



VICTORY NICKEL INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

DATED NOVEMBER 8, 2012

Management's Comments on Unaudited Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements of Victory Nickel Inc. for the three and nine months ended September 30, 2012 and 2011 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

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

Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars)	<i>Notes</i>	September 30, 2012 (unaudited)	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 135	\$ 517
Receivables	7	110	129
Marketable securities	8	677	2,383
Total current assets		922	3,029
Non-current assets			
Property and equipment	10	1,465	1,277
Mine property and development project	11	37,863	35,571
Exploration and evaluation projects	12	14,708	14,577
Total non-current assets		54,036	51,425
Total Assets		\$ 54,958	\$ 54,454
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	13	\$ 1,156	\$ 322
Total current liabilities		1,156	322
Non-current liability			
Deferred tax liability		2,686	2,702
Total Liabilities		3,842	3,024
Shareholders' equity			
Share capital		47,631	47,631
Contributed surplus		4,377	4,134
Accumulated other comprehensive income		1,909	2,422
Deficit		(2,801)	(2,757)
Total shareholders' equity		51,116	51,430
Total Liabilities and Shareholders' Equity		\$ 54,958	\$ 54,454

NATURE OF OPERATIONS (Note 1)

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

Condensed Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Operating expenses					
General and administrative		\$ (235)	\$ (475)	\$ (1,058)	(1,248)
Share-based payments:	16				
Options		(19)	(186)	(243)	(328)
Amortization of property and equipment	10	(4)	(2)	(12)	(7)
Recovery of exploration and evaluation project	12	450	-	1,450	597
Operating income (loss)		192	(663)	137	(986)
Finance income	17	-	82	2	78
Finance costs	17	(2)	-	(6)	(153)
Net finance (costs) income		(2)	82	(4)	(75)
Victory Silica pre-operating costs	12	(106)	-	(106)	-
Income (loss) before income taxes		84	(581)	27	(1,061)
Income tax (expense) recovery		(24)	(24)	(71)	252
Net Income (Loss) for the Period		\$ 60	\$ (605)	\$ (44)	(809)
Earnings (Loss) per share					
	15				
Basic earnings (loss) per share		\$ 0.00	\$ (0.00)	\$ (0.00)	(0.00)
Diluted earnings (loss) per share		\$ 0.00	\$ (0.00)	\$ (0.00)	(0.00)

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

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands of Canadian dollars)	Three months ended September 30,		Nine months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Net income (loss) for the period	\$ 60	\$ (605)	\$ (44)	(809)
Other comprehensive (loss) income ("OCI")				
Net change in fair value of financial assets	(63)	1,054	(599)	(1,589)
Income tax recovery (expense)	9	(142)	86	215
Other comprehensive (loss) income for the period	(54)	912	(513)	(1,374)
Total Comprehensive Income (Loss) for the Period	\$ 6	\$ 307	\$ (557)	(2,183)

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

Condensed Consolidated Statements of Shareholders' Equity

(unaudited) (in thousands of Canadian dollars)		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income / (Loss)	Deficit	Total Equity
Balances as at January 1, 2011	<i>Note</i>	\$ 46,114	\$ 3,721	\$ 4,119	\$ (1,620)	\$ 52,334
Total comprehensive loss for the period						
Net loss for the period					(809)	(809)
Other comprehensive loss						
Net change in fair value of financial assets				(1,589)		(1,589)
Income tax recovery				215		215
Total other comprehensive loss						(1,374)
Total comprehensive loss for the period						(2,183)
Transactions with owners, recorded directly in equity						
Contributions by owners in the period						
Issue of common shares and warrants		471	26	-	-	497
Issue of flow-through common shares and warrants		796	88	-	-	884
Options granted and vesting or modified		-	328	-	-	328
Warrants exercised		168	(32)	-	-	136
Options exercised		26	(11)	-	-	15
Total contributions by owners		1,461	399	-	-	1,860
Total transactions with owners		1,461	399	-	-	1,860
Balances as at September 30, 2011		\$ 47,575	\$ 4,120	\$ 2,745	\$ (2,429)	\$ 52,011
Balances as at January 1, 2012		\$ 47,631	\$ 4,134	\$ 2,422	\$ (2,757)	\$ 51,430
Total comprehensive loss for the period						
Net loss for the period					(44)	(44)
Other comprehensive loss						
Net change in fair value of financial assets				(599)		(599)
Income tax recovery				86		86
Total other comprehensive loss						(513)
Total comprehensive loss for the period						(557)
Transactions with owners, recorded directly in equity						
Contributions by owners in the period						
Options granted and vesting	16	-	243	-	-	243
Total contributions by owners		-	243	-	-	243
Total transactions with owners		-	243	-	-	243
Balances as at September 30, 2012		\$ 47,631	\$ 4,377	\$ 1,909	\$ (2,801)	\$ 51,116

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

Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Notes	Nine months ended September 30,	
		2012 (unaudited)	2011 (unaudited)
Cash flows from operating activities			
Net loss for the period		\$ (44)	\$ (809)
Adjustments for:			
Share-based payments	16	243	328
Amortization of property and equipment	10	12	7
Recovery of exploration and evaluation project	12	(1,450)	(597)
Net finance costs	17	3	81
Income tax expense (recovery)		71	(252)
Net change in working capital:			
Change in receivables		19	(43)
Change in trade and other payables		176	(25)
Net cash used by operating activities		(970)	(1,310)
Cash flows from investing activities			
Expenditures on mine property and development project		(1,621)	(229)
Expenditures on exploration and evaluation projects		(144)	(4,971)
Purchase of marketable securities		-	(114)
Proceeds on sale of marketable securities		1,103	6,112
Proceeds from option of Lynn Lake	12	1,450	600
Deposits on equipment	10	(200)	(376)
Net cash from investing activities		588	1,022
Cash flows from financing activity			
Issue of common shares and warrants		-	1,627
Net cash from financing activity		-	1,627
Net (decrease) increase in cash and cash equivalents		(382)	1,339
Cash and Cash Equivalents, Beginning of the Period		517	170
Cash and Cash Equivalents, End of the Period		\$ 135	\$ 1,509

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

Notes to the Condensed Consolidated Financial Statements

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

1. NATURE OF OPERATIONS

Nature of Operations

Victory Nickel Inc. ("Victory Nickel" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The condensed consolidated financial statements as at and for the three and nine months ended September 30, 2012 and 2011 comprise the Company and its subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel is primarily engaged in the acquisition, exploration and development of nickel properties in Canada. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

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

Going Concern

These financial statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at September 30, 2012, the Company had a working capital deficiency of \$234,000, which includes approximately \$116,000 of voluntary deferrals owing to directors and senior management, (December 31, 2011 – working capital of \$2,707,000). Working capital is defined as current assets, including assets held for sale, if any, less current liabilities, excluding restricted cash, if any. The Company has initiatives underway to improve working capital which are expected to be announced shortly.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Development of the Company's current projects to the production stage will require significant financing. Given the current economic climate, the ability to raise funds may prove difficult.

None of the Company's projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which have the potential for the discovery of economically-recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding.

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

The condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") and in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). This is GAAP for a Canadian public company.

These condensed consolidated financial statements reflect the accounting policies described in the Company's Audited Financial Statements for the years ended December 31, 2011 and 2010 ("2011 Audited Financial Statements") (with the exception of any changes set out in Note 3 below) and accordingly, should be read in conjunction with those financial statements and the notes thereto.



Notes to the Condensed Consolidated Financial Statements

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

The management of Victory Nickel prepare the unaudited condensed consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2012 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

(b) Basis of Measurement

The financial statements have been prepared on the historic cost basis except for derivative financial instruments such as warrants which are measured at fair value with changes through operations and financial assets such as marketable securities which are measured at fair value with changes recorded through other comprehensive income or loss ("OCI").

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

Information regarding significant areas of estimation uncertainty and critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 9 valuation of financial assets at fair value through operations and OCI;
- Note 11 measurement of the recoverable amount of mine property and development project;
- Note 12 measurement of the recoverable amount of exploration and evaluation projects; and
- Note 16 measurement of share-based payments.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail in Note 3 to the 2011 Audited Financial Statements, as updated under New Accounting Policies below. Such policies have been applied consistently to all periods presented in these financial statements.

(a) New Accounting Policies

There have been no new accounting policies adopted by the Company except that the financial statements are now prepared on the consolidated basis.

(b) Basis of Consolidation

Subsidiary

A subsidiary is an entity controlled by Victory Nickel. Control exists when Victory Nickel has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are

Notes to the Condensed Consolidated Financial Statements

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

included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Victory Nickel. Significant Company entities are listed in Note 20.

(c) New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2011 Audited Financial Statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 to those statements. However, certain of those issued at that time but not included in those financial statements are now relevant to Victory Nickel and are described below:

IFRS 10 - Consolidated Financial Statements

Effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Early adoption of these standards is only permitted if IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 17 and IAS 18 are adopted at the same time, with the exception of early-adopting only the disclosure provisions for IFRS 12 without the other new standards.

The Company has complied with these standards when consolidating its subsidiary Victory Silica (Note 20).

4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview

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

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

A complete description of the Company's financial risk management and capital management is included in Note 4 to the 2011 Audited Financial Statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these financial statements.

Capital Management Disclosures

	September 30, 2012	December 31, 2011
Shareholders' equity	\$ 51,116	\$ 51,430
	\$ 51,116	\$ 51,430

The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

Notes to the Condensed Consolidated Financial Statements

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

5. DETERMINATION OF FAIR VALUES

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 5 to the Company's 2011 Audited Financial Statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

6. CASH AND CASH EQUIVALENTS

	September 30, 2012	December 31, 2011
Bank balances	\$ 135	\$ 517
Cash and Cash Equivalents in the Statement of Cash Flows	\$ 135	\$ 517

7. RECEIVABLES

	<i>Note</i>	September 30, 2012	December 31, 2011
Receivables		\$ 85	\$ 106
Prepaid expenses and deposits		25	3
Due from Nuinsco Resources Limited	19	-	20
		\$ 110	\$ 129

8. MARKETABLE SECURITIES

	<i>Note</i>	September 30, 2012	December 31, 2011
Financial assets at fair value through OCI:			
Shares	9	\$ 677	\$ 2,380
Financial assets at fair value through operations:			
Warrants	9	-	3
		\$ 677	\$ 2,383

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

The financial assets at fair value through operations consist of warrants which are not publicly-traded. However, they are susceptible to valuation using the Black-Scholes option-pricing model, the inputs for which are readily determinable. Any change in fair value after initial recognition, is recorded through the statement of operations as a gain or loss on financial assets at fair value in *Finance income* or *Finance costs* (Note 17). The change in the fair value of the warrants was a net decline of \$3,000 during the nine months ended September 30, 2012 and is included in *Finance costs* (September 30, 2011 – net decline of \$153,000 in *Finance costs*).

Sensitivity Analysis – Equity Price Risk

All of the Company's financial assets at fair value through OCI are listed on public stock exchanges, including the TSX and the TSX-V. Recently, the markets have experienced extreme volatility, therefore the sensitivity analysis is now performed using 15%; the analysis was previously performed using 5%. For such investments, a 15% increase in the equity prices at the reporting date would have increased equity by \$87,000, after tax effects of \$14,000 (as at December 31, 2011 at 15% - an increase of \$306,000, after tax effects of \$51,000); an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

For financial assets at fair value through operations, the impact on operations of a 15% increase in the fair value at September 30, 2012 and at December 31, 2011 would not have been material.

Notes to the Condensed Consolidated Financial Statements

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

9. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

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

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

	<i>Notes</i>	September 30, 2012	December 31, 2011
Carrying amount			
Cash and cash equivalents	6	\$ 135	\$ 517
Receivables	7	110	129
Financial assets at fair value through OCI	8	677	2,380
Financial assets at fair value through operations	8	-	3
		\$ 922	\$ 3,029

Liquidity Risk

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

Currency Risk

Exposure to currency risk

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

Sensitivity analysis

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

Fair Value

Fair values versus carrying amounts

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

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

	Level 1	Level 2	Level 3	Total
As at September 30, 2012				
Financial assets at fair value through OCI	\$ 677	\$ -	\$ -	\$ 677
Financial assets at fair value through operations	-	-	-	-
	\$ 677	\$ -	\$ -	\$ 677
As at December 31, 2011				
Financial assets at fair value through OCI	\$ 2,380	\$ -	\$ -	\$ 2,380
Financial assets at fair value through operations	-	3	-	3
	\$ 2,380	\$ 3	\$ -	\$ 2,383

There have been no transfers between Level 1 and Level 2 during the current and prior reporting periods. During 2011, certain warrants were exercised from the portfolio of financial assets at fair value through operations and replaced by shares which are financial assets at fair value through OCI. All of the shares owned by the Company are valued using Level 1 methodologies; warrants are not publicly traded but are susceptible to valuation using the Black-Scholes option-pricing model, the inputs for which are readily determinable.

Notes to the Condensed Consolidated Financial Statements

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

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

	September 30, 2012	December 31, 2011
Fair values	\$0.000	\$0.009
Share prices at valuation date	\$0.15 and \$1.49	\$0.41 and \$2.05
Assumptions		
Exercise prices	\$0.8 and \$8.44	\$0.8 and \$8.44
Expected volatilities	60% and 75%	81% and 113%
Expected remaining terms (years)	0.558	0.308
Expected dividends	-	-
Risk-free interest rates	1.08%	0.96%

Pursuant to a corporate transaction entered into by the issuer of the warrants, the warrants entitle the holder to 0.094758 of a share of the spin-off company. Accordingly, the parameters for the shares of both companies have been considered in arriving at the estimated value of the warrant.

10. PROPERTY AND EQUIPMENT

	Land and Building	Vehicle	Equipment and Furniture	Total
Balance as at January 1, 2011				
Cost	\$ 83	\$ 32	\$ 637	\$ 752
Accumulated Amortization	4	3	30	37
Carrying Amount	79	29	607	715
Additions	-	-	574	574
Amortization	2	8	2	12
Balance as at December 31, 2011				
Cost	83	32	1,211	1,326
Accumulated Amortization	6	11	32	49
Carrying Amount	77	21	1,179	1,277
Additions	-	-	200	200
Amortization	1	4	7	12
Balance as at September 30, 2012				
Cost	83	32	1,411	1,526
Accumulated Amortization	7	15	39	61
Carrying Amount	\$ 76	\$ 17	\$ 1,372	\$ 1,465

Equipment and furniture includes deposits of \$1,334,000 related to the purchase of transformers and other electrical equipment; the equipment is not available for use and is not being depreciated. On May 10, 2010, the Company entered into an agreement to purchase the equipment for the Minago project. The total price is US\$2,840,000 (Note 21).

Notes to the Condensed Consolidated Financial Statements

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

11. MINE PROPERTY AND DEVELOPMENT PROJECT

Effective September 19, 2011, the Board of Directors approved the development of the Minago mine and, accordingly, the Company transferred expenditures of \$34,807,000 on its Minago project from Exploration and Evaluation (“E&E”) assets to Mine Property and Development (“MP&D”) assets on its balance sheet.

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

	Transfer from E&E projects September 2011	Current Expenditures	Recoveries	September 30, 2011
Minago	\$ 34,807	\$ 294	\$ -	\$ 35,101
	\$ 34,807	\$ 294	\$ -	\$ 35,101

Recoveries in 2012 represent a grant from the Manitoba Government that was received in April, 2012.

Minago

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

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

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

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

12. EXPLORATION AND EVALUATION PROJECTS

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

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

Notes to the Condensed Consolidated Financial Statements

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

	January 1, 2011	Current Expenditures	Recoveries/ Transfer to MP&D Projects	Writedown of E&E Projects/ Excess Proceeds	September 30, 2011
Lac Rocher	\$ 7,026	\$ 184	\$ (8)	\$ -	\$ 7,202
Lynn Lake	-	3	(600)	597	-
Mel	6,618	673	-	-	7,291
Minago	31,059	3,748	(34,807)	-	-
	\$ 44,703	\$ 4,608	\$ (35,415)	\$ 597	\$ 14,493

The expenditures on the Lynn Lake property are shown net of cumulative option payments received which include \$1,000,000 in February 2012 and \$450,000 in August 2012. The excess proceeds of \$1,450,000 and \$597,000 for the nine months ended September 30, 2012 and 2011, respectively, represent the excess of consideration received under the option agreement above carrying value and are reflected in *Recovery of exploration and evaluation project* through operations.

In September, 2011, the Board approved the development of the Minago project, accordingly, the Company reviewed amounts recorded at that date for impairment and transferred \$34,807,000 to MP&D project (Note 11).

Lac Rocher

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

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

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

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

Lynn Lake

The Company owns a 100% right, title and interest in the Lynn Lake nickel property ("Lynn Lake"), covering approximately 600 ha in northern Manitoba. The Lynn Lake property is subject to an option agreement with Prophecy Platinum Corp. ("Prophecy Platinum").

The Company received \$1,000,000 in February 2012 and has received all payments scheduled under the option agreement to date; \$1,000,000 remains due from Prophecy Platinum by March 1, 2013. Failure on the part of Prophecy Platinum (if not cured by Prophecy Coal Corp., the option agreement was assigned by them to Prophecy Platinum with the Company's consent) to meet any of the terms will result in cancellation of the option on the

Notes to the Condensed Consolidated Financial Statements

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

property and it will revert to the Company.

On August 8, 2012, the Company received \$450,000 from Prophecy Platinum in consideration for removal of the exploration expenditure condition from the Lynn Lake option agreement. Accordingly, the sole remaining condition for the Lynn Lake property to transfer to Prophecy Platinum is the \$1,000,000 option payment remaining. Upon receipt, the Company will transfer ownership of Lynn Lake to Prophecy Platinum.

In 2012, \$1,450,000 excess of proceeds under the option agreement above the book value of the property had been received in the period and accordingly was recorded through the statement of operations as a recovery of exploration and evaluation projects in respect of Lynn Lake (September 30, 2011 - \$597,000).

Mel

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

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

In the first quarter of 2011, the Company completed a drilling program at Mel which had positive results. The Mel dataset is currently being vetted and updated. Following completion of this work, additional modelling of the resource is contemplated.

Victory Silica

On June 19, 2012, the Company announced a new initiative through the hiring of Ken Murdock as the CEO and the creation of Victory Silica. The objective is to establish VSL as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project. Presently, all costs relate to pre-operating costs and have been expensed through operations.

Wakami, Lar and Wellmet Projects

The Company has incurred minimal expenditures on these properties in 2012 and 2011.

Impairment and Pre-exploration Costs

Costs relating to discontinued projects in the amounts of \$nil were provided for through operations as *Writedown of exploration and evaluation projects* in the statement of operations during the three and nine months ended September 30, 2012. In the nine months ended September 30, 2011, \$3,000 of expenditures related to Lynn Lake were recorded against the net recovery for Lynn Lake in the first half of 2011. There were no Pre-E&E costs recorded in either 2012 or 2011.

Notes to the Condensed Consolidated Financial Statements

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

13. TRADE AND OTHER PAYABLES

	<i>Note</i>	September 30, 2012	December 31, 2011
Trade payables			
Mine property and development project		\$ 743	\$ 158
Exploration and evaluation projects		11	12
Non-project related		141	20
Accrued liabilities			
Mine property and development project		-	12
Exploration and evaluation projects		100	14
Non-project related	19	137	89
Other payables		10	17
Due to Nuinsco Resources Limited	19	14	-
Flow-through premium liability (see table below)		-	-
		\$ 1,156	\$ 322

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

	September 30, 2012	December 31, 2011
Balance as at beginning of period	\$ -	\$ -
Flow-through premium from financing - May, 2011	-	87
Flow-through premium adjusted through finance income	-	(87)
	\$ -	\$ -

14. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

Authorized

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

Number of shares issued and outstanding

There were no common shares issued during the nine months ended September 30, 2012.

Share Incentive Plan

The Company has a Share Incentive Plan which includes both a Share Purchase Plan and a Share Bonus Plan. Both are described in the Company's 2011 Audited Financial Statements. At the Company's Annual and Special Meeting of Shareholders held on June 26, 2012 (the "ASM"), shareholders approved an increase in the maximum number of common shares issuable under the Share Bonus Plan to 10,000,000.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan which is described fully in the Company's 2011 Audited Financial Statements. At the ASM, shareholders approved the extension of this plan to the termination of the annual meeting of shareholders in 2015.

Accumulated Other Comprehensive Income or (Loss) ("AOCI")

AOCI is comprised of the following separate components of equity:

Net change of financial assets at fair value through OCI

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

Income tax on other comprehensive income

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



Notes to the Condensed Consolidated Financial Statements

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

15. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share ("EPS") for the three and nine months ended September 30, 2012 and 2011 was based on the information in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance as at beginning of period	395,807,000	394,711,000	395,807,000	380,026,000
Effect of shares issued	-	-	-	8,944,000
Effect of options exercised	-	209,000	-	70,000
Effect of warrants exercised	-	71,000	-	905,000
Weighted average number of common shares as at end of period - Basic	395,807,000	394,991,000	395,807,000	389,945,000
Effect of options granted and outstanding	-	n/a	n/a	n/a
Effect of warrants issued and outstanding	-	n/a	n/a	n/a
Weighted average number of common shares as at end of period - Diluted	395,807,000	n/a	n/a	n/a
Net income (loss) attributable to shareholders	\$ 60	\$ (605)	\$ (44)	\$ (809)
Basic earnings (loss) per share	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)
Diluted earnings (loss) per share	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)

For the three and nine months ended September 30, 2012, 29,751,500 options and 4,804,786 warrants (September 30, 2011 – 27,337,236 options and 7,304,786 warrants) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

There have been no significant capital transactions from the reporting date to the date of this filing which have had a material impact on earnings per share.

16. SHARE-BASED PAYMENTS

Description of the Share-based Payment Arrangements

The Company's share-based payment arrangements are described in Note 17 to the Company's 2011 Audited Financial Statements.

Stock Option Plan (equity-settled)

As at September 30, 2012, the Company had 29,620,000 common shares available for the granting of future options (December 31, 2011 – 32,296,000). Options are exercisable at the closing market price of the shares at the date prior to grant. The Company does not have any cash-settled transactions.

Share purchase warrants (equity-settled)

Outstanding warrants as at September 30, 2012 consist of warrants issued pursuant to the private placements completed during 2011. The Company does not have any cash-settled transactions.

Share Bonus Plan

The terms of the Share Bonus Plan are set out in Note 15 to the Company's 2011 Audited Financial Statements; as amended at the ASM as described in Note 14.

Terms and Conditions of Share-based Payment Arrangements

Stock Option Plan and Share purchase warrants

The terms and conditions relating to the grants of the Company's Stock Option Plan and share purchase warrants are set out in Note 17 to the Company's 2011 Audited Financial Statements.

Notes to the Condensed Consolidated Financial Statements

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

Disclosure of Share-based Payment Arrangements

Stock Option Plan

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

	Number of options		Weighted average exercise price	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Outstanding as at beginning of period	27,074,736	25,402,248	\$ 0.28	\$ 0.30
Granted	8,050,000	4,335,000	\$ 0.05	\$ 0.11
Exercised	-	(300,000)	-	\$ 0.05
Expired	(5,373,236)	(2,362,512)	\$ 0.69	\$ 0.24
Outstanding as at end of period	29,751,500	27,074,736	\$ 0.14	\$ 0.28
Exercisable as at end of period	27,526,500	26,332,236	\$ 0.15	\$ 0.28

For options exercised during 2011, the weighted average share price at the date of exercise was \$0.09.

Range of exercise prices	Number of options outstanding		Weighted average remaining contractual life (years)	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
\$0.03 to \$0.05	12,315,000	4,265,000	3.56	2.08
\$0.06 to \$0.14	5,322,500	5,585,000	3.11	3.71
\$0.15 to \$0.16	5,490,000	5,490,000	2.26	3.01
\$0.17 to \$0.25	1,593,750	1,593,750	1.32	2.07
\$0.26 to \$0.32	2,956,250	2,956,250	0.59	1.34
\$0.33 to \$0.50	2,074,000	2,074,000	0.41	1.16
\$0.51 to \$0.64	-	2,850,000	-	0.19
\$0.65 to \$0.82	-	2,260,736	-	0.20
	29,751,500	27,074,736	2.83	2.10

There were nil and 8,050,000 options granted in the three and nine months ended September 30, 2012, respectively, with a weighted average exercise price of \$0.05 per share; the weighted average fair value at the date of grant was \$0.035. For options granted during 2011, the weighted average fair value at the date of grant was \$0.074. A total of 4,335,000 options were granted during 2011 to key management personnel, employees and consultants.

The vesting of options resulted in share-based payment expense of \$19,000 and \$243,000 in the three and nine months ended September 30, 2012 (September 30, 2011 - \$186,000 and \$328,000). Of the 29,751,500 options outstanding at September 30, 2012, 2,225,000 are subject to vesting (as at December 31, 2011 - 27,074,736 were outstanding of which 742,500 were subject to vesting). The aggregate fair value of these unvested options not yet charged to operations is \$58,000 (as at December 31, 2011 - \$20,000).

Notes to the Condensed Consolidated Financial Statements

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

Share purchase warrants

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

	Date Issued	Life ^(a)	Number of warrants		Weighted average exercise price	
			September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Issued pursuant to private placements						
Unit warrants	January 10, 2011	12	2,500,000	2,500,000	\$ 0.140	\$ 0.140
	Expired		(2,500,000)	-		
Unit warrants	May 25, 2011	18	4,347,826	4,347,826	\$ 0.150	\$ 0.150
Finder's warrants	May 25, 2011	18	456,960	456,960	\$ 0.150	\$ 0.150
Outstanding as at end of period			4,804,786	7,304,786	\$ 0.150	\$ 0.150

(a) The life of warrants is shown in number of months from issue date.

Inputs for Measurement of Grant Date Fair Values

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

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

	Options		Warrants	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Fair values at grant dates	\$0.035	\$0.070 and \$0.077	n/a	\$0.011 and \$0.019
Share prices at grant dates	\$0.05	\$0.10 and \$0.11	n/a	\$0.100
Fair values of options modified	n/a	\$0.00 to \$0.07	n/a	n/a
Assumptions				
Exercise prices	\$0.05	\$0.05 to \$0.64	n/a	\$0.14 and \$0.15
Expected volatilities	104%	42% to 106%	n/a	56% and 65%
Life (years)	4	1.3 to 4.7	n/a	1 and 1.5
Expected dividends	-	-	n/a	-
Risk-free interest rate	1.18%	0.95% to 2.22%	n/a	1.57% and 1.69%

17. FINANCE INCOME AND FINANCE COSTS

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Interest income on bank deposits	\$ -	\$ 3	\$ 2	\$ 6
Net change in fair value of financial assets at fair value through operations	-	35	-	-
Premium on flow-through spending	-	44	-	70
Net foreign exchange gain	-	-	-	2
Finance income	-	82	2	78
Net change in fair value of financial assets at fair value through operations	2	-	3	153
Net foreign exchange loss	-	-	3	-
Finance costs	2	-	6	153
Net Finance (Costs) Income	\$ (2)	\$ 82	\$ (4)	\$ (75)

Notes to the Condensed Consolidated Financial Statements

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

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. The Company does not have formal operating segments and does not yet have operating revenues, products, processes or customers. The corporate office operates to support the Company's projects, including pre-operating projects, and receives administrative support from Nuinsco (Note 19) to do so. The projects are all located in Canada. Senior management makes decisions by considering exploration potential and results on a project basis. Any applicable amounts relating to projects are capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

Geographic Information

	September 30, 2012	December 31, 2011
Canada		
Corporate	\$ 2,387	\$ 4,306
Lac Rocher	7,298	7,254
Lynn Lake	-	-
Mel	7,410	7,323
Minago	37,863	35,571
Victory Silica	-	-
Total Assets	\$ 54,958	\$ 54,454

Revenues in each period are wholly attributable to the corporate office. There have been no changes in the reportable segment or the treatment of segmented assets and revenues year-over-year.

19. RELATED PARTIES & MANAGEMENT AGREEMENT

Transactions and Balances with Nuinsco and Related Parties

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement; management operates under the supervision of the respective board of directors of each respective company; there is only one common director. The costs charged by Nuinsco are recorded at the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by the Company upon 180 days notice and by Nuinsco upon 90 days notice.

Balances and transactions with Nuinsco and related parties are shown in the following tables:

	September 30, 2012	December 31, 2011
Balances Outstanding		
Payable to Nuinsco Resources Limited	\$ 14	\$ -
Receivable from Nuinsco Resources Limited	\$ -	\$ 20
Payable to key management personnel	\$ 141	\$ 47

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Overhead charges from Nuinsco Resources Limited	\$ 130	\$ 197	\$ 501	\$ 609
Overhead charges to Nuinsco Resources Limited	\$ 6	\$ -	\$ 21	\$ -
Project costs charged to Nuinsco Resources Limited	\$ 2	\$ 10	\$ 18	\$ 24
Project recoveries charged by Nuinsco Resources Limited	\$ 11	\$ 21	\$ 30	\$ 55

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



Notes to the Condensed Consolidated Financial Statements

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

Transactions with Key Management Personnel

Short-term employee benefits provided by the Company include salaries, deferred directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 16 and 14).

Key management personnel compensation comprises:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Short-term employee benefits	\$ 198	\$ 215	\$ 630	\$ 660
Share-based payments - options	-	133	217	320
Share-based payments - Share Bonus Plan	-	201	-	201
	\$ 198	\$ 549	\$ 847	\$ 1,181

There were no outstanding balances as at September 30, 2012 and December 31, 2011 relating to key management personnel except as included in the tables above.

20. SIGNIFICANT COMPANY ENTITIES

On June 19, 2012, the Company announced the creation of Victory Silica. While the balances and transactions are presently minimal, the Company expects activity to increase in future periods as the business expands.

21. COMMITMENT

Transformer Equipment

On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price is US\$2,840,000. The Company has made aggregate deposits of \$1,334,000 as at September 30, 2012.



VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2012**

DATED NOVEMBER 8, 2012

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months ended September 30, 2012

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of November 8, 2012 consolidates management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2012, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2012 ("Unaudited Condensed Consolidated Financial Statements") and the notes thereto.

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

Readers are also encouraged to consult the audited financial statements for the years ended December 31, 2011 and 2010 ("2011 Audited Financial Statements") which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). The Unaudited Condensed Consolidated Financial Statements and the 2011 Audited Financial Statements are available at www.sedar.com and at the Company's website www.victorynickel.ca. All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

COMPANY OVERVIEW

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

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

A significant by-product of the Minago project is frac sand. On June 19, 2012, the Company announced the creation of Victory Silica Ltd. ("VSL" or "Victory Silica") a wholly-owned subsidiary that has been established to enter the frac sand distribution and sales market. VSL expects to establish itself as a frac sand provider by acquiring raw sand and processing it into finished product, initially for sale in the Saskatchewan, Manitoba and North Dakota markets. If successful, this strategy is expected to generate cash flow for Victory Nickel and establish a presence in the frac sand market in preparation for development and sale of frac sand from its Minago project.

Option of Lynn Lake Property

On October 21, 2009, the Company announced that it had optioned its Lynn Lake property ("Lynn Lake") to Prophecy Coal. In 2011, the agreement, with the consent of Victory Nickel, was assigned to Prophecy Platinum pursuant to a corporate transaction between Prophecy Coal and Prophecy Platinum. The terms of the agreement wherein Prophecy Platinum can acquire a 100% interest in Lynn Lake are summarized in Note 12 to the 2011 Audited Financial Statements.

In accordance with the contract, the Company received its scheduled amount of \$1,000,000 due by March 1, 2012. The final payment of \$1,000,000 is due by March 1 of 2013. Failure on the part of Prophecy Platinum to meet any of the terms and failure of Prophecy Coal to remedy any such deficiency will result in cancellation of the option and Lynn Lake will revert to the Company. The Company has no reason to believe that Prophecy Platinum will not meet its payment schedule and accordingly expects the property to be transferred at that time.



On August 8, 2012, the Company received \$450,000 from Prophecy Platinum in consideration for removal of the exploration expenditure condition from the Lynn Lake option agreement. Accordingly, the sole remaining condition for the Lynn Lake property to transfer to Prophecy Platinum is the \$1,000,000 option payment due by March 1, 2013.

Going Concern

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

None of the Company's projects has commenced commercial production and, accordingly, the Company is dependent upon debt and/or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of the Company's mine property and development project and exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which indicate the potential for the discovery of economically recoverable reserves and resources, the Company's ability to finance exploration and development of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding.

The Company's Unaudited Condensed Consolidated Financial Statements have been prepared using the going concern assumption which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. If the going concern assumption were not appropriate, then adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications may be necessary. These adjustments could be material. As at September 30, 2012, the Company had a working capital deficiency of \$234,000, the deficiency includes approximately \$116,000 of agreed-upon deferrals owing to directors and senior management, (December 31, 2011 – working capital of \$2,707,000). Working capital is defined as current assets, including assets held for sale, if any, less current liabilities, excluding restricted cash, if any. The Company has initiatives underway to improve working capital which are expected to be announced shortly. As mentioned in the Company's prior MD&As, it has recently relied upon the sale of a portion of its marketable securities to fund its ongoing operations. Market conditions have deteriorated making it challenging to generate cash so the Company is continuing to research other sources of liquidity. There is no certainty in the present environment that the Company's initiatives to improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including project expenditures and corporate costs.

HIGHLIGHTS

During and subsequent to the nine months ended September 30, 2012, the Company:

Corporate

- Completed road show meetings with domestic and offshore financiers and investors regarding developing the Minago mine.
- Created Victory Silica and appointed Ken Murdock, an industry veteran, as CEO. VSL's objective is to establish its presence in the frac sand market.
- Initiated discussions with potential customers focussing initially on the oil industry while activity in the gas industry has slowed.
- Entered into advanced discussions to acquire a frac sand processing plant and sand supply.
- Received proposals for wet concentrated sand supplies.

Minago

- Completed 3,500m of diamond drilling at Minago.
- Received a blanket one-year work permit which will eliminate delays in the receipt of individual permits.
- Initiated a new metallurgical study to improve concentrate grade and quality.
- Evaluated relocation of certain infrastructure components at the Minago site in an effort to enhance accessibility and reduce capital costs.
- Identified additional potential savings on overburden removal and constructed a 2.3km test drainage ditch which is performing better than expected.
- Announced drilling nickel-bearing area south of Minago sulphide nickel deposit.

OUTLOOK

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

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

The Company took the concerns of all stakeholders into consideration when preparing the EIS. Numerous meetings with the federal and provincial governments and agencies, the First Nations and the Métis communities took place and on August 3, 2011, the Manitoba Government issued Victory Nickel's final EAL for the Minago project. Receiving the EAL is the most significant milestone achieved so far. It means that Victory Nickel is one of the few companies to have successfully permitted a green-fields hard-rock mining project in Canada in many years. This licence allows us to move ahead with the development of this outstanding project.

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

The pre-production cost to bring the Minago mine to production is in the range of \$550-600 million over a three to four year period. The first year's initial requirement in the Base Case scenario FS is in the range of \$75-100 million excluding any cost associated with ordering long lead time equipment. This amount will provide the funds necessary to remove the surface water, install pumps, prepare the camp, bring Manitoba Hydro electricity to the site, remove the top layer of overburden comprising 11 million tonnes of muskeg and clay and begin detailed engineering. Electricity from Manitoba Hydro is approximately one sixth the cost of diesel generated power so it is important to bring it in as early as possible. Discussions with equipment providers to structure a lease or other financing arrangements have been successful and, at the necessary time, management is confident that a leasing arrangement can be completed which will fund approximately \$100 million of mobile equipment.

The objective was to get the first year's requirement funded in time to start removal of the overburden during the 2011/2012 winter. Unfortunately, due to market conditions, the Company has not yet been able to obtain the necessary funding. This is not to say that progress has not been made over the last year. Management has received, and continues to receive, serious expressions of interest but the uncertainty in the financial and equity markets is continuing to delay decisions by potential investors and joint venture partners.

This is a lot to take on for a junior company such as ours, especially in the current confused market environment. However, management has always believed that the key to kick-starting the process is to bring in a joint venture partner such as Duluth Metals Limited did with Antofagasta plc and as Aur Resources Inc. did when Teck Cominco Ltd. stepped up to act as guarantor for bank financing for developing its share of the Louvicourt deposit back in the early '90s. Aur went on to become a significant mining company after receiving this kick-start. These are only two of many such examples.

Frac Sand

We shouldn't forget the very significant contribution of frac sand to the Minago economics. Although the frac sand will be mined during the first three years, the FS assumed that it will only be sold over a ten-year period. The recent growth in the frac sand market suggests that this assumption is very conservative. This market continues to expand and recent discussions with a frac sand consultant indicate that, if Minago was in production, Victory Nickel

would sell all the frac sand it could produce. In a recent transaction, Preferred Sands purchased the assets of Winn Bay Sand, including its Hanson Lake frac sand mine in Saskatchewan, for \$200 million. Winn Bay is on the same geological structure as Minago, just a bit farther north and west. US Silica took its frac sand business public in February 2012 by completing an initial public offering (“IPO”) aggregating US\$200 million through 11,764,705 shares at US\$17. Further, Hi-Crush Partners LP has filed documents with US regulators to raise in excess of US\$200 million through an IPO. To Victory Nickel, these transactions are an indication of the attractiveness and value of its Minago sand deposit.

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

Initial production is planned at 400,000 tons per annum with a second facility to be built in Winnipeg to produce an additional 1,000,000 tons. This facility will be used to accommodate sand delivered from Minago once the mine is developed.

Over the last quarter we have had numerous discussions with suppliers of both raw sand and concentrated sand to be processed at Victory Silica’s facility. Acquisition of this facility is progressing and expectations are that the acquisition should be completed before the end of the year. That being the case, we should be processing sand by the second quarter of 2013. We have received several proposals for the supply of sand and will make a decision as soon as the plant acquisition is complete.

The Company is planning a three phase entry into the frac sand business. Initially, wet sand will be purchased to feed Victory Silica’s dry plant facility which will produce high grade finished product of various grades. As Victory Silica becomes established, phase 2 will be to partially replace purchased sand with sand from a mine in Wisconsin operated by Victory Silica. The phase 3 plan is to build a second dry plant in Winnipeg to process both sand from Wisconsin and Minago. The plan is to eventually produce approximately 1.5 million tonnes of imported (from Wisconsin) and domestic (from Minago) frac sand annually.

General

The European financial situation, the perceived slow-down in China and the unrest in the Middle East all continue to cause a lack of confidence in the investment community. The impact of the recent presidential election in the United States will hopefully bring a bit more confidence and certainty in the financial markets.

As we wait for greater certainty and investor confidence to firm up, management intends to continue to pursue a partner in its efforts to finance the Minago mine to production. Successful entry into the frac sand business by Victory Silica is expected to make a significant positive contribution to this effort, and to generate cash flow in the near-term.

The Company recognizes that its liquidity is strained due to the lack of cash available from the equity markets. This situation is not unique to Victory Nickel, as valuations and trading volumes of junior exploration and development companies are generally low at the present time. We have implemented a program to ensure that expenditures are only made on a need to basis. Unless immediate return can be measured, the expenditure is not made.

RESULTS OF OPERATIONS

Three months Ended September 30, 2012 Compared With Three Months Ended September 30, 2011

For the three months ended September 30, 2012, the Company had net income of \$60,000, or \$0.00 per share, (September 30, 2011 – net loss of \$605,000, or \$0.00 per share).

The results are a function of general and administrative expenses of \$235,000 (September 30, 2011 - \$475,000) and share-based payments of \$19,000 (September 30, 2011 - \$186,000). Results in the three months ended September 30, 2012 also include a recovery of exploration and evaluation project of \$450,000 (September 30, 2011 - \$nil), pre-operating costs on behalf of Victory Silica of \$106,000 (September 30, 2011 - \$nil) and an income tax expense of \$24,000 (September 30, 2011 – \$24,000).

General and administrative expenses decreased by \$240,000, to \$235,000 from \$475,000, for the three months ended September 30, 2012 and 2011, respectively. Expenses that decreased in 2012 from 2011 include



discretionary investor and public relations costs and charges by Nuinsco as described below; these expense decreases were partially offset by increased staff costs. Furthermore, in 2011, bonuses were given to senior management to recognize the significant effort and accomplishment of successfully obtaining the Minago EAL; no bonuses were given in 2012. Effective August 1, 2012, senior management have accepted salary deferrals until better economic times prevail; Nuinsco has accepted deferral of payment by Victory Nickel for such senior staff deferred salaries charged under the management agreement.

General and administrative expenses include \$130,000 in costs charged by Nuinsco for administrative services, partly offset by \$6,000 charged to Nuinsco by Victory as described under Transactions with Related Parties and Management Agreement below (September 30, 2011 - \$197,000 and \$nil, respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the decrease in costs is primarily a result of decreased people costs allocated under the agreement combined with the effect of a reduced proportion of fixed costs since Nuinsco entered into an additional management agreement with a third party. This arrangement allows the Company to have access to disciplines which would otherwise be cost-prohibitive for a junior company.

The costs of public company compliance for Victory Nickel for the three months ended September 30, 2012 are approximately \$97,000, compared with \$191,000 in the three months ended September 30, 2011. Such costs are non-discretionary and are generally weighted to the beginning of a financial year because of audit and other compliance requirements. The decrease is mainly due to decreased costs allocated from Nuinsco and investor and public relations costs.

Share-based payments expense relates to stock options granted to officers, directors and employees, some of which vest in future periods. The expense in the three months ended September 30, 2012 reflects the partial vesting of 2,225,000 options with a fair value of \$0.035. The expense in 2011 reflected the partial vesting of 742,500 options with a fair value of \$0.077, the grant and immediate vesting of 1,900,000 options with a fair value of \$0.07 and a modification expense relating to certain options issued to a retiring director that were approved by the Board to retain their original terms or would otherwise have expired. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 16 to the Company's Unaudited Condensed Consolidated Financial Statements.

In the three months ended September 30, 2012, the Company received \$450,000 from Prophecy Platinum in consideration for removal of the exploration expenditure condition from the Lynn Lake option agreement. In accordance with GAAP, the fair value of such consideration is deducted from the value of the property until it reaches \$nil. Any excess of consideration over the recorded value is treated as a recovery of exploration and evaluation projects and recorded through operations. Accordingly, the Company recorded a recovery of \$450,000 through operations in 2012 (2011 - \$nil).

Management determined that no significant events had been experienced during 2012 that would prompt impairment of its exploration and evaluation ("E&E") projects or of its mine property and development ("MP&D") project. This conclusion is summarized under Impairment Analysis Update below. The Company received a favourable FS on its Minago project and is presently reviewing alternative financing opportunities to advance development of the project as well as opportunities to optimize the FS itself. Drilling to upgrade and increase resources was completed in the first quarter of 2011 and the Company received its EAL during 2011, which is the key step towards developing Minago. Drilling has been completed in 2012.

For the three months ended September 30, 2012, net finance costs were \$2,000 (September 30, 2011 – net finance income was \$82,000). Finance income during the three months ended September 30, 2011 was primarily comprised of the net increase in the fair value of warrants of \$35,000 and the premium on flow-through spending of \$44,000. There were no flow-through premium liabilities amortized or outstanding during 2012. See Liquidity and Capital Resources below for more details on flow-through financings.

In 2012, the Company announced the creation of Victory Silica as described earlier. Pre-operating costs of \$106,000 during 2012 comprise start-up consulting fees and related expenses on the frac sand project.

It is important to note that any future changes in the value of shares will be reflected through other comprehensive income or loss ("OCI") and changes in the value of warrants until their exercise or expiry will be reflected through operations in finance income or costs as appropriate. Given the high level of volatility being experienced in the marketplace, such changes could be, and indeed, have been, significant.

OCI in the three months ended September 30, 2012 relates to a net decrease of \$54,000 (September 30, 2011 – net increase of \$912,000) in the market value of the Company's financial assets at fair value through OCI net of income tax recoveries recorded through OCI of \$9,000 (September 30, 2011 – expense of \$142,000). These changes are a result of net market value decreases in marketable securities.

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

Marketable securities as at September 30, 2012 consist of the Company's financial assets at fair value through OCI and operations; the Company's investment in shares is at fair value through OCI and the investment in warrants is at fair value through operations. Accordingly, any volatility in the market price of warrants will impact the statement of operations but changes in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes. Marketable securities decreased by \$1,706,000 from December 31, 2011 as a result of sales and declines in market prices and value of warrants. The Company generated \$1,103,000 in sales proceeds in 2012 from sales of marketable securities (2011 - \$6,112,000).

Property and equipment increased from December 31, 2011 mainly as a result of deposits of \$200,000 made during the nine months ended September 30, 2012 relating to the purchase of transformers and other electrical equipment for the Minago project. The total price is US\$2,840,000 with the remaining balance due prior to shipping. The Company has paid an aggregate of \$1,334,000 since 2010.

Trade and other payables consist primarily of project-related expenditures. The balance increased by \$834,000 when compared with December 31, 2011 primarily due to the timing of project-related expenditures but also due to the effect of markets – see Liquidity and Capital Resources below. Project expenditures are described in Mine Property and Development Activities and Exploration and Evaluation Activities below.

The deferred tax liability balance amounts to \$2,686,000 as at September 30, 2012 compared with \$2,702,000 as at December 31, 2011. The main components of the balance relate to the tax effects of E&E projects and the MP&D project, partly offset by the tax value of net operating tax losses carried forward combined with the effect of the increase in the future applicable income tax rate as mentioned below.

Nine Months ended September 30, 2012 Compared With Nine Months ended September 30, 2011

For the nine months ended September 30, 2012, the Company had a net loss of \$44,000, or \$0.00 per share, (September 30, 2011 – net loss of \$809,000, or \$0.00 per share).

The results are mainly a function of general and administrative expenses of \$1,058,000 (September 30, 2011 - \$1,248,000), share-based payment expenses of \$243,000 (September 30, 2011 - \$328,000), net finance costs of \$4,000 (September 30, 2011 – net finance costs of \$75,000) and pre-operating costs on behalf of Victory Silica of \$106,000 (September 30, 2011 - \$nil); these costs were offset by a \$1,450,000 recovery (September 30, 2011 - \$597,000) with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property. Results in the nine months ended September 30, 2012 also include an income tax expense of \$71,000 (September 30, 2011 – a recovery of \$252,000). As described below, the future income tax rate has increased effective the second quarter of 2012 and approximately \$150,000 was recorded as income tax expense on the opening deferred tax applicable balances.

General and administrative expenses decreased by \$190,000, to \$1,058,000 from \$1,248,000, for the nine months ended September 30, 2012 and 2011, respectively. Expenses that decreased in 2012 from 2011 include discretionary investor and public relations costs and allocated charges by Nuinsco as described below; these expense decreases were partially offset by increased staff costs and to legal fees and management travel expenses related to investigating financing opportunities. Furthermore, in 2011, bonuses were given to senior management to recognize the significant effort and accomplishment of successfully obtaining the Minago EAL and a refund for Part XII tax was received in relation to flow-through financing completed during 2008; no such bonuses or refund occurred in 2012. Effective August 1, 2012, senior management have accepted salary deferrals until better economic times prevail; Nuinsco has accepted deferral of payment by Victory Nickel for such senior staff deferred salaries charged under the management agreement.

General and administrative expenses include \$501,000 in costs charged by Nuinsco for administrative services, partly offset by \$21,000 charged to Nuinsco by Victory as described under Transactions with Related Parties and Management Agreement below (September 30, 2011 - \$609,000 and \$nil, respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the decrease in costs is primarily a result of

decreased people costs allocated under the agreement along with the effects of a reduced proportion of fixed costs since Nuinsco entered into a further management agreement with a third party.

The costs of public company compliance for Victory Nickel for the nine months ended September 30, 2012 are approximately \$506,000, compared with \$640,000 in the nine months ended September 30, 2011. The decrease is mainly due to lower costs allocated from Nuinsco and investor and public relations costs, partly offset by increases in legal fees.

The share-based payment expense in the nine months ended September 30, 2012 mainly reflects the grant and partial vesting of 8,050,000 options with a fair value of \$0.035. The expense in 2011 reflected the grant and partial vesting of 2,435,000 options with a fair value of \$0.077, the grant and immediate vesting of 1,900,000 options with a fair value of \$0.07 and a modification expense relating to certain options issued to a retiring director that were approved by the Board to retain their original terms or would otherwise have expired. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 16 to the Company's Unaudited Condensed Consolidated Financial Statements.

In the nine months ended September 30, 2012, the Company received additional consideration from the Lynn Lake option with Prophecy Platinum for an aggregate total of \$1,450,000 cash as noted above (September 30, 2011 - \$600,000). Accordingly, the Company recorded a net recovery of \$1,450,000 through operations in the nine months ended September 30, 2012 (September 30, 2011 - \$597,000).

For the nine months ended September 30, 2012, net finance costs were \$4,000 (September 30, 2011 – net finance costs were \$75,000). The decrease in finance income to \$2,000 from \$78,000 over the comparative period was mainly due to flow-through premium liability that was adjusted to finance income in 2011. There were no flow-through premium liabilities amortized or outstanding during 2012. See Liquidity and Capital Resources below for more details on flow-through financings. Finance costs decreased to \$6,000 from \$153,000 in the nine months ended September 30, 2012 and 2011, respectively, mainly due to the reduction in the net change in the fair value of warrants during 2011. The assumptions used in determining the fair value of the warrants as at September 30, 2012 are included in Note 9 to the Unaudited Condensed Consolidated Financial Statements.

In 2012, the Company announced the creation of Victory Silica as described earlier. Pre-operating costs of \$106,000 during 2012 comprise start-up consulting fees and related expenses on the frac sand project.

The Company believes that it is more-likely-than-not that the benefit associated with certain of the losses and costs creating future income tax assets will be realized prior to their expiry. Accordingly, the Company may record periodic future income tax recoveries. In the nine months ended September 30, 2012, the Company recorded an income tax expense of \$71,000 (September 30, 2011 – a recovery of \$252,000). The decrease in the income tax recovery is a function of operating income or loss combined with the availability of investment tax credits and includes the cumulative effect of the change in the future income tax rate from 27% to 28.5% which was substantively enacted in the second quarter of 2012. The Company recorded a tax expense of approximately \$150,000 on the reset of the rate applied to the deferred tax applicable balances effective December 31, 2011.

OCI in the nine months ended September 30, 2012 relates to a decrease of \$513,000 (September 30, 2011 – \$1,374,000) in the market value of the Company's financial assets at fair value through OCI net of income tax recoveries recorded through OCI of \$86,000 (September 30, 2011 – \$215,000). These changes are a result of net market value decreases in marketable securities.

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eleven quarters ended September 30, 2012 is as follows:

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

<u>Fiscal year 2011</u>	<u>4th Quarter</u>	<u>3rd Quarter</u>	<u>2nd Quarter</u>	<u>1st Quarter</u>
Net finance (costs) income	\$ (46)	\$ 82	\$ (62)	\$ (95)
Net (loss) profit	\$ (328)	\$ (605) ⁽⁶⁾	\$ (505) ⁽⁸⁾	\$ 301
Total comprehensive (loss) income	\$ (652)	\$ 307 ⁽⁷⁾	\$ (2,795) ⁽⁹⁾	\$ 306
(Loss) income per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00

<u>Fiscal year 2010</u>	<u>4th Quarter</u>	<u>3rd Quarter</u>	<u>2nd Quarter</u>	<u>1st Quarter</u>
Net finance income	\$ 232 ⁽¹⁰⁾	\$ 58	\$ 1,140 ⁽¹²⁾	\$ 459 ⁽¹⁵⁾
Net income (loss)	\$ 27	\$ (299)	\$ 859 ⁽¹³⁾	\$ (333)
Total comprehensive income (loss)	\$ 4,619 ⁽¹¹⁾	\$ (234)	\$ (2,180) ⁽¹⁴⁾	\$ 1,170 ⁽¹⁶⁾
Income (loss) per share - basic and diluted	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.00)

- (1) Net income includes \$450,000 recovery on the Lynn Lake option with Prophecy Platinum.
- (2) Includes the effect of an increase in the future income tax rate to 28.5% of approximately \$150,000.
- (3) Total comprehensive income for the period includes \$681,000 net after-tax decline in the market value of securities.
- (4) Net profit for the period includes \$1,000,000 recovery on the Lynn Lake option with Prophecy Platinum.
- (5) Total comprehensive income for the period includes the recovery noted above as well as \$222,000 net after-tax improvement in the market value of securities.
- (6) Net loss for the period includes \$186,000 for share-based payments and \$97,000 for bonus expense.
- (7) Comprehensive income for the period includes \$1,054,000 OCI related to the increase in the market value of the Company's financial assets at fair value through OCI, partly offset by income taxes of \$142,000.
- (8) Net income for the period includes share-based payments of \$140,000 for options granted and vesting in the period.
- (9) Comprehensive loss for the period includes \$2,648,000 OCI related to the decrease in market value of the Company's financial assets at fair value through OCI, offset by income taxes of \$358,000.
- (10) Finance income for the period includes a net change in fair value of financial assets through operations of \$231,000.
- (11) Comprehensive income for the period includes \$5,189,000 OCI related to the increase in market value of the Company's financial assets at fair value through OCI, offset by income taxes of \$597,000.
- (12) Finance income for the period includes a net change in fair value of financial assets through operations of \$807,000 and a flow-through premium recorded through operations of \$331,000.
- (13) Net income for the period includes \$685,000 recovery on the Lynn Lake option with Prophecy Platinum.
- (14) Comprehensive loss for the period includes \$3,229,000 decline in market values of the Company's financial assets at fair value through OCI, offset by income tax recoveries of \$209,000.
- (15) Finance income for the period includes a net change in the fair value of financial assets through operations of \$282,000 and a flow-through premium recorded through operations of \$171,000.
- (16) Comprehensive income for the period includes \$1,712,000 increase in market value of the Company's financial assets at fair value through OCI, offset by income taxes of \$209,000.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2012, the Company had a working capital deficiency, including cash and cash equivalents and marketable securities, of \$234,000, the deficiency includes approximately \$116,000 of agreed-upon deferrals owing to directors and senior management, (December 31, 2011 – working capital of \$2,707,000). The main reason for the decline is a result of the overall negative market conditions being experienced. The Company has recently relied upon its portfolio of marketable securities for the funding of its operations and programs. As the markets have declined, access to equity and debt financing has become more difficult for all companies and Victory Nickel has had to extend its regular payment periods. The adverse market conditions have impacted the proceeds on sales as well as the future potential proceeds from marketable securities.

Other asset sales, as well as the sale of royalties on certain properties, are being contemplated which would provide liquidity during this period when equity financings are difficult, portfolios of marketable securities are being undervalued and trading volumes of most junior companies are depressed. With lower trading volumes, marketable securities are not as saleable as they have been in the past. Consequently, management is looking to realize on the sale of other assets as a mechanism to improve liquidity. The Company is also investigating the possibility of generating cash through the sale of new royalty arrangements on its properties. There is no certainty in the present

economic environment that the Company's working capital will be sufficient to fund the Company's activities including other project expenditures and corporate costs.

Initiatives being contemplated are discussed further below after the discussion on actual cash flows for the nine months ended September 30, 2012.

Cash equivalents as at September 30, 2012 and December 31, 2011 were held with major Canadian banks. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. Marketable securities are available to be sold for liquidity purposes, as the Company requires, providing funds for its operations and exploration, evaluation and development activities.

For the nine months ended September 30, 2012, the Company used cash in operating activities of \$970,000 (September 30, 2011 - \$1,310,000). As the Company is in the exploration, evaluation and development stage, there are no revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company. The Company estimates that such costs in the nine months ended September 30, 2012 amounted to \$506,000. Many of these costs are incurred in the early part of the year. In 2011, such costs were approximately \$815,000 for the year, calculated on a comparable basis. Consequently, the Company's liquidity is reduced unless and until there are financing activities or sales of assets to provide funds. Note that the costs cited above do not include the costs of financing arrangements which are deducted directly from equity. Costs incurred to advance the Company's projects are capitalized, as summarized below under the discussion of investing activities.

During the nine months ended September 30, 2012, net cash generated by investing activities was \$588,000, compared with cash generated of \$1,022,000 in the prior comparable period. Aggregate amounts of \$144,000 and \$1,621,000 were used to advance E&E projects and the MP&D project, respectively, during the nine months ended September 30, 2012 (September 30, 2011 - \$4,971,000 and \$229,000). Effective September, 2011, the Board of Directors approved the development of the Minago mine and, accordingly, the Company transferred its Minago project from E&E to MP&D assets.

In February, 2011, the Company exercised certain warrants for cash of \$114,000, thereby reclassifying the amount previously in financial assets at fair value through operations to OCI. During the nine months ended September 30, 2012, the Company sold shares for aggregate proceeds of \$1,103,000 (September 30, 2011 - \$6,112,000); the Company continues to sell marketable securities for liquidity purposes. Aggregate funds of \$1,450,000 were received with respect to the option agreement with Prophecy Platinum for the Lynn Lake property (September 30, 2011 - \$600,000) as described earlier.

The Company made deposits of \$200,000 in the nine months ended September 30, 2012 under an agreement to purchase transformers and other electrical equipment at an aggregate cost of US\$2,840,000 (September 30, 2011 - \$376,000). The balance is due prior to shipping.

There were no financing activities during the nine months ended September 30, 2012. Financing activities during the nine months ended September 30, 2011, and described below, generated net proceeds of \$1,627,000, after cash-settled share issue costs of approximately \$24,000.

In January, 2011, the Company issued 5,000,000 units at a price of \$0.10 per unit generating gross proceeds of \$500,000. Each unit comprises one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.14 for a period of 12 months from closing. These warrants expired unexercised in January 2012. On May 25, 2011, the Company issued 8,695,652 flow-through common shares at a price of \$0.115 per unit generating gross proceeds of \$1,000,000. Each unit comprises one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.15 for a period of 18 months from closing. Upon closing, the Company issued 456,960 finder's warrants that entitle the holder to purchase one finder's unit at an exercise price of \$0.15 for a period of 18 months from issuance. Each finder's unit entitles the holder to acquire one common share and one-half of one finder's unit warrant. Each whole finder's unit warrant entitles the holder to purchase one common share at an exercise price of \$0.15 for a period of 18 months from the issuance of the finder's unit warrant.

In addition, 1,137,627 warrants were exercised during the nine months ended September 30, 2011 that were issued pursuant to the rights offering in August 2009 at an exercise price of \$0.12 per share for aggregate consideration of approximately \$136,000. In July 2011, 300,000 options were exercised at a price of \$0.05 per share for an aggregate consideration of \$15,000.

There were no flow-through financings completed during the nine months ended September 30, 2012. Flow-through financings do not provide the funding necessary to meet corporate expenditures which do not qualify for flow-through eligibility. The significant cost to maintain and comply with regulatory requirements for the Company's public listing cannot be financed with flow-through shares. Proceeds from the Company's warrants and non-flow-through financings are "hard" dollars and can be utilized without restriction. However, no such financings have occurred in 2012 to date.

These activities required cash and cash equivalents of \$382,000 during the nine months ended September 30, 2012, compared with cash generated of \$1,339,000 during the nine months ended September 30, 2011.

As at December 31, 2011, the Company had fulfilled its flow-through commitment that would have been required to be satisfied by December 31, 2012. Since there were no flow-through financings completed during 2012, there is no flow-through commitment outstanding for Victory Nickel as at September 30, 2012.

Table of Contractual Commitments

	Due Date	Currency	September 30, 2012	December 31, 2011
Transformer and electrical equipment	On shipping	US Dollar	\$ 1,546	\$ 1,746

As described above, exploration, evaluation and development companies such as Victory Nickel are heavily reliant upon the equity markets to fund their activities as they have no short-term sources of revenue other than through monetization of assets. Opportunities available to Victory Nickel for financing would normally be through private placements in the equity markets. Despite experiencing some improvements during 2011, circumstances have toughened recently and today's equity markets continue to make this alternative difficult if not impossible without incurring significant dilution to existing shareholders. For this reason, the Company has recently chosen to liquidate portions of its securities holdings rather than raise equity financing. However, the results of this are also dependent upon market conditions which are outside the control of the Company, and market circumstances have also impacted the Company's investees. The Company will continue to balance its financing choices as a function of availability and market activity. During 2011, the Company took advantage of market activity to dispose of marketable securities at opportune pricing. Such opportunities have all but disappeared; however, the Company has had no choice but to liquidate securities to maintain liquidity.

Managing in challenging times takes as much, if not more, senior management effort. However, senior management of both the Company and Nuinsco have agreed, effective August 1, 2012, to accept salary deferrals averaging 25% until better economic times prevail. This initiative has reduced current cash requirements directly through lower Company salaries and through the settlement of charges from Nuinsco with respect to the management agreement; similar measures were taken in 2009. Directors have accepted deferrals of fees.

The Company will continue to consider all financing alternatives given acceptable pricing and other market conditions to advance its projects. The optioning of the Lynn Lake property is one example of a corporate transaction that can generate cash and add value for shareholders while maintaining participation in the upside in the subject property. The Company received its scheduled amount of \$1,000,000 that was due by March 1, 2012 and expects to receive the remaining amount of \$1,000,000 by March 1, 2013.

On August 8, 2012, the Company received \$450,000 from Prophecy Platinum in consideration for removal of the exploration expenditure condition from the Lynn Lake option agreement. Accordingly, the sole remaining condition for the Lynn Lake property to transfer to Prophecy Platinum is the \$1,000,000 option payment remaining due by March 1, 2013. Other alternatives available to the Company include sales of properties (whether outright or through optioning arrangements) and the creation of royalties on properties. Since the acquisition of Independent Nickel Inc. ("Independent") in late 2008, the Minago property has been royalty-free. A royalty could be created for nickel or frac sand.

In addition to generating cash flow, the Victory Silica initiative is intended to generate revenue for the Company as well as to enhance the Company's credibility in the frac sand market. However, this initiative, while relatively near-term compared with mine-building, is not expected to begin generating cash flow until 2013.

As at November 8, 2012, the aggregate market value of the Company's marketable securities held in public company shares is approximately \$671,000. The market value of such shares may go up or down. Trading volumes have experienced declines and it is generally acknowledged that equities are being undervalued.

As at September 30, 2012, the Company had warrants outstanding and options outstanding which could bring in additional cash funds of approximately \$4,886,000. Most of those instruments are presently not "in-the-money" however.

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

The Company has good title to its projects and will continue to maintain the projects in good standing. Prophecy Platinum had expenditure commitments to meet on the Lynn Lake project as described earlier which mitigated the pressure on the Company to do so and maintained ongoing investment in the property. In the option to Prophecy Resource, (now Prophecy Coal) and its assignment to Prophecy Platinum, Victory Nickel made provisions to ensure that any failure on the part of Prophecy Platinum (or Prophecy Coal should Prophecy Platinum not comply) to meet the contractual commitments would result in the Lynn Lake property reverting to full ownership by Victory Nickel. The Company expects the remaining option terms to be fulfilled and for the ownership of Lynn Lake to be transferred to Prophecy Platinum.

The Company's working capital requirements continue to be modest. As at September 30, 2012, the major item requiring financing was an HST/GST refund receivable of \$37,000, which is was received in October 2012. The HST/GST refund receivable is a function of project activity and averaged approximately \$119,000 in 2011. Monthly average administrative costs for 2012 are budgeted at \$160,000 – or approximately \$1.8 million on an annual basis, most of which are incurred to meet statutory requirements; actual monthly costs to date are \$137,000. As described above, the salary and directors' fee deferrals by Victory Nickel will reduce the pressure on cash; other controls on minimizing discretionary expenditures are in place and non-essential services are being cancelled. The Company continues to have amounts owing to fulfil the electrical equipment purchases initiated during 2010.

The Company will continue to liquidate its portfolio of marketable securities. However, it will monitor its activities closely and continue to spend wisely until additional financing is available. The Company continues to monitor operating costs; Victory Nickel and Nuinsco did not implement an across-the-board salary increase for 2012; executive salaries for both companies remained at 2011 levels and, as noted earlier, average 25% salary deferrals have been agreed to by senior management of Victory Nickel. However, in the present market circumstances there is no certainty that the Company's initiatives to generate working capital will be sufficient to fund the Company's activities. The Company expects to announce such initiatives shortly.

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

The Victory Silica initiative has been designed to enhance the Company's market presence through the sale and marketing of high-quality frac sand. Further, it is expected to provide cash flow to assist the Company in financing its operations as well as financing the Minago mine development both directly and indirectly.

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

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

MINE PROPERTY AND DEVELOPMENT ACTIVITIES

Pursuant to the Board approval to develop and finance the Minago mine, expenditures of \$34,807,000 at the approval date were transferred from *Exploration and evaluation projects* into *Mine property and development project* on the balance sheet effective September 2011. During the nine months ended September 30, 2012, \$2,342,000 (before receipt of a government grant of \$50,000) was incurred on the project. Note that from the date of transfer to MP&D to December 31, 2011, \$764,000 was incurred on the Minago project for an aggregate total spending of \$4,512,000 in 2011. (For greater clarity, \$3,748,000 of the 2011 spending is included in the total transfer to MP&D of \$34,807,000.)

Minago Project

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

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

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

¹ Lerch-Grossman pit optimization shell

² Whittle pit optimization shell

³ Nickel in sulphide form

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

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

Minago property and the number of targets identified, the possibility of intersecting completely new nickel mineralization was considered good. The drilling intersected magnetite bearing amphibolite domains, pyrite-pyrrhotite intervals and minor serpentinite.

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

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 is a significant contributor to the positive economics at Minago. As part of the FS, Outotec produced a feasibility-level design for a frac sand plant complete with capital and operating costs to produce 1,140,000 tonnes of frac sand annually for a ten-year period. Considerable potential exists to expand the resource beyond the limits of the current pit. The Company has also announced the creation of Victory Silica.

Victory Silica

On June 19, 2012, the Company announced a new initiative through the creation of Victory Silica and the hiring of Ken Murdock as its CEO. The objective is to generate cash flow while establishing VSL as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project. Expenditures are classified as pre-operating expenditures and are charged through operations.

EXPLORATION AND EVALUATION ACTIVITIES

For the nine months ended September 30, 2012, the Company incurred exploration expenditures on its E&E projects of \$131,000 (September 30, 2011 - \$4,608,000). This includes \$87,000 on the Mel project, \$nil on Lynn Lake (before \$1,450,000 option payments received from Prophecy Platinum), and \$44,000 at the Lac Rocher project (September 30, 2011 - \$3,748,000 on Minago, prior to its transfer to MP&D project, \$673,000 on Mel; \$3,000 on Lynn Lake (before \$600,000 option payment received from Prophecy Coal) and \$184,000 on Lac Rocher). The 2012 expenditures are shown before the transfer of \$1,450,000 through operations (September 30, 2011 - \$597,000) with respect to the Lynn Lake option receipts in excess of carrying value.

Mel Project

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

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

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

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

The Mel dataset is currently being vetted and updated – this work will apply to both the drilling data on the Mel deposit as well as the considerable drilling (111 drill holes) conducted of the claims portion of the property. Following completion of this work, additional modelling of the resource is contemplated. No fieldwork has been conducted during 2012.

Under the terms of the option agreement, Vale must mill ore from the Mel project at cash costs plus 5% subject to capacity availability and metallurgy – this is unaffected by Vale’s decision. Furthermore, in accordance with the terms of the agreement with Vale, they now are entitled to a 10% royalty on “distributable earnings” as defined in the agreement. Distributable earnings is defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

Lac Rocher

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

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

Year round access is now available to the site. In December 2009, diamond drilling was conducted to provide geotechnical data deemed necessary for future portal and ramp development. An InfiniTem ground electromagnetic survey was conducted over a portion of the property to test for deeper extensions to the nickel mineralization. At the same time, evaluation of the availability of borrow material was also conducted in the local region. No work was conducted on the site during 2011 or 2012.

Lynn Lake

The Lynn Lake property is located in the historic mining town of Lynn Lake in northern Manitoba, about 320km by road northwest of the Thompson mining camp.

As discussed earlier and described in Note 12 to the Unaudited Condensed Consolidated Financial Statements, the Company has optioned Lynn Lake to Prophecy Coal with subsequent assignment to Prophecy Platinum. Failure on the part of Prophecy Platinum to meet any of the terms (or Prophecy Coal’s rectification of Prophecy Platinum’s deficiencies) will result in cancellation of the option on the property and it will revert to the Company. Among other things, the option included a commitment to make \$3,000,000 in expenditures on the property. As discussed earlier, on August 8, 2012, the Company received \$450,000 from Prophecy Platinum in consideration for waiving the remaining expenditure commitment. There is no reason to believe that Prophecy Platinum will not meet its remaining option payment to acquire the property and it will transfer to Prophecy Platinum at that point. Given the stage of the option agreement, the Company no longer considers Lynn Lake to be a material mineral project of the Company; it is included here for completeness.

IMPAIRMENT ANALYSIS UPDATE

The Company performed a detailed impairment analysis on each of its E&E projects and the MP&D project as at December 31, 2011. The Company does not believe that there have been any material changes to date which would adversely affect this analysis or would cause the Company to initiate another recoverability assessment. Furthermore there has been no change in management’s plans for the projects which would cause a reassessment.

Management concluded that no impairment existed in each of its E&E and MP&D projects effective September 30, 2012 and that costs incurred to date are recoverable. The Company will continue to monitor developments as they occur in the metals markets and the economy and will update its impairment analysis to take account of any such changes, as appropriate.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the financial statements include determining the carrying value of investments, mine property and development project and exploration and evaluation projects, assessing the impairment of long-lived assets, determining deferred income taxes and the valuation of share-based payments. These estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control.

For a complete list of the significant accounting policies as well as information concerning the use of estimates and measurement uncertainty, reference should be made to Note 3 to the Company's 2011 Audited Financial Statements as updated by Note 3 to the Unaudited Condensed Consolidated Financial Statements. The Company's financial statements have been prepared using the going concern assumption; reference should be made to Note 1 to the Company's 2011 Audited Financial Statements as well as to Note 1 to the Company's Unaudited Condensed Consolidated Financial Statements.

The recorded value of the Company's E&E projects and the MP&D project is based on historic costs that are expected to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is exposed to a number of risks and there is always the potential for a material adjustment to the value assigned to these assets. Such risks also extend to the evaluation of fair values of net assets upon acquisition.

The fair value of the stock options and warrants is calculated using the Black-Scholes option-pricing model that takes into account the exercise price, expected life of the option/warrant, expected volatility of the underlying shares, expected dividend yield, and the risk-free interest rate for the term of the option/warrant.

NEW ACCOUNTING POLICIES

IFRS issued by the International Accounting Standards Board ("IASB") have been adopted in the Company's 2011 Audited Financial Statements. Note 3 to those statements include the accounting policies that have been applied. Note 3 to the Unaudited Condensed Consolidated Financial Statements includes any new accounting policies – there have been none implemented to date except that the financial statements are now prepared on the consolidated basis.

Basis of Consolidation

Subsidiary

A subsidiary is an entity controlled by Victory Nickel. Control exists when Victory Nickel has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Victory Nickel. Significant Company entities are listed in Note 20 to the Unaudited Condensed Consolidated Financial Statements.

FUTURE ACCOUNTING CHANGES

New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2011 Audited Financial Statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 to those statements. However, certain of those issued at that time but not included in those financial statements are now relevant to Victory Nickel and are described below:

IFRS 10 - Consolidated Financial Statements

Effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks

associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Early adoption of these standards is only permitted if IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 17 and IAS 18 are adopted at the same time, with the exception of early adopting only the disclosure provisions for IFRS 12 without the other new standards.

The Company has complied with these standards when consolidating its newly-incorporated subsidiary Victory Silica.

CORPORATE GOVERNANCE

The Company's Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of directors, none of whom are employees or officers of the Company, meets with management to review the Unaudited Condensed Consolidated Financial Statements to satisfy itself that management is properly discharging its responsibilities to the directors who approve the financial statements. The Board of Directors has also appointed compensation and corporate governance and nominating committees composed of non-executive directors.

Design of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal quarter ended September 30, 2012, the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at September 30, 2012. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

There were no changes to the Company's disclosure controls and procedures that occurred during the quarter ended September 30, 2012 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

Design of Internal Control over Financial Reporting

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP. The Company used the COSO control framework. For the fiscal quarter ended September 30, 2012, the Certifying Officers have concluded that the design of the Company's internal controls over financial reporting and procedures were effective as at September 30, 2012.

The management of the Company was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

There were no changes to the Company's internal controls over financial reporting that occurred during the quarter ended September 30, 2012 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT

Included in accounts payable and accrued liabilities as at September 30, 2012 are amounts due to officers and directors of the Company in the amount of \$141,000 (December 31, 2011 - \$47,000). These amounts relate primarily to deferred directors' fees, consulting fees payable, deferred salaries and expense reimbursements to officers.

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

respective company, there is only one common director. The costs payable by the Company under the arrangement are recorded at the exchange amount which is equal to the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by Nuinsco upon 90 days notice and by the Company upon 180 days notice.

Transactions with Nuinsco for the three and nine months ended September 30, 2012 and 2011 are shown in the following table:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Overhead charges from Nuinsco Resources Limited	\$ 130	\$ 197	\$ 501	\$ 609
Overhead charges to Nuinsco Resources Limited	\$ 6	\$ -	\$ 21	\$ -
Project costs charged to Nuinsco Resources Limited	\$ 2	\$ 10	\$ 18	\$ 24
Project recoveries charged by Nuinsco Resources Limited	\$ 11	\$ 21	\$ 30	\$ 55

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

OUTSTANDING SHARE DATA

As at November 8, 2012, the Company had 395,807,042 common shares issued and outstanding. In addition, there were 29,586,500 stock options and 4,804,786 warrants outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 430,198,328 and would generate cash of approximately \$4,863,000. However, not all of the options and warrants are "in the money".

RECENT DEVELOPMENTS

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

RISKS AND UNCERTAINTIES

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. The risk factors which should be taken into account in assessing Victory Nickel's activities and an investment in its securities include, but are not necessarily limited to, those set out in detail in the Company's 2011 MD&A. A summary is provided below.

The relative significance of each risk described below will vary as a function of several factors including, but not limited to, the state of the economy, the stage of Victory Nickel's projects, the availability of financing on acceptable terms and other matters.

Any one or more of these risks could have a material adverse effect on the value of any investment in Victory Nickel and the business, financial condition, operating results or prospects of Victory Nickel and should be taken into account in assessing Victory Nickel's activities.

Industry Risks

Speculative Nature of Mineral Exploration

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that Victory Nickel's exploration efforts will be successful. No assurance can be given that Victory Nickel's exploration programs will result in the establishment or expansion of resources or reserves.

Evaluation Projects

In general, evaluation and development projects have no operating history upon which to base estimates of future cash operating costs. For evaluation and development projects such as the mineral resource properties owned by Victory Nickel, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. The costs estimated under the FS for Minago differed from the PEA and may differ again upon actual development.

Competition

The mineral exploration business is highly competitive in all of its phases. Victory Nickel competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Victory Nickel, in the search for and acquisition of exploration and development rights on attractive mineral properties. There is no assurance that Victory Nickel will compete successfully in acquiring exploration and development rights on such other properties.

Operational Risks

Limited History of Operations

Victory Nickel has no history of earnings and limited financial resources. Victory Nickel currently has no operating mines and its ultimate success will depend on the ability of active mining operations to generate cash flow in the future, as well as its ability to access capital markets for its development requirements. In particular, Victory Silica represents a new initiative for Victory Nickel. While the Company believes it has mitigated the risks of entering a new market through the hiring of experienced personnel, there is no assurance that Victory Silica will be successful.

Development Targets, Permitting and Operational Delays

There can be no assurance that Victory Nickel will be able to complete the planned development of its projects on time or on budget due to, among other things, delays in receiving required consents, permits and registrations, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support Victory Nickel's operations.

Resources and Reserves

The figures for mineral resources and mineral reserves are estimates and no assurance can be given that the anticipated level of recovery and/or grades of mineral reserves or mineral resources will be realized.

Title Risks

Victory Nickel's ability to hold various mineral rights require licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various governmental and quasi-governmental authorities. However, Victory Nickel's ability to obtain, sustain or renew such licences, permits and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governmental and quasi-governmental bodies.

Insurance Risk

Victory Nickel faces all of the hazards and risks normally incidental to the exploration and development of base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. Not all such risks are insurable.

Financial and Investment Risks

Substantial Capital Requirements

Victory Nickel will have to make substantial capital expenditures for the development of and to achieve production from its projects. Production will only be reached a number of years post-commencement of development. Until that time, the Company is reliant on the equity markets and asset sales to generate cash for ongoing operations and programs. There can be no assurance that any debt or equity financing or cash generated by operations or asset sales will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Victory Nickel. Moreover, future activities may require Victory Nickel to alter its capitalization significantly. The inability of Victory Nickel to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects. Flow-through financing cannot be used to fund the Company's corporate costs.

Market Perception

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

Metal and Mineral Prices

There is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Nickel and by-product prices fluctuate on a daily basis and are affected by numerous factors beyond Victory Nickel's control – including factors which are influenced by worldwide circumstances. However, these factors are of significant importance for the FS and decisions related thereto.

Areas of Investment Risk

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

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

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

Regulatory Risks

Government Regulation

Existing and possible future environmental and social impact legislation, regulations and actions, including the regulation of air and water quality, mining reclamation, solid and hazardous waste handling and disposal, the promotion of occupational health and safety, the protection of wildlife and ecological systems and the protection of the societies and communities of indigenous peoples, could cause significant expense, capital expenditures, restrictions and delays in activities, the extent of which cannot be predicted and which may well be beyond Victory Nickel's capacity to fund.

Economic, Political, Judicial, Administrative, Taxation or Other Regulatory Factors

Victory Nickel may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors in the areas in which Victory Nickel does or will operate and holds its interests, as well as unforeseen matters.

Other Risks

Environmental and Health Risks

The Company has no significant exposure to environmental or health risks, although this will change as the Company's projects approach production (a normal characteristic of mineral industry projects). Lynn Lake, acquired pursuant to the takeover bid for Independent and subject to option by Prophecy Platinum, is a former operating mine, however indemnifications exist from the Manitoba Government with respect to any pre-existing environmental concerns at that property.

Key Personnel

Victory Nickel relies on a limited number of key consultants and there is no assurance that Victory Nickel will be able to retain such key consultants or other senior management. The loss of one or more of such key consultants or members of senior management, if not replaced, could have a material adverse effect on Victory Nickel's business, financial condition and prospects. Directors and management had previously and, once more, have accepted deferrals of remuneration in order to assist the Company through the economic turmoil; however, this potentially adds to the risk of losing experienced personnel.

Conflicts of Interest

Certain of the Company's directors and officers are also directors and officers of other natural resource companies. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. In such circumstances, directors will recuse themselves from voting or otherwise having significant influence over key decisions.

Investments and Other Agreements with Resource Companies

In addition, Victory Nickel makes, from time-to-time, investments in the common shares of publicly-traded companies in the junior natural resources sector or may enter into option or other agreements therewith. These companies are subject to similar risks and uncertainties as is Victory Nickel, and Victory Nickel's investments in and agreements with these companies are subject to similar areas of risk as noted above. Victory Nickel seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's or assignee's failure to meet contractual obligations.

Summary

The future success of the Company is subject to a number of risk factors that are common to the junior natural resources sector. These include the extent to which it can outline natural resources on its properties and establish the economic viability of developing those properties and the political, economic and legislative stability of the territories in which the Company's interests are located. Another significant factor is the ability of the Company to obtain necessary financing or to find strategic partners to fund expenditure commitments as they fall due, as the Company currently has limited funds. Furthermore, the development of any natural resource interest may take years to complete and the resulting income, if any, from the sale of any natural resources produced by the Company is largely dependent upon factors that are beyond its control, such as costs of development, operating costs and the market value of the end product.

FORWARD-LOOKING STATEMENTS

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

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

November 8, 2012