



VICTORY NICKEL INC.

**UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2014 AND 2013**

DATED AUGUST 12, 2014

Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars)	<i>Notes</i>	June 30, 2014 (unaudited)	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 598	\$ 1,423
Restricted deposits	6	293	-
Receivables and prepaids	7	1,349	381
Marketable securities	8	336	278
Inventory	9	2,578	-
Total current assets		5,154	2,082
Non-current assets			
Property, plant and equipment	10	6,701	5,279
Mine property and development project	11	38,864	38,668
Exploration and evaluation projects	12	14,933	14,865
Total non-current assets		60,498	58,812
Total Assets		\$ 65,652	\$ 60,894
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	13	\$ 4,153	\$ 1,617
Total current liabilities		4,153	1,617
Non-current liabilities			
Loans and borrowings - long-term portion	14	11,381	6,379
Lease obligations - long-term portion	15	386	408
Deferred tax liability		757	1,521
Total non-current liabilities		12,524	8,308
Total Liabilities		16,677	9,925
Shareholders' equity			
Share capital	16	52,285	51,907
Contributed surplus		5,368	5,441
Accumulated other comprehensive income		1,715	1,665
Deficit		(10,393)	(8,044)
Total shareholders' equity		48,975	50,969
Total Liabilities and Shareholders' Equity		\$ 65,652	\$ 60,894

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 June 30,		Six months ended June 30,	
		2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Revenues		\$ 1,428	\$ -	\$ 1,428	\$ -
Cost of goods sold		(1,587)	-	(1,587)	-
Gross loss		(159)	-	(159)	-
Operating expenses					
General and administrative		(846)	(392)	(1,387)	(743)
Share-based payments:	18				
Options		(21)	(124)	(85)	(143)
Share Bonus Plan		-	(17)	-	(17)
Amortization of property, plant and equipment	10	(187)	1	(236)	(3)
(Writedown) recovery of E and E projects	12	(28)	123	(28)	244
Net frac sand pre-operating costs	22	-	(62)	(214)	(157)
Operating loss		(1,241)	(471)	(2,109)	(819)
Finance income	19	634	4	89	5
Finance costs	19	(685)	(79)	(1,101)	(117)
Net finance costs		(51)	(75)	(1,012)	(112)
Loss before income taxes		(1,292)	(546)	(3,121)	(931)
Income tax recovery		538	117	772	187
Net Loss for the Period		\$ (754)	\$ (429)	\$ (2,349)	\$ (744)
Loss per share	17				
Basic loss per share		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Diluted 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 Loss

(in thousands of Canadian dollars)	Note	Three months ended June 30,		Six months ended June 30,	
		2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Net loss for the period		\$ (754)	\$ (429)	\$ (2,349)	\$ (744)
Other comprehensive (loss) income ("OCI")					
Net change in fair value of financial assets	8	(38)	(90)	58	(235)
Income tax (expense) recovery		5	12	(8)	32
Other comprehensive (loss) income for the period		(33)	(78)	50	(203)
Total Comprehensive Loss for the Period		\$ (787)	\$ (507)	\$ (2,299)	\$ (947)

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, 2013	<i>Notes</i>	\$ 47,683	\$ 4,397	\$ 1,855	\$ (2,940)	\$ 50,995
Total comprehensive loss for the period						
Net loss for the period					(744)	(744)
Other comprehensive loss						
Net change in fair value of financial assets				(235)		(235)
Income tax recovery				32		32
Total other comprehensive loss						
				(203)		(203)
Total comprehensive loss for the period						
						(947)
Transactions with owners, recorded directly in equity						
Contributions by owners in the period						
Issue of common shares for settlement of liabilities, net		113	-	-	-	113
Issue of common shares under private placement, net		2,197	-	-	-	2,197
Issue of common shares for loan fee		250	-	-	-	250
Issue of common shares under Share Bonus Plan		17	-	-	-	17
Options granted and vesting		-	143	-	-	143
Total contributions by owners						
		2,577	143	-	-	2,720
Total transactions with owners						
		2,577	143	-	-	2,720
Balances as at June 30, 2013						
		\$ 50,260	\$ 4,540	\$ 1,652	\$ (3,684)	\$ 52,768
Balances as at January 1, 2014						
		\$ 51,907	\$ 5,441	\$ 1,665	\$ (8,044)	\$ 50,969
Total comprehensive loss for the period						
Net loss for the period					(2,349)	(2,349)
Other comprehensive loss						
Net change in fair value of financial assets				58		58
Income tax expense				(8)		(8)
Total other comprehensive loss						
				50		50
Total comprehensive loss for the period						
						(2,299)
Transactions with owners, recorded directly in equity						
Contributions by owners in the period						
Options vesting	<i>18</i>	-	85	-	-	85
Options exercised	<i>16, 18</i>	378	(158)	-	-	220
Total contributions by owners						
		378	(73)	-	-	305
Total transactions with owners						
		378	(73)	-	-	305
Balances as at June 30, 2014						
		\$ 52,285	\$ 5,368	\$ 1,715	\$ (10,393)	\$ 48,975

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	Six months ended June 30,	
		2014 (unaudited)	2013 (unaudited)
Cash flows from operating activities			
Net loss for the period		\$ (2,349)	\$ (744)
Adjustments for:			
Share-based payments	18	85	160
Amortization of property, plant and equipment	10	236	3
Recovery of exploration and evaluation project	12	-	(244)
Net finance costs	19	620	47
Income tax recovery		(772)	(187)
Net change in working capital:			
Change in receivables		(968)	(186)
Change in inventory	9	(2,578)	-
Change in trade and other payables		2,353	(25)
Net cash used by operating activities		(3,373)	(1,176)
Cash flows from investing activities			
Expenditures on mine property and development project	11	(171)	(522)
Expenditures on exploration and evaluation projects	12	(68)	(42)
Proceeds on sale of marketable securities		-	59
Proceeds from option of Lynn Lake	12	-	250
Deposits on equipment	7,10	-	(110)
Expenditures on 7P Plant	10	(1,436)	-
Net sale of furniture and equipment		-	56
Net cash used by investing activities		(1,675)	(309)
Cash flows from financing activities			
Issue of common shares	16	220	2,200
Payments of interest	14,15	(427)	(9)
Payments under leases	15	(86)	-
Net proceeds of loans	14	4,809	-
Deposits of restricted cash	6	(293)	-
Net cash from financing activities		4,223	2,191
Net (decrease) increase in cash and cash equivalents		(825)	706
Cash and Cash Equivalents, Beginning of the Period		1,423	256
Cash and Cash Equivalents, End of the Period		\$ 598	\$ 962

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 six months ended June 30, 2014 and 2013 comprise the Company and its subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel was primarily engaged in the acquisition, exploration and development of nickel properties and associated products in Canada until the second quarter of 2014 when the Company became a producer and supplier of premium frac sand from its 500,000 ton per annum ("tpa") frac sand plant (the "7P Plant") located 18kms south of Medicine Hat, Alberta. Frac sand is specialized sand that is used as a proppant to enhance recovery from oil and gas wells. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

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

Going Concern

These condensed consolidated financial statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at June 30, 2014, the Company had working capital of \$708,000, (December 31, 2013 – working capital of \$465,000). Working capital is defined as current assets (excluding any restricted cash) less current liabilities. During the second quarter of 2014, the Company was in the start-up and commissioning stage and began producing and selling frac sand from the 7P Plant. The Company expects to begin generating cash flow in the third quarter of 2014 sufficient to fund its activities. In July 2014, the Company raised an additional US\$3,000,000 through the issuance of promissory notes (Note 24).

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, an unexpected change in the frac sand market which would limit the Company's ability to generate cash flow from the 7P Plant, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Development of the Company's current mining projects to the production stage will require significant financing. Given the current economic climate, the ability to raise funds may prove difficult.

None of the Company's mining projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, and the optioning and/or sale of resource or resource-related assets and/or the ability to generate sufficient cash flow from its other operating activities for its funding. The Company's 7P Plant continued commissioning during the second quarter 2014. It is expected that cash flow will be generated commencing with the third quarter sufficient to meet operating requirements with the ultimate potential to advance the Company's mining interests.

The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon either exploration results which have the potential for the discovery of economically-recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding or the success of the frac sand business referred to above.

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

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

existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

These unaudited condensed consolidated financial statements reflect the accounting policies described in Note 3 to the Company's Audited Consolidated Financial Statements for the years ended December 31, 2013 and 2012 ("2013 Audited Consolidated Financial Statements") (with the exception of any changes set out in Note 3 below) and accordingly, should be read in conjunction with those financial statements and the notes thereto.

The management of Victory Nickel prepares the condensed consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 12, 2014 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

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

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

Significant estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information regarding significant areas of estimation uncertainty made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 8 - valuation of financial assets at fair value through operations and OCI;
- Note 9 - valuation of inventory;
- Note 11 - measurement of the recoverable amount of mine property and development project;
- Note 12 - measurement of the recoverable amount of exploration and evaluation projects;
- Note 14 - measurement and valuation of the participating interest;

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- Note 14 - measurement and valuation of the embedded options in convertible notes; and
- Note 18 - measurement of share-based payments.

Significant judgements

Judgements are reviewed on an ongoing basis. Changes resulting from the effects of amended judgements are recognized in the period in which the circumstance giving rise to the change occurs and in any future periods presented. Information regarding significant areas of critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 1 - going concern assessment;
- Note 9 - impairment of inventory;
- Note 11 - classification of expenditures as mine property and development project or operating expenses;
- Note 12 - classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 11 - impairment of mine property and development project;
- Note 12 - impairment of exploration and evaluation projects.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail in Note 3 to the 2013 Audited Consolidated Financial Statements. Such policies have been applied consistently to all periods presented in these condensed consolidated financial statements, and have been applied consistently by Victory Nickel entities.

(a) New Accounting Policies

There have been no new accounting policies adopted by the Company, except as noted below.

(b) New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2013 Audited Consolidated Financial Statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued several new and revised standards and interpretations. However, the revised standards and interpretations are not applicable to the Company or are expected to have minimal impact.

(c) Revenue recognition

Revenues from frac sand sales are recognized when legal title passes to the customer which may occur at the Company's production facility, rail origin or at the destination terminal or transload facility. At that point, delivery has occurred, evidence of a contractual arrangement exists and collectability is reasonable assured.

(d) Inventory

Finished products and raw materials inventories are valued at the lower of cost and net realizable value. Costs are allocated to inventories based on direct costs which include acquisition, preliminary and finished processing and freight and handling but exclude indirect labour and indirect overhead costs. Net realizable value for finished products and raw materials is generally considered to be the selling price of the finished product in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale. Inventory is reviewed quarterly to ensure the carrying value does not exceed net realizable value. A writedown is recognized when carrying cost exceeds net realizable value. The writedown may be reversed if the circumstances which caused it no longer exist.

(e) Property, plant and equipment

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview

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

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included in Note 4 to the 2013 Audited Consolidated Financial Statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these condensed consolidated financial statements.

Credit Risk

Receivables

The Company has increased its exposure to credit risk upon commencement of sales of frac sand. The Company's other receivables presently consist primarily of amounts due from federal and provincial governments. Amounts due from other parties are settled on a regular basis.

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

Capital Management Disclosures

	June 30, 2014	December 31, 2013
Shareholders' equity	\$ 48,975	\$ 50,969
Loans and borrowings - long-term portion	11,381	6,379
Lease obligations - long-term portion	386	408
Loans and borrowings - available	534	500
	\$ 61,276	\$ 58,256

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

5. DETERMINATION OF FAIR VALUES

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 5 to the Company's 2013 Audited Consolidated Financial Statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

6. CASH AND CASH EQUIVALENTS

	June 30, 2014	December 31, 2013
Bank balances	\$ 593	\$ 1,418
Short-term deposits	5	5
Cash and Cash Equivalents in the Statement of Cash Flows	\$ 598	\$ 1,423

The Company has placed \$293,000 funds on deposit with a Canadian chartered bank to support letters of credit being used to facilitate business activity with certain vendors.

7. RECEIVABLES AND PREPAIDS

	June 30, 2014	December 31, 2013
Trade accounts receivable	\$ 853	\$ -
Other receivables	115	231
Receivable from Nuinsco Resources Limited	61	-
Prepaid expenses and deposits	320	150
	\$ 1,349	\$ 381

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

8. MARKETABLE SECURITIES

	June 30, 2014	December 31, 2013
Financial assets at fair value through OCI:		
Shares	\$ 336	\$ 278
	\$ 336	\$ 278

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

9. INVENTORY

	June 30, 2014	December 31, 2013
Raw material		
At transload facility	\$ 168	\$ -
In transit	525	-
Warehoused at 7P Plant	658	-
	1,351	-
Finished goods	1,227	-
	\$ 2,578	\$ -

10. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
Balances as at January 1, 2013					
Cost	\$ 83	\$ -	\$ 32	\$ 1,359	\$ 1,474
Accumulated Amortization	(8)	-	(17)	(25)	(50)
Carrying Amount	75	-	15	1,334	1,424
Additions	-	3,086	636	160	3,882
Amortization	(1)	-	(23)	(3)	(27)
Balances as at December 31, 2013					
Cost	83	3,086	668	1,519	5,356
Accumulated Amortization	(9)	-	(40)	(28)	(77)
Carrying Amount	74	3,086	628	1,491	5,279
Additions	-	1,575	79	4	1,658
Amortization	-	(137)	(97)	(2)	(236)
Balances as at June 30, 2014					
Cost	83	4,661	747	1,523	7,014
Accumulated Amortization	(9)	(137)	(137)	(30)	(313)
Carrying Amount	\$ 74	\$ 4,524	\$ 610	\$ 1,493	\$ 6,701

Vehicles and Mobile Equipment include \$703,000 (December 31, 2013 - \$636,000) of equipment acquired under leases (Note 15). *Equipment and Furniture* includes deposits of \$1,485,000 related to the purchase of transformers and other electrical equipment; the equipment is not available for use and is not being depreciated. On May 10, 2010, the Company entered into an agreement to purchase the transformers and other electrical equipment for the Minago project. The total price is US\$2,840,000 (Note 23).

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

	January 1, 2014	Current Expenditures	Recoveries	June 30, 2014
Minago	\$ 38,668	\$ 196	\$ -	\$ 38,864
	\$ 38,668	\$ 196	\$ -	\$ 38,864

	January 1, 2013	Current Expenditures	Recoveries	June 30, 2013
Minago	\$ 37,897	\$ 411	\$ (72)	\$ 38,236
	\$ 37,897	\$ 411	\$ (72)	\$ 38,236

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 "EAL"). The results of the Minago Feasibility Study ("FS") were announced in December 2009 and improvements thereto announced in June 2010 and July 2011.

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

The Minago project is not in production. Accordingly, the Minago project is not being depreciated. On September 19, 2011, following receipt of the EAL allowing the Company to commence development, 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, 2014	Current Expenditures	Writedowns/ Recoveries	Excess Proceeds	June 30, 2014
Lac Rocher	\$ 7,388	\$ 6	\$ -	\$ -	\$ 7,394
Mel	7,473	66	-	-	7,539
Lynn Lake	-	24	(24)	-	-
Other	4	-	(4)	-	-
	\$ 14,865	\$ 96	\$ (28)	\$ -	\$ 14,933

	January 1, 2013	Current Expenditures	Recoveries	Excess Proceeds	June 30, 2013
Lac Rocher	\$ 7,317	\$ 20	\$ -	\$ -	\$ 7,337
Mel	7,421	20	-	-	7,441
Lynn Lake	-	6	(250)	244	-
	\$ 14,738	\$ 46	\$ (250)	\$ 244	\$ 14,778

The expenditures on the Lynn Lake property are shown net of cumulative option payments received of \$250,000 in 2013. The excess proceeds of \$244,000 for the six months ended June 30, 2013 represent the excess of consid-

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

eration received under the option agreement above carrying value and are reflected in *Recovery of exploration and evaluation project* through operations. The option agreement was terminated in early 2014 and the Lynn Lake property has reverted to the Company.

Lac Rocher

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

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

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

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

Mel

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

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

Ongoing updating of Mel data is being conducted and applies to both the drilling data on the Mel deposit/lease as well as the 111 drill holes collared on the claims portion of the property. When completed, additional modelling of the resource will be continued. No fieldwork has been conducted during 2013 or the first six months of 2014.

Lynn Lake

The Company owns a 100% right, title and interest in the Lynn Lake nickel property (“Lynn Lake”), covering approximately 600 ha in northern Manitoba. As at December 31, 2013, the Lynn Lake property was subject to an option agreement with Wellgreen Platinum Ltd. (“Wellgreen”) (formerly Prophecy Platinum Corp.). On March 17, 2014, Wellgreen formally confirmed to the Company that it was relinquishing the Lynn Lake option.

Notes to the Condensed Consolidated Financial Statements

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

Other Projects

The Company has incurred minimal expenditures on other properties in 2014 and 2013.

Impairment and Pre-exploration Costs

Costs relating to projects in the amounts of \$28,000 were provided for through operations as *Writedown of exploration and evaluation projects* in the consolidated statement of operations during the second quarter of 2014 (recoveries of \$123,000 and \$244,000 in the three and six months ended June 30, 2013, respectively).

13. TRADE AND OTHER PAYABLES

	<i>Notes</i>	June 30, 2014	December 31, 2013
Trade payables			
Mine property and development project		\$ 22	\$ 25
Property and equipment		1,294	742
Non-project related		2,175	116
Accrued liabilities			
Mine property and development project		-	28
Exploration and evaluation projects		1	1
Property and equipment		-	325
Non-project related		500	153
Lease obligations - current portion	15	149	160
Due to Nuinsco Resources Limited			
Under the Management Agreement	21	-	56
Commitment fees	14	12	11
		\$ 4,153	\$ 1,617

14. LONG-TERM LIABILITIES

	<i>Notes</i>	June 30, 2014	December 31, 2013
Participating Interest	(a)	\$ 4,458	\$ 4,100
Promissory notes	(b)	3,524	2,279
SPA Loan	(c)	3,399	-
		\$ 11,381	\$ 6,379

(a) Participating Interest	<i>Note</i>	June 30, 2014	December 31, 2013
Advance for working capital		\$ 1,000	\$ 1,000
Advance under Amended Loan for standby commitment		1,207	1,207
Aggregate advances		2,207	2,207
Less: settled in Units of Victory Nickel		(1,207)	(1,207)
Less: unamortized loan fees		(103)	(189)
		897	811
Change in fair value	19	3,561	3,289
Participating Interest - long-term portion		\$ 4,458	\$ 4,100

In 2012, the Company entered into a loan agreement for \$1,000,000 with Nuinsco (the "Lender"). The loan was amended and restated on March 25, 2013 (the "Amended Loan") to up to \$3,000,000 with the additional amount being available to fund capital expenditures relating to the 7P Plant. The Amended Loan bears interest at 12% per annum and matures on January 31, 2015; the loan is secured by equipment and a general security agreement over

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the equipment of the Company.

Prior to June 1, 2014, the Lender had the right to convert the outstanding balance of the Amended Loan into a limited participating interest (the "Conversion") whereby the Lender is entitled to receive a share of net cash flows earned from the sale of frac sand from the 7P Plant. The Lender's participation is capped at \$10,000,000, with a minimum of \$7,500,000, and is subject to adjustment under certain circumstances. On Conversion, the Amended Loan would be considered paid in full.

Pursuant to the Amended Loan, the Lender provided a backstop of \$1,207,584 in cash to the rights offering which closed on July 30, 2013. This capped the Amended Loan at \$2,707,584 and reduced the amount available to be drawn down to \$500,000. Upon exercise of the backstop, the Lender increased its shareholding in the Company to approximately 12.24%, thereby becoming a related party of the Company.

Commitment fees of \$12,000 have been accrued to February 4, 2014, at which time the Lender and Victory Nickel agreed to cancel the amount that remained available to be drawn down under the Amended Loan; these are included in *Finance costs* in Note 19 and will be satisfied in shares. This amount, along with other loan fees, are being amortized as interest expense using the effective interest rate method; in the three and six months ended June 30, 2014, \$44,000 and \$87,000 was amortized as interest expense and \$20,000 and \$50,000 interest was paid to the Lender in cash up to the conversion to a participating interest (three and six months ended June 30, 2013 - \$40,000 and \$47,000, \$30,000 and \$69,000 respectively). The payment in the first quarter of 2013 included \$9,000 which was accrued in 2012.

The agreement on February 4, 2014, also effectively amended the range of the Company's participation in the net cash flows earned from the sale of frac sand to a maximum of \$10,222,831 with a minimum of \$7,667,124. This range could have been decreased should Victory Nickel repay some or all of the \$1,000,000 balance outstanding before Conversion. On April 22, 2014, the Lender exercised its option and converted its loan to the Participating Interest; at the same time, it relinquished its security over the assets of the Company.

The Participating Interest is classified as a financial liability carried at amortized cost. From recognition until the fourth quarter of 2013, the Company considered that there were no changes in estimated cash flows since Nuinsco had not converted its loan and the 7P Plant was not built and there were other significant uncertainties. During the fourth quarter, the plant construction was well underway and the probability of Conversion had increased substantially. Accordingly, the Company has revised the estimated future cash flows and discounted these cash flows at the loan's original effective interest rate of 22%. The estimated future cash flows were determined using a probability-weighted estimation of future expected cash flow scenarios from the frac sand business based on current expectations of business results, capital costs and pre-operating expenditures. These cash flows were on the basis of Phase 1 completion only. The Company also included probability weightings of 34%, 16% and 50% as risk factors applied to varying levels of expected cash flows – being zero, 50% and 100% of the ceiling maximum of \$10,222,831.

Effective June 30, 2014, certain adjustments were made to the expected cash flows to reflect more current business expectations. The effect of these adjustments has increased the revised amortized cost carrying amount of the Participating Interest.

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is \$10,222,831. Based on the estimated cash flows described above, payments could commence mid-2015. These assumptions resulted in revised amortized cost carrying amount of the participating interest of \$4,458,000 and, accordingly \$272,000 was recorded as a *loss on adjustment of estimated cash flows* through the statement of operations (\$3,289,000 was recorded in the fourth quarter of 2013). This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will continue to review and revise its estimates of expected future cash flows as the expectations of payments of the participating interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows paid.

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(b) Promissory Notes	Notes	June 30, 2014	December 31, 2013
Advances		\$ 4,015	\$ 2,000
Conversion to SPA loan		(1,000)	-
Add: effect of foreign exchange		185	127
		3,200	2,127
Embedded option derivatives at inception	\$	962	\$ 168
Less: effect of conversion to SPA loan		(465)	-
Less: accumulated amortization	19	(127)	(12)
		370	156
Less: unamortized loan fees		(32)	(33)
Net promissory notes		2,798	1,938
Embedded option derivatives at inception		962	168
Less: effect of conversion to SPA loan		(465)	-
Change in value of embedded option derivatives	19	229	173
		726	341
Promissory Notes - long-term portion		\$ 3,524	\$ 2,279

On November 11, 2013, the Company entered into an unsecured convertible promissory note for US\$2,000,000 by way of a private placement. The promissory note is denominated in US\$, bears interest calculated and payable quarterly at 14.8% and is convertible at the option of the holder into the Company's shares at \$0.10 and has a two-year term.

In the first six months of 2014, the Company issued unsecured convertible promissory notes by way of a private placement under a blanket regulatory approval. Notes were denominated in both Canadian and US\$ and each have two year terms from issue date, bear interest calculated and payable quarterly at 14.8% and are convertible at the option of the holder into the Company's shares at \$0.10. On July 7, 2014, US\$3,000,000 in promissory notes were issued under the blanket approval, thereby completing that financing.

In the three and six months ended June 30, 2014, the Company paid \$138,000 and \$245,000 for interest in cash and amortized \$6,000 and \$11,000 for loan fees and \$56,000 and \$116,000 for the embedded option derivative at inception using the effective interest rate method during the year; \$nil during the three and six months ended June 30, 2013.

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

	June 30, 2014	(Various inception dates)	November 11, 2013	December 31, 2013
			(At inception)	
Fair values	\$0.021 to \$0.027	\$0.022 to \$0.04	\$ 0.008	\$ 0.016
Share prices at valuation dates	\$ 0.06	\$0.05 to \$0.07	\$ 0.030	\$ 0.045
Assumptions				
Exercise price	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
Expected volatilities	109%	116%	103%	109%
Expected remaining terms (years)	1.36 to 1.74	2.00	2.00	1.87
Expected dividends	-	-	-	-
Risk-free interest rates	1.09%	1.20%	1.20%	1.20%

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	June 30, 2014	December 31, 2013
(c) SPA Loan		
Advances in US\$	\$ 2,500	\$ -
Conversion from Promissory Notes	1,000	-
Add: effect of foreign exchange	237	-
Add: fair value of cashless warrants	640	-
	4,377	-
Less: Unamortized loan fees	(978)	-
SPA Loan - long-term portion	\$ 3,399	\$ -

On May 15, 2014, the Company announced that it had executed a securities purchase and line of credit agreement (the "SPA Loan") to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of US\$4,000,000 (each a "SPA Note"). The SPA Loan matures on July 30, 2015. The purchaser previously purchased a convertible note in the amount of US\$1,000,000 and this was converted into a SPA Note on the initial closing date of May 15, 2014 (the "Initial Closing Date").

The Company has issued to the purchaser 20,000,000 common share purchase warrants. The number of warrants is subject to an increase to 10,000,000 warrants for each US\$1,000,000 Note issued if any of the Notes is prepaid and the closing price of the Company's common shares is \$0.20 or lower on the trading day preceding the date of such prepayment. Given that there are costs associated with the prepayment right, the Company has valued the prepayment right at \$nil. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.10 for a period of 36 months from the Initial Closing Date and is subject to a four month plus one day hold period from the Initial Closing Date pursuant to applicable Canadian securities laws. The warrants are subject to a cashless exercise provision and are therefore considered a component of debt rather than equity; the fair value at inception was calculated at \$620,000 and was revalued at June 30, 2014 at \$640,000 with the change in fair value of \$20,000 being recorded in finance costs (Note 19).

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

	June 30, 2014	May 15, 2014
Fair values	\$ 0.032	\$ 0.031
Share prices at valuation dates	\$ 0.06	\$ 0.06
Assumptions		
Exercise price	\$ 0.10	\$ 0.10
Expected volatilities	104%	101%
Expected remaining terms (years)	2.88	3.00
Expected dividends	-	-
Risk-free interest rates	1.13%	1.12%

In the three months ended June 30, 2014, the Company paid \$61,000 in interest and amortized \$111,000 in loan fees into interest expense. The Company drew down the remaining US\$500,000 under the SPA Loan on August 6, 2014.

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15. LEASE OBLIGATIONS

	Note	June 30, 2014	December 31, 2013
Vehicles and Mobile Equipment:			
Total present value of minimum lease payments		\$ 535	\$ 668
Principal payments		-	(100)
Total present value of minimum lease payments remaining		535	568
Lease obligations - current portion	13	(149)	(160)
Lease obligations - long-term		\$ 386	\$ 408

The Company has finance lease obligations for equipment in use at the 7P Plant. At the end of the lease obligations, ownership is transferred to the Company for all leases except two, whereby an election is to be made 60 days prior to the end of the lease term at the purchase option price of \$1 and \$10. The future minimum lease payments are as follows:

	June 30, 2014	December 31, 2013
Less than 1 year	\$ 179	\$ 190
Between 1 and 5 years	420	447
Total minimum lease payments payable	599	637
Future finance charges on minimum lease payments	64	69
Present value of minimum lease payments	\$ 535	\$ 568

16. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

Number of shares issued and outstanding

The issued and outstanding common shares for the six months ended June 30, 2014 are as follows:

	Notes	Number of Shares	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Income Taxes	Finder's Unit Warrants	Other Warrants and Options	Share Capital
Balance as at January 1, 2014		567,030,820							\$ 51,907
Options exercised	(a)	4,630,000	\$ 220	\$ 158	\$ -	\$ -	\$ -	\$ -	378
Balance as at June 30, 2014		571,660,820	\$ 220	\$ 158	\$ -	\$ -	\$ -	\$ -	\$ 52,285

(a) In January and February, 2014, various officers, employees and consultants of the Company exercised 4,630,000 options generating aggregate cash proceeds of \$220,000; \$158,000 was transferred from contributed surplus.

Share Incentive Plan

The Company has a Share Incentive Plan which includes a Share Purchase Plan and a Share Bonus Plan. Both are described fully in the Company's 2013 Audited Consolidated Financial Statements.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan which is described fully in the Company's 2013 Audited Consolidated Financial Statements.

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

AOCI is comprised of the following separate components of equity:

Net change of financial assets at fair value through OCI

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

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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.

17. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the three and six months ended June 30, 2014 and 2013 was based on the information in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Balance as at beginning of period	571,660,820	451,928,000	567,031,000	397,347,000
Effect of shares issued to settle liabilities	-	-	-	4,329,000
Effect of shares issued for private placements	-	-	-	24,652,000
Effect of shares issued for loan fees	-	-	-	3,076,000
Effect of shares issued under Share Bonus Plan	-	359,000	-	181,000
Effect of options exercised	-	-	4,275,000	-
Weighted average number of common shares as at end of period - Basic	571,660,820	452,287,000	571,306,000	429,585,000
Effect of options granted and outstanding	6,105,000	51,000	6,472,000	59,000
Effect of warrants issued and outstanding	-	-	-	-
Effect of convertible promissory note	-	-	-	-
Weighted average number of common shares as at end of period - Diluted	577,765,820	452,338,000	577,778,000	429,644,000
Number of options excluded	22,082,500	-	21,715,500	-
Number of warrants excluded	132,500,000	-	132,500,000	-
Number of shares from conversion of promissory note excluded	32,009,000	-	32,009,000	-
Net loss attributable to shareholders - Basic	\$ (754)	\$ (429)	\$ (2,349)	\$ (744)
Net loss attributable to shareholders - Diluted	\$ (754)	\$ (429)	\$ (2,349)	\$ (744)
Basic (loss) earnings per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Diluted (loss) earnings per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

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

There have been no share issuances subsequent to the end of the period which would have had a significant effect on the EPS.

18. SHARE-BASED PAYMENTS

Description of the Share-based Payment Arrangements

The Company's share-based payment arrangements are described in the Company's 2013 Audited Consolidated Financial Statements.

Stock Option Plan (equity-settled)

As at June 30, 2014, the Company had 57,561,623 common shares available for the granting of future options (December 31, 2013 – 53,013,373 common shares). Options are exercisable at the closing market price of the shares at the date prior to grant. The Company does not have any cash-settled transactions.

Share purchase warrants (equity-settled)

Pursuant to the rights offering which closed on July 30, 2013, the Company issued 100,000,000 warrants. The Company also issued 12,500,000 warrants pursuant to a private placement on September 19, 2013. The 20,000,000 warrants issued pursuant to the SPA Loan may be settled without cash and are, accordingly, classified

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as debt (Note 14). The Company does not have any cash-settled transactions.

Share Bonus Plan

The terms of the Share Bonus Plan are set out in Note 17 to the Company's 2013 Audited Consolidated Financial Statements.

Terms and Conditions of Share-based Payment Arrangements

Stock Option Plan and Share purchase warrants

The terms and conditions relating to the grants of the Company's Stock Option Plan are set out in Note 19 to the Company's 2013 Audited Consolidated Financial Statements. The warrants issued under the rights offering in 2013 are exercisable on July 31, 2014 and expire on July 31, 2015. The Company's share purchase warrants issued pursuant to the private placement are exercisable on issue and expire on September 19, 2015.

Disclosure of Share-based Payment Arrangements

Stock Option Plan

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

As at and for the periods ended	Number of options		Weighted average exercise price	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Outstanding as at beginning of period	32,041,250	28,651,500	\$ 0.08	\$ 0.13
Granted	2,630,000	9,370,000	\$ 0.06	\$ 0.03
Exercised	(4,630,000)	-	\$ 0.05	-
Expired or forfeit	(1,853,750)	(5,980,250)	\$ 0.21	\$ 0.24
Outstanding as at end of period	28,187,500	32,041,250	\$ 0.07	\$ 0.08
Exercisable as at end of period	26,672,500	29,456,250	\$ 0.07	\$ 0.08

In the three months ended March 31, 2014, 4,630,000 options were exercised generating aggregate gross proceeds of \$220,000. There were no options exercised during 2013.

Range of exercise prices	Number of options outstanding		Weighted average remaining contractual life (years)	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
\$0.025 to \$0.05	18,750,000	21,010,000	3.63	3.19
\$0.06 to \$0.14	4,247,500	4,247,500	1.84	2.33
\$0.15 to \$0.16	5,190,000	5,190,000	0.51	1.01
\$0.17 to \$0.25	-	1,593,750	-	0.07
	28,187,500	32,041,250	2.79	2.57

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Number of options granted during the period	-	7,820,000	2,630,000	7,820,000
Weighted average fair value of options granted at grant date	n/a	\$ 0.030	\$ 0.060	\$ 0.030
Number of options subject to vesting as at end of period	1,515,000	2,310,000	1,515,000	2,310,000
Share-based payment expense - vesting options	\$ 21	\$ 124	\$ 85	\$ 143
Unvested options not yet charged to operations	\$ 23	\$ 44	\$ 23	\$ 44

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Share purchase warrants

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

As at and for the periods ended	Date Issued	Life	Number of warrants		Weighted average exercise price	
			June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Issued pursuant to rights offering						
Unit warrants	July 30, 2013	12 ^(a)	100,000,000	100,000,000	\$ 0.035	\$ 0.035
Issued pursuant to private placements						
Unit warrants	Sept. 19, 2013	24	12,500,000	12,500,000	\$ 0.035	\$ 0.035
SPA warrants	May 15, 2014	36	20,000,000	-	\$ 0.100	n/a
Outstanding as at end of period			132,500,000	112,500,000	\$ 0.045	\$ 0.035

(a) The life of warrants is shown in number of months from issue date, except for those issued pursuant to the rights offering which became exercisable 12 months from issue.

(b) The SPA warrants may be settled without cash and are, accordingly, classified as debt rather than as a component of contributed surplus.

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 periods and classified as part of equity are as follows:

	Options		Warrants	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Fair values at grant dates	\$ 0.031	\$0.012 to \$0.019	n/a	\$0.011 and \$0.019
Fair values of options modified	n/a	\$0.004 to \$0.023	n/a	n/a
Share prices at grant and modification dates	\$ 0.050	\$0.025 and \$0.03	n/a	\$ 0.025
Assumptions				
Exercise prices	\$ 0.055	\$0.025 to \$0.16	n/a	\$ 0.035
Expected volatilities	91%	88% to 111%	n/a	101% and 107%
Life (years)	4	0.5 to 4.9	n/a	2
Expected dividends	-	-	n/a	-
Risk-free interest rates	1.005%	0.78% to 1.63%	n/a	1.22%

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19. FINANCE INCOME AND FINANCE COSTS

	Notes	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
Interest income on bank deposits		\$ -	\$ 4	\$ 1	\$ 5
Net change in fair value of financial liabilities at fair value through operations	14	485	-	-	-
Net foreign exchange gain		149	-	88	-
Finance income		634	4	89	5
Interest expense on loans					
Cash settled		283	30	427	60
Amortization of loan fees		160	40	208	47
Amortization of embedded derivatives	14	56	-	112	-
Commitment fee	14	1	6	2	6
Loss on adjustment of estimated cash flows	14	165	-	272	-
Net change in fair value of financial liabilities at fair value through operations	14	20	-	80	-
Net foreign exchange (gain) loss		-	3	-	4
Finance costs		685	79	1,101	117
Net Finance Costs		\$ (51)	\$ (75)	\$ (1,012)	\$ (112)

20. OPERATING SEGMENT

Reporting Segments

Effective January 1, 2014, the Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand. Prior to that date, there were no formal operating segments; for comparative purposes, the Company estimated the assets involved in each segment which is reported in the table below.

The Corporate segment operates to support the Company's activities, including exploration and development projects and the frac sand business. The Company continues to receive administrative support from Nuinsco (Note 21) to do so.

The Exploration and Development segment is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products by considering exploration and development potential and results on a project basis. The exploration and development projects are all located in Canada. Any applicable amounts relating to such projects will continue to be capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 22). The segment is located in Canada although sand purchases are sourced from the US.

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

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

	June 30, 2014	December 31, 2013
Canada		
Corporate	\$ 1,036	\$ 1,952
Exploration and Development	55,360	55,056
Frac Sand	9,256	3,886
Total Assets	\$ 65,652	\$ 60,894

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Canada				
Corporate	\$ 205	\$ -	\$ 548	\$ -
Exploration and Development	-	-	-	-
Frac Sand	1,852	-	1,957	-
Inter segment elimination	(629)	-	(1,077)	-
Total Revenues	\$ 1,428	\$ -	\$ 1,428	\$ -

21. RELATED PARTIES AND MANAGEMENT AGREEMENT

Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 16 and 18).

Balances and transactions with related parties as at June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 are shown in the following tables:

	June 30, 2014	December 31, 2013
Balances Outstanding		
Payable to key management personnel	\$ 360	\$ 119

Key management personnel compensation comprises:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Short-term employee benefits	\$ 422	\$ 324	\$ 666	\$ 508
Share-based payments - options	-	118	71	118
Share-based payments - Share Bonus Plan	-	17	-	17
	\$ 422	\$ 459	\$ 737	\$ 643

Balances and Transactions with Nuinsco Resources Limited under the Management Agreement

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement; management operates under the supervision of the respective board of directors of each respective company; there is only one common director, Mr. René Galipeau. As described in Note 14, Nuinsco became a related party of the Company effective July 30, 2013. The costs charged by Nuinsco are recorded at the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by the Company upon 180 days' notice and by Nuinsco upon 90 days' notice.

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Balances and transactions with Nuinsco under the management agreement as at June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 are shown in the following tables:

	June 30, 2014		December 31, 2013	
Balances Outstanding under the Management Agreement				
Payable to Nuinsco Resources Limited	\$	-	\$	56
Receivable from Nuinsco Resources Limited	\$	61	\$	-
	Three months ended June 30, 2014		Six months ended June 30, 2014	
	2013		2013	
Transaction Values under the Management Agreement				
Overhead charges from Nuinsco Resources Limited	\$	158	\$	154
Overhead charges to Nuinsco Resources Limited	\$	-	\$	8
Project costs charged to Nuinsco Resources Limited	\$	9	\$	14
Project recoveries charged by Nuinsco Resources Limited	\$	16	\$	3
	\$	359	\$	312
	\$	-	\$	14
	\$	14	\$	22
	\$	29	\$	3

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

Balances and Transactions with Nuinsco Resources Limited under the Amended Loan/Participating Interest

The terms of the Amended Loan/Participating Interest with Nuinsco and the balances and transactions related thereto are described in Note 14.

22. COMPANY ENTITY

Significant Subsidiary - Victory Silica

On June 19, 2012, the Company announced a new initiative and created Victory Silica. The objective is to establish the Company as a supplier of premium frac sand prior to commencing frac sand and nickel sales from the Minago project. Victory Silica's executives and employees manage the frac sand business on behalf of the Company. Until the end of the first quarter, most costs of the frac sand business relate either to pre-operating costs which have been expensed through operations or to plant commissioning and mobile equipment which have been capitalized. In the first three months of 2014, sales of frac sand produced during the pre-operating stage amounted to \$274,000; these have been netted against the pre-operating expenditures recorded in the first quarter resulting in *Net frac sand pre-operating costs* recorded in the statement of operations of \$214,000.

The 7P Plant was in the start-up and commissioning stage during the second quarter of 2014 and achieved significant production and sales volumes of frac sand and accordingly, can no longer be considered to be pre-operating in the second quarter of 2014. Consequently, operating results are reported and amortization of the 7P Plant commenced in the second quarter of 2014.

	June 30, 2014		December 31, 2013	
Victory Silica Ltd.				
Current assets	\$	35	\$	81
Current liabilities	\$	134	\$	277
Pre-operating costs	\$	216	\$	520

Notes to the Condensed Consolidated Financial Statements

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

23. COMMITMENT

Transformer Equipment

On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price is US\$2,840,000. The Company has made aggregate deposits of \$1,485,000 as at June 30, 2014.

24. SUBSEQUENT EVENTS

Financing

On July 7, 2014, the Company completed the issue of US\$3,000,000 under the umbrella convertible note financing described in Note 14.

Stock Options

On July 21, 2014, the Company issued 8,000,000 stock options to directors, officers, employees and consultants of the Company. The options were granted at an exercise price of \$0.07; 5,300,000 options vest immediately with 2,700,000 vesting across one year and all have a life of five years to expiry.

Commissioning of 7P Plant

On August 11, 2014, the Company announced the successful completion of the commissioning of the 7P Plant and was producing frac sand on a consistent basis.



VICTORY NICKEL INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS
ENDED JUNE 30, 2014**

DATED AUGUST 12, 2014

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months ended June 30, 2014

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 August 12, 2014 consolidates management's review of the factors that affected the Company's financial and operating performance for the three and six months ended June 30, 2014, 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 six months ended June 30, 2014 ("Unaudited Condensed Consolidated Financial Statements") and the notes thereto.

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

Readers are also encouraged to consult the audited consolidated financial statements for the years ended December 31, 2013 and 2012 ("2013 Audited Consolidated Financial Statements") which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). The Unaudited Condensed Consolidated Financial Statements and the 2013 Audited Consolidated 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 mineral resource company and until recently was primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada. The Company is now a producer of high-quality frac sand through its wholly-owned subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica").

Formed on February 1, 2007, Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake and Mel projects in Manitoba and the Lac Rocher project in Québec. The results of a feasibility study on the Minago Project ("FS") were announced in December 2009, the Environmental Impact Study ("EIS") was filed in May 2010 with subsequent improvements to the project announced in June 2010 and July 2011. Receipt of the Environmental Act Licence ("EAL") was announced in August 2011. A preliminary economic assessment of Lac Rocher ("PEA") was announced in November 2008. Baseline environmental studies are ongoing at Mel in preparation for permit applications should the economics support development. The Company is considering its options for the Lynn Lake property since the option agreement with Wellgreen Platinum Ltd. was terminated in March, 2014.

The Company's entry into the frac sand business is directly related to its Minago nickel project in Manitoba. Based on the FS, approximately 11 million tonnes of frac sand will be produced from the Minago pit footprint and it is a significant contributor to the economics of the Minago project. Frac sand is a silica sand meeting certain specifications and is used as a proppant when fracking oil and gas wells. On June 19, 2012, the Company announced the creation of Victory Silica a wholly-owned subsidiary that has been established to manage the Company's entry into frac sand production and distribution. The Company is establishing itself as a frac sand producer by acquiring concentrated sand in Wisconsin, US and processing it into four finished frac sand products at its 500,000 ton per annum ("tpa") frac sand processing plant at Seven Persons near Medicine Hat, Alberta (the "7P Plant"). Initial target markets include Alberta, Saskatchewan, Manitoba and North Dakota. This strategy is expected to generate significant cash flow for Victory Nickel prior to development and sale of frac sand from its Minago project. The 7P Plant processed its first sand during the week commencing March, 24, 2014. Sales revenue of \$1,428,000 for frac sand sales from production realized during the commissioning stage were recorded in the three months ended June 30, 2014; sales since that date to August 12, 2014 have amounted to \$1,884,000).

Going Concern

The Company's Unaudited Condensed Consolidated Financial Statements have been prepared using the going concern assumption which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at June 30, 2014, the Company had working capital of \$708,000, (December 31, 2013 – working capital of \$465,000). Working capital is defined as current assets (excluding any restricted cash) less current liabilities. During the second quarter of 2014, the Company was in the start-up and commissioning stage and began producing and selling frac sand from the 7P Plant. The Company expects to begin generating cash flow in the third quarter of 2014 sufficient to fund its activities. In July 2014, the Company raised an additional US\$3,000,000 through the issuance of promissory notes – refer to the Liquidity and Capital Resources section.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, an unexpected change in the frac sand market which would limit the Company's ability to generate cash flow from the 7P Plant, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Development of the Company's current mining projects 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 mining projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, and the optioning and/or sale of resource or resource-related assets and/or the ability to generate sufficient cash flow from its other operating activities for its funding. The Company's 7P Plant continued commissioning during the second quarter 2014. It is expected that cash flow will be generated commencing with the third quarter sufficient to meet operating requirements with the ultimate potential to advance the Company's mining interests.

The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon either exploration results which have the potential for the discovery of economically-recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding or the success of the frac sand business referred to above.

The Company considers that working capital, combined with funds generated from the convertible promissory notes issued in 2014 to date and other financing initiatives is sufficient to fund the Company's activities. However, should the Company not be able to reach successful cash flow generation and achieve profitable operations from frac sand business or continue to achieve favourable exploration results, obtain the necessary financing or achieve future profitable production or sale of properties, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to the financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty, especially in the present environment, that the Company's initiatives to improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including project expenditures and corporate costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

HIGHLIGHTS

During and subsequent to the six months ended June 30, 2014, the Company:

Corporate

- Announced the Conversion of the Amended Loan to a direct interest in net cash flows (the "Participating Interest").
- Completed a securities purchase and line of credit agreement (the "SPA Loan") for US\$4,000,000.
- Completed the issue of convertible notes in the aggregate of US\$5 million.

Frac Sand and Victory Silica

- Completed the acquisition of the 7P Plant.
- Completed the upgrade and construction of the 500,000 tpa 7P Plant frac sand processing facility
 - Completed the start-up and commissioning stage of the 7P Plant
 - Completed key agreements for: sand purchase, sand washing, transload in Winona, rail transport, rail siding, railcar leasing, Seven Persons trucking, mobile equipment leasing.
 - Advanced discussions to create a joint venture to own a sand resource in Wisconsin as part of Phase 2.
 - Produced 22,519 tons of frac sand at the 7P Plant to June 30, 2014.
 - Sold 11,310 tons of frac sand at the 7P Plant to June 30, 2014.

Minago

- Applied for amendment to Minago Environmental Act Licence ("EAL") to relocate the tailings impoundment.

Lynn Lake

- Regained 100% ownership of the Lynn Lake project

OUTLOOK

Victory Nickel is a development-stage nickel company with four sulphide nickel projects in Canada; three in Manitoba and one in Québec. The Minago Project is the most significant and advanced of the four projects. The FS completed in late 2009 demonstrated its significant value, and Minago is permitted and shovel-ready for development. At the time the FS was completed, the price of nickel was in the US\$11-US\$13 per pound range and projections were for long-term nickel pricing of US\$10-US\$12 per pound. With a FS-projected IRR exceeding 22%, management believed that finding a partner and financing the development of the Minago Project was achievable. Unfortunately, the price of nickel dropped to the US\$6.00 per pound level and the Canada-US dollar exchange rate strengthened, making the price even lower in Canadian dollars. However, this is changing. The Canadian dollar is weakening and the price of nickel reached US\$9.70 during the second quarter and has remained in the US\$8.50 level. Both of these improvements bode well for Minago's development. The IRR of the Minago Project based on the FS at today's metal prices and exchange rate is 15.4%. At a discount rate of 8%, the NPV of Minago is approximately \$238 million. This compares to an IRR of 22.4% at the FS Base Case prices.

In addition to nickel, another commodity, frac sand, is a significant contributor to the value of Minago. The frac sand overlies the entire Minago property, including the nickel deposit. Within the footprint of the proposed nickel pit approximately 15,000,000 tons of sandstone will be removed as overburden during the first three years of development and production. This alone will produce approximately 11,000,000 tons of frac sand. However on the surrounding property there is sufficient sandstone that Minago could potentially supply frac sand for many decades.

During discussions with potential Minago partners and financiers it became evident that frac sand was not understood by nickel producers or by the equity markets in general. As a result the frac sand at Minago received little to no credit despite the fact that the frac sand by-product, or more accurately co-product, value is US\$2.90 per pound of nickel. This credit reduces the FS study's projected production cost to US\$2.20 per pound, making Minago one of the lowest cost nickel producers in the world.

In order to finance Minago, it became imperative that we prove the value of the frac sand.

Part of the disconnect between value and valuation had to do with a lack of public information available about the frac sand market at that time. This all changed starting in early 2012 when public transactions were announced which gave support to the valuation for frac sand reflected in the Minago FS. Preferred Sands LLC purchased the assets of Winn Bay Sand, including its Hanson Lake frac sand mine in Saskatchewan, for \$200,000,000. Winn Bay is on the same geological structure as Minago, just a bit farther north and west. US Silica Holdings Inc. took its frac sand business public in February 2012 by completing an initial public offering ("IPO") raising US\$200,000,000. Later in the year, Hi-Crush Partners LP completed an IPO and raised US\$225,000,000. In 2013, Emerge Energy Services LP completed an IPO and raised US\$140,000,000. The total market capitalization of these three companies is in excess of US\$7,000,000,000. And in the second quarter of this year it came to light that Fairmount Minerals Ltd., one of North America's largest frac sand producers, is exploring its own US\$1,000,000,000 IPO with a total valuation of US\$6,000,000,000. To Victory Nickel, these transactions confirm the value of the Minago sand deposit and the overall opportunity that exists in the frac sand business.

Recent forecasts by the Freedonia Group, Inc. project that the frac sand market in Canada and U.S. will grow at a rate of 11.6% per annum and in Canada alone at 16.3% per annum until 2017. Total frac sand demand was approximately 7,000,000 tons in 2007; in 2017 demand is forecast to be in excess of 51,000,000 tons.

In June 2012, the Company established a three-phased plan to enter into the frac sand business prior to development of the Minago Project. The objectives were to establish Victory Nickel as a presence in the frac sand business, to generate cash flow and to prove the value of frac sand, thereby enhancing the attractiveness of Minago to potential partners and financiers.

The phases are as follows:

Phase 1: Purchase premium-quality Wisconsin concentrated sand under contract for final processing at a 500,000 tpa dry frac sand plant to be located near Medicine Hat, Alberta. This provides the Company with a low-risk entry into the frac sand market.

Phase 2: Purchase a frac sand mine and build and operate a frac sand wet plant in Wisconsin. This would reduce costs, increase margins, provide security of sand supply and enhance frac sand quality control.

Phase 3: Build a 1,000,000 tpa frac sand dry plant in Winnipeg, Manitoba to process both imported (Wisconsin) and domestic (ultimately Minago) frac sand. This would again expand Victory Nickel's presence in the frac sand market and further increase margins.

To implement the plan, Ken Murdock, a frac sand industry veteran, joined the Company as Chief Executive Officer of Victory Silica, a wholly-owned subsidiary created for this purpose. We first met Ken when he was hired by Wardrop Engineering to complete the frac sand portion of the Minago FS.

Phase 1 is now complete. Commissioning of the 7P Plant occurred during the second quarter and we expect cash flow during the third quarter of 2014. During commissioning the 7P Plant produced significant saleable frac sand and as a result the Company has reported revenue from sales of some of this frac sand during the second quarter. A small loss was incurred as the 7P Plant operated below efficient levels while being commissioned. Concentrated washed sand is being shipped from Wisconsin at a rate of approximately 4,500 tons per week and by the end of the third quarter the rate is expected to be 9,600 tons per week. When processed at the 7P Plant this raw material produces the highest quality frac sand available to buyers in the Alberta, Saskatchewan, Manitoba and North Dakota.

At full production, the 500,000 tpa 7P Plant is expected to generate profit margins of \$25 per ton, or in excess of \$12,000,000 per year. Phases 2 and 3 will bring the eventual production target to 1,500,000 tons of frac sand per annum and are expected to improve these margins. On completion of all three phases, cash flow is expected to exceed \$40,000,000 per annum.

In step with the creation and implementation of the Victory Silica frac sand strategy, the Company continues to optimize and advance Minago. On August 23, 2011, the Manitoba Government issued Victory Nickel's final Environment Act Licence ("EAL") for the Minago project. The Company has fulfilled its work requirements to maintain the EAL and, in December 2013, filed an Environmental Act Proposal ("EAP") to amend the EAL to allow for relocation of the proposed tailings and waste rock management facility. This was necessary because additional nickel was identified in the vicinity of the proposed tailings facility and is designed to reduce projected capital as part of an ongoing program to ensure the Company is ready for a more robust nickel market.

The expected cash flow from the entry into the frac sand business is a game changer. This, combined with an improvement in the price of nickel, will position Victory Nickel to advance and grow both its frac sand and nickel businesses and generate a market valuation that is more realistic than today's and reflective of the Company's assets. Victory Nickel will soon be a cash flowing company with a growing frac sand business that has very significant warrant on nickel.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013

For the three months ended June 30, 2014, the Company had a net loss of \$754,000, or \$0.00 per share, (June 30, 2013 – net loss of \$429,000, or \$0.00 per share). The Company's 7P plant was in process of being commissioned during the second quarter and, during the three month period, produced 19,408 tons of various grades of frac sand 9,470 tons of which was sold and generated revenue of \$1,428,000. As is expected during commissioning, the plant did not operate at full capacity or on a consistent basis, resulting in higher operating costs per ton of product produced than what is expected once full production is achieved. During this period, operating personnel were trained and equipment was debugged. As a result, a gross loss of \$159,000 was reported in the quarter. Inventories of finished sand are priced using normalized rates thus do not bear an inordinate proportion of costs.

The net loss for the period is also a function of general and administrative expenses of \$846,000 (2013 - \$392,000), and net finance costs of \$51,000 (2013 – net finance costs of \$75,000). These costs were offset in 2013 by a \$123,000 recovery with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property; as explained above, the option was terminated in March 2014. Results in the period also include an income tax recovery of \$538,000 (2013 – income tax recovery of \$117,000).

As mentioned earlier, the Company's frac sand business generated significant production and sales during the start-up stage. Accordingly, sales revenues and related costs including amortization primarily on its 7P Plant and related mobile equipment of \$187,000 were reported during the second quarter of 2014. In the first quarter, sales were netted against costs and reported as net pre-operating costs.

Finished goods inventory amounted to 11,209 as at June 30, 2014. Inventory of \$2,578,000 was recorded at normalized values and, as a result, cost of goods sold of \$1,587,000 during the period is abnormally high as it absorbed the costs associated with inefficiencies during a start-up period.

General and administrative expenses (“G&A”) increased by \$454,000, to \$846,000 from \$392,000, for the three months ended June 30, 2014 and 2013, respectively. General and administration expenses incurred on the Company’s new frac sand business amounted to \$852,000 (including intersegment cost allocations) and is the main reason for the increase. Direct plant operating costs are inventoried and charged to cost of goods sold when title to the product passes to the customer. Costs under the management agreement with Nuinsco have increased by approximately \$4,000 reflecting the change in activity. In addition, the CEO became a direct employee of the Company effective January 1, 2014 and 100% of his remuneration is charged directly to G&A rather than through cost allocations under Nuinsco’s Management Agreement. Other cost increases relate to financing and consulting, again, mostly related to growing the frac sand business.

As mentioned above, general and administrative expenses include costs charged by Nuinsco for administrative services, partly offset by costs charged to Nuinsco by Victory Nickel as described under Transactions with Related Parties and Management Agreement with Nuinsco Resources Limited below; these amounted to \$158,000 and \$nil (2013 - \$154,000 and \$8,000 respectively). Costs allocated from Nuinsco pursuant to the Management Agreement are activity related; the increase in costs is primarily a result of increased people costs allocated under the agreement due to activity at Victory Silica and on the frac sand business. This arrangement with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel for the three months ended June 30, 2014 are estimated to be approximately \$237,000, compared with \$219,000 in the three months ended June 30, 2013, calculated on a comparable basis. As described above, costs have increased because of the frac sand business and investor relations support.

There were no write-downs necessary for impairment of projects in 2013, however, expenditures of \$28,000 on non-core projects were written off in the three months ended June 30, 2014. There were no pre-exploration expenditures incurred in either period. In the quarter ended June 30, 2013, the Company received \$125,000 in receipts under the Lynn Lake option; net of expenditures, \$123,000 was recorded as recovery of exploration and evaluation project. As described above, Wellgreen has relinquished the Lynn Lake option and no further option payments will be received.

For the three months ended June 30, 2014, net finance costs were \$51,000 (for the three months ended June 30, 2013 net finance costs were \$75,000). Finance income increased to \$634,000 from \$4,000 in the comparative period which represented interest on bank deposits; in 2014, \$485,000 was earned due to the reduction in the value of embedded option derivatives in the Company’s convertible notes combined with \$149,000 net foreign exchange gains on transactions and balances denominated in US Dollars. Finance costs increased to \$685,000 from \$79,000 in the comparative period, mainly due to the interest expense on the loans and convertible notes and related items which are described below. In particular, the Company recorded an increase in the fair value of the Participating Interest of \$165,000 as it moves closer to the period when payments will begin due to the passage of time.

The Conversion feature of the Amended Loan requires the classification of the loan as a financial liability at fair value through operations. During the fourth quarter of 2013, the plant construction was well underway and the probability of Conversion increased substantially. Accordingly, the estimated future cash flows were determined using a probability-weighted estimation of future expected cash flow scenarios from the frac sand business based on current expectations of business results, capital costs and pre-operating expenditures. These cash flows were on the basis of Phase 1 completion only. The Company also included probability weightings of 34%, 16% and 50% as risk factors applied to varying levels of expected cash flows – being zero, 50% and 100% of the ceiling maximum of \$10,222,831.

Effective June 30, 2014, certain adjustments were made to the expected cash flows to reflect more current business expectations due to advances in the business, the change in the anticipated date of positive cash flows and the passage of time.

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is \$10,222,831. Based on the estimated cash flows described above, payments could commence in mid-2015. These assumptions resulted in a revised amortized cost carrying amount of the Participating Interest of \$4,458,000 effective June 30, 2014 and, accordingly \$165,000 was recorded as a *loss on adjustment of estimated cash flows* through the statement of operations for the quarter. This is a Level 3 methodology and is subject to the highest level of uncertainty. In the second quarter of 2014, the Company reviewed and revised its estimates of expected future cash flows as the expectations of payments of the Participating Interest have changed. This amount and future changes in that estimate was and will be recorded through operations with appropriate adjustment for actual cash flows paid.

In the fourth quarter of 2013, the Company issued a convertible note. There are several elements of finance expense associated with this: cash-settled interest expense paid on a calendar quarter basis, non-cash amortization of loan fees, non-cash amortization of the embedded derivative related to the value of the convertibility feature at inception and the change in the value of that embedded derivative at the end of a reporting period. All amortizable elements are calculated using the effective interest rate method. Additional convertible notes were issued in the first and second quarters of 2014 with similar terms and requiring similar accounting treatments. Collectively, these are termed the "Convertible Notes". Further notes were entered into in July 2014 under similar terms.

Aggregate interest settled in cash for the three months ended June 30, 2014 amounted to \$283,000, approximately \$20,000 was on account of the Amended Loan prior to its conversion to a Participating Interest (\$30,000 was paid in 2013) and \$138,000 was on account of the Convertible Notes. Interest on the SPA Loan (described below) paid in cash amounted to \$61,000. The balance of interest is on leased mobile equipment and other items.

Amortization of loan fees in the period amounted to \$160,000 and \$56,000 represented amortization of a portion of the embedded derivatives in the Convertible Notes remaining of \$497,000 calculated at inception (\$168,000 of which was recorded in 2013). The value of the embedded derivatives decreased to June 30, 2014 due to the extinguishing of a convertible note and its replacement with a SPA Note and, accordingly, \$485,000 was credited through operations in the second quarter of 2014.

The embedded derivative is calculated using the Black-Scholes option-pricing methodology and is a function of share price, the \$0.10 conversion price, risk-free interest rate, length of time to expiry and share price volatility as well as the US dollar exchange rate for loans denominated in US dollars but convertible using a Canadian price. All other things being equal, one would expect the value of the option to decline as time approaches the expiry date. However, because of the volatility of exchange rates and the Company's share price, this may not always be the case. Further, since one Convertible Note was exchanged into a portion of the SPA Loan in the second quarter of 2014, a portion of the embedded derivative was de-recognized. The SPA Loan does not contain an embedded derivative feature, however, the warrants which were issued therewith may be exercised on a cashless basis. The value of the warrants is considered to be debt rather than equity and changes in the fair value of the warrants is recorded through net finance income. For the period ended June 30, 2014, this amounted to \$20,000. We remarked in the first quarter MD&A that whether the increase in value would continue was speculative. But what is certain is that it can cause a significant amount of variability in the finance income and finance costs in the statement of operations.

In the three months ended June 30, 2014, the Company recorded an income tax recovery of \$538,000 (2013 – income tax recovery of \$117,000). This is primarily a function of higher taxable losses. Furthermore, because the losses are expected to be used to shelter frac sand income in a lower tax rate jurisdiction, the income tax rate in place is expected to be 25%; this was adjusted at the end of 2013. The Company has estimated it has \$242,000 in unrecognized deferred tax assets in relation to Victory Silica; given this subsidiary company has not yet become profitable, it is not currently assessed as more-likely-than-not that losses and costs incurred in Victory Silica will be realized prior to their expiry.

Other comprehensive income ("OCI") in the three months ended June 30, 2014 relates to a decrease of \$38,000 (June 30, 2013 – decrease of \$90,000) in the market value of the Company's financial assets at fair value through OCI along with an income tax recovery recorded through OCI of \$5,000 (June 30, 2013 – income tax recovery of \$12,000). These changes are a result of net market value changes in the Company's marketable securities.

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

Cash and cash equivalents have decreased from \$1,423,000 to \$598,000 excluding restricted deposits of \$293,000 which support several letters of credit provided to facilitate its frac sand business with certain vendors. The Liquidity and Capital Resources section describes the cash flows in the period in detail.

Receivables and prepaids as at June 30, 2014 include \$853,000 receivables from frac sand sales compared with \$285,000 as at March 31, 2014 and \$nil as at December 31, 2013. The sand prepaid balance of US\$1,110,000 as at March 31, 2014 has decreased to US\$227,000 through sand purchases to June 30, 2014. Purchases are offset against the prepaid balances.

Inventory of \$2,578,000 comprises concentrated sand and various grades of finished product at various locations from the transload facility in Wisconsin, in transit and at the 7P Plant itself. Valuation of the inventory is based on normalized cost anticipated during normal production levels.

Property, plant and equipment increased to \$6,701,000 from \$5,279,000 as at December 31, 2013 primarily due to expenditures on the 7P Plant and leased mobile equipment related thereto. The mobile equipment is in use and is being depreciated; amortization on the plant commenced in the second quarter given its availability for use in production. The first sand was processed through the 7P Plant in March, 2014 and commissioning occurred during the second quarter of 2014.

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

The increase in trade and other payables of \$2,536,000 relates primarily to an increase in trade payables of \$2,608,000 for supplies, transportation and property, plant and equipment for the 7P Plant.

Victory Nickel has several long-term liabilities. The loan with Nuinsco was converted at its option in the second quarter of 2014 into the Participating Interest and includes an aggregate loss on adjustment of estimated cash flows of \$3,561,000 of which \$165,000 related to the three months ended June 30, 2014 (December 31, 2013 - \$3,289,000) calculated as described above. The Company has a series of convertible notes entered into from November 2013 and denominated in both US and Canadian dollars each with similar terms. In the second quarter, a convertible note with principal of US\$1,000,000 was extinguished and replaced with a SPA Note as part of the SPA Loan. The SPA Loan of \$4,000,000 was entered into in the second quarter. As at June 30, 2014, US\$2,500,000 was advanced directly under the SPA Loan with US\$1,000,000 exchanged from convertible notes and aggregating US\$3,500,000; the balance of US\$500,000 was drawn in early August.

Note 14 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the long-term liability balances. Refer to the Liquidity and Capital Resources section for additional discussion.

The Company has entered into several finance leases to purchase mobile equipment with a total fair value of \$703,000 at the various acquisition dates; the long-term portion of the related obligation is \$385,000 (December 31, 2013 - \$408,000) and the short-term lease obligation of \$149,000 (December 31, 2013 - \$160,000) is included in *Trade and other payables* as described above. Note 15 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the lease obligation.

The deferred tax liability balance amounts to \$757,000 as at June 30, 2014 (December 31, 2013 - \$1,521,000). 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. Due to changes in the expected future income tax rate because of the frac sand activity in Alberta, the deferred tax liability amount reflects a rate of 25%. The Company estimates that it has approximately \$242,000 (December 31, 2013 - \$183,000) in unrecognized deferred tax assets in relation to Victory Silica.

The share capital balance has increased marginally to June 30, 2014 by \$378,000 since 4,630,000 options were exercised in the first quarter of 2014 generating cash of \$220,000 and requiring a transfer from contributed surplus to share capital of \$158,000.

Six Months Ended June 30, 2014 Compared With Six Months Ended June 30, 2013

For the six months ended June 30, 2014, the Company had a net loss of \$2,349,000, or \$0.00 per share compared with a net loss of \$754,000 or \$0.00 per share for the six months ended June 30, 2013. The Company recognized its first revenue on frac sand sales in the second quarter aggregating \$1,428,000. During the commissioning stage, the 7P Plant operated at below capacity levels. As a result, the cost of goods sold per ton is higher than it would be under normal operating parameters and a gross loss of \$159,000 was realized for the period. Inventories of finished sand are priced using normalized costs thus do not bear an inordinate proportion of costs.

Production and sales for the six month period occurred almost entirely during the second quarter of 2014 and are discussed above.

The main components creating the net loss were G&A expenses of \$1,387,000 (2013 - \$743,000), amortization of property and equipment of \$236,000, net frac sand pre-operating costs of \$214,000 (2013 - \$157,000) and net finance costs of \$1,012,000 (2013 - \$112,000). The results in 2013 also included a net recovery of \$244,000 related to the Lynn Lake option which is no longer in force. Furthermore, income tax recoveries were recorded in both six month periods being \$772,000 in 2014 and \$187,000 in 2013.

G&A expenses increased by \$644,000 in 2014 compared to the same period of 2013. The main reason for the increase is for staff costs; as described earlier, the CEO salary is no longer allocated to other activities, and bonuses of

approximately \$260,000 dependent on the success of Phase 1 of the frac sand plan was accrued now that it is virtually certain to be paid. This compares to bonuses of \$70,000 in 2013. The overhead allocation from Nuinsco, despite the change in how the CEO's salary was charged, has increased by almost \$50,000 as a result of increased activity supporting Victory Nickel and its frac sand initiative. Other increases were in general legal and travel costs as well as health benefits.

The costs of public company compliance for Victory Nickel are mitigated by the Management Agreement with Nuinsco but are still significant. In the six months ended June 30, 2014 they are estimated to be \$491,000 compared with \$425,000 for 2013 on a comparable basis.

Production at the 7P Plant ramped up during the plant commissioning in the second quarter with sales revenue and cost of sales being reported. In the first quarter, pre-operating costs for the period of \$214,000 were recorded net of sales revenue of \$274,000.

Net finance costs increased substantially from \$112,000 in 2013 to \$1,012,000 in 2014. These include cash-settled interest, amortization of cash and non-cash-based fees, changes in embedded option values associated with the convertible debt and amortization of inception values of embedded option derivatives related to debt as well as the change in value of estimated cash flows associated with the Participating Interest. Note 19 to the Unaudited Condensed Consolidated Financial Statements provides an analysis of the costs. Of all the elements in the table, the only ones which are immediately cash-settled are interest income on bank deposits (which is insignificant) and cash-settled interest expense.

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

OCI in the six months ended June 30, 2014 was a relatively small increase of \$58,000 in the fair value of the Company's portfolio of marketable securities; the tax effect on this was approximately \$8,000. In the comparative period, the market value of securities had declined. There were no sales of securities in the first six months of 2014; sales generated \$59,000 of proceeds in 2013.

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last ten quarters ended June 30, 2014 is as follows:

<u>Fiscal year 2014</u>			<u>2nd Quarter</u>	<u>1st Quarter</u>
Revenue			\$ 1,428 ⁽¹⁾	\$ -
Gross loss			\$ (159) ⁽²⁾	\$ -
Net finance costs			\$ (51) ⁽³⁾	\$ (961) ⁽⁵⁾
Net loss			\$ (754) ⁽⁴⁾	\$ (1,595) ⁽⁶⁾
Total comprehensive loss			\$ (787)	\$ (1,512)
Loss per share - basic and diluted			\$ (0.00)	\$ (0.00)
<u>Fiscal year 2013</u>	<u>4th Quarter</u>	<u>3rd Quarter</u>	<u>2nd Quarter</u>	<u>1st Quarter</u>
Net finance costs	\$ (3,614) ⁽⁷⁾	\$ (69)	\$ (75)	\$ (37)
Net loss	\$ (3,839) ⁽⁸⁾	\$ (521)	\$ (429)	\$ (315)
Total comprehensive loss	\$ (3,810) ⁽⁹⁾	\$ (537)	\$ (507)	\$ (440)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)
<u>Fiscal year 2012</u>	<u>4th Quarter</u>	<u>3rd Quarter</u>	<u>2nd Quarter</u>	<u>1st Quarter</u>
Net finance (costs) income	\$ (9)	\$ (2)	\$ 2	\$ (4)
Net (loss) income	\$ (139)	\$ 60 ⁽¹¹⁾	\$ (571) ⁽¹²⁾	\$ 467 ⁽¹⁴⁾
Total comprehensive (loss) income	\$ (193) ⁽¹⁰⁾	\$ 6	\$ (1,252) ⁽¹³⁾	\$ 689 ⁽¹⁵⁾
(Loss) earnings per share - basic and diluted	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ 0.00

(1) Revenue represents the first period of sales of frac sand.

(2) Gross loss includes cost of sales which include operating costs for a full period despite production being at less-than-full capacity.

(3) Net finance income include \$485,000 change in the fair value of the embedded derivatives related to the Convertible Notes as well as \$165,000 loss on adjustment of estimated cash flows for the Participating Interest.

(4) Includes the effects noted above.

- (5) Net finance costs include \$545,000 change in the fair value of the embedded derivatives related to the Convertible Notes as well as \$107,000 loss on adjustment of estimated cash flows for the Long-term liability with Nuinsco.
- (6) Includes the effects noted above combined with increase costs relating to the frac sand business and net frac sand pre-operating costs of \$214,000.
- (7) Net finance costs for the period includes \$3,289,000 for the loss on adjustment of estimated cash flows for the Long-term liability with Nuinsco and \$173,000 for the increase in value of the embedded derivative related to the convertible promissory note.
- (8) Net loss for the period includes \$240,000 for costs charged under the management agreement with Nuinsco and reflects increased activity on the frac sand business and an income tax recovery of \$558,000.
- (9) Total comprehensive loss for the period includes the effects noted above.
- (10) Total comprehensive loss for the period includes \$49,000 net after-tax decline in the market value of securities.
- (11) Net income for the period includes \$450,000 recovery on the Lynn Lake option with Prophecy Platinum.
- (12) Includes an increase in income taxes of approximately \$150,000 which was reversed in the fourth quarter as it was not necessary.
- (13) Total comprehensive loss for the period includes \$681,000 net after-tax decline in the market value of securities.
- (14) Net income for the period includes \$1,000,000 recovery on the Lynn Lake option with Prophecy Platinum.
- (15) 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.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2014, the Company had working capital of \$708,000, including cash and cash equivalents (but not restricted cash), receivables and prepaids, marketable securities and inventory. As at December 31, 2013, the Company had working capital of \$465,000.

Working capital has improved from the end of the year. The Company closed the SPA Loan during the quarter – US\$1,000,000 of which was exchanged from the extinguishing of a convertible note issued in the first quarter (a part of the \$2,283,000 issued in the first quarter of 2014) as a preliminary draw to the SPA Loan and US\$2,500,000 was new cash into the Company. A further US\$3,000,000 of convertible notes were issued in July 2014. Refer to Note 24 to the Unaudited Condensed Consolidated Financial Statements.

These financings were used to fund the construction and upgrading of the 7P Plant and to fund the working capital for the frac sand business comprised of receivables from sales of frac sand and inventory.

The 500,000 ton per annum frac sand plant cost \$4,524,000 and mobile equipment related thereto acquired under leases cost \$703,000.

The main financings occurring during the period and related events are described in the following sections.

The Loan and Amended Loan with Nuinsco of up to \$3,000,000 was entered into in 2012 and was amended in March 2013. Under the loan agreement with Nuinsco, \$1,000,000 was advanced prior to December 31, 2012; the Amended Loan provided additional funds of up to \$2,000,000 by way of loan or backstop for a unit issue. This amount was capped at \$1,707,584. The backstop to the rights offering was \$1,207,584. By providing the backstop and participating in the rights offering to the extent of its existing share position, Nuinsco increased its ownership in the Company to approximately 12.24% as at July 30, 2013 and made Nuinsco a related party of the Company.

Prior to June 1, 2014, Nuinsco, had the right to convert the outstanding balance of the Amended Loan into a participating interest (the “Conversion”) whereby Nuinsco is entitled to receive a share of net cash flows earned from the sale of frac sand from the 7P Plant. Nuinsco’s participation is capped at \$10,222,831, with a minimum of \$7,667,124 under certain circumstances. Conversion would constitute payment in full of the loan.

On April 22, 2014, Nuinsco exercised its conversion option and converted its loan to a participating interest (the “Participating Interest”); at the same time, it relinquished its security over the assets of the Company. This obligation will be settled through a 52.16% participation in net operating cash flows from the frac sand business after recoupment of capital costs for Phase 1 and pre-operating expenses.

Cash payments of \$20,000 and \$50,000 for interest expense were made in the three and six months ended June 30, 2014 (2013 - \$30,000 and \$69,000); interest was due in cash at the end of each calendar quarter. Non-cash amortization of loan fees is also included in interest expense on the loan with Nuinsco.

As at December 31, 2013, the carrying value of the Amended Loan was revalued to take into account future expected cash flows. The amortized cost at that time was estimated to be \$4,100,000. The Company has reviewed the expected future cash flows along with assumptions and has revalued the obligation at \$4,458,000 as at June 30, 2014. The change in value of \$272,000 in 2014 has been recorded through *Finance Costs* in the statement of operations.

These amounts were determined as described earlier and will be subject to ongoing revaluation as the frac sand business develops and cash flow amounts become more certain. Under present assumptions and business expectations,

contractual payments to Nuinsco would not commence until approximately mid-2015 when Phase 1 capital costs and pre-operating expenditures are expected to have been recovered.

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

Convertible Notes – a convertible promissory note for US\$2,000,000 was issued on November 11, 2013. Additional convertible notes were issued in the first quarter of 2014 under similar terms denominated in both US dollars and Canadian dollars. The aggregate principal amount outstanding as at June 30, 2014 is \$3,200,000 and the notes are collectively referred to as “Convertible Notes”. The accounting complexities have been described earlier. The Convertible Notes have terms of two years, bear interest at 14.8% calculated on a monthly basis and settled quarterly and may be converted in whole or in part, at any time, at the option of the holders into Victory Nickel shares at a conversion price of \$0.10 per share. Issuance of the convertible notes occurred in tranches. The remaining US\$3,000,000 available closed on July 7, 2014 as described in Note 24 to the Unaudited Condensed Consolidated Financial Statements.

SPA Loan - on May 15, 2014, the Company announced that it had executed a securities purchase and senior secured line of credit agreement (the “SPA Loan”) in the amount of US\$4,000,000. The SPA Loan bears interest of 14.8% per annum and matures on July 30, 2015. The lender previously purchased a convertible note in the amount of US\$1,000,000 and this was extinguished and became a SPA Note on the initial closing date of May 15, 2014 (the “Initial Closing Date”).

As part of the SPA Loan, the Company issued 20,000,000 common share purchase warrants. For each US\$1,000,000 advanced under the SPA Loan, the Lender is entitled to exercise 5,000,000 common share purchase warrants to acquire shares at \$0.10 per share for a period of three years. The number of warrants is subject to an increase to 10,000,000 Warrants for each US\$1,000,000 drawn under the SPA Loan if the loan is prepaid and the closing price of the Company's common shares is \$0.20 or lower on the trading day preceding the date of such prepayment. The Company has valued the prepayment right at \$nil given that there is a cost to issue additional warrants upon prepayment of any of the SPA Loan. The terms of the SPA warrants contain a cashless exercise feature which requires the warrants to be recognized as a liability rather than as equity within contributed surplus. Accordingly, the fair value of the warrants at inception of \$620,000 is recorded as a liability with the balance of the SPA loan. Any change in the fair value of the warrants is also recorded as a component of the SPA loan and charged to finance income or costs in the statement of operations. The fair value change amounted to \$20,000 in the period.

In the three months ended June 30, 2014, the Company paid \$61,000 in interest and amortized \$111,000 in loan fees into interest income. As at June 30, 2014, there was US\$500,000 available to be drawn under the SPA Loan which amount was drawn in early August.

Cash flows in the first six months of 2014 - Cash and cash equivalents as at June 30, 2014 and December 31, 2013 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 activities.

For the six months ended June 30, 2014, the Company used cash in operating activities of \$3,373,000 (2013 - \$1,176,000). As the Company is in the exploration, evaluation and development stage and has yet to produce commercial quantities of frac sand at the 7P Plant, there are limited revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company and to set up the frac sand operations, including building inventory and paying in advance for sand purchases.

The Company estimates that public company costs in the six months ended June 30, 2014 amounted to \$491,000. Many of these costs are incurred in the early part of the year. In the same period of 2013, such costs were approximately \$425,000, calculated on a comparable basis. Consequently, the Company's liquidity is reduced unless and until there are revenues, financing activities or sales of assets to provide funds. Note that the costs cited above do not include the costs of financing arrangements which are deducted directly from equity – these can be significant. Costs incurred to advance the Company's exploration, evaluation and development projects are capitalized, as summarized below under the discussion of investing activities. Costs to set up the Company's frac sand operations and operating costs are recorded either as part of pre-operating expenditures net of sales revenue in the case of the first three months or are part of cost of goods sold or other expense lines. In the six months ended June 30, 2014, \$1,587,000 was charged to cost of goods sold and \$214,000 to pre-operating expenses, compared with \$157,000 in the comparative period (with no offsetting revenue). Revenue in 2014 amounted to \$1,428,000 to date.

The adjustment for net finance costs of \$620,000 primarily relates to the non-cash change in the carrying value of the Participating Interest and the embedded derivatives on the Convertible Notes as described above. While the adjustment on the Participating Interest is a fair value adjustment it is an estimation of future cash flows to be paid under the Participating Interest created on Conversion which occurred in April, 2014. Distributions under the Participating Interest terms are calculated based on operating cash flow after recovery of capital and pre-operating costs and take into account working capital.

During the six months ended June 30, 2014, net cash used by investing activities was \$1,675,000, compared with cash used of \$309,000 in the prior comparable period. Aggregate amounts of \$171,000 and \$68,000 were used to advance the MP&D project and E&E projects, respectively, during the periods (2013 - \$522,000 and \$42,000). In the first six months of 2014, \$1,436,000 was used for expenditures on the 7P Plant acquisition, equipment and improvements (2013 – \$nil).

During the first six months of 2013, the Company sold shares for aggregate proceeds of \$59,000. Funds of \$250,000 were received with respect to the option agreement with Wellgreen for the Lynn Lake property in 2013; as described above, the option agreement has been terminated and no additional funds are forthcoming. Deposits on transformers of \$110,000 were also made in 2013.

The Company generated \$4,223,000 in financing activities during the six months ended June 30, 2014 compared with \$2,191,000 in 2013. In 2014, the main source of funds, \$4,809,000, was from the Convertible Notes and the SPA Loan; in 2013, \$2,200,000 was raised in equity pursuant to a private placement. Loan interest of \$427,000 was paid during 2014; \$9,000 in 2013 that relates to interest accrued in 2012. Aggregate payments under leases for deposits and other principal payments totalled \$86,000; there were no such payments in 2013. The Company also deposited \$293,000 of funds to support letters of credit issued to facilitate the Company's frac sand business.

There were no equity financings completed during 2014 to date other than \$220,000 received through the exercise of options.

The Company's activities during the six months ended June 30, 2014 used cash and cash equivalents of \$825,000, compared with a net increase in cash of \$706,000 during the first six months of 2013.

The Company's remaining portfolio of marketable securities had a market value of \$336,000 as at June 30, 2014 (\$278,000 as at December 31, 2013). US\$500,000 available under the SPA Loan was drawn in early August and US\$3,000,000 of convertible notes were issued in July, 2014.

Table of Contractual Commitments

	Due Date	Currency		June 30, 2014	December 31, 2013
Transformer and electrical equipment	On shipping	US Dollar	\$	1,396	\$ 1,396
Loans and borrowings (including unpaid accrued interest)					
Amended Loan	January 31, 2015	Canadian Dollar	\$	-	\$ 1,000
Net Participating Interest	Refer to note below November 11, 2015	Canadian Dollar			
Convertible Notes	to March 24, 2016 January 30, 2016	US Dollar	\$	3,750	\$ 2,000
Convertible Notes	to March 13, 2016	Canadian Dollar	\$	265	\$ -
Purchase of 7P Plant	Refer to note below	Canadian Dollar	\$	-	\$ -
Leased mobile equipment	Within one year	Canadian Dollar	\$	166	\$ 190
	One to five years	Canadian Dollar	\$	423	\$ 447

Note that the final acquisition of the 7P assets was subject to conditions precedent, including the transfer of leases which requires regulatory approval. Effective May 20, 2014, through the acquisition of 100% of BG Solutions, the company which owned the leases, the Company completed the purchase of the 7P assets including the land lease and the Asset Purchase Agreement was cancelled. Further note that the Amended Loan was contractually payable on January 31, 2015 but, in April 2014, was converted to the Participating Interest which has no specific payment dates but is dependent upon cash flows from the frac sand business after having recouped the capital cost of the 7P Plant and the pre=operating expenses. The Convertible Notes may also be settled in part or in whole through the issuance of the Company's shares at the holders' option.

During the first quarter of 2014, 4,630,000 stock options were exercised which generated \$220,000 in cash for the Company. Also note that all 112,500,000 of the Company's warrants issued in 2013 are "in-the money" although

100,000,000 could not be exercised until July 31, 2014. The 20,000,000 warrants issued in 2014 under the SPA Loan are three year warrants exercisable at \$0.10; furthermore, these warrants have a cashless exercise feature which, if selected, would cause shares to be issued but without a cash infusion to the Company. Typically, warrants tend not to be exercised until close to their expiry. The “in-the-money” warrants are exercisable at \$0.035 per share and could generate \$3,937,500 in cash for the Company.

The Company will continue to balance its financing choices as a function of availability and market activity. Managing in challenging times takes as much, if not more, senior management effort. More recently, the Company has issued convertible notes. On November 11, 2013, the Convertible Note in the amount of US\$2,000,000 was issued. Subsequently, regulatory approval has been received to issue up to US\$5,000,000 additional convertible notes in aggregate and, by July 7, 2014 the full US\$5,000,000 of promissory notes under the umbrella approval had been issued.

The SPA Loan executed in May, 2014 provides a facility of US\$4,000,000 to be used to fund working capital related to the frac sand initiative. Draws of US\$4,000,000 have been made to date (including funds from the extinguishing of an advance of US\$1,000,000 originally under the umbrella convertible note financing).

Commissioning of the 7P Plant commenced in March and frac sand produced during the six months ended June 30, 2014, generated sales revenue of \$1,702,000 (\$274,000 of sales were netted against pre-operating costs in the first quarter), almost \$800,000 was collected from customers for these sales and inventories valued at \$2,578,000 were built including \$1,227,000 of finished product. The Company is now at production levels which should generate positive cash flow during the third quarter of 2014.

Using August 12, 2014 prices, the aggregate market value of the Company’s marketable securities held in public company shares is approximately \$297,000.

As at August 12, 2014, the Company had options outstanding which could bring in additional funds of approximately \$2,520,000. Most of those instruments are “in-the-money” but the receipt of such funds cannot be relied upon. However, the exercisable options at \$0.05 cents or below could generate \$700,000. Furthermore, the warrants issued under the rights offering and private placement could generate additional cash of \$3,889,000. These warrants are “in-the-money” approximately \$50,000 of warrants from the rights offering were exercised as of the date of this report; the figures exclude potential proceeds from the warrants issued with the SPA Loan which are subject to a cashless exercise feature.

The Company has good title to its projects and will continue to maintain the projects in good standing.

The Company believes that the financing initiatives described above will be adequate to meet the Company’s annual administration, operating and frac sand capital requirements on an ongoing basis.

Development of the Minago mine will require considerable financial resources. The Company recognizes that the state of the financial markets and the apparent lack of support for mining projects will make financing this project difficult. However, validating the frac sand portion of the project should provide leverage to get potential partners interested in the nickel portion of the project.

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

BUSINESS UPDATE

Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company also now produces frac sand for the oil and gas industry in Canada and the northern US. Accordingly, the Company has commenced reporting on a segmented basis in 2014. The Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment supports all of the Company’s activities.

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

The Frac Sand segment is managed and operated by Victory Silica’s executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 20 in the Unaudited Condensed Consolidated Financial Statements). The segment is located in Canada although sand as raw material is imported from the US.

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

	June 30, 2014	December 31, 2013
Canada		
Corporate	\$ 1,036	\$ 1,952
Exploration and Development	55,360	55,056
Frac Sand	9,256	3,886
Total Assets	\$ 65,652	\$ 60,894

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Canada				
Corporate	\$ 205	\$ -	\$ 548	\$ -
Exploration and Development	-	-	-	-
Frac Sand	1,852	-	1,957	-
Inter segment elimination	(629)	-	(1,077)	-
Total Revenues	\$ 1,428	\$ -	\$ 1,428	\$ -

EXPLORATION AND DEVELOPMENT ACTIVITIES

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

MINE PROPERTY AND DEVELOPMENT ACTIVITIES

During the six months ended June 30, 2014, \$196,000 was incurred on the Minago project (June 30, 2014 - \$411,000).

Minago Project

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

The analytical data and geological interpretations obtained from a work program in 2010 were incorporated into an updated geological model and resource estimate. The updated resource incorporates a 24% increase (over the previous resource estimate) in the NI-43-101-compliant measured and indicated, 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 Resource ¹ Pit-Constrained			March 2010 In-Pit Resource ²			Increase (Decrease) in Contained Metal	
	Tonnes	Grade	Ni Content	Tonnes	Grade	Ni Content	Ni Content	Change
Category	Millions	%NiS ³	M Lb	Millions	%NiS ³	M Lb	M Lb	%
Measured	8.2	0.473	85.0	6.6	0.488	71.4	13.7	19.2
Indicated	22.8	0.432	217.2	19.1	0.410	172.6	44.6	25.9
M&I	31.0	0.443	302.2	25.7	0.430	243.9	58.3	23.9
Inferred	0.2	0.380	1.4	1.4	0.402	12.2	(10.8)	(88.4)

¹ Lerch-Grossman pit optimization shell

² Whittle pit optimization shell

³ Nickel in sulphide form

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

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

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

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

On August 23, 2011, the Manitoba Government issued Victory Nickel’s final EAL for the Minago project. The licence expires on August 22, 2014 unless the Company completes a certain amount of work to move the project forward. During 2013, the Company has complied with the conditions of the EAL and, in December, filed an Environmental Act Proposal (“EAP”) to amend the EAL to relocate the proposed tailings and waste rock management facility. The construction of drainage ditches installed to lower down the water table within the pit shell limits, the installation of Flow Gauging and Telemetry systems and the implementation of a comprehensive environmental monitoring program are considered part of the site development necessary to maintain the EAL which would otherwise expire in August, 2014.

Frac Sand

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

EXPLORATION AND EVALUATION ACTIVITIES

For the six months ended June 30, 2014, the Company incurred exploration expenditures on its E&E projects of \$96,000 (June 30, 2013 - \$465,000). Expenditures have been minimal due to the tight equity markets and management’s focus on Victory Silica and the frac sand business. The 2013 expenditures are shown before the transfer of \$244,000 through operations with respect to the Lynn Lake option receipts in excess of carrying value.

Lac Rocher

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

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

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

Mel Project

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

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

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

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

The re-evaluation of the Mel dataset is continuing for both the drill hole data on the Mel deposit and the considerable drilling (111 drill holes) conducted of the claims portion of the property. The study has included reinterpretation of the geological context in order to evaluate new or under-tested target areas for future work and that can be incorporated into further, more refined, modelling of the Mel resource. No fieldwork was conducted during 2012 or in 2013 to date. An application to renew Mel mining lease ML-007 was successful and the lease has been renewed for a 21-year term.

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

Lynn Lake

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

As discussed earlier and described in Note 12 to the 2013 Audited Consolidated Financial Statements, the Company had optioned Lynn Lake to Prophecy Coal with subsequent assignment to Wellgreen. In March, 2014, Wellgreen relinquished the option on the property and it has reverted to the Company. The Company is reviewing the exploration material and data to determine next steps.

FRAC SAND SEGMENT

As explained above, the Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 20 in the Unaudited Condensed Consolidated Financial Statements). The segment is located in Canada although sand as raw material is currently imported from the US. The plan is to eventually have both domestic and imported sand.

On June 19, 2012, the Company announced this initiative through the creation of Victory Silica and the hiring of Ken Murdock as its CEO. The objective is to establish the Company as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project at the same time as generating significant cash flow. On January 9, 2013, the Company announced that it had completed an asset purchase agreement for the purchase of the 7P assets.

The Company then proceeded to implement Phase 1 of its three phase business plan. Phase 1 provided for the refurbishment and upgrading of the 7P Plant to a capacity of 500,000 tons per annum of high-quality frac sand.

The 7P Plant was completed in March 2014 followed by commissioning until early August. During commissioning, the 7P Plant produced 22,519 tons of frac sand and, to the end of June 2014, 11,310 tons of this sand was sold. In addition, 11,209 tons of finished goods inventory was built up. The cost to purchase and complete the 7P Plant upgrade was approximately \$4,661,000; \$5,364,000 including the cost of leased equipment (and before amortization). It is expected that the 7P Plant will be at full capacity by the end of the third quarter and will generate positive cash flow during the period.

The first sales of sand were made in March 2014 and sales revenue of \$1,702,000 was realized from commissioning stage production of which \$274,000 was netted against pre-operating expenses in the first quarter.

Successful completion of Phase 1 will now lead to Phase 2 which provides for the building of a wash plant in Wisconsin, US followed by Phase 3 which provides for the construction of a second dry processing facility in Winnipeg, Manitoba with a capacity of approximately 1,000,000 tons per annum.

IMPAIRMENT ANALYSIS UPDATE

While the metals markets and other general economic factors continue to be relatively stable, there has been no marked recovery except for a strengthening US dollar. The Company performed a detailed impairment analysis on each of its E&E projects and the MP&D project as at December 31, 2013. The Company does not believe that there have been any material changes to date which would adversely affect this analysis. Furthermore there has been no change in management's plans for the projects which would cause a reassessment.

Management concluded that no impairment existed in each of its projects effective June 30, 2014 and that costs incurred to date are recoverable. The Company will continue to monitor developments as they occur in the metals markets and the economy and will update its impairment analysis to take account of any such changes, as appropriate.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and judgements used in the preparation of the consolidated financial statements include determining the carrying value of investments, MP&D and E&E projects, assessing the impairment and classification of long-lived assets, determining the recoverability of deferred income tax assets, the valuation of the convertibility feature of the loans and promissory notes, the valuation of share-based payments and the disclosure of contingencies and going concern matters. These estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control.

For a complete list of the significant accounting policies as well as information concerning the use of estimates, judgements and measurement uncertainty, reference should be made to Note 3 to the Company's 2013 Audited Consolidated Financial Statements. The Company's financial statements have been prepared using the going concern assumption; reference should be made to Note 1 to the Company's 2013 Audited Consolidated Financial Statements.

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

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

The Company has determined that it is highly probable that Victory Nickel will generate returns sufficient to utilize its taxable losses prior to their expiry. This is a significant judgement that, dependent upon future events, may turn out to be incorrect. Presently, since Victory Silica is in its pre-operating phase, a full valuation allowance has been recorded against losses incurred in that subsidiary.

NEW ACCOUNTING POLICIES

IFRS issued by the International Accounting Standards Board (“IASB”) have been adopted in the Company’s 2013 Audited Consolidated Financial Statements. Note 3 to those statements include the accounting policies that have been applied. Note 3 to the Unaudited Condensed Consolidated Financial Statements includes new accounting policies required for transactions and balances which have arisen from changes in the Company’s activities – particularly in relation to the frac sand business. These are as follows:

Revenue recognition

Revenues from frac sand sales are recognized when legal title passes to the customer which may occur at the Company’s production facility, rail origin or at the destination terminal or transload facility. At that point, delivery has occurred, evidence of a contractual arrangement exists and collectability is reasonable assured.

Inventory

Finished products and raw materials inventories are valued at the lower of cost and net realizable value. Costs are allocated to inventories based on direct costs which include acquisition, preliminary and finished processing and freight and handling but exclude indirect labour and indirect overhead costs. Net realizable value for finished products and raw materials is generally considered to be the selling price of the finished product in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale. Inventory is reviewed quarterly to ensure the carrying value does not exceed net realizable value. A writedown is recognized when carrying cost exceeds net realizable value. The writedown may be reversed if the circumstances which caused it no longer exist.

Property, plant and equipment

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

FUTURE ACCOUNTING CHANGES

New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company’s 2013 Audited Consolidated Financial Statements, the IASB and International Financial Reporting Interpretations Committee (“IFRIC”) have issued no new and revised standard and interpretations which are applicable to the Company or which have caused changes to its accounting policies. Refer to Note 3 to those statements.

CORPORATE GOVERNANCE

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

Design of Disclosure Controls and Procedures

The Company’s Chief Executive Officer and Chief Financial Officer, (collectively, the “Certifying Officers”), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal quarter ended June 30, 2014,

the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at June 30, 2014. 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 June 30, 2014 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

Design of Internal Controls over Financial Reporting

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO (1992) control framework and is in the process of updating its methodology to incorporate the COSO (2013) framework into its analyses for 2014. The COSO Board has made the COSO (1992) framework available for use until December 15, 2014 at which date it will be considered superseded. For the fiscal quarter ended June 30, 2014, the Certifying Officers have concluded that the design of the Company's internal controls over financial reporting and procedures were effective as at June 30, 2014. During the period, the Company made improvements to the controls over financial reporting as part of its continuous improvement process and as part of its frac sand initiative. As may reasonably be expected, the entry into a new business requires new processes and controls which evolve as the business matures.

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 June 30, 2014 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT WITH NUINSCO RESOURCES LIMITED

Related Party Balances and Transactions for Services

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 17 and 19 to the 2013 Audited Consolidated Financial Statements). Payables to key management personnel generally relate to directors' fees, consulting fees, and expense reimbursements.

Balances and transactions with related parties as at June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 are shown in the following tables:

	June 30, 2014	December 31, 2013
Balances Outstanding		
Payable to key management personnel	\$ 360	\$ 119

Key management personnel compensation comprises:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Short-term employee benefits	\$ 422	\$ 324	\$ 666	\$ 508
Share-based payments - options	-	118	71	118
Share-based payments - Share Bonus Plan	-	17	-	17
	\$ 422	\$ 459	\$ 737	\$ 643

Balances and Transactions with Nuinsco Resources Limited under the Management Agreement

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

Balances and transactions with Nuinsco under the management agreement as at June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 are shown in the following tables:

	June 30, 2014		December 31, 2013	
Balances Outstanding under the Management Agreement				
Payable to Nuinsco Resources Limited	\$	-	\$	56
Receivable from Nuinsco Resources Limited	\$	61	\$	-
	Three months ended June 30, 2014		Six months ended June 30, 2014	
		2013		2013
Transaction Values under the Management Agreement				
Overhead charges from Nuinsco Resources Limited	\$	158	\$	154
Overhead charges to Nuinsco Resources Limited	\$	-	\$	8
Project costs charged to Nuinsco Resources Limited	\$	9	\$	14
Project recoveries charged by Nuinsco Resources Limited	\$	16	\$	3
			\$	359
			\$	14
			\$	22
			\$	29
			\$	3

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

Balances and Transactions with Nuinsco under the Participating Interest

The terms of the Participating Interest are described in Note 14 to the Unaudited Condensed Consolidated Financial Statements as well as in the Liquidity and Capital Resources section of this MD&A. A summary of the balances and transactions related thereto is included in the table and accompanying note below:

	June 30, 2014		December 31, 2013	
Participating Interest				
Advance for working capital	\$	1,000	\$	1,000
Advance under Amended Loan for standby commitment		1,207		1,207
Aggregate advances		2,207		2,207
Less: settled in Units of Victory Nickel		(1,207)		(1,207)
Less: unamortized loan fees		(103)		(189)
		897		811
Change in fair value		3,561		3,289
Participating interest - long-term portion	\$	4,458	\$	4,100

The Company has accrued \$12,000 for commitment fees payable in shares to Nuinsco with respect to the Amended Loan and these are included in *Finance costs* for the respective period to which they relate. Victory Nickel incurred interest of \$20,000 and \$50,000 for each of the three and six months ended June 30, 2014 (2013 - \$30,000 and \$60,000) which amounts were paid in cash at the end of each respective quarter.

OUTSTANDING SHARE DATA

As at August 12, 2014, the Company had 573,057,808 common shares issued and outstanding. In addition, there were 36,000,000 stock options and 131,103,012 warrants outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 740,160,820 and would generate cash of approximately \$6,409,000 (excluding the warrants from the SPA Loan). However, many of the options are not "in the money" and most of the warrants could not be exercised until July 31, 2014.

RECENT DEVELOPMENTS

Financing

On July 7, 2014, the Company closed the remaining US\$3,000,000 under the umbrella convertible note financing described in Note 14 to the Unaudited Condensed Consolidated Financial Statements.

Stock Options

On July 21, 2014, the Company issued 8,000,000 stock options to directors, officers, employees and consultants of the Company. The options were granted at an exercise price of \$0.07; 5,300,000 options vest immediately with 2,700,000 vesting across one year and all have a life of five years to expiry.

Commissioning of 7P Plant

On August 11, 2014, the Company announced the successful completion of the commissioning of the 7P Plant and was producing frac sand on a consistent basis.

RISKS AND UNCERTAINTIES

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. Additionally, there are specific risks related to the Company's presence in the frac sand market. The risk factors which should be taken into account in assessing Victory Nickel's activities and an investment in its securities include, but are not necessarily limited to, those set out in detail in the Company's 2013 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 and Development Projects

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

Frac Sand Industry

Frac sand processing is a new business for Victory Nickel. The industry is closely linked to the oil and gas industry and is therefore affected by economic factors impacting that industry, including the effect of future cycles based on historic experience. Demand for frac sand is influenced by many factors, including: global and regional economic and political events and conditions, fluctuations in pricing and availability of oil and gas and other energy sources, demand for oil and gas products, demand for cars and other vehicles, technological innovation impacting alternative energy sources, changes in the regulatory framework for mining and processing frac sand and the hydraulic fracturing industry. The oil and gas industry can be prone to sudden, unexpected production slowdowns which may impact exploration, development, production and well completion activities. These factors cannot readily be predicted or controlled. Negative developments could cause the demand for frac sand products to decline which could have adverse effects on business, financial condition, results of operations, cash flows and prospects.

With respect to the frac sand industry itself, risks include: changes in transportation availability and pricing, inclement or hazardous weather conditions from flooding or climate change, environmental hazards, industrial accidents, changes in the regulatory framework impacting mining, processing and the fracking industries in both Canada and the US, inability to procure sand in the required quantities or qualities, inability to obtain replacement parts or equipment on a timely basis, reduction in the availability of water for processing, inability to hire, train and retain qualified staff at acceptable rates; and other technical difficulties or failures. Any prolonged downtime could impact deliveries and reputation.

The fracking industry has been hailed as significantly contributing to North America's energy self-sufficiency. A combination of techniques is used, any changes impacting the use of frac sand as a proppant through regulation or technological innovation may negatively impact the frac sand industry. In addition, heightened political, regulatory and public scrutiny of hydraulic fracturing practices could potentially expose us or our customers to increased legal and regulatory proceedings, and any such proceedings could be time-consuming, costly or result in substantial legal liability or significant reputational harm.

Competition

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

Victory Nickel also faces competition in the frac sand market with respect to the frac sand initiative and there is no assurance that Victory Nickel will compete successfully processing and selling frac sand in such market. Frac sand is a proppant used in the completion and re-completion of oil and natural gas wells to stimulate and maintain oil and natural gas production through the process of hydraulic fracturing. Frac sand is the most commonly used proppant and is less expensive than other proppants, such as resin-coated sand and manufactured ceramics. A significant shift in demand from frac sand to other proppants, or the development of new processes to replace hydraulic fracturing altogether, could cause a decline in the demand for the frac sand the Company processes and result in a material adverse effect on the Company's financial condition and results of operations. If significant new reserves of raw frac sand are discovered and developed, and those frac sands have similar characteristics to the raw frac sand processed by the Company, the Company's ability to maintain or acquire contracts may be negatively impacted which could have a material adverse effect on the Company's results of operations and cash flows over the long term. Additionally, quality sand supply is a limited resource and the presently-identified sources are a significant distance away from the 7P Plant which provides logistical challenges in securing timely railcar and other transportation at acceptable prices.

Operational Risks

Limited History of Operations

Victory Nickel has no history of earnings and limited financial resources. Victory Nickel currently has no operating mines and its ultimate success may depend on the ability of active mining operations to generate cash flow in the future, as well as its ability to access capital markets for its development requirements.

In particular, frac sand processing represents a new initiative for Victory Nickel which is expected to generate significant cash flow for the Company, if successful. 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 this initiative will be successful.

Frac Sand Processing Operations

The 7P Plant is newly-built and has just completed commissioning. Production risks might be expected to be higher for a new operation than one which has been in operation routinely. However, a new plant may have a reduced risk profile as far as reliability is concerned. Despite hiring experienced management, many new operators will be hired, while risks will be mitigated by training, it is possible that early production may experience excessive downtime. The availability of suitably-qualified staff at acceptable prices also represents a risk.

The procurement, production and delivery of frac sand can be logistically complex – transportation costs represent a significant portion of frac sand costs. Unavailability of appropriate transportation and rail cars or lines on a timely basis may impact turnaround and cause delays in deliveries. Changes in respective transportation costs or decreases in dependability may also impair the Company's ability to receive and/or deliver product with adverse effects on costs, revenues and reputation.

Processing frac sand includes substantial costs for energy – electricity and gas – as well as water. Problems in securing sufficient energy supply at appropriate prices would have impact on operating costs and the ability to recover those increased costs may be impaired.

The specifications for frac sand are detailed; maintaining a robust quality control process is key to producing a high-quality product. Failure to do so could cause lost revenues and lost reputation.

Development Targets, Permitting and Operational Delays

There can be no assurance that Victory Nickel will be able to complete the planned development of its projects on time or on budget due to, among other things, delays in receiving required consents, permits and registrations, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support Victory Nickel's operations. Any failure to meet development targets or other operational delays or inadequacies could have a material adverse effect. In particular, the Minago EAL was granted for a three-year period and expires on August 22, 2014. There is no guarantee that development work will commence on or before that date or that an extension will be granted. The Company believes that it has mitigated this risk through work performed on relocating tailings impoundments and the regulatory filings related thereto should either represent development or should extend the expiry.

The Company's frac sand business in its present phase, is reliant upon a third-party supplier of sand; any difficulties the supplier experiences with respect to securing, maintaining or extending permits for its properties and operations including appropriate water rights, may have adverse effects on the supply of sand.

Resources and Reserves

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

The Company's frac sand business in its present phase is reliant upon one supplier for its product. The Company has no resources or reserves of its own that can presently be exploited. The frac sand resource at Minago is not contemplated to be developed until either Phase 3 of the frac sand initiative or as part of the Minago FS which requires significant financing to be developed.

Title Risks

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

Insurance Risk

Victory Nickel faces all of the hazards and risks normally incidental to the exploration and development of base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. Victory Nickel's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which Victory Nickel has interests; not all such risks are insurable.

Similarly, the frac sand processing plant faces many hazards and risks arising from the transportation and processing of frac sand materials, any of which could result in the matters described above. Again, not all such risks are insurable.

Financial and Investment Risks

Going Concern

None of the Company's mining projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, and the optioning and/or sale of resource or resource-related assets and/or the ability to generate sufficient cash flow from its other operating activities for its funding. The Company's 7P Plant continued commissioning during the second quarter 2014. It is expected that cash flow will be generated commencing with the third quarter sufficient to meet operating requirements with the ultimate potential to advance the Company's mining interests.

The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon either exploration results which have the potential for the discovery of economically-recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding or the success of the frac sand business referred to above.

However, should the Company not be able to reach successful cash flow generation and achieve profitable operations from frac sand business or continue to achieve favourable exploration results, obtain the necessary financing or achieve future profitable production or sale of properties, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty,

especially in the present environment, that the Company's initiatives to improve working capital will be successful or that working capital generated thereby will be sufficient to fund the Company's activities including project expenditures and corporate costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Substantial Capital Requirements

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

The 7P Plant has now been completed. Future capital requirements for the 7P Plant should be minimal. However, future phases will require additional capital. This capital requirement may be in excess of the net funds generated by the business. The frac sand operations have ongoing requirements for working capital financing. There is a risk that sufficient working capital financing may not be available at suitable prices.

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.

By entering the frac sand market and becoming an operating company with operating cash flows, Victory Nickel is attempting to distinguish itself from other juniors. This represents a risk in itself.

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 as well as being important to the developing frac sand business.

The business case developed to support the Company's entry into the frac sand business made significant assumptions on pricing of frac sand as well as for important cost elements of production and transportation. While many of the important costs have been fixed contractually, the price for frac sand sales is subject to market forces beyond the Company's control.

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 or its ongoing operations. 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. In particular, the fracking industry is often at the forefront of public attention whether or not deserved. Nonetheless, this provokes attention and scrutiny.

Other Risks

Environmental and Health Risks

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

The frac sand operation involves processing silica sand. In addition to environmental regulation, the Company is subject to laws and regulations relating to human exposure to crystalline silica under the *Occupational Health and Safety Act*. Workplace exposure to crystalline silica is monitored and the occupational exposure limits in Alberta for respirable crystalline silica are among the lowest in Canada and the US.

Key Personnel

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

Conflicts of Interest

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

Investments and Other Agreements with Resource Companies

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

Summary

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

The Company has attempted to mitigate some of the risks associated with securing financing through its entry into the frac sand processing business. This is expected to generate significant cash flows to the Company and should enable it

to become financially stable. In turn, this could be leveraged to assist in securing funds to ultimately develop Minago. However, the frac sand business also has its own set of risks as indicated earlier, and of which investors should be aware.

FORWARD-LOOKING STATEMENTS

Forward-Looking Information: This MD&A contains forward-looking information. All statements, other than statements of historic fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow, costs, economic return, net present value, mine life and financial models, mineral resource estimates, potential mineralization, potential mineral resources, timing of possible production 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 in exploration and development and the frac sand processing business; the uncertainties involved in interpreting geological data; and the other risks disclosed under the heading "Risks and Uncertainties" and elsewhere. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

August 12, 2014