition to the liquidity and solvency uncertainties described above, the ability to resume full operations at the 7P Plant will require additional financing. In order to resume purchasing and shipping supplies of frac sand and full operations at the 7P Plant, the Company will require additional working capital. As noted, the Company’s Secured Lender has been supportive to date. However, there are no assurances that the Company will be able to obtain the working capital to resume operations at the level sufficient to generate cash flows to repay its outstanding obligations.

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. During 2016, the Company, with the agreement of its Secured Lender, sold non-core assets, including marketable securities and its interest in a general partnership agreement (the “Partnership”), to provide operating funds. However, without an injection of capital and/or until the demand for frac sand returns to pre-2015 levels, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company’s existing obligations add to the challenge of obtaining additional capital.

There can be no assurance that the Company will be able to restructure its debt further and/or recapitalize, and there is no certainty as to what further steps, if any, the secured and unsecured lenders may take. The date, the Secured Lender has been supportive and has provided limited working capital needed to protect the Company’s core assets, and management and the board of directors have reduced and/or deferred salaries and director fees until business recovers, but there is no certainty that this will continue.

In addition to the above liquidity issues, 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, a continued prolonged slowdown in the frac sand market which would limit the Company’s ability to generate cash flow from the 7P Plant, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully fund its projects and operating expenses.

None of the Company's mining projects have commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, the optioning and/or sale of resource or resource-related assets or interests, exploration results which have the potential for the discovery of economically-recoverable reserves and resources, and/or the ability to generate sufficient cash flow from its other operating activities for its funding. Development of the Company's current nickel mining projects to the production stage will require significant financing. Given the current economic climate, including the low nickel price, and the Company's existing liquidity challenges, the ability to raise sufficient funds will be difficult.

Should the Company not be able to overcome the risks described in this section, the carrying value of the Company's assets would be subject to material adjustment and, in addition, other adjustments may be necessary to the Unaudited Condensed Interim Consolidated Financial Statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty that the Company will be able to generate sufficient cash to fund its activities including debt servicing, project expenditures and corporate costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ significantly from the going concern basis.

**OUTLOOK**

As a typical junior resource company with little access to financial and capital markets necessary to move mineral projects forward, the Company had to find an alternative to generate cash flow. Waiting for the resource markets, more specifically the nickel markets, to turn around was not considered to be an acceptable option.

*Frac Sand*
In 2012, the Company announced its intention to enter the frac sand business with a plan that was certainly considered very aggressive and a vision at best. That vision became a reality in 2014 when the Company completed construction and commissioning of its Seven Persons frac sand plant in Alberta.

Choosing to enter the frac sand business was not without reason. The strong market fundamentals for frac sand suggested continuing growth of the industry and new public information and strong peer group valuations indicated the availability of near-term cash flow. With an entry fee of approximately $6,000,000 to build a frac sand processing facility, the risk was considered acceptable based on expected cash flows. Soon after commissioning, toward the end of 2014 and apparently to everyone's surprise, the bottom fell out of the oil industry and the price of oil crashed from in excess of $100 per barrel to below $30 per barrel of oil. Except for a few short signs of recovery, the price of oil has remained around the $40 to $50 level. Whether this is an indication of bottoming out with a gradual recovery is uncertain. The price decrease is similar for natural gas.

As a result, drill rig utilization decreased substantially from the first quarter of 2015 to the first quarter of 2016. However, over the last several months, there have been signs of improvement in drill rig utilization. As a direct response to the declining utilization, E&P companies reduced, cancelled or deferred capital programs. All of this led to an unprecedented decline in the pricing of drilling and well completions and the resulting pressure on the price of frac sand. Since January 2016, North American rig count has increased by 24%. This combined with an increase in the quantity of sand used per well, indicated that the price of frac sand is also increasing.

The frac sand pricing index prepared by New York based investment bank Cowen and Company shows sequential growth in the US land rig count of 24% in the first quarter of 2017. The price of oil necessary to create a resurgence of demand and a return to drilling activity is yet to be understood. This period of declining activity and price decreases has necessitated that the industry step back and evaluate ways of reducing costs. Such cost reduction measures include lengthening of both lateral and horizontal drilling, increasing the number of stages per foot and using more sand per stage. All of these changes has increased sand intensity, using more sand per well, to increase the oil flow and thereby improve the economics. This trend bodes well for frac sand consumption even in a quiet drilling environment.

After two-plus years of low or declining commodity prices and low rig utilization, the frac sand market has begun to recover, initially in the US. The demand for US proppant is projected to rebound to 50 million tons in 2017, from approximately 30 million tons in 2016.

Higher frac sand demand drove US frac sand pricing up by 20%-25% in the fourth quarter of 2016. A further 5%-10% improvement is expected during 2017, due to forecast of higher oil prices, OPEC's agreement late in 2016 to reduce

output, increased high-intensity fracking that uses very large volumes of sand in a well completion, E&P companies completing wells that were drilled and capped during the oil industry downturn and the US presidential election result that favours the oil and gas industry.

The downturn in oil pricing led to declines in rig counts, frac sand demand and the availability of capital. As a result, company valuations have evaporated and loan amounts remain outstanding, leading to restructurings and bankruptcy filings throughout the frac sand sector. This has created opportunities to acquire frac sand production assets at a fraction of their capital cost.

Major suppliers of frac sand have said that the long-term fundamental trends for sand demand remain favourable and that the price discounts are not sustainable in the long term. Indications are that uncompleted wells could represent a significant pent up demand for frac sand. With all of the cut backs in capital spending and development of projects, a case can be made for a potential and very sudden and significant increase in demand for sand while the industry catches up to increase supply. The exact timing of this is difficult to predict but this has been seen in the past as industry overreacts on the downside and gets into a catch-up situation when business improves.

The sudden negative turn of events could not have come at a more crucial time in Victory Nickel's development and entry into the frac sand industry. Production was ramping up and could not keep up with demand but the sudden slowdown in demand required that the Company temporarily suspend production at its 7P Plant. As demand returns, the Company has inventory of sand at various stages of completion to enable it to immediately respond to customer needs. In March 2017, the Company announced that due to the current increasing market demand for frac sand, it has restarted the dry plant of its 7P Plant.

Having completed phase one of the Company's three-phase business plan, the Board of Directors approved moving forward to phase two in November 2014. With the overall decline in demand caused by the drop in the price of oil, phase two will be difficult to finance in the current market. However, phase two is a desirable next step which would not only make the Company more competitive but also provide significant flexibility to target certain markets which often require different grades of sand.

Phase two is to build a wash plant on a Wisconsin sand resource. Frac sand production is a two-stage process: the wet stage and the dry stage. The Company has historically contracted out the wet stage in Wisconsin prior to shipping the wet sand to its plant in Alberta. The wet stage removes the fines and clays, allowing transport of only the coarser fractions. The dry stage, where the sand is dried and separated into several products of different sizes, is completed at the Company's 7P Plant a 500,000 tpa dry processing facility. The Company having its own wash plant is of great advantage in maintaining the high quality of the sand.

Phase three of the business plan is to build a second dry processing facility in or around Winnipeg, Manitoba capable of producing 1,000,000 tpa. The Company is targeting a site which is serviced by multiple rail carriers. This gives the Company more flexibility in accessing only the highest quality sand from the Wisconsin/Minnesota region. The ultimate plan is to provide customers with a variety of qualities which would include domestic sand, possibly from the Company's Minago project in Manitoba, which has been permitted and is ready for development when the price of nickel recovers. The Minago project is a nickel project overlain by overburden, which includes sand meeting the tier two frac sand specs. The Winnipeg formation sand located at Minago is the highest-quality domestic sand and would be a welcome addition to the Company's mix of products. Not all of the Company's customers' applications require Wisconsin sand.

*Nickel*

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

The Minago FS was based on an open pit mining project with a nickel reserve of approximately 30 million tonnes to be mined over about eight years. Beneath the proposed pit exists another potential 30 million tonnes for potential future mining. Immediately to the north of the pit, the Company has identified an additional potential 30 million tonnes. The Minago project was permitted in 2011 and is shovel-ready. With the frac sand co-product credit, the C1 cost to produce a pound of nickel is projected to be $2.20 per pound. The price of nickel has dropped significantly since the preparation of the Minago FS and recently recovered to the $5.32 per pound level in 2016. The price has since drifted back to the $4.21 per pound level. A third party long-term forecasted price is $7.40 per pound of nickel. Using this price at an exchange rate

of US$0.731:CAD$1.00 and other metal prices at forecasted prices, the Minago project IRR of return based on the Minago FS is 19.03%. Based on metal prices and the exchange rate as of the date of this MD&A, the IRR is 7.20%, compared to the 22.9% reflected in the Minago FS.

*Debt Restructuring*
We cannot change the market. All we can do is work with it and within it. The restructuring was designed to strengthen the balance sheet and defer cash requirements until operations can resume generating cash flow to repay the debt. Management would like to thank the Company's creditors for their participation in their participation in the restructuring plan.

Management is now developing plans to implement strategies based on what we have learned since getting into the frac sand business and having dealt with the downturn in the oil and gas industry. In addition, we remain confident that sulphide nickel demand will improve such that not only the Minago nickel project can be developed but that the Company's other nickel projects, Mel and Lac Rocher, can be advanced as potential producers.

The Company plans to participate in the turnaround in not only the oil and gas industry but also the nickel industry and we thank our shareholders, lenders and suppliers for their continued patience and support.

## RESULTS OF OPERATIONS

| Period ended March 31, 2017 | Corporate | Exploration and Development | Frac Sand | Total | March 31, 2016 |
|---|---|---|---|---|---|
| **Revenues** | **$ -** | **$ -** | **$ 249** | **$ 249** | $ 65 |
| Cost of goods sold | **-** | **-** | **(241)** | **(241)** | (85) |
| **Gross margin** | **-** | **-** | **8** | **8** | (20) |
| **Operating expenses** | | | | | |
| General and administrative | **(95)** | **-** | **(44)** | **(139)** | (329) |
| Share-based payments: | | | | | |
| Options | **(304)** | **-** | **-** | **(304)** | - |
| Amortization of property, plant and equipment | **(1)** | **-** | **(132)** | **(133)** | (189) |
| **Operating loss** | **(400)** | **-** | **(168)** | **(568)** | (538) |
| Finance income | **28** | **-** | **-** | **28** | 1,877 |
| Finance costs | **(801)** | **-** | **-** | **(801)** | (278) |
| **Net finance (costs) income** | **(773)** | **-** | **-** | **(773)** | 1,599 |
| **(Loss) Income before income taxes** | **(1,173)** | **-** | **(168)** | **(1,341)** | 1,061 |
| Income tax recovery | **433** | **-** | **-** | **433** | - |
| **Net (loss) income for the period** | **$ (740)** | **$ -** | **$ (168)** | **$ (908)** | $ 1,061 |

### Overall
For the three months ended March 31, 2017, the Company had a net loss of $908,000 or a loss of $0.01 per share (March 31, 2016 – net income of $1,061,000 or income of $0.02 per share). The following narrative discussed the relevant operations of the Frac Sand and Exploration and Development segments first, and then addresses the corporate segment.

### Frac Sand Segment
Due to the decline in the price of oil beginning in 2014, demand for frac sand in the Company's target markets was under pressure throughout 2016 and into 2017. The Company accumulated inventory of in excess of 37,000 tons as at March 31, 2017 at various stages of the process and made sales of 2,965 tons of various grades of frac sand during the three months ended March 31, 2017 (March 31, 2016 – 834 tons) by drawing down inventories, generating a gross margin of $8,000 (March 31, 2016 – negative gross margin of $20,000). During the first quarter of 2017, the Company sold most of its finished goods inventory requiring the start-up of the 7P Plant to replenish finished goods, in anticipation of a continued improvement in sales.

***Revenues***
The Company recognized revenue on frac sand sales during the three months ended March 31, 2017 aggregating $249,000, or $84 per ton, on sales of 2,965 tons (March 31, 2016 - $65,000, or $78 per ton, on sales of 834 tons). Revenue includes periodic freight for sales delivered to customers. While sales and pricing are showing signs of improvement, the market has not improved sufficiently in the Company's target areas where it can generate positive cash flow.

***Cost of goods sold***
The cost of goods sold includes the cost of concentrated sand purchased in Wisconsin, the cost of delivery to the 7P Plant including handling and trans-loading costs and the operating cost to dry and screen the concentrated sand into four main dry products. These costs are capitalized as a component of inventory on a normalized basis and are charged to cost of goods sold when title to the product passes to the customer. Cost of goods sold also includes any write-down of inventory values to the lower of cost or net realizable value.

The cost of goods sold was $241,000 during the three months ended March 31, 2017 (March 31, 2016 - $85,000). The 7P Plant continues to operate on an as needed basis, resulting in higher operating costs per ton of product produced than what is expected on a continuous operating basis. The Company has reduced manpower to a skeleton crew sufficient to start production as demand returns on a consistent basis.

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

Concentrated wet sand is purchased through long-term supply agreements with third parties at specified prices per ton. For the three months ended March 31, 2017, the cost of washed concentrated sand delivered to rail and included as a component of inventory was $31.86 per ton (March 31, 2016 - $31.86 per ton). Transportation costs including freight charges and fuel surcharges when transporting sand from Wisconsin to the 7P Plant, transload costs at the source and at the 7P Plant, as well as railcar lease payments were $64.73 per ton for the three months ended March 31, 2017 (March 31, 2016 - $56.61 per ton). Other elements of cost of goods sold were $27.09 per ton during the three months ended March 31, 2017 and were primarily operating expenditures at the plant and mobile equipment lease payments (March 31, 2017 – $33.54 per ton). This adds to a finished goods inventory cost of $123.68 per ton at March 31, 2017 (March 31, 2016 - $127.36 per ton). Finished goods inventory was written-down to a net realizable value of $75.48 per ton to reflect market conditions at December 31, 2016. Finished goods inventory does not include freight for sales sold delivered to the customer.

The Company suspended deliveries of concentrated sand in the first quarter of 2015 and will resume deliveries once demand is sufficient to utilize existing inventories at the 7P Plant.

***Gross margin***
The 7P Plant generated a gross margin of $8,000 for the three months ended March 31, 2017 (March 31, 2016 – negative gross margin of $20,000). The gross margin was affected by a combination of price reductions and cost increases due to the low production level during the respective years.

***General and administrative and other costs***
General and administrative ("G&A") costs for the frac segment amounted to $44,000 for the three months ended March 31, 2017 (March 31, 2016 - $53,000). These costs include Victory Silica administration, marketing and logistics management. The Company reduced manpower to a skeleton crew and overhead sufficient to operate the 7P Plant as demand requires.

Amortization of property, plant and equipment of $132,000 was recorded for the three months ended March 31, 2017 (March 31, 2016 - $187,000), for items in use at the 7P Plant including owned and leased equipment.

***Net loss***
All of the above items combined to produce a net loss for the frac sand segment of $168,000 for the three months ended March 31, 2017 (March 31, 2016 – $260,000).

**Exploration and Development Segment**
During the three months ended March 31, 2017 and 2016, there were no pre-exploration expenditures.

**Corporate Segment**

The corporate component of net loss for the three months ended March 31, 2017 was $740,000 (March 31, 2016 – net income of $1,345,000), including operating expenses of $400,000 (March 31, 2016 - $254,000), net finance costs of $773,000 (March 31, 2017 – net finance income of $1,599,000) and an income tax recovery of $433,000 (March 31, 2016 – $nil).

G&A expenses were $95,000 during the three months ended March 31, 2017, as the Company has reduced its overhead due to the slowdown in the market for frac sands, as compared with $253,000 in the prior year comparable period. These costs include statutory costs incurred as a public company, general investor relations expenses, consulting, travel, health benefits and director costs.

***Net finance income (costs)***

For the three months ended March 31, 2017, net finance costs was $773,000 (March 31, 2016 – net finance income of $1,599,000). The Company considers financing activities, other than those related to equipment leased in the frac sand segment, to be part of the Corporate segment.

The finance income during the three months ended March 31, 2017 of $28,000 (March 31, 2016 - $1,877,000) was related to foreign exchange gains. During the comparable period in the prior year, finance income was mainly due to the gain on the Debt Restructuring Agreement of $1,766,000.

Finance costs during the three months ended March 31, 2017 of $801,000 (March 31, 2016 - $278,000) was related to interest accrued of $407,000 (March 31, 2016 - $278,000) and the change in the value of embedded derivatives of $318,000 (March 31, 2016 – $59,000 recorded in finance income). The increase in interest expense during the three months ended March 31, 2017 was mainly related to the compounding of interest outstanding on various debts.

During 2016, the Company issued several tranches of New Promissory Convertible Notes (as defined below). There are several elements of finance costs associated with these notes: accrued and cash-settled interest expense, non-cash amortization of loan fees, non-cash amortization of the embedded derivatives related to the value of the convertibility feature at inception and the non-cash amortization of the present value discount on the New Promissory Convertible Notes. All amortizable elements are calculated using the effective interest rate method. At March 31, 2017, the amortization of the embedded derivatives on the New Promissory Convertible Notes amounted to $63,000 (March 31, 2016 - $nil).

The embedded derivatives are calculated using the Black-Scholes option-pricing methodology and are a function of share price, the conversion price, risk-free interest rate, length of time to expiry and share price volatility as well as the US dollar exchange rate for loans denominated in US dollars, but convertible using a Canadian dollar price. All other things being equal, one would expect the value of the option to decline as time approaches the expiry date. However, because of the volatility of exchange rates and the Company's share price, this may not always be the case. The Secured Senior Debt does not contain an embedded derivative feature; however, the warrants which were issued therewith may be exercised on a cashless basis. The value of the warrants is considered to be debt rather than equity and changes in the fair value of the warrants is also recorded through net finance income.

***Income tax expense (recovery)***

The Company does not allocate income taxes between segments. In the three months ended March 31, 2017, the Company recorded a tax recovery as a result of applying carry-forward non-capital losses against the significant taxable income generated on the sale of the Partnership during 2016. Certain components of finance income and finance costs are not taxable and their volatility has an apparent effect on the effective income tax rate.

***Other comprehensive income***

Other comprehensive income ("OCI") for the three months ended March 31, 2017 relates to an increase of $72,000 in the market value of the Company's financial assets at fair value through OCI (March 31, 2016 – $139,000), along with an income tax loss recorded through OCI of $nil (March 31, 2016 – $21,000). There were no sales of marketable securities during the period. Foreign exchange loss in OCI of $3,000 was incurred in the three months ended March 31, 2017, compared with $33,000 in the comparative period of the prior year, due to the translation of the Company's subsidiaries' functional currency of CAD$ to the Company's functional currency of US$.

***Deferred tax liability***

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying value of the balance sheet items and their corresponding tax values, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are considered probable to be realized. The deferred tax amount reflects a rate of 27% (March 31, 2016 – 27%).

During the second quarter of 2016, the Partnership generated income for tax purposes significantly in excess of its accounting income and a significant capital tax loss on the sale of the Partnership. As a result, the Company utilized the majority of its non-capital tax losses carried forward from prior years and recorded a deferred tax liability. The deferred tax liability is partly offset against deferred tax assets from non-capital tax losses carried forward, resulting in a net deferred tax liability of $3,376,000 as at March 31, 2017.

## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eight quarters ended March 31, 2017 were as follows:

| | Q1 2017 | | Q4 2016 | | Q3 2016 | | Q2 2016 | |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ | 249 | $ | 31 | $ | - | $ | 4 |
| Gross margin | $ | 8 | $ | (640) | $ | - | $ | 116 |
| Net finance (costs) income | $ | (773) | $ | (1,067) | $ | (560) | $ | 1,920 |
| Net loss | $ | (908) | $ | (7,647) | $ | (924) | $ | (1,117) |
| Total comprehensive loss | $ | (839) | $ | (7,598) | $ | (853) | $ | (1,047) |
| Loss per share - basic and diluted | $ | (0.01) | $ | (0.10) | $ | (0.01) | $ | (0.01) |
| | Q1 2016 | | Q4 2015 | | Q3 2015 | | Q2 2015 | |
| Revenue | $ | 65 | $ | 518 | $ | 325 | $ | 631 |
| Gross margin | $ | (20) | $ | (189) | $ | (563) | $ | 76 |
| Net finance income (costs) | $ | 1,599 | $ | (760) | $ | (570) | $ | (794) |
| Net income (loss) | $ | 1,061 | $ | (2,336) | $ | (1,599) | $ | (906) |
| Total comprehensive income (loss) | $ | 1,146 | $ | (2,296) | $ | (1,679) | $ | (945) |
| Earnings (loss) per share - basic and diluted | $ | 0.02 | $ | (0.04) | $ | (0.03) | $ | (0.02) |

Revenues from the sales of frac sand declined during 2015, 2016 and into 2017, as mentioned earlier. The gross margin includes cost of goods sold, which contain operating costs for a full period despite production being at less-than-full capacity. In addition, the decrease in the market value of frac sand required a writedown of inventory values to the lower of cost or net realizable value. Net finance income and costs have fluctuated period over period, due to the change in the fair value of the embedded derivatives and warrants related to the Debt Restructuring Agreement, change in the fair value of the Participating Interest (defined below), gains on the Debt Restructuring Agreement during 2016 and amortization of embedded derivatives and loan fees on the New Promissory Convertible Notes (as defined below).

## LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2017, the Company had a working capital deficiency of $12,269,000, compared with a working capital deficiency of $5,558,000 as at December 31, 2016. The increase in the working capital deficiency resulted from the debts of $12,501,000 in the Company’s working capital at March 31, 2017, as the Company was in default on its New Promissory Convertible Notes (as defined below).

### Participating Interest

Pursuant to a participating interest loan (the “Participating Interest”) with Nuinsco Resources Limited (or the “Lender”), the Lender has the right to convert the outstanding balance into a limited participating interest (the “Conversion”), whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. On April 22, 2014, the Lender exercised the Conversion. The Conversion constituted payment of the loan in full. This obligation will be settled through a 52.16% participation in net operating cash flows from the frac sand business after recoupment of capital costs for phase one and pre-operating expenses. The participation is capped at CAD$7,667,124 provided the Company proceeds with phase two, otherwise the cap is approximately CAD$10,222,831. Distributions under the Participating Interest terms are calculated based on operating cash flow after recovery of capital and pre-operating costs and take into account working capital. The continuing uncertainty surrounding the oil and gas industry and the related use of frac sand has made the determination of the timing of the first payment under the Participating Interest highly unlikely to occur in the next couple of years. As a result, at March 31, 2017, the carrying value of the Participating Interest was $933,000

(December 31, 2016 - $933,000). Any change in value is recorded through Finance Income in the statement of operations. The Company will continue to reassess the carrying value of the Participating Interest as circumstances warrant.

**Senior Secured Debt**

In May 2014, the Company announced that it had executed the SPA Loan ("SPA Loan"), to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of $4,000,000. In June 2015, the Company announced it had entered into an amending agreement (the "SPA Amended Loan") with respect to the SPA Loan. On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan per the terms of the Debt Restructuring Agreement. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018.

The interest rate on the Senior Secured Debt remained unchanged at 14.8% with interest payable in arrears. The Senior Secured Debt will be due in full on the date of maturity, subject to a cash sweep of 75% of free cash flow ("Free Cash Flow") payable within 45 days following the end of each fiscal quarter and 90 days from each fiscal year end. Free Cash Flow will be calculated based on the Company's quarterly unaudited and annually audited consolidated statement of cash flows, as net cash from operating and investing activities, plus interest and lease payments from financing activities. Allowable investing activities must be approved in advance by the Secured Lender.

***Warrants issued to the Secured Lender***

Under the terms of the SPA Loan, the Company issued 2,000,000 common share purchase warrants. The number of warrants is subject to an increase from 500,000 to 1,000,000 warrants for each $1,000,000 note issued under the SPA Loan, if any of the notes are prepaid and the closing price of the Company's share price is CAD$2.00 or lower on the trading day preceding the date of such prepayment (the "Original Warrants"). Given that there are costs associated with the prepayment right, the Company has valued the prepayment right at $nil. Each original warrant entitled the holder to purchase one common share of the Company at an exercise price of CAD$1.00 for a period of 36 months from the initial closing date.

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

Under the terms of the Senior Secured Debt, the Warrants were amended to reduce the exercise price to CAD$0.25 and to extend the expiry date to January 31, 2018. Additionally, as partial consideration for entering into the Senior Secured Debt, the Company issued an additional 175,000 common share purchase warrants on the same terms, including the amended pre-payment terms, as the Warrants (together with the Warrants, the "New Warrants").

The New Warrants are subject to a cashless exercise provision and are considered a component of debt rather than equity; the fair value at inception of the Senior Secured Debt was calculated at $26,000 and was revalued at December 31, 2016 to $6,000, with the change in fair value of $20,000 being recorded in finance income.

**Promissory Convertible Notes**

In November 2013 and during 2014, the Company entered into several unsecured Promissory Convertible Notes and incurred interest payable quarterly at 14.8% and were convertible at the option of the holder into the Company's common shares at CAD$1.00. All Promissory Convertible Notes had a two-year term.

On March 6, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed restructuring a portion of its debt through private placements of common shares and unsecured promissory convertible notes (the "New Promissory Convertible Notes") in settlement of current indebtedness to certain of its unsecured lenders and trade creditors (collectively the "Unsecured Debt Restructuring"). Completion of the Unsecured Debt Restructuring represented 50% of the value owed to the Promissory Convertible Note Holders and Trade Creditors. The Unsecured Debt Restructuring included issuing 27,698,443 common shares of the Company and issuing New Promissory Convertible Notes of USD$1,481,000 and CAD$933,000.

***Promissory Convertible Note Holders***
Debt of $2,750,000 and CAD$265,000 held by the Promissory Convertible Note holders was repaid under the following terms:

1) 50% of the value of the Promissory Convertible Notes issued between November 2013 and July 2014, with an interest rate of 14.8% per annum, was converted to 8,876,350 of common shares of the Company.
2) The remaining 50% of the value of the Promissory Convertible Notes were replaced with the New Promissory Convertible Notes, having the following terms:
   - A maturity date of July 31, 2018;
   - An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
   - Convertible at CAD$0.25 per share; and
   - Holders of the New Promissory Convertible Notes will also receive one common share purchase warrant for every four common shares acquired upon conversion of the New Promissory Convertible Notes, with an exercise price of CAD$0.50 per share, exercisable for a five year period from the date of conversion.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of the $3,000,000 Outstanding Note. On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt until the Senior Secured Debt is repaid. As a result, the Company has not paid interest accrued on the Outstanding Note. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due. This has resulted in the Company defaulting on the Outstanding Note.

***Trade Creditors***
Restructuring of debt owed to certain trade creditors, directors and management of $211,000 and CAD$1,600,000 was repaid under the following terms:

1) 50% of debt owed to trade creditors, directors and management, was converted to 18,822,093 of common shares of the Company.
2) The remaining 50% of the debt owed to trade creditors was paid with the New Promissory Convertible Notes, having the same terms as outlined above in the section 'Promissory Convertible Note Holders'.
3) The remaining 50% of debt owed to directors and management will be deferred for payment no sooner than January 31, 2018.

The Company has not made interest payments due on its New Promissory Convertible Notes, which has resulted in the Company defaulting on these New Promissory Convertible Notes.

**Cash flows in the year**
Cash and cash equivalents as at March 31, 2017 were held with major Canadian banks. The Company has a policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board.

For the three months ended March 31, 2017, the Company used cash in operating activities of $51,000, compared with cash generated of $6,000 during the comparable period in the prior year. There continues to be limited revenues due to the slowdown in operating activity during the period as mentioned earlier.

During the three months ended March 31, 2017, net cash used by investing activities was $10,000, compared to $nil during the comparable period in the prior year. Amounts used in investing activities include minimal costs incurred to advance the Company's exploration, evaluation and development projects.

The Company used $55,000 in financing activities during the three months ended March 31, 2017, compared with $1,000 during the comparable period in the prior year. Financing activities were mainly related to payments of interest and lease obligations. During the three months ended March 31, 2016, $36,000 of restricted cash held in a term deposit matured.

The Company's activities during the three months ended March 31, 2017 used cash and cash equivalents of $116,000, increased by a foreign exchange effect of $3,000.

**Other potential sources of cash flow**
The aggregate market value of the Company's marketable securities held in public company shares is approximately $270,000 as at the date of this MD&A.

As at May 23, 2017, the Company had options and warrants outstanding that could bring in additional funds. All of those instruments are not "in-the-money", with the exception of 8,200,000 exercisable options with an aggregate value of CAD$410,000. However, the receipt of such funds cannot be relied upon.

The Company's title to its projects is in good-standing and will continue to maintain the projects in good-standing.

The Company has approximately 37,000 tons of sand in inventory at March 31, 2017. The Company has eliminated all discretionary costs that should not have a negative impact on its ability to resume production. Staffing, salaries and director fees have been reduced or accrued and deferred where possible.

**BUSINESS UPDATE**

**Reporting Segment**
The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company also produces frac sand for the oil and gas industry in Canada and the northern US. The Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand. The Corporate segment supports all of the Company's activities.

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

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel. The segment is located in Canada although sand as raw material is imported from the United States.

The following table provides additional information on the Company's total segment assets:

| | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| **Canada** | | | | |
| Corporate | **$** | **1,877** | $ | 1,863 |
| Exploration and Development | | **43,702** | | 43,692 |
| Frac Sand | | **5,658** | | 5,803 |
| Intersegment elimination | | **(1,443)** | | (1,443) |
| **Total Assets** | **$** | **49,794** | $ | 49,915 |

**EXPLORATION AND DEVELOPMENT ACTIVITIES**

*Paul Jones is a "qualified person" as defined under NI-43-101 and has approved the preparation of the information relating to the material mineral projects of the Company described herein.*

**MINE PROPERTY AND DEVELOPMENT ACTIVITIES**

**Minago Project**
During the three months ended March 31, 2017, $4,000 was incurred on the Minago project (March 31, 2016 - $nil).

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

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

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

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

A winter work program was conducted at Minago in 2011 and comprised 8,793m of diamond drilling in 20 drill holes with associated ground and borehole electromagnetic geophysics. A total of 15 holes were collared to intersect the "North Limb", a domain of nickel-bearing ultramafic rock extending at least 1.5km north from the Nose Deposit.

A 3,500m winter work program was conducted in early 2012 to test a number of targets around the property that have been identified in previous work programs as well as areas that are scheduled for Minago mine infrastructure development. In part, the drilling evaluated the nickel-bearing Ospwagan Group/Pipe Formation rocks in the vicinity of the Minago Nose Deposit.

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

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

On August 23, 2011, the Manitoba Government issued Victory Nickel's final EAL for the Minago project. The licence was to expire on August 22, 2014 unless the Company completes a certain amount of work to move the project forward. During 2014, the Company complied with the conditions of the EAL and, in December 2014, filed an Environmental Act Proposal ("EAP") to amend the EAL to relocate the proposed tailings and waste rock management facility. The construction of drainage ditches installed to lower down the water table within the pit shell limits, the installation of Flow Gauging and Telemetry systems and the implementation of a comprehensive environmental monitoring program are considered part of the site development necessary to maintain the EAL. Consultations with First Nations by the government of Manitoba continue. On completion, the government is expected to issue the amendment to the existing EAL, which continues to be valid.

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

## EXPLORATION AND EVALUATION ACTIVITIES

For the three months ended March 31, 2017, the Company incurred exploration expenditures on its E&E projects of $6,000 for (March 31, 2016 – $nil). Expenditures have been minimal due to the tight equity markets and management's focus on Victory Silica and the frac sand business.

### Frac Sand

*Bear Coulee Property*
In October 2014, the Company entered into an option to acquire a 100% interest in a frac sand land package totaling over 300 acres in Trempeleau County Wisconsin, USA (the "Bear Coulee Property"). The option agreement provides for a cash payment of $10,000 on signing of the agreement (and paid in 2014), a second cash payment on delivery of permits (which has not yet been completed) and a third cash payment on exercise of the option. The option is valid for six months following receipt of permits with two equivalent extensions available under certain circumstances. Prior to production, the Company will be required to pay $40,000 per annum as advance royalties on the initial 20,000 tons of sand production. Once the Bear Coulee Property is in production, the Company will be required to pay a royalty of $2.00 per ton of frac sand sold from the property.

In February 2015, the Company announced the completion of a National Instrument 43-101 technical report describing a resource estimate of approximately 11 million tons of frac sand on the Bear Coulee Property.

### Nickel

*Lac Rocher*
Lac Rocher, with year round access, is located in northwestern Québec and has measured (0.29 million tonnes grading 1.23% Ni) and indicated (0.51 million tonnes grading 1.05% Ni) resources of 0.80 million tonnes grading 1.12% nickel, at a 0.5% nickel cutoff, for approximately 20 million pounds of in-situ nickel located between surface and 125 vertical metres. Additional inferred resources total 0.44 million tonnes grading 0.65% Ni. Mineralization remains open to the southwest. The breakeven price of nickel per pound in the Lac Rocher PEA was US$9.74 with copper at US$3.65 with an exchange of CAD$0.95 / US$1.00.

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. No work has been conducted on site since December 2009.

*Mel Project*
The 100% owned Mel project is located on the Thompson Nickel Belt, just north of Thompson, Manitoba, and remains underexplored.

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

The re-evaluation of the Mel dataset has been completed for both the drill hole data on the Mel deposit and the considerable drilling (111 drill holes) conducted of the claims portion of the property. The study has included reinterpretation of the geological context in order to evaluate new or under-tested target areas for future work and that can be incorporated into further, more refined, modelling of the Mel resource. No fieldwork was conducted since 2011. An application to renew Mel mining lease ML-007 was successful and the lease has been renewed for a 21-year term.

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

*Lynn Lake*

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

On November 4, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area. Under the terms of the agreement, Corazon can acquire a 100% interest in Lynn Lake by issuing 40,000,000 Corazon shares to the Company upon closing and incurring AU$3,500,000 in exploration expenditures or in payments (in cash or Corazon shares at Corazon's option) to Victory Nickel over five years. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from the Lynn Lake nickel project, and receive a payment of AU$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of the commencement of ore processing activities at the Lynn Lake nickel project. On April 6, 2015 Corazon issued 40,000,000 Corazon shares to Victory Nickel as part of the terms of the option agreement between the two companies.

**Frac Sand Segment**

As explained above, the Frac Sand segment is managed and operated by Victory Silica, although the business and operating assets are part of Victory Nickel. The segment is located in Canada although sand as raw material is currently imported from the United States. The plan is to eventually produce both domestic and imported sand.

The Company completed phase one of its three phase business plan. Phase one provided for the refurbishment and upgrading of the 7P Plant to a capacity of 500,000 tpa of high-quality frac sand. The 7P Plant was completed in March 2014 followed by commissioning until early August.

Successful completion of phase one was expected to lead to phase two which provides for the building of a wash plant in Wisconsin, USA, followed by phase three which provides for the construction of a second dry processing facility in Manitoba with a capacity of approximately 1,000,000 tpa. With the completion of phase one, the Board of Directors approved proceeding with phase two provided non-dilutive financing could be arranged. However, in February 2015, the Company announced that phase two had been deferred due to the uncertainty caused by the drop in the price of oil.

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

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

During the first quarter of 2017, the Company sold most of its finished goods inventory requiring the start-up of the 7P Plant to replenish finished goods, in anticipation of a continued improvement in sales.

## TRANSACTIONS WITH RELATED PARTIES

**Related Party Balances and Transactions for Services**
Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. In addition to short-term employee benefits, the Company may also issue options and shares as part of the stock option plan and share bonus plan. Payables to key management personnel generally relate to directors' fees, consulting fees and expense reimbursements.

Balances and transactions with related parties for the periods ended are shown in the following tables:

| | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| **Balances Outstanding** | | | | |
| Debt due to key management personnel | **$** | **280** | $ | 280 |
| Other payables due to key management personnel | | **438** | | 440 |
| | **$** | **718** | $ | 720 |

Key management personnel compensation is comprised of:

| | | **Three months ended** | | |
|---|---|---|---|---|
| | | **March 31, 2017** | | March 31, 2016 |
| Short-term employee benefits | **$** | **64** | $ | 84 |
| | **$** | **64** | $ | 84 |

## SUBSEQUENT EVENT

**Appointment of Chief Financial Officer**
On May 23, 2017, the Company announced the appointment of Ms. Margaret Lai, CPA, CA, to the position of Chief Financial Officer, effective immediately. In connection with the appointment, the Company announced the grant to Ms. Lai of 500,000 stock options at an exercise price of $0.06 per share.

## OUTSTANDING SHARE DATA

As at May 23, 2017, the Company had 92,370,968 common shares issued and outstanding. In addition, there were 13,603,000 stock options and 2,750,000 warrants outstanding. Of the options outstanding, 11,400,000 options were "in-the-money" and only 8,200,000 are exercisable at CAD$0.05 per share. All warrants outstanding are exercisable, but none are "in-the-money".

## CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures***
The Company's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers"), is 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.

There has not been any change in the Company's disclosure controls and procedures that occurred during the three months ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's disclosure controls and procedures. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

***Evaluation of Internal Control over Financial Reporting***

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP.

There has not been any change in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

**FORWARD-LOOKING STATEMENTS**

This MD&A contains forward-looking information. All statements, other than statements of historic fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow, costs, economic return, net present value, mine life and financial models, mineral resource estimates, potential mineralization, potential mineral resources, timing of possible production, the Company's development plans and objectives and the ability of the Company to restructure its debt with the relevant lenders and the ability of the Company to pay future interest and other payments in connection with such debts) constitute forward-looking information

The forward-looking information contained in this MD&A reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from current expectations, including, but not limited to, an unwillingness of the Company's lenders to refinance the Company's debts on terms favourable to the Company or at all and the ability of the Company to continue selling frac sand. Additionally, if the Company is unable to restructure its debts, obtain additional financing and/or continue generating revenue through the sale of frac sand, the Company may be required to curtail activities and/or liquidate its assets or the Company's creditors may seek to seize its assets. For a discussion in respect of risks and other factors that could influence forward-looking events, please refer to the factors discussed in the Company's 2016 Audited Financial Statements under the heading "Risk Factors". These factors are not, and should not be construed as being exhaustive.

Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; the possibility that actual circumstances will differ from estimates and assumptions; uncertainties relating to the availability and costs of financing needed in the future; failure to establish estimated mineral resources; fluctuations in commodity prices and currency exchange rates; inflation; recoveries being less than those indicated by the testwork carried out to date (there can be no assurance that recoveries in small scale laboratory tests will be duplicated in large tests under on - site conditions or during production); changes in equity markets; operating performance of facilities; environmental and safety risks; delays in obtaining or failure to obtain necessary permits and approvals from government authorities ; unavailability of plant, equipment or labour; inability to retain key management and personnel; changes to regulations or policies affecting the Company's activities in exploration and development and the frac sand processing business; the uncertainties involved in interpreting geological data; and the other risks disclosed under the heading "Risks and Uncertainties" and elsewhere. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward- looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

**May 23, 2017**