



**VICTORY NICKEL INC.**

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

**DATED NOVEMBER 7, 2014**

## Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars)	<i>Notes</i>	September 30, 2014 (unaudited)	December 31, 2013 (Note 2)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 148	\$ 1,423
Restricted deposits	6	305	-
Receivables and prepaids	7	4,699	381
Marketable securities	8	220	278
Inventory	9	3,399	-
<b>Total current assets</b>		<b>8,771</b>	<b>2,082</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	6,785	5,279
Mine property and development project	11	38,964	38,668
Exploration and evaluation projects	12	14,972	14,865
<b>Total non-current assets</b>		<b>60,721</b>	<b>58,812</b>
<b>Total Assets</b>		<b>\$ 69,492</b>	<b>\$ 60,894</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	13	\$ 4,875	\$ 1,617
Loans and borrowings - current	14	4,179	-
<b>Total current liabilities</b>		<b>9,054</b>	<b>1,617</b>
<b>Non-current liabilities</b>			
Loans and borrowings - long-term	14	6,178	2,279
Participating Interest	15	4,524	4,100
Lease obligations - long-term	16	347	408
Deferred tax liability		514	1,521
<b>Total non-current liabilities</b>		<b>11,563</b>	<b>8,308</b>
<b>Total Liabilities</b>		<b>20,617</b>	<b>9,925</b>
<b>Shareholders' equity</b>			
Share capital	17	52,470	51,907
Contributed surplus		5,592	5,441
Accumulated other comprehensive income		1,614	1,665
Deficit		(10,801)	(8,044)
<b>Total shareholders' equity</b>		<b>48,875</b>	<b>50,969</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 69,492</b>	<b>\$ 60,894</b>

### NATURE OF OPERATIONS (Note 1)

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

## Condensed Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
<b>Revenues</b>		\$ 5,949	\$ -	\$ 7,377	\$ -
Cost of goods sold		(5,199)	-	(6,786)	-
<b>Gross margin</b>		<b>750</b>	<b>-</b>	<b>591</b>	<b>-</b>
<b>Operating expenses</b>					
General and administrative		(631)	(238)	(2,018)	(981)
Share-based payments:	19				
Options		(256)	(45)	(341)	(188)
Share Bonus Plan		-	(26)	-	(43)
Amortization of property, plant and equipment	10	(190)	(10)	(426)	(13)
(Writedown) recovery of E and E projects	12	(26)	148	(54)	392
Pre-exploration costs	12	(4)	-	(4)	-
Net frac sand pre-operating costs	23	-	(346)	(214)	(503)
<b>Operating loss</b>		<b>(357)</b>	<b>(517)</b>	<b>(2,466)</b>	<b>(1,336)</b>
Finance income	20	1,074	7	995	11
Finance costs	20	(1,353)	(76)	(2,286)	(192)
<b>Net finance costs</b>		<b>(279)</b>	<b>(69)</b>	<b>(1,291)</b>	<b>(181)</b>
<b>Loss before income taxes</b>		<b>(636)</b>	<b>(586)</b>	<b>(3,757)</b>	<b>(1,517)</b>
Income tax recovery		228	65	1,000	252
<b>Net Loss for the Period</b>		<b>\$ (408)</b>	<b>\$ (521)</b>	<b>\$ (2,757)</b>	<b>\$ (1,265)</b>
<b>Loss per share</b>	2, 17, 18				
Basic loss per share		\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.03)
Diluted loss per share		\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.03)

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 September 30,		Nine months ended September 30,	
		2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
<b>Net loss for the period</b>		\$ (408)	\$ (521)	\$ (2,757)	\$ (1,265)
<b>Other comprehensive (loss) income ("OCI")</b>					
Net change in fair value of financial assets	8	(116)	(19)	(58)	(254)
Income tax recovery		15	3	7	35
<b>Other comprehensive loss for the period</b>		<b>(101)</b>	<b>(16)</b>	<b>(51)</b>	<b>(219)</b>
<b>Total Comprehensive Loss for the Period</b>		<b>\$ (509)</b>	<b>\$ (537)</b>	<b>\$ (2,808)</b>	<b>\$ (1,484)</b>

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

## Condensed Consolidated Statements of Shareholders' Equity

(unaudited) (in thousands of Canadian dollars)		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income / (Loss)	Deficit	Total Equity
<b>Balances as at January 1, 2013</b>	<b>Notes</b>	\$ 47,683	\$ 4,397	\$ 1,855	\$ (2,940)	\$ 50,995
<b>Total comprehensive loss for the period</b>						
Net loss for the period					(1,265)	(1,265)
<b>Other comprehensive loss</b>						
Net change in fair value of financial assets				(254)		(254)
Income tax recovery				35		35
<b>Total other comprehensive loss</b>				(219)		(219)
<b>Total comprehensive loss for the period</b>						(1,484)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the period</b>						
Issue of common shares for settlement of liabilities, net		115	-	-	-	115
Issue of common shares under private placement, net		2,200	-	-	-	2,200
Issue of common shares for loan fee		271	-	-	-	271
Issue of common shares and warrants under private placement, net		179	106	-	-	285
Issue of common shares and warrants under rights offering, net		1,393	733	-	-	2,126
Issue of common shares under Share Bonus Plan		66	-	-	-	66
Options granted and vesting	19	-	188	-	-	188
<b>Total contributions by owners</b>		4,224	1,027	-	-	5,251
<b>Total transactions with owners</b>		4,224	1,027	-	-	5,251
<b>Balances as at September 30, 2013</b>		\$ 51,907	\$ 5,424	\$ 1,636	\$ (4,205)	\$ 54,762
<b>Balances as at January 1, 2014</b>		\$ 51,907	\$ 5,441	\$ 1,665	\$ (8,044)	\$ 50,969
<b>Total comprehensive loss for the period</b>						
Net loss for the period					(2,757)	(2,757)
<b>Other comprehensive loss</b>						
Net change in fair value of financial assets				(58)		(58)
Income tax recovery				7		7
<b>Total other comprehensive loss</b>				(51)		(51)
<b>Total comprehensive loss for the period</b>						(2,808)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by owners in the period</b>						
Options vesting	19	-	341	-	-	341
Warrants exercised	14, 17	185	(32)	-	-	153
Options exercised	17, 19	378	(158)	-	-	220
<b>Total contributions by owners</b>		563	151	-	-	714
<b>Total transactions with owners</b>		563	151	-	-	714
<b>Balances as at September 30, 2014</b>		\$ 52,470	\$ 5,592	\$ 1,614	\$ (10,801)	\$ 48,875

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

## Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Notes	Nine months ended September 30,	
		2014 (unaudited)	2013 (unaudited)
<b>Cash flows from operating activities</b>			
Net loss for the period		\$ (2,757)	\$ (1,265)
Adjustments for:			
Share-based payments	19	341	231
Amortization of property, plant and equipment	10	426	13
Provision for inventory	9	92	-
Recovery of exploration and evaluation project	12	-	(392)
Net finance costs	20	822	90
Income tax recovery		(1,000)	(252)
Net change in working capital:			
Change in receivables		(4,318)	(67)
Change in inventory	9	(3,491)	-
Change in trade and other payables		3,408	511
<b>Net cash used by operating activities</b>		<b>(6,477)</b>	<b>(1,131)</b>
<b>Cash flows from investing activities</b>			
Expenditures on mine property and development project	11	(296)	(733)
Expenditures on exploration and evaluation projects	12	(86)	(81)
Proceeds on sale of marketable securities		-	59
Proceeds from option of Lynn Lake	12	-	400
Deposits on equipment	7,10	(54)	(152)
Deposits on leases	16	-	(13)
Expenditures on 7P Plant	10	(2,250)	(1,088)
Net sale of furniture and equipment		-	48
<b>Net cash used by investing activities</b>		<b>(2,686)</b>	<b>(1,560)</b>
<b>Cash flows from financing activities</b>			
Issue of common shares	17	373	4,496
Payments of interest	14, 15, 16	(837)	(9)
Payments under leases	16	(140)	-
Net proceeds of loans	14	8,797	-
Deposits of restricted cash	6	(305)	-
<b>Net cash from financing activities</b>		<b>7,888</b>	<b>4,487</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(1,275)</b>	<b>1,796</b>
<b>Cash and Cash Equivalents, Beginning of the Period</b>		<b>1,423</b>	<b>256</b>
<b>Cash and Cash Equivalents, End of the Period</b>		<b>\$ 148</b>	<b>\$ 2,052</b>

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

## Notes to the Condensed Consolidated Financial Statements

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

### 1. NATURE OF OPERATIONS

#### Nature of Operations

Victory Nickel Inc. ("Victory Nickel" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The condensed consolidated financial statements as at and for the three and nine months ended September 30, 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 near Seven Persons approximately 18kms southwest of Medicine Hat, Alberta. Frac sand is specialized sand that is used as a proppant to enhance recovery from oil and gas wells. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

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 September 30, 2014, the Company had a working capital deficiency of \$588,000, (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; on August 11, 2014, the Company announced that the 7P Plant was commissioned. The SPA Loan is due in July, 2015 and, accordingly, is classified as a current liability, due within one year. The Company has generated operating cash flow during the third quarter of 2014 but not yet at levels sufficient to wholly fund its activities. In October 2014, the Company secured a short-term facility of US\$2,000,000 through the issuance of a promissory note (Note 25).

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 nickel 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 completed commissioning in August, 2014. It is expected that future cash flow will be 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

## Notes to the Condensed Consolidated Financial Statements

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

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.

### 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 November 7, 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 7 – valuation of receivables;
- Note 8 - valuation of financial assets at fair value through operations and OCI;
- Note 9 - valuation of inventory;

## Notes to the Condensed Consolidated Financial Statements

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

- 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 embedded options in convertible notes;
- Note 15 - measurement and valuation of the participating interest; and
- Note 19 - 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 7 – impairment of receivables;
- 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.

### **Share Consolidation**

On September 12, 2014, as described more fully in Note 17, the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"). Accordingly, certain comparative information regarding issued and outstanding common shares, options, warrants, weighted average number and per share information has been adjusted retroactively to be comparable using that basis as if the Share Consolidation had been effective on the first day of the reporting period of these financial statements. Refer to Notes 17, 18 and 19.

### **Reclassifications**

Certain of the prior year's balances have been reclassified to conform with the current presentation.

## **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 reasonably assured.

### **(d) Inventory**

Finished products and raw materials inventories are valued at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of processing and other costs incurred in bringing inventories to their present location and condition. 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



## Notes to the Condensed Consolidated Financial Statements

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

estimated costs to make the sale. Inventory is reviewed 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 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

	September 30, 2014	December 31, 2013
Shareholders' equity	\$ 48,875	\$ 50,969
Loans and borrowings - long-term portion	6,178	2,279
Participating Interest	4,524	4,100
Lease obligations - long-term portion	347	408
Loans and borrowings - available	-	500
	<b>\$ 59,924</b>	<b>\$ 58,256</b>

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

## 5. DETERMINATION OF FAIR VALUES

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 5 to the Company's 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.

## Notes to the Condensed Consolidated Financial Statements

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

### 6. CASH AND CASH EQUIVALENTS

	September 30, 2014	December 31, 2013
Bank balances	\$ 143	\$ 1,418
Short-term deposits	5	5
<b>Cash and Cash Equivalents in the Statement of Cash Flows</b>	<b>\$ 148</b>	<b>\$ 1,423</b>

The Company has placed \$305,000 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

	September 30, 2014	December 31, 2013
Trade accounts receivable	\$ 4,573	\$ -
Other receivables	36	231
Prepaid expenses and deposits	90	150
	<b>\$ 4,699</b>	<b>\$ 381</b>

The Company has received significant payments to date for its trade accounts receivable outstanding as at September 30, 2014.

### 8. MARKETABLE SECURITIES

	September 30, 2014	December 31, 2013
Financial assets at fair value through OCI:		
Shares	\$ 220	\$ 278
	<b>\$ 220</b>	<b>\$ 278</b>

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

### 9. INVENTORY

	September 30, 2014	December 31, 2013
Raw material		
At transload facility	\$ 71	\$ -
In transit	885	-
Stored at 7P Plant	1,631	-
	<b>2,587</b>	<b>-</b>
Finished goods	904	-
Writedown of inventory	(92)	-
	<b>\$ 3,399</b>	<b>\$ -</b>

In October, 2014, the Company determined that a writedown of inventory against finished goods was required; presently, this is considered non-routine.

## Notes to the Condensed Consolidated Financial Statements

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

### 10. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
<b>Balances as at January 1, 2013</b>					
Cost	\$ 83	\$ -	\$ 32	\$ 1,359	\$ 1,474
Accumulated Amortization	(8)	-	(17)	(25)	(50)
<b>Carrying Amount</b>	<b>75</b>	<b>-</b>	<b>15</b>	<b>1,334</b>	<b>1,424</b>
Additions	-	3,086	636	160	3,882
Amortization	(1)	-	(23)	(3)	(27)
<b>Balances as at December 31, 2013</b>					
Cost	83	3,086	668	1,519	5,356
Accumulated Amortization	(9)	-	(40)	(28)	(77)
<b>Carrying Amount</b>	<b>74</b>	<b>3,086</b>	<b>628</b>	<b>1,491</b>	<b>5,279</b>
Additions	-	1,781	79	72	1,932
Amortization	(1)	(280)	(143)	(2)	(426)
<b>Balances as at September 30, 2014</b>					
Cost	83	4,867	747	1,591	7,288
Accumulated Amortization	(10)	(280)	(183)	(30)	(503)
<b>Carrying Amount</b>	<b>\$ 73</b>	<b>\$ 4,587</b>	<b>\$ 564</b>	<b>\$ 1,561</b>	<b>\$ 6,785</b>

*Vehicles and Mobile Equipment* include \$703,000 (December 31, 2013 - \$636,000) of equipment acquired under leases (Note 16). *Equipment and Furniture* includes deposits of \$1,539,000 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 24).

### 11. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2014	Current Expenditures	Recoveries	September 30, 2014
Minago	\$ 38,668	\$ 296	\$ -	\$ 38,964
	\$ 38,668	\$ 296	\$ -	\$ 38,964
	January 1, 2013	Current Expenditures	Recoveries	September 30, 2013
Minago	\$ 37,897	\$ 695	\$ (72)	\$ 38,520
	\$ 37,897	\$ 695	\$ (72)	\$ 38,520

#### 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.

## Notes to the Condensed Consolidated Financial Statements

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

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	September 30, 2014
Lac Rocher	\$ 7,388	\$ 13	\$ -	\$ -	\$ 7,401
Mel	7,473	98	-	-	7,571
Lynn Lake	-	36	(36)	-	-
Other	4	14	(18)	-	-
	\$ 14,865	\$ 161	\$ (54)	\$ -	\$ 14,972

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

#### 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.

## Notes to the Condensed Consolidated Financial Statements

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

### 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. No fieldwork has been conducted during 2013 or the first nine 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.

The expenditures on the Lynn Lake property are shown net of cumulative option payments received of \$400,000 in 2013. The excess proceeds of \$392,000 for the nine months ended September 30, 2013 represent the excess of consideration received under the option agreement above carrying value and are reflected in *Recovery of exploration and evaluation project* through operations. The option agreement was terminated in early 2014 and the Lynn Lake property reverted to the Company.

On November 4, 2014, the Company announced it had optioned its Lynn Lake property to Corazon Mining Ltd. (“Corazon”) an Australian public company (ASX: CZN).

### 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 \$26,000 and \$54,000 were provided for through operations as *Writedown of exploration and evaluation projects* in the consolidated statement of operations during the three and nine months ended September 30, 2014 (recoveries of \$148,000 and \$392,000 in the three and nine months ended September 30, 2013, respectively).

## Notes to the Condensed Consolidated Financial Statements

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

### 13. TRADE AND OTHER PAYABLES

	<i>Notes</i>	September 30, 2014	December 31, 2013
Accounts payable			
Mine property and development project		\$ 42	\$ 25
Exploration and evaluation projects		22	-
Property and equipment		689	742
Other accounts payable		2,807	116
Accrued liabilities			
Mine property and development project		9	28
Exploration and evaluation projects		1	1
Property and equipment		6	325
Other accrued liabilities		721	153
Other payables		387	-
Lease obligations - current portion	16	151	160
Due to Nuinsco Resources Limited			
Under the Management Agreement	22	28	56
Commitment fees	15	12	11
		<b>\$ 4,875</b>	<b>\$ 1,617</b>

### 14. LOANS AND BORROWINGS

	<i>Notes</i>	September 30, 2014	December 31, 2013
Current loans			
SPA Loan	(a)	\$ 4,179	\$ -
Total current loans		4,179	-
Long-term loans			
Promissory notes	(b)	6,178	2,279
Total long-term loans		6,178	2,279
		<b>\$ 10,357</b>	<b>\$ 2,279</b>

	September 30, 2014	December 31, 2013
<b>(a) SPA Loan</b>		
Advances in US\$	\$ 3,000	\$ -
Conversion from Promissory Notes	1,000	-
Add: effect of foreign exchange	480	-
Add: fair value of cashless warrants	460	-
	<b>4,940</b>	<b>-</b>
Less: Unamortized loan fees	(761)	-
<b>SPA Loan</b>	<b>\$ 4,179</b>	<b>\$ -</b>

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").

## Notes to the Condensed Consolidated Financial Statements

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

The Company has issued to the purchaser 2,000,000 common share purchase warrants (after giving retroactive effect to the Share Consolidation Note 17). The number of warrants is subject to an increase to 1,000,000 warrants (after giving retroactive effect to the Share Consolidation Note 17) 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 \$2.00 or lower (after giving retroactive effect to the Share Consolidation Note 17) 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 (after giving retroactive effect to the Share Consolidation Note 17) entitles the holder to purchase one common share of the Company at an exercise price of \$1.00 (after giving retroactive effect to the Share Consolidation Note 17) for a period of 36 months from the Initial Closing Date. 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 September 30, 2014 at \$460,000 with the aggregate change in fair value of \$160,000 being recorded in finance costs (Note 20).

In the three and nine months ended September 30, 2014, the Company paid \$159,000 and \$241,000 in interest and amortized \$232,000 and \$343,000 in loan fees into finance costs. There are no amounts remaining to be drawn under the SPA Loan.

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

<b>(after retroactive effect of Share Consolidation - Note 17)</b>	<b>September 30, 2014</b>	<b>May 15, 2014</b>
		<b>(At inception)</b>
Fair values	\$ 0.23	\$ 0.31
Share prices at valuation dates	\$ 0.48	\$ 0.60
<b>Assumptions</b>		
Exercise price	\$ 1.00	\$ 1.00
Expected volatilities	106%	101%
Expected remaining terms (years)	2.63	3.00
Expected dividends	-	-
Risk-free interest rates	1.13%	1.12%

<b>(b) Promissory Notes</b>	<b>Notes</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Advances		\$ 7,015	\$ 2,000
Conversion to SPA Loan		(1,000)	-
Add: effect of foreign exchange		690	127
		<b>6,705</b>	<b>2,127</b>
Embedded option derivatives at inception	\$ (2,082)	\$ (168)	
Less: effect of conversion to SPA Loan	465	-	
Less: accumulated amortization	20 318	12	
		<b>(1,299)</b>	<b>(156)</b>
Less: unamortized loan fees		<b>(180)</b>	<b>(33)</b>
Net promissory notes		<b>5,226</b>	<b>1,938</b>
Embedded option derivatives at inception	2,082	168	
Less: effect of conversion to SPA Loan	(465)	-	
Change in value of embedded option derivatives	20 (665)	173	
		<b>952</b>	<b>341</b>
<b>Promissory Notes - long-term portion</b>		<b>\$ 6,178</b>	<b>\$ 2,279</b>



## Notes to the Condensed Consolidated Financial Statements

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

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 \$1.00 (after giving retroactive effect to the Share Consolidation Note 17) and has a two-year term.

In 2014, the Company issued US\$4,750,000 and \$265,000 additional unsecured convertible promissory notes by way of the private placement; US\$1,000,000 was converted into a SPA Note as referred to above. Notes 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 \$1.00 (after giving retroactive effect to the Share Consolidation Note 17).

In the three and nine months ended September 30, 2014, the Company paid \$242,000 and \$487,000 for interest in cash and amortized \$26,000 and \$37,000 for loan fees and \$191,000 and \$307,000 for the embedded option derivative at inception using the effective interest rate method during the year; \$nil during the three and nine months ended September 30, 2013.

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

<b>(after retroactive effect of Share Consolidation - Note 17)</b>	<b>September 30, 2014</b>	<b>(Various inception dates)</b>	November 11, 2013	December 31, 2013
			(At inception)	
Fair values	<b>\$0.11 to \$0.17</b>	<b>\$0.22 to \$0.40</b>	\$ 0.080	\$ 0.160
Share prices at valuation dates	<b>\$0.48</b>	<b>\$0.50 to \$0.70</b>	\$ 0.300	\$ 0.450
<b>Assumptions</b>				
Exercise price	<b>\$ 1.00</b>	<b>\$ 1.00</b>	\$ 1.00	\$ 1.00
Expected volatilities	<b>98% to 109%</b>	<b>116%</b>	103%	109%
Expected remaining terms (years)	<b>1.11 to 1.77</b>	<b>2.00</b>	2.00	1.87
Expected dividends	-	-	-	-
Risk-free interest rates	<b>1.12%</b>	<b>1.20%</b>	1.20%	1.20%

### 15. PARTICIPATING INTEREST

<b>Participating Interest</b>	<b>Note</b>	<b>September 30, 2014</b>	December 31, 2013
Advance for working capital		<b>\$ 1,000</b>	\$ 1,000
Advance under Amended Loan for standby commitment		<b>1,207</b>	1,207
Aggregate advances		<b>2,207</b>	2,207
Less: settled in Units of Victory Nickel		<b>(1,207)</b>	(1,207)
Less: unamortized loan fees		<b>(59)</b>	(189)
		<b>941</b>	811
Change in fair value	20	<b>3,583</b>	3,289
<b>Participating Interest</b>		<b>\$ 4,524</b>	\$ 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 bore interest at 12% per annum and matures on January 31, 2015; the loan was secured by equipment and a general security agreement over the equipment of the Company.



## Notes to the Condensed Consolidated Financial Statements

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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 net cash flows are after recoupment of Phase One capital and pre-operating expenditures. 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 20 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 nine months ended September 30, 2014, \$44,000 and \$131,000 was amortized as interest expense and \$nil and \$50,000 interest was paid to the Lender in cash up to the conversion to a participating interest (three and nine months ended September 30, 2013 - \$43,000 and \$90,000, \$30,000 and \$99,000 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 revised the estimated future cash flows and discounted these cash flows at a rate of 15%. 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 One 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 September 30, 2014, certain adjustments were made to the expected cash flows to reflect more current business expectations; further, the Company expects to enter Phase Two therefore the ceiling on expected cash flows payable is reduced to \$7,667,124. However, the probability weightings were also changed to reflect the increased likelihood of cash flows being 5%, 40% and 55% applied to zero, 50% and 100% of the ceiling amount, respectively. 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 Two is \$7,667,124. Based on the estimated cash flows described above, payments could commence in October, 2015. These assumptions resulted in revised amortized cost carrying amount of the participating interest of \$4,524,000 and, accordingly \$294,000 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.

## Notes to the Condensed Consolidated Financial Statements

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### 16. LEASE OBLIGATIONS

	Note	September 30, 2014	December 31, 2013
Vehicles and Mobile Equipment:			
Total present value of minimum lease payments		\$ 638	\$ 668
Principal payments		(140)	(100)
<b>Total present value of minimum lease payments remaining</b>		<b>498</b>	<b>568</b>
Lease obligations - current portion	13	(151)	(160)
<b>Lease obligations - long-term</b>		<b>\$ 347</b>	<b>\$ 408</b>

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:

	September 30, 2014	December 31, 2013
Less than 1 year	\$ 179	\$ 190
Between 1 and 5 years	373	447
<b>Total minimum lease payments payable</b>	<b>552</b>	<b>637</b>
Future finance charges on minimum lease payments	54	69
<b>Present value of minimum lease payments</b>	<b>\$ 498</b>	<b>\$ 568</b>

### 17. 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.

##### Share Consolidation

On September 12, 2014, pursuant to shareholder approval granted at the Company's Annual and Special Meeting of Shareholders held on May 29, 2014 (the "ASM"), the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"). Accordingly, certain comparative information regarding issued and outstanding common shares, options, warrants, weighted average number and per share information has been adjusted retroactively to be comparable using that basis as if the Share Consolidation had been effective on the first day of these financial statements. Refer to Notes 2, 18 and 19.

##### Number of shares issued and outstanding

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

(after retroactive effect of Share Consolidation)	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		56,703,082							\$ 51,907
Options exercised	(a)	463,000	\$ 220	\$ 158	\$ -	\$ -	\$ -	\$ -	378
Warrants exercised	(b)	443,071	155	32	(2)	-	-	-	185
Issue of common shares for fractional positions	(c)	163	-	-	-	-	-	-	-
<b>Balance as at September 30, 2014</b>		<b>57,609,316</b>	<b>\$ 375</b>	<b>\$ 190</b>	<b>\$ (2)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 52,470</b>

(a) In January and February, 2014, various officers, employees and consultants of the Company exercised 463,000 options (after giving retroactive effect to the Share Consolidation) generating aggregate cash proceeds of \$220,000; \$158,000 was transferred from contributed surplus.

(b) In the third quarter of 2014, various shareholders exercised 443,071 warrants (after giving retroactive effect to the Share Consolidation) generating aggregate cash proceeds of \$155,000; \$32,000 was transferred from contributed surplus.



## Notes to the Condensed Consolidated Financial Statements

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- (c) As mentioned earlier, on September 12, 2014, the Company undertook a one-for-ten share consolidation of its common shares. Accordingly, the number of common shares of the Company outstanding at that time was reduced by 518,356,826 to 57,595,203; approximately 163 shares were issued for fractional positions.

### 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.

#### 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.

## 18. EARNINGS (LOSS) PER SHARE

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

(after retroactive effect of Share Consolidation - Note 17)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Balance as at beginning of period</b>	<b>57,166,100</b>	45,347,500	<b>56,703,100</b>	39,734,700
Effect of shares issued to settle liabilities	-	-	-	444,400
Effect of shares issued for private placements	-	163,000	-	3,166,600
Effect of shares issued for loan fees	-	54,100	-	412,100
Effect of shares issued under rights offering	-	6,847,800	-	2,299,300
Effect of shares issued under Share Bonus Plan	-	4,600	-	67,200
Effect of options exercised	-	-	<b>439,500</b>	-
Effect of warrants exercised	<b>229,300</b>	-	<b>77,300</b>	-
<b>Weighted average number of common shares as at end of period - Basic and Diluted</b>	<b>57,395,400</b>	52,417,000	<b>57,219,900</b>	46,124,300
Number of options excluded	<b>3,590,000</b>	3,166,600	<b>3,590,000</b>	3,166,600
Number of warrants excluded	<b>12,806,929</b>	11,250,000	<b>12,806,929</b>	11,250,000
Number of shares from conversion of promissory notes excluded	<b>7,825,000</b>	-	<b>7,825,000</b>	-
<b>Net loss attributable to shareholders - Basic</b>	<b>\$ (408)</b>	\$ (521)	<b>\$ (2,757)</b>	\$ (1,265)
<b>Net loss attributable to shareholders - Diluted</b>	<b>\$ (408)</b>	\$ (521)	<b>\$ (2,757)</b>	\$ (1,265)
<b>Basic (loss) earnings per share</b>	<b>\$ (0.01)</b>	\$ (0.01)	<b>\$ (0.05)</b>	\$ (0.03)
<b>Diluted (loss) earnings per share</b>	<b>\$ (0.01)</b>	\$ (0.01)	<b>\$ (0.05)</b>	\$ (0.03)

The disclosures in the table above are provided after giving retroactive effect to the Share Consolidation on a one-for-ten basis described in Note 17.

The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses. There have been no share issuances subsequent to the end of the period which would have had a significant effect on the EPS.

## Notes to the Condensed Consolidated Financial Statements

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

### 19. 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. The disclosures in this note are provided after giving retroactive effect to the Share Consolidation on a one-for-ten basis described in Note 17.

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

As at September 30, 2014, the Company had 5,051,397 common shares available for the granting of future options (December 31, 2013 – 5,301,337 common shares) stated after giving retroactive effect to the Share Consolidation in Note 17. Options are exercisable at the closing market price of the shares at the date prior to grant, as adjusted for the effects of share consolidations or other corporate actions. 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 10,000,000 warrants (after giving retroactive effect to the Share Consolidation in Note 17). The Company also issued 1,250,000 warrants (after giving retroactive effect to the Share Consolidation in Note 17) pursuant to a private placement on September 19, 2013. The 2,000,000 warrants (after giving retroactive effect to the Share Consolidation in Note 17) issued pursuant to the SPA Loan may be settled without cash and are, accordingly, classified 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, (after giving retroactive effect to the Share Consolidation in Note 17). 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, (after giving retroactive effect to the Share Consolidation in Note 17), are as follows:

(after retroactive effect of Share Consolidation - Note 17) As at and for the periods ended	Number of options		Weighted average exercise price	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
<b>Outstanding as at beginning of period</b>	<b>3,204,125</b>	2,865,150	\$ <b>0.80</b>	\$ 1.30
Granted	1,063,000	937,000	\$ 0.70	\$ 0.30
Exercised	(463,000)	-	\$ 0.50	\$ -
Expired or forfeit	(214,125)	(598,025)	\$ 1.90	\$ 2.40
<b>Outstanding as at end of period</b>	<b>3,590,000</b>	3,204,125	\$ <b>0.70</b>	\$ 0.80
<b>Exercisable as at end of period</b>	<b>3,244,750</b>	2,945,625	\$ <b>0.70</b>	\$ 0.80

In the three months ended March 31, 2014, 463,000 options were exercised (after giving retroactive effect to the Share Consolidation in Note 17) generating aggregate gross proceeds of \$220,000. There were no options exercised during 2013.

## Notes to the Condensed Consolidated Financial Statements

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

(after retroactive effect of Share Consolidation - Note 17)	Number of options outstanding		Weighted average remaining contractual life (years)	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
<b>Range of exercise prices</b>				
\$0.25 to \$0.50	1,875,000	2,101,000	3.38	3.19
\$0.60 to \$1.40	1,196,000	424,750	3.74	2.33
\$1.50 to \$1.60	519,000	519,000	0.26	1.01
\$1.70 to \$2.50	-	159,375	-	0.07
	<b>3,590,000</b>	<b>3,204,125</b>	<b>3.05</b>	<b>2.57</b>

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

(after retroactive effect of Share Consolidation - Note 17)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Number of options granted during the period	800,000	110,000	1,063,000	892,000
Weighted average fair value of options granted at grant date	\$ 0.70	\$0.25 and \$0.30	\$ 0.70	\$0.25 and \$0.30
Number of options subject to vesting as at end of period	345,250	266,000	345,250	266,000
Share-based payment expense - vesting options	\$ 256	\$ 24	\$ 341	\$ 167
Share-based payment expense - extended options	\$ -	\$ 21	\$ -	\$ 21
Unvested options not yet charged to operations	\$ 104	\$ 39	\$ 104	\$ 39

### Share purchase warrants

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

(after retroactive effect of Share Consolidation - Note 17)	As at and for the periods ended	Date Issued	Life	Number of warrants		Weighted average exercise price	
				September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
<b>Issued pursuant to rights offering</b>							
Unit warrants	July 30, 2013	12 <sup>(a)</sup>	10,000,000	10,000,000	\$ 0.35	\$	0.35
Exercised			(443,071)	-			
<b>Issued pursuant to private placements</b>							
Unit warrants	Sept. 19, 2013	24	1,250,000	1,250,000	\$ 0.35	\$	0.35
SPA warrants	May 15, 2014	36	2,000,000	-	\$ 1.00		n/a
<b>Outstanding as at end of period</b>			<b>12,806,929</b>	<b>11,250,000</b>	<b>\$ 0.45</b>	<b>\$</b>	<b>0.35</b>

(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.

(c) The number of warrants and weighted average exercise prices are disclosed after giving retroactive effect to the Share Consolidation in Note 17.

### 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:

## Notes to the Condensed Consolidated Financial Statements

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

(after retroactive effect of Share Consolidation - Note 17)	Options		Warrants	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Fair values at grant dates	\$0.31 and \$0.42	\$0.12 to \$0.19	n/a	\$0.11 and \$0.19
Fair values of options modified	n/a	\$0.04 to \$0.23	n/a	n/a
Share prices at grant and modification dates	\$0.70 and \$0.50	\$0.25 and \$0.30	n/a	\$ 0.25
<b>Assumptions</b>				
Exercise prices	\$0.70 and \$0.55	\$0.25 to \$1.60	n/a	\$ 0.35
Expected volatilities	93% and 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	1.23% and 1.01%	0.78% to 1.63%	n/a	1.15% and 1.22%

### 20. FINANCE INCOME AND FINANCE COSTS

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Interest income on bank deposits	\$	-	\$ 6	\$ 1	\$ 11
Net change in fair value of financial liabilities at fair value through operations	14	1,074	-	994	-
Net foreign exchange gain		-	1	-	-
<b>Finance income</b>		<b>1,074</b>	<b>7</b>	<b>995</b>	<b>11</b>
Interest expense on loans					
Cash settled		410	30	837	90
Amortization of loan fees		302	43	510	90
Amortization of embedded option derivatives	14	192	-	303	-
Commitment fee	14	1	3	3	9
Loss on adjustment of estimated cash flows	15	22	-	294	-
Net foreign exchange loss		426	-	339	3
<b>Finance costs</b>		<b>1,353</b>	<b>76</b>	<b>2,286</b>	<b>192</b>
<b>Net Finance Costs</b>	\$	<b>(279)</b>	\$ (69)	<b>(1,291)</b>	\$ (181)

### 21. 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 22) 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.

## Notes to the Condensed Consolidated Financial Statements

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

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 23). The segment is located in Canada although raw materials purchases are sourced from the US.

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

	September 30, 2014	December 31, 2013
<b>Canada</b>		
Corporate	\$ 1,690	\$ 2,436
Exploration and Development	55,551	55,056
Frac Sand	13,554	3,886
Intersegment elimination	(1,303)	(484)
<b>Total Assets</b>	<b>\$ 69,492</b>	<b>\$ 60,894</b>

Three months ended September 30, 2014	Corporate	Exploration and Development	Frac Sand	Total
<b>Revenues</b>	\$ -	\$ -	\$ 5,949	\$ 5,949
Cost of goods sold	-	-	(5,199)	(5,199)
<b>Gross margin</b>	-	-	750	750
<b>Operating expenses</b>				
General and administrative	(470)	(8)	(153)	(631)
Share-based payments:	-	-	-	-
Options	(256)	-	-	(256)
Share Bonus plan	-	-	-	-
Amortization of property, plant and equipment	(4)	-	(186)	(190)
(Writedown) recovery of E and E projects	-	(26)	-	(26)
Pre-exploration costs	-	(4)	-	(4)
Net frac sand pre-operating costs	-	-	-	-
<b>Operating (loss) income</b>	<b>(730)</b>	<b>(38)</b>	<b>411</b>	<b>(357)</b>
Finance income	1,074	-	-	1,074
Finance costs	(1,344)	-	(9)	(1,353)
<b>Net finance costs</b>	<b>(270)</b>	<b>-</b>	<b>(9)</b>	<b>(279)</b>
<b>(Loss) income before income taxes</b>	<b>(1,000)</b>	<b>(38)</b>	<b>402</b>	<b>(636)</b>
Income tax recovery	228	-	-	228
<b>Net (Loss) Income for the Period</b>	<b>\$ (772)</b>	<b>\$ (38)</b>	<b>\$ 402</b>	<b>\$ (408)</b>



## Notes to the Condensed Consolidated Financial Statements

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

Nine months ended September 30, 2014	Corporate	Exploration and Development	Frac Sand	Total
<b>Revenues</b>	\$ -	\$ -	\$ 7,377	\$ 7,377
Cost of goods sold	-	-	(6,786)	(6,786)
<b>Gross margin</b>	-	-	591	591
<b>Operating expenses</b>				
General and administrative	(1,573)	(19)	(426)	(2,018)
Share-based payments:				
Options	(341)	-	-	(341)
Share Bonus plan	-	-	-	-
Amortization of property, plant and equipment	(5)	-	(421)	(426)
(Writedown) recovery of E and E projects	-	(54)	-	(54)
Pre-exploration costs	-	(4)	-	(4)
Net frac sand pre-operating costs	-	-	(214)	(214)
<b>Operating loss</b>	(1,919)	(77)	(470)	(2,466)
Finance income	995	-	-	995
Finance costs	(2,262)	-	(24)	(2,286)
<b>Net finance costs</b>	(1,267)	-	(24)	(1,291)
<b>Loss before income taxes</b>	(3,186)	(77)	(494)	(3,757)
Income tax recovery	1,000	-	-	1,000
<b>Net Loss for the Period</b>	\$ (2,186)	\$ (77)	\$ (494)	\$ (2,757)

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

## 22. 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 17 and 19).

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

	September 30, 2014	December 31, 2013
<b>Balances Outstanding</b>		
Payable to key management personnel	\$ 309	\$ 119

Key management personnel compensation comprises:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Short-term employee benefits	\$ 234	\$ 180	\$ 900	\$ 682
Share-based payments - options	183	6	254	124
Share-based payments - Share Bonus Plan	-	49	-	66
	\$ 417	\$ 235	\$ 1,154	\$ 872



## Notes to the Condensed Consolidated Financial Statements

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

### Balances and Transactions with Nuinsco 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. The Company served notice of termination on September 5, 2014; accordingly, the management agreement will cease around the end of February 2015. The Company expects to replace the management agreement with a cost-sharing agreement with Nuinsco.

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

	<b>September 30,</b>		December 31,	
	<b>2014</b>		2013	
<b>Balances Outstanding under the Management Agreement</b>				
Payable to Nuinsco Resources Limited	\$	28	\$	56
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
<b>Transaction Values under the Management Agreement</b>				
Overhead charges from Nuinsco Resources Limited	\$	190	\$	204
Overhead charges to Nuinsco Resources Limited	\$	-	\$	2
Project costs charged to Nuinsco Resources Limited	\$	7	\$	8
Project recoveries charged by Nuinsco Resources Limited	\$	24	\$	11
			\$	549
			\$	17
			\$	20
			\$	53
			\$	30
			\$	14

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 15.

## 23. COMPANY ENTITY

### Significant Subsidiary - Victory Silica

On June 19, 2012, the Company announced a new initiative and created Victory Silica which is part of the Frac Sand Segment. 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.

Significant production and sales volumes were achieved during the second quarter of 2014 thus the 7P Plant was no longer considered to be pre-operating. Consequently, operating results commenced being reported and amortization of the 7P Plant commenced in the second quarter of 2014. Full commissioning of the 7P Plant occurred in August, 2014.



## Notes to the Condensed Consolidated Financial Statements

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

	September 30, 2014	December 31, 2013
<b>Victory Silica Ltd.</b>		
Current assets	\$ 26	\$ 81
Current liabilities	\$ 140	\$ 277
Pre-operating costs	\$ 214	\$ 520

### 24. 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 \$1,539,000 as at September 30, 2014.

### 25. SUBSEQUENT EVENTS

#### Financing

On October 1, 2014, the Company completed the arrangement of short-term financing by way of a promissory note amounting to US\$2,000,000. An advance of US\$250,000 pursuant to that financing was received on September 30, 2014 pending documentation. The promissory note bears interest at an annual rate of 28% and is due on December 1, 2014. The promissory note has been fully drawn down.

#### Option of Lynn Lake

On November 4, 2014, the Company announced it had optioned its Lynn Lake property to Corazon, an Australian public company (ASX: CZN).



**VICTORY NICKEL INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS  
ENDED SEPTEMBER 30, 2014**

**DATED NOVEMBER 7, 2014**

## **VICTORY NICKEL INC.**

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

#### **For the Three and Nine Months ended September 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 November 7, 2014 consolidates management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 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 nine months ended September 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](http://www.sedar.com) and at the Company's website [www.victorynickel.ca](http://www.victorynickel.ca). All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

#### **COMPANY OVERVIEW**

Victory Nickel is a Canadian producer of high-quality "Northern White" frac sand sourced from Wisconsin, US, through its wholly-owned subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica"). Northern White occurs predominantly in the US Mid-West and generally exceeds American Petroleum Institute ("API") specifications. For this reason, it is a highly-desirable and preferred frac sand. Frac sand is used as a proppant in the oil and gas industry which enhances the recovery from oil and gas wells. The Company's frac sand processing facilities are located in Seven Persons, Alberta and comprise a wet plant with capacity of approximately 120,000 tons per annum ("tpa") which requires minimal investment to become operational and a fully-operational dry plant with a nominal capacity of 500,000 tpa (the 7P Plant). In addition to the significant sand resource at its Minago project in Manitoba, the Company has optioned approximately 300 acres in the sand-producing area of Wisconsin. The Company is now considering constructing a wet plant in Wisconsin or Minnesota and is also completing preliminary studies to build a second 1,000,000 tpa dry plant in Winnipeg, Manitoba.

Crucial to the success of its frac sand operations is the Company's ability to build a solid customer base within an economic distance of its production facilities. To date, the Company has been able to establish itself as a preferred supplier in the areas around Medicine Hat, Alberta through spot-market sales and has completed a fixed term contract for approximately 2,000 tons per week. The Company is significantly advanced on completing an additional two-year contract for similar quantities. These two contracts will represent approximately 40% of the 7P Plant's capacity. The Company's 7P Plant is located in close proximity to drilling activity in Alberta, BC, Saskatchewan and North Dakota, allowing customers to purchase sand FOB the 7P Plant and use their own trucks to deliver to the wellhead or, alternatively, to have the Company deliver sand directly to the wellhead. A small portion is delivered by rail.

The Company was formed on February 1, 2007 as 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. 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 recently optioned its Lynn Lake property to Corazon Mining Ltd. ("Corazon") an Australian public company (ASX: CZN).

The Company's decision to enter the frac sand business was initially based on the need to highlight the value of the frac sand as a co-product at its Minago nickel project in Manitoba. Based on the FS, approximately 11 million tonnes of frac sand will be produced from within the Minago pit footprint. The frac sand is a significant contributor to the economics of the Minago project. 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 has

established itself as a frac sand producer by acquiring concentrated sand in Wisconsin, US and processing it into four finished frac sand products at the 7P Plant. 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. The plant was considered out of commissioning in early August 2014. Sales in the three months ended September 30, 2014, amounted to \$5,949,000 of which \$4,840,000 were made in the two months following commissioning. For the nine months ended September 30, 2014 sales were \$7,377,000.

### **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 September 30, 2014, the Company had a working capital deficiency of \$588,000, (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 began producing and selling frac sand from the 7P Plant; on August 11, 2014, the Company announced that the 7P Plant was commissioned. The SPA Loan is due in July, 2015 and, accordingly, is classified as a current liability, due within one year. The Company has generated operating cash flow during the third quarter of 2014 but not yet at levels sufficient to wholly fund its activities. In July 2014, the Company raised US\$3,000,000 through the issuance of convertible promissory notes – refer to the Liquidity and Capital Resources section. On October 1, 2014, the Company completed the arrangement of short-term financing of receivables by way of a promissory note amounting to US\$2,000,000. An advance of US\$250,000 was received on September 30, 2014 and is included in current liabilities.

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 nickel mining projects to the production stage will require significant financing. Given the current economic climate, the ability to raise funds to finance nickel projects may prove difficult. Refer to the Risks and Uncertainties and Liquidity and Capital Resources sections for additional information.

None of the Company's nickel 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 completed commissioning in August, 2014. It is expected that future cash flow will be 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 2013 and 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 nine months ended September 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\$5,000,000.
- Completed a share consolidation on a one-for-ten basis (the “Share Consolidation”).
- Completed the arrangement of short-term financing by way of a promissory note amounting to US\$2,000,000 to fund accounts receivable.

### 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.
- Continued discussions to create a joint venture on a sand resource in Wisconsin as part of Phase Two.
- Produced 62,740 tons of frac sand at the 7P Plant to September 30, 2014.
- Sold 46,202 tons of frac sand at the 7P Plant to September 30, 2014.
- Entered into contract for 20% of production.
- Optioned Wisconsin frac sand property and began due diligence thereon.
- Added a fourth crew making the 7P Plant a 24/7 operation.

### 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.
- Optioned its Lynn Lake project to Corazon in early November, 2014.

## OUTLOOK

This year is a decisive one for Victory Nickel. As a typical junior resource company with superior nickel projects but no access to financial and capital markets necessary to move these projects forward, the Company had to find an alternative. Waiting for the resource markets to turn around was not considered to be an acceptable option. So in June 2012, the Company announced its intention to enter the frac sand business with a plan that was certainly considered very aggressive and a vision at best. With the efforts of the talented team that was put together under the leadership of Ken Murdock, CEO of Victory Silica, that vision is now a reality. Victory Nickel, through its wholly owned subsidiary Victory Silica is now a producer and distributor of high-quality northern white frac sand for sale into the northern markets of Canada and the U.S. Victory Silica’s product has received universal acceptance in the oil and gas service industry and the Company now boasts a list of leading companies in the industry.

Choosing to enter the frac sand business was not without reason. The strong market fundamentals for frac sand suggested continuing growth of the industry and new public information and strong peer group valuations indicated the availability of near-term cash flow. But the main reason for turning to frac sand was the large domestic resource of frac sand available at the Company’s Minago deposit in Manitoba. The FS completed in 2010 indicated that the frac sand component of the Minago open pit contributed approximately \$2.90 per pound of nickel; a very significant co-product. The sand resource at Minago is not restricted to the footprint of the open pit but extends beyond the pit limit such that it is not unreasonable to expect that there is sufficient sand to last in excess of 100 years at the million ton per year rate of extraction; this would be a new industry for Manitoba.

Phase One of that vision is now complete and the 7P Plant is now staffed with the four crews necessary to operate 24 hours per day seven days a week. The third quarter of 2014 was the first operating quarter and was not without its hurdles. However, the plant is now running at levels which should generate the high returns that are expected. The third quarter was a period of learning and for training of staff as we hired four crews to bring the plant to full production.

Having completed Phase One, we can now move forward to Phase Two of the Company’s three-phase business plan. Today, Victory Nickel has completed the foundation on which to move forward and grow in this exciting and rewarding industry. The third quarter of 2014 has proven that Victory’s business model works and that we are able to produce,



supply and distribute frac sand to markets that would not otherwise have access to the highest quality sand from Wisconsin. We are the only company producing this sand located in centre of the Alberta Bakken. Customers no longer need to move large quantities of sand from Wisconsin by rail but can now have truck access directly to the wellhead, where they need it.

Northern White sand is noted for its purity and strength and, as a result, is in extremely-high demand regardless of the state of the market. Not that the market is a concern. Forecasted growth continues to expand. The amount of sand being used per well continues to increase as oil and gas companies realize that using more sand results in extracting more oil and gas. The increasing number of wells, increasing frac intensity and increasing sand intensity suggest an annual growth rate in excess of almost 22% going into 2017. As of yet, all indications are that reductions in oil prices have had minimal impact on the frac sand business.

Phase Two of the Company's three phase plan is to build a wash plant on a Wisconsin sand resource. Frac sand production is a two-stage process; the wet stage and the dry stage. The Company now contracts out the wet stage which is completed in Wisconsin prior to shipping the wet sand to its plant in Alberta. The wet stage removes the fines and clays, allowing transport of only the coarser fractions. The dry stage, where the sand is dried and separated into four products of different sizes, is completed at the Company's 7P Plant a 500,000 tpa dry processing facility. This is of great advantage in maintaining the high quality of the sand. By dry processing and finishing close to markets, where customers can ship directly to the wellhead by truck, Victory Nickel's finished product is only handled once rather than five or six times as is the case with most Wisconsin sand. Every time finished product is handled, the quality deteriorates. Our customers have recognized the need to maintain the high quality which, importantly, makes quality one of Victory Nickel's key competitive advantages.

The three-phase approach to entry into the business was designed to minimize risk to Victory Nickel shareholders. The cost of entry with Phase One was approximately \$5,570,000, or less than \$12 per ton of annual production. This represents approximately 30% of the expected capital required to build a plant. The capital recovery period is generally in excess of two years. In Victory Nickel's case, this period is approximately six months at full production levels.

Phase Three of the business plan is to build a second dry processing facility in Winnipeg, Manitoba. Several sites have been identified and the Company is working with YES! Winnipeg to select the most appropriate location. The Company is targeting a site which is serviced by multiple rail carriers. This gives the Company more flexibility in accessing only the highest quality sand from the Wisconsin/Minnesota region. The plan is to build a 1,000,000 tpa plant which would initially be fed with Northern White sand. However, the ultimate plan is to provide customers with a variety of qualities which would include domestic sand, possibly from the Company's Minago project in Manitoba which has been permitted and is ready for development when the price of nickel recovers. The Minago project is a nickel project overlain by overburden which includes sand meeting the frac sand specs. The Winnipeg formation sand is the highest-quality domestic sand and would be a welcome addition to the Company's mix of products. Not all of our customers' applications require the best quality sand.

The future is here and these three projects represent only a small segment of the numerous opportunities for Victory Nickel to expand its presence in the highly lucrative frac sand industry. The industry is relatively new and the requirements of our customers are changing every day. Our goal is to provide the sand they need, where they need and when they need it. Victory Nickel will continue to work closely with its customers with a view to meeting our customers' changing needs together.

### **Nickel Assets**

The Company owns four advanced sulphide nickel projects; three in Manitoba and one in Quebec. A feasibility study of Minago, our main project, was completed in 2009 and permits for development were received in 2011. The Minago project is ready for development. As we await improvement in the price of nickel, forecasted to occur in the 2015-2016 period, the Company is reviewing the FS with a view to improving the model for development. Three improvements have been identified to date including the relocation of the tailings impoundment facility, drainage of surface water and removal of 11 million tonnes of muskeg overburden by conventional means rather than by the more expensive dredging method included in the FS. We continue to look for improvements. Discussions are ongoing with potential nickel partners to assist in the financing and development of Minago. Quantifying the value of the frac sand by getting into the business in advance of the Minago development should add certainty to the value of the frac sand co-product at Minago and make financing possible.

The Company recently announced the optioning out of its Lynn Lake nickel project in northern Manitoba. The project is being combined with another adjacent project with a view to increasing the value of both projects. The Lynn Lake project will now receive more focused attention than Victory Nickel was prepared to give it in the near term.

**RESULTS OF OPERATIONS****Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013**

Three months ended September 30, 2014	Corporate	Exploration and Development	Frac Sand	Total	2013 Total
<b>Revenues</b>	\$ -	\$ -	\$ 5,949	\$ 5,949	\$ -
Cost of goods sold	-	-	(5,199)	(5,199)	-
<b>Gross margin</b>	-	-	750	750	-
<b>Operating expenses</b>					
General and administrative	(470)	(8)	(153)	(631)	(238)
Share-based payments:	-	-	-	-	-
Options	(256)	-	-	(256)	(45)
Share Bonus plan	-	-	-	-	(26)
Amortization of property, plant and equipment	(4)	-	(186)	(190)	(10)
(Writedown) recovery of E and E projects	-	(26)	-	(26)	148
Pre-exploration costs	-	(4)	-	(4)	-
Net frac sand pre-operating costs	-	-	-	-	(346)
<b>Operating (loss) income</b>	(730)	(38)	411	(357)	(517)
Finance income	1,074	-	-	1,074	7
Finance costs	(1,344)	-	(9)	(1,353)	(76)
<b>Net finance costs</b>	(270)	-	(9)	(279)	(69)
<b>(Loss) income before income taxes</b>	(1,000)	(38)	402	(636)	(586)
Income tax recovery	228	-	-	228	65
<b>Net (Loss) Income for the Period</b>	\$ (772)	\$ (38)	\$ 402	\$ (408)	\$ (521)

**Overall**

For the three months ended September 30, 2014, the Company had a net loss of \$408,000, or a loss of \$0.01 per share, (September 30, 2013 – net loss of \$521,000 or a loss of \$0.01 per share (after giving retroactive effect to the Share Consolidation)). This narrative discusses the relevant operations of the Frac Sand and Exploration and Development segments first, then addresses more general and Corporate activities.

**Frac Sand**

The commissioning of the Company's 7P Plant was completed during the third quarter and, during the three-month period, produced 39,121 tons of various grades of frac sand. The first sand was produced in March, 2014, consequently, there is no comparative information for operating items in the Frac Sand Segment in 2013; pre-operating costs of \$346,000 were incurred in the three months ended September 30, 2013.

*Revenues*

Revenues of \$5,949,000 for the three months ended September 30, 2014 were generated from the sale of 34,892 tons of frac sand. The Company was not in production for the comparable quarter of 2013. The three-month period included approximately one month of commissioning. The average sales price per ton of frac sand was \$170.50 for the period – which includes transportation to the wellhead on certain sales. Eliminating the transportation element of revenue, the adjusted sales price per ton of sand was \$149.98.

*Cost of goods sold*

The cost of goods sold includes the cost of concentrated sand purchased in Wisconsin, the cost of delivery to the 7P Plant including handling and transloading costs and the operating cost to dry and screen the concentrated sand into four dry products. Direct plant operating costs are inventoried and charged to cost of goods sold when title to the product passes to the customer. Costs are capitalized as a component of inventory on a normalized basis and are reflected in costs of goods sold when inventory is sold.

The cost of goods sold was \$5,199,000, or \$149.00 per ton of frac sand sold for the three months ended September 30, 2014; this also includes transportation costs to the wellhead. Included in the three month period is approximately one month of commissioning during which time production and sales were below full capacity levels as the plant was not operating at its design level. Training of additional crews continued during the quarter and on October 29, 2014, the Company announced that staffing and training of the fourth and final crew was completed and from that time the plant will operate 24/7.



Concentrated sand is purchased through a long-term supply agreement with a third party at a specified price per ton. For the three months ended September 30, 2014 the cost of washed, concentrated sand included as a component of inventory was \$35.50. Transportation costs including freight charges and fuel surcharges when transporting our sand from Wisconsin to the 7P Plant, transload costs at the source and at the 7P Plant were \$59.70 for the three months ended September 30, 2014. Other elements of cost of goods sold were \$26.55 during the three months ended September 30, 2014 and were primarily comprised of railcar lease payments, operating expenditures at the plant and mobile equipment lease payments. This adds to a finished goods inventory cost of \$121.75 per ton. The difference from that to the cost of goods sold per ton of \$27.25 essentially represents a combination of transportation costs to the wellhead (included in both sales and cost of goods sold) and costs due to start-up such as training of new hires.

All costs other than the plant operating costs included in cost of goods sold are subject to long-term contracts; most of which are denominated in US dollars, therefore average costs include a foreign exchange component.

#### *Gross margin*

The resulting gross margin was \$750,000 for the three months ended September 30, 2014. For the reasons described above, the margin is lower than to be expected once the plant is running consistently at its design levels. The gross margin per ton sold is approximately \$21.49.

#### *Other items*

General and administrative costs for the segment amounted to \$153,000 in the quarter and include a provision for inventory writedown of \$92,000 which was determined by management to be a prudent course of action. We are experiencing some challenges with inventory management controls combined with the impact of newly-trained operators which is not uncommon for operations at early stages in the lifecycle. This is not expected to be a recurrent situation and a provision against inventory was felt to be appropriate. Other costs include senior management remuneration.

Amortization of property, plant and equipment of \$186,000 was recorded in the quarter for items in use at the plant including owned and leased equipment. The plant assets came into use primarily in the second quarter of 2014, at which time amortization commenced. There was no plant in operation in the third quarter of 2013.

#### *Net income*

All of the above items combine to produce net income for the frac sand segment of \$402,000 in the period, after interest expense related to equipment leases of \$9,000.

### **Exploration and Development**

There were no write-downs necessary for impairment of projects in 2013, however, expenditures of \$26,000 on non-core projects were written off in the three months ended September 30, 2014. In addition, there were pre-exploration expenditures of \$4,000 incurred in the three months ended September 30, 2014 (2013 – \$nil). In the quarter ended September 30, 2013, the Company received \$150,000 in receipts under the Lynn Lake option; net of expenditures, \$148,000 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. On November 5, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area.

### **Net loss for the period – Corporate and Total**

The net loss for the three months ended September 30, 2014 for the Company as a whole was \$408,000 compared to \$521,000 for the same period of 2013 after operating expenses totalling \$1,107,000 (2013 - \$517,000), net finance costs of \$279,000 (2013 - \$69,000) and income tax recovery of \$228,000 (2013 - \$65,000). These costs were offset in 2013 by a \$148,000 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.

General and administrative expenses (“G&A”) increased by \$393,000, to \$631,000 from \$238,000, for the three months ended September 30, 2014 and 2013, respectively. G&A expenses directly attributable to the Company’s new frac sand business amounted to \$153,000 and, along with indirect costs attributed to the frac sand business but recorded at Corporate, are the main reason for the increase. In particular, the CEO became a full-time 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 Resources Limited’s (“Nuinsco”) Management Agreement as occurred in 2013.

Other cost increases relate to general investor relations and consulting, again, mostly related to growing the frac sand business. Slightly offsetting the increase are costs under the Management Agreement with Nuinsco which have

decreased by \$14,000 reflecting a slight change in activity. In addition, there were lower expenses associated with securing financing.

As mentioned above, G&A 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 below; these amounted to \$190,000 and \$nil (2013 - \$204,000 and \$2,000 respectively). Costs allocated from Nuinsco pursuant to the Management Agreement are activity related. This arrangement with Nuinsco allowed both companies to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The Company has given termination notice to Nuinsco in accordance with the terms of the Management Agreement. However, it expects to replace it with a cost-sharing agreement with Nuinsco.

The costs of public company compliance for Victory Nickel for the three months ended September 30, 2014 are estimated to be approximately \$205,000, compared with \$176,000 in the three months ended September 30, 2013, calculated on a comparable basis. As described above, costs have increased because of additional investor relations support relating to the frac sand business and increase in directors' fees as a result of increase in meetings. Furthermore, given the increase and change in business activity, the Company elected to engage its auditors to perform a quarterly review on its quarterly financial statements commencing the second quarter.

*Net finance costs*

	<b>Three months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Interest income on bank deposits	\$ -	\$ 6
Net change in fair value of financial liabilities at fair value through operations	<b>1,074</b>	-
Net foreign exchange gain	-	1
<b>Finance income</b>	<b>1,074</b>	<b>7</b>
Interest expense on loans		
Cash settled	<b>410</b>	30
Amortization of loan fees	<b>302</b>	43
Amortization of embedded option derivatives	<b>192</b>	-
Commitment fee	<b>1</b>	3
Loss on adjustment of estimated cash flows	<b>22</b>	-
Net foreign exchange loss	<b>426</b>	-
<b>Finance costs</b>	<b>1,353</b>	<b>76</b>
<b>Net Finance Costs</b>	<b>\$ (279)</b>	<b>\$ (69)</b>

For the three months ended September 30, 2014, net finance costs were \$279,000 (for the three months ended September 30, 2013, net finance costs were \$69,000). The Company considers financing activities, other than those related to equipment leased in the frac sand segment, to be part of the corporate segment.

Finance income increased to \$1,074,000 from \$7,000 in the comparative period; primarily due to the reduction in the value of the embedded option derivatives related to the Company's convertible debt of \$894,000 combined with a \$180,000 reduction in the fair value of the warrants issued in connection with the SPA Loan which have a cashless exercise feature.

Finance costs increased to \$1,353,000 from \$76,000 in the comparative period, mainly due to the interest expense on the loans and convertible notes and related items which are described in more detail below. Cash interest expense was \$410,000 and \$30,000 for the three months ended September 30, 2014 and 2013, respectively. The increase in interest expense during the 2014 period was primarily attributable to interest on the SPA Loan and the Convertible Notes issued to fund the construction and working capital for the frac sand business. Trade accounts receivable and inventory attributable to the frac sand business amounted to an aggregate of \$7,972,000 as at September 30, 2014.

The Company recorded an increase in the fair value of the Participating Interest of \$22,000 as it moves closer to the period when payments will begin due to the passage of time. Changes in assumptions with offsetting effects were made in the quarter: it is expected that the frac sand business will move into Phase Two which has a reduced cap of

\$7,667,124 on the payment of cash flows, however, the probability of those cash flows being required has increased – refer below. As well, the Company incurred \$426,000 in net foreign exchange loss on transactions and balances denominated in US Dollars.

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 One 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 September 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. In particular, the Company revised the probability weightings to 5%, 40% and 55% to the levels of expected cash flows as described above.

As described earlier, the percentage participation in net cash flows is 52.16%; net cash flows are calculated after recoupment of Phase One capital and pre-operating costs and the applicable ceiling for Phase One is \$10,222,831. The Company expects to commence Phase Two of the frac sand plan, in which case, the applicable ceiling of cash flows reduces to \$7,677,124 as explained above. Based on the estimated cash flows described above, payments could commence by October, 2015. Combined with the changes in probabilities, these assumptions resulted in a revised amortized cost carrying amount of the Participating Interest of \$4,524,000 effective September 30, 2014 and, accordingly \$22,000 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 third 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.

The Company has issued several tranches of convertible notes. There are several elements of finance expense associated with these: 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. Convertible notes were issued in 2013 and 2014 with similar terms and requiring similar accounting treatments. Collectively, these are termed the “Convertible Notes”. On July 7, 2014, the Company issued another convertible note under similar terms in the amount of US\$3,000,000.

Aggregate interest settled in cash for the three months ended September 30, 2014 amounted to \$410,000, of which \$242,000 relates to Convertible Notes and \$159,000 relates to the SPA Loan. The balance of interest is on leased mobile equipment and other items. In the prior comparative quarter, \$30,000 of interest was incurred entirely relating to the Amended Loan prior to its conversion to a Participating Interest during the second quarter of 2014.

Amortization of loan fees in the period amounted to \$302,000 with an additional \$192,000 for amortization of a portion of the embedded option derivatives in the Convertible Notes remaining of \$1,617,000 calculated at inception (\$168,000 of which was recorded in 2013). The value of the embedded option derivatives at September 30, 2014 increased by \$226,000 to \$952,000 due to the addition of the convertible note in July partially offset by reductions in the value of the embedded option derivatives and, accordingly, \$894,000 was credited through operations as finance income in the third quarter of 2014.

The embedded option derivatives are calculated using the Black-Scholes option-pricing methodology and are a function of share price, the \$1.00 conversion price (after the retroactive effect of the Share Consolidation), 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 option derivative was de-recognized. The SPA Loan does not contain an embedded option 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 three months ended September 30, 2014, this amounted to \$180,000 in finance income. 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.

*Income tax recovery*

The Company does not allocate income taxes between segments. In the three months ended September 30, 2014, the Company recorded an income tax recovery of \$228,000 (2013 – income tax recovery of \$65,000). 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 \$241,000 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*

Other comprehensive income (“OCI”) in the three months ended September 30, 2014 relates to a decrease of \$116,000 (2013 – decrease of \$19,000) 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 \$15,000 (2013 – income tax recovery of \$3,000). These changes are a result of net market value changes in the Company’s marketable securities.

*Other significant changes*

The changes in other balances not specifically addressed in other sections of this MD&A are described herein.

Cash and cash equivalents have decreased from \$1,423,000 to \$148,000 excluding restricted deposits of \$305,000 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 September 30, 2014 increased from \$381,000 to \$4,699,000 and primarily include \$4,573,000 trade accounts receivable from frac sand sales compared with \$nil as at December 31, 2013. While some balances are in excess of 30-day terms, we do not expect to experience any losses given the quality of our customers. The Company has received payments to date for the majority of its trade accounts receivable outstanding as at September 30, 2014.

Inventory of \$3,399,000 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. Unit costs are approaching normalized levels since the plant is operating steadily.

Property, plant and equipment increased to \$6,785,000 from \$5,279,000 as at December 31, 2013 primarily due to expenditures on the 7P Plant and related leased mobile equipment. 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 \$3,258,000 to \$4,875,000 relates primarily to an increase in trade payables of \$2,318,000 for supplies, transportation and property, plant and equipment for the 7P Plant as well as an increase in accrual for transportation costs of \$278,000. Other payables includes an advance of US\$250,000 (\$280,000) received on September 30, 2014 relating to the short-term financing completed on October 1, 2014.

Victory Nickel has several loans and borrowings; current amounts due within one year amount to \$4,179,000 and long-term liabilities aggregate \$6,178,000; a total increase of \$8,078,000 over the loans and borrowings as at December 31, 2013, of \$2,279,000. 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 US\$4,000,000 was entered into in the second quarter and was fully drawn as at September 30, 2014; the SPA Loan is due on July 30, 2015 and is accordingly now classified as a current liability due within one year. An additional convertible note of US\$3,000,000 was also entered into in the third quarter of 2014. Most of the Company’s debt is denominated in US dollars and that currency strengthened against the Canadian dollar over the period. That strengthening, combined with changes in the embedded option derivatives described earlier, account for the remaining changes in loans and borrowings.

Note 14 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the loans and borrowings 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 \$347,000 (December 31, 2013 - \$408,000) and the short-term lease obligation of \$151,000 (December 31, 2013 - \$160,000) is included in *Trade and other payables* as described above. Note 16 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the lease obligation.

The deferred tax liability balance amounts to \$514,000 as at September 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, 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 \$241,000 (December 31, 2013 - \$183,000) in unrecognized deferred tax assets in relation to Victory Silica.

The share capital balance has increased to \$52,470,000 as at September 30, 2014 (December 31, 2013 - \$51,907,000). On September 12, 2014, the Company consolidated its common shares on a one-for-ten basis (the "Share Consolidation"); any reference to the numbers of common shares, options and warrants, weighted average number and per share information has been adjusted retroactively to be comparable using that basis as if the Share Consolidation had been effective on the first day of the reporting period referred to in this MD&A.

The increase in share capital of \$563,000 was primarily due to the exercise of 463,000 options (after giving retroactive effect to the Share Consolidation) in the first quarter of 2014 generating cash of \$220,000 and requiring a transfer from contributed surplus to share capital of \$158,000. As well, 443,071 shares (after giving retroactive effect to the Share Consolidation) were issued during the third quarter upon the exercise of warrants issued as part of the rights offering completed in July 2013 generating cash of \$155,000 and requiring a transfer from contributed surplus to share capital of \$32,000.

Contributed surplus has increased to \$5,592,000 from \$5,441,000 primarily as a result of options vesting and warrants granted during the period of \$340,000 and \$620,000, respectively, partly offset by transfers to share capital as mentioned above for options and warrants exercised during the period.

### ***Nine Months Ended September 30, 2014 Compared With Nine Months Ended September 30, 2013***

Nine months ended September 30, 2014	Exploration and			Total	2013 Total
	Corporate	Development	Frac Sand		
<b>Revenues</b>	\$ -	\$ -	\$ 7,377	\$ 7,377	\$ -
Cost of goods sold	-	-	(6,786)	(6,786)	-
<b>Gross margin</b>	-	-	591	591	-
<b>Operating expenses</b>					
General and administrative	(1,573)	(19)	(426)	(2,018)	(981)
Share-based payments:					
Options	(341)	-	-	(341)	(188)
Share Bonus plan	-	-	-	-	(43)
Amortization of property, plant and equipment	(5)	-	(421)	(426)	(13)
(Writedown) recovery of E and E projects	-	(54)	-	(54)	392
Pre-exploration costs	-	(4)	-	(4)	-
Net frac sand pre-operating costs	-	-	(214)	(214)	(503)
<b>Operating loss</b>	<b>(1,919)</b>	<b>(77)</b>	<b>(470)</b>	<b>(2,466)</b>	<b>(1,336)</b>
Finance income	995	-	-	995	11
Finance costs	(2,262)	-	(24)	(2,286)	(192)
<b>Net finance costs</b>	<b>(1,267)</b>	<b>-</b>	<b>(24)</b>	<b>(1,291)</b>	<b>(181)</b>
<b>Loss before income taxes</b>	<b>(3,186)</b>	<b>(77)</b>	<b>(494)</b>	<b>(3,757)</b>	<b>(1,517)</b>
Income tax recovery	1,000	-	-	1,000	252
<b>Net Loss for the Period</b>	<b>\$ (2,186)</b>	<b>\$ (77)</b>	<b>\$ (494)</b>	<b>\$ (2,757)</b>	<b>\$ (1,265)</b>



## Overall

For the nine months ended September 30, 2014, the Company had a net loss of \$2,757,000, or a loss of \$0.05 per share compared with a net loss of \$1,265,000 or \$0.03 per share (after giving retroactive effect to the Share Consolidation) for the nine months ended September 30, 2013. This narrative discusses the relevant operations of the Frac Sand and Exploration and Development segments first, then addresses more general and Corporate activities.

## Frac Sand

The commissioning of the Company's 7P Plant was completed during August 2014 and, during the nine-month period ended September 30, 2014, produced 62,740 tons of various grades of frac sand.

### *Revenues*

The Company recognized revenue on frac sand sales in the second and third quarter aggregating \$7,377,000; \$274,000, representing 1,840 tons, was billed to customers in the first quarter of 2014 but was netted against pre-operating expenditures in that period, however, it must be considered in any analysis of per ton information and has been adjusted from the analysis reported below. During the commissioning stage, until August of 2014, the 7P Plant operated at below capacity levels. As a result, the cost of goods sold per ton is likely higher than it would be under normal operating parameters. However, a gross margin of \$591,000 was realized for the period. Inventories of finished sand are priced using normalized costs thus do not bear an inordinate proportion of costs.

Production at the 7P Plant ramped up during the plant commissioning and significantly increased during the third quarter after plant commissioning was completed in August of 2014. The plant produced 59,565 tons during the second and third quarters, resulting in sales revenue of \$7,377,000 (on 44,362 tons sold) and increasing inventory holdings. In the first quarter of 2014, pre-operating costs for the period of \$214,000 were recorded net of sales revenue of \$274,000 which represented 1,840 tons of billings with production of 3,175 tons.

The average sales price per ton of frac sand sold in the period and recorded as revenue was \$166.29 for the period – which includes transportation to the wellhead on certain sales.

### *Cost of goods sold*

The cost of goods sold was \$6,786,000, or \$152.97 per ton of frac sand sold for the nine months ended September 30, 2014; this also includes transportation costs to the wellhead of \$751,000. As reported earlier, included in the period is approximately one month of commissioning during which time production and sales were below full capacity levels as the plant was not operating at its design level.

As at September 30, 2014, based on third quarter information, finished goods inventory cost was \$121.75 per ton. The balance of the cost of goods sold per ton of \$31.22 essentially represents a combination of transportation costs to the wellhead (included in both sales and cost of goods sold) and start-up costs including training. Note that the same balance per ton reported for the third quarter was \$27.25 thereby confirming the assertion that improvements in operating costs are being achieved.

All costs other than the plant operating costs included in cost of goods sold are subject to long-term contracts; most of which are denominated in US dollars, therefore average costs include a foreign exchange component.

### *Gross margin*

The resulting gross margin was \$591,000 for the nine months ended September 30, 2014. For the reasons described above, the margin is lower than to be expected once the plant is running consistently at its design levels. The gross margin per ton sold is approximately \$13.32 (note that the margin achieved in Q3 alone was \$21.49, reflecting the move from commissioning towards regular operations).

### *Other items*

G&A expenses of \$426,000 include a provision for inventory writedown of \$92,000 was determined by management to be a prudent course of action. We are experiencing some challenges with inventory management controls combined with the impact of newly-trained operators which is not uncommon for operations at early stages in the lifecycle. This is not expected to be a recurrent situation and a provision against inventory was felt to be appropriate. Other costs include senior management remuneration including an accrued bonus dependent on the success of Phase One of the frac sand operations.

Amortization of property, plant and equipment of \$421,000 was recorded in the period for items in use at the plant including owned and leased equipment. The plant assets came into use primarily in the second quarter of 2014, at which time amortization commenced. There was no plant in operation in the third quarter of 2013.

## Exploration and Development

There were no write-downs necessary for impairment of projects in 2013, however, expenditures of \$54,000 on non-core projects were written off in the nine months ended September 30, 2014. In addition, there were pre-exploration expenditures of \$4,000 incurred in the period (2013 – \$nil). In the nine months ended September 30, 2013, the Company received \$400,000 in receipts under the Lynn Lake option; net of expenditures, \$392,000 was recorded as recovery of exploration and evaluation project. On November 4, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area.

## Net loss for the period – Corporate and Total

The net loss for the nine months ended September 30, 2014 for the Company was \$2,757,000 compared to \$1,265,000 for the same period of 2013 after operating expenses totalling \$3,057,000 (2013 - \$1,336,000), net finance costs of \$1,291,000 (2013 - \$181,000) and income tax recovery of \$1,000,000 (2013 - \$252,000). These costs were offset in 2013 by a \$392,000 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.

G&A expenses increased by \$1,037,000 in 2014 to \$2,018,000 compared to the same period of 2013. The main reason for the increase is for staff costs; as described earlier, the CEO salary is now borne fully by Victory Nickel and bonuses of approximately \$260,000 related to the frac sand business. This compares to bonuses of \$54,000 in 2013. The overhead allocation from Nuinsco, despite the change in how the CEO's salary was charged, has increased by \$32,000 to \$549,000 as a result of increased activity supporting Victory Nickel and its frac sand initiative. Other increases were in general investor relations, consulting, travel costs, health benefits, and director costs, offset by lower costs of securing financing.

The costs of public company compliance for Victory Nickel are mitigated by sharing arrangements under the Management Agreement with Nuinsco but are still significant. In the nine months ended September 30, 2014 they are estimated to be \$708,000 compared with \$602,000 for 2013 on a comparable basis. The increase is due to higher investor relations support involved in educating stakeholders about the frac sand business as well as increased compliance costs as the Company engaged its auditors to perform a review on its interim financial statements effective with second quarter reporting.

## Net finance costs

	Nine months ended September 30,	
	2014	2013
Interest income on bank deposits	\$ 1	\$ 11
Net change in fair value of financial liabilities at fair value through operations	994	-
<b>Finance income</b>	<b>995</b>	<b>11</b>
Interest expense on loans		
Cash settled	837	90
Amortization of loan fees	510	90
Amortization of embedded option derivatives	303	-
Commitment fee	3	9
Loss on adjustment of estimated cash flows	294	-
Net foreign exchange loss	339	3
<b>Finance costs</b>	<b>2,286</b>	<b>192</b>
<b>Net Finance Costs</b>	<b>\$ (1,291)</b>	<b>\$ (181)</b>

For the nine months ended September 30, 2014, net finance costs were \$1,291,000 (for the nine months ended September 30, 2013, net finance costs were \$181,000). The Company considers financing activities, other than those related to equipment leased in the frac sand segment, to be part of the corporate segment.

Finance income increased to \$995,000 from \$11,000 in the comparative period; primarily due to the reduction in the value of the embedded option derivatives related to the Company's convertible debt of \$834,000 combined with a \$160,000 reduction in the fair value of the warrants issued in connection with the SPA Loan which have a cashless exercise feature. Both of these instruments and their accounting are described above and most of the changes in the period were incurred in the third quarter.

Finance costs increased to \$2,286,000 from \$192,000 in the comparative period, mainly due to the interest expense on the loans and convertible notes and related items which are described in more detail below. Cash interest expense was \$837,000 and \$90,000 for the nine months ended September 30, 2014 and 2013, respectively. The increase in interest expense during the 2014 period was primarily attributable to interest on the SPA Loan and the Convertible Notes issued to fund the construction and working capital for the frac sand business. Trade accounts receivable and inventory attributable to the frac sand business amounted to an aggregate of \$7,972,000 as at September 30, 2014. In 2013, the only debt related to the predecessor loan to the Participating Interest.

The Company recorded an increase in the fair value of the Participating Interest of \$294,000 to \$4,524,000 as it moves closer to the period when payments will begin due to the passage of time; the accounting for this item is described fully in the discussion on the three months ended September 30, 2014. The estimated cash flows are now based on the Company commencing Phase Two of the frac sand plan and a significantly changed probability-weighted estimate of cash flows to approximately 73% from 55%. This is a Level 3 methodology and is subject to the highest level of uncertainty. As well, the Company incurred \$339,000 in net foreign exchange loss on transactions and balances denominated in US Dollars.

We remarked in the first quarter MD&A that whether any increases in values of financial instruments 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.

#### *Income tax recovery*

The Company does not allocate income taxes between segments. In the nine months ended September 30, 2014, the Company recorded an income tax recovery of \$1,000,000 (2013 – income tax recovery of \$252,000). 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.

#### *Other comprehensive income*

Other comprehensive income (“OCI”) in the nine months ended September 30, 2014 relates to a decrease of \$58,000 (2013 – decrease of \$254,000) 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 \$7,000 (2013 – income tax recovery of \$35,000). These changes are a result of net market value changes in the Company’s marketable securities. There were no sales of securities in the nine months ended September 30, 2014; sales generated \$59,000 of proceeds during the comparative period.

## **SUMMARY OF QUARTERLY RESULTS**

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

<u>Fiscal year 2014</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>	
Revenue	\$ 5,949 <sup>(1)</sup>	\$ 1,428 <sup>(1)</sup>	\$ -	
Gross margin (loss)	\$ 750 <sup>(2)</sup>	\$ (159) <sup>(2)</sup>	\$ -	
Net finance costs	\$ (279) <sup>(3)</sup>	\$ (51) <sup>(5)</sup>	\$ (961) <sup>(7)</sup>	
Net loss	\$ (408) <sup>(4)</sup>	\$ (754) <sup>(6)</sup>	\$ (1,595) <sup>(8)</sup>	
Total comprehensive loss	\$ (509)	\$ (787)	\$ (1,512)	
Loss per share - basic and diluted <sup>(18)</sup>	\$ (0.01)	\$ (0.01)	\$ (0.03)	
<u>Fiscal year 2013</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Net finance costs	\$ (3,614) <sup>(9)</sup>	\$ (69)	\$ (75)	\$ (37)
Net loss	\$ (3,839) <sup>(10)</sup>	\$ (521)	\$ (429)	\$ (315)
Total comprehensive loss	\$ (3,810) <sup>(11)</sup>	\$ (537)	\$ (507)	\$ (440)
Loss per share - basic and diluted <sup>(18)</sup>	\$ (0.07)	\$ (0.01)	\$ (0.01)	\$ (0.01)
<u>Fiscal year 2012</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Net finance (costs) income	\$ (9)	\$ (2)	\$ 2	\$ (4)
Net (loss) income	\$ (139)	\$ 60 <sup>(13)</sup>	\$ (571) <sup>(14)</sup>	\$ 467 <sup>(16)</sup>
Total comprehensive (loss) income	\$ (193) <sup>(12)</sup>	\$ 6	\$ (1,252) <sup>(15)</sup>	\$ 689 <sup>(17)</sup>
(Loss) earnings per share - basic and diluted <sup>(18)</sup>	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ 0.01

(1) Revenue represents sales of frac sand (first sales were recognized in the second quarter).

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

(3) Net finance costs include \$894,000 change in the fair value of the embedded option derivatives related to the Convertible Notes as well as \$22,000 loss on adjustment of estimated cash flows for the Participating Interest.

(4) Includes the effects noted above.



- (5) Net finance costs include \$485,000 change in the fair value of the embedded option derivatives related to the Convertible Notes as well as \$165,000 loss on adjustment of estimated cash flows for the Participating Interest.
- (6) Includes the effects noted in (1), (2), and (5).
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) Total comprehensive loss for the period includes the effects noted above.
- (12) Total comprehensive loss for the period includes \$49,000 net after-tax decline in the market value of securities.
- (13) Net income for the period includes \$450,000 recovery on the Lynn Lake option with Prophecy Platinum.
- (14) Includes an increase in income taxes of approximately \$150,000 which was reversed in the fourth quarter as it was not necessary.
- (15) Total comprehensive loss for the period includes \$681,000 net after-tax decline in the market value of securities.
- (16) Net income for the period includes \$1,000,000 recovery on the Lynn Lake option with Prophecy Platinum.
- (17) 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.
- (18) After the retroactive effect of the Share Consolidation.

### LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2014, the Company had a working capital deficiency of \$588,000, including cash and cash equivalents (but not restricted cash), receivables and prepaids, marketable securities and inventory and the SPA Loan and accounts payable. As at December 31, 2013, the Company had working capital of \$465,000.

Working capital has decreased from the end of the year despite the fact that the frac sand operation is generating revenue. This is largely because the SPA Loan amounting to \$4,179,000 has been classified as current – due within one year as at September 30, 2014. The Company closed the SPA Loan during the second quarter - refer to Note 14 to the Unaudited Condensed Consolidated Financial Statements and it is due July 30, 2015. On July, 7, 2014, the Company closed a US\$3,000,000 financing under its Convertible Note program.

An advance of US\$250,000 was received on September 30, 2014 relating to a short-term financing arrangement completed on October 1, 2014 by way of promissory note amounting to US\$2,000,000. Refer to Note 25 to the Unaudited Condensed Consolidated Financial Statements. The advance is included in other payables.

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

The 500,000 tpa frac sand plant cost \$4,867,000 and mobile equipment related thereto acquired under leases cost \$703,000. Inventory and trade accounts receivable related to the frac sand business amounted to \$3,399,000 and \$4,573,000, respectively, as at September 30, 2014.

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, calculated after recoupment of Phase One capital and pre-operating costs, 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 One and pre-operating expenses.

Cash payments of \$nil and \$50,000 for interest expense were made in the three and nine months ended September 30, 2014 (2013 - \$30,000 and \$90,000); 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 \$4,524,000 as at September 30, 2014. The change in value of \$294,000 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 October 2015 when Phase 1 capital costs and pre-operating expenditures are expected to have been recovered. The Company significantly increased the probability-weighted estimates applied to varying cash flows to approximately 73% in the period from 55% as well as reducing the cash flow ceiling to \$7,667,124 since it expects to commence Phase Two of the frac sand business plan. The net effect of these assumption changes in the third quarter required an increase in the Participating Interest.

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 2014 of US\$4,750,000 and \$265,000 under similar terms; US\$1,000,000 was extinguished and reissued as a SPA Note. The aggregate principal amount outstanding as at September 30, 2014 is \$6,705,000. 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 \$1.00 per share (after giving retroactive effect to the Share Consolidation). Issuance of the Convertible Notes occurred in tranches.

**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; accordingly, the SPA Loan is classified as a current liability due within one year. 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 2,000,000 common share purchase warrants (after giving retroactive effect to the Share Consolidation). For each US\$1,000,000 advanced under the SPA Loan, the lender is entitled to exercise 500,000 common share purchase warrants (after giving retroactive effect to the Share Consolidation) to acquire shares at \$1.00 per share (after giving retroactive effect to the Share Consolidation) for a period of three years. The number of warrants is subject to an increase to 1,000,000 Warrants (after giving retroactive effect to the Share Consolidation) 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 \$2.00 or lower (after giving retroactive effect to the Share Consolidation) 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 a decrease of \$180,000 in the three months ended September 30, 2014 (a net decrease of \$160,000 since inception) bringing the fair value of the cashless warrants to \$460,000 as at September 30, 2014.

In the three and nine months ended September 30, 2014, the Company paid \$159,000 and \$241,000, respectively, in cash for interest and amortized \$232,000 and \$343,000, respectively, in loan fees into interest income.

**Loan Facility** – on October 1, 2014, the Company completed an arrangement of short-term financing by way of a promissory note amounting up to US\$2,000,000. An advance of US\$250,000 pursuant to that financing was received on September 30, 2014 and is included in other payables. The promissory note bears interest at 28%, calculated and settled monthly, and is due on December 1, 2014. The remaining US\$1,750,000 available was drawn during October 2014.

**Cash flows in the first nine months of 2014** - Cash and cash equivalents as at September 30, 2014 and December 31, 2013 were held with major Canadian banks. The Company has a policy of investing its available cash in Canadian

government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. Marketable securities are available to be sold for liquidity purposes, as the Company requires, providing funds for its operations and activities.

For the nine months ended September 30, 2014, the Company used cash in operating activities of \$6,477,000 (2013 - \$1,131,000). As the Company is in the exploration, evaluation and development stage and continues to ramp up 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 nine months ended September 30, 2014 amounted to \$708,000. Many of these costs are incurred in the early part of the year. In the same period of 2013, such costs were approximately \$602,000, calculated on a comparable basis. Consequently, the Company's liquidity is reduced unless and until there are significant increases in 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 nine months ended September 30, 2014, \$6,786,000 was charged to cost of goods sold and \$214,000 to pre-operating expenses, compared with \$503,000 in the comparative period (with no offsetting revenue). Revenue in 2014 amounted to \$7,377,000 to date.

The adjustment for net finance costs of \$822,000 primarily relates to the non-cash change in the carrying value of the Participating Interest and the embedded option 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. It is presently anticipated that the first payment under the Participating Interest could occur in October 2015.

As operating activity has begun to ramp up, receivables, inventory and trade and other payables have also grown. Receivables – mostly trade accounts receivable from frac sand sales – used \$4,318,000 in working capital and the build-up of inventory used \$3,491,000. The Company is looking to find cost-effective ways of financing future receivables growth and may consider factoring receivables or similar financing tools to manage this growth rather than relying on trade and other payables which provided a source of funds of \$3,408,000 in the period.

During the nine months ended September 30, 2014, net cash used by investing activities was \$2,686,000, compared with cash used of \$1,560,000 in the prior comparable period. Aggregate amounts of \$296,000 and \$86,000 were used to advance the MP&D project and E&E projects, respectively, during the periods (2013 - \$733,000 and \$81,000). In the first nine months of 2014, \$2,250,000 was used for expenditures on the 7P Plant acquisition, equipment and improvements (2013 – \$1,088,000).

During the first nine months of 2013, the Company sold shares for aggregate proceeds of \$59,000. Funds of \$400,000 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 \$54,000 were made in 2014, \$152,000 in 2013.

The Company generated \$7,888,000 in financing activities during the nine months ended September 30, 2014 compared with \$4,487,000 in 2013. In 2014, the main source of funds, \$8,797,000, was from the Convertible Notes and the SPA Loan; in 2013, \$2,500,000 was raised in equity pursuant to a private placement and another \$2,400,000 was raised through a rights offering. Loan interest of \$837,000 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 \$140,000 for mobile equipment used in the frac sand business; there were no such payments in 2013. The Company also deposited \$305,000 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 and \$155,000 received through the exercise of warrants issued as part of the rights offering in July 2013; expenses of \$2,000 were incurred related to the warrants.

The Company's activities during the nine months ended September 30, 2014 used cash and cash equivalents of \$1,275,000, compared with a net increase in cash of \$1,796,000 during the first nine months of 2013.

The Company's remaining portfolio of marketable securities had a market value of \$220,000 as at September 30, 2014 (\$278,000 as at December 31, 2013). An advance of US\$250,000 was received on September 30, 2014 as part of the short-term financing arrangement for US\$2,000,000 completed on October 1, 2014.

#### Table of Contractual Commitments

	Due Date	Currency	September 30, 2014	December 31, 2013
Transformer and electrical equipment	On shipping	US Dollar	\$ 1,346	\$ 1,396
Loans and borrowings (including unpaid accrued interest)				
Amended Loan	January 31, 2015	Canadian Dollar	\$ -	\$ 1,000
Participating Interest	Refer to note below November 11, 2015	Canadian Dollar	\$ -	\$ -
Convertible Notes	to March 24, 2016 January 30, 2016	US Dollar	\$ 5,750	\$ 2,000
Convertible Notes	to March 13, 2016	Canadian Dollar	\$ 265	\$ -
SPA Loan	July 30, 2015	US Dollar	\$ 4,000	\$ -
Promissory Note	December 1, 2014	US Dollar	\$ -	\$ -
Purchase of 7P Plant	Refer to note below	Canadian Dollar	\$ -	\$ -
Leased mobile equipment	Within one year	Canadian Dollar	\$ 179	\$ 190
	One to five years	Canadian Dollar	\$ 373	\$ 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, 463,000 stock options were exercised (after giving retroactive effect to the Share Consolidation) which generated \$220,000 in cash for the Company. Also note that all 11,250,000 of the Company's warrants issued in 2013 (after giving retroactive effect to the Share Consolidation) are "in-the-money" although 10,000,000 (after giving retroactive effect to the Share Consolidation) could not be exercised until July 31, 2014. The 2,000,000 warrants (after giving retroactive effect to the Share Consolidation) issued in 2014 under the SPA Loan are three year warrants exercisable at \$1.00 (after giving retroactive effect to the Share Consolidation); 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 \$0.35 per share (after giving retroactive effect to the Share Consolidation) and could generate \$3,937,500 in cash for the Company. During August and September of 2014, 443,000 warrants (after giving retroactive effect to the Share Consolidation) were exercised which further generated \$155,000 in cash.

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. The SPA Loan, executed in May, 2014, provided a facility of US\$4,000,000 to be used to fund working capital related to the frac sand initiative. This was supplemented on October 1, 2014 by the completion of a short-term financing by way of a promissory note aggregating US\$2,000,000. This was a preliminary step towards the objective of securing receivables financing through factoring or similar initiatives.

Commissioning of the 7P Plant commenced in March until early August. Approximately \$3,629,000 was collected from customers for these sales in the period and inventories valued at \$3,399,000 were built including \$904,000 of finished product. The Company is now at production levels which should generate positive cash flow sufficient to meet operating requirements in the near future.

Using November 7, 2014 prices, the aggregate market value of the Company's marketable securities held in public company shares is approximately \$197,000.



As at November 7, 2014, the Company had options outstanding which could bring in additional funds of approximately \$2,513,000. Most of those instruments are not “in-the-money” and the receipt of such funds cannot be relied upon. Furthermore, the remaining warrants issued under the rights offering and private placement could generate additional cash of \$3,353,000. These warrants are “in-the-money”, approximately \$157,000 of warrants from the rights offering have been 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 21 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 segmented assets. The segmented Statement of Operations has been presented earlier in the MD&A in the discussion of operating results for the three and nine months ended September 30, 2014.

	<b>September 30,</b>	December 31,
	<b>2014</b>	2013
<b>Canada</b>		
Corporate	\$ 1,690	\$ 2,436
Exploration and Development	55,551	55,056
Frac Sand	13,554	3,886
Intersegment elimination	(1,303)	(484)
<b>Total Assets</b>	<b>\$ 69,492</b>	<b>\$ 60,894</b>

## **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 nine months ended September 30, 2014, \$296,000 was incurred on the Minago project (September 30, 2013 - \$695,000).



## 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](http://www.sedar.com). Note that all resources are contained in the Nose Deposit and the update below does not include the results of the 2011 drilling program.

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

<sup>1</sup> Lerch-Grossman pit optimization shell

<sup>2</sup> Whittle pit optimization shell

<sup>3</sup> Nickel in sulphide form

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

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

Importantly, two holes of the 2012 program tested known nickel-bearing serpentinite that underlies mining lease ML-003 approximately 5km south of the Nose Deposit. Thirteen historic drill holes are known to have been drilled by previous operators in the area between 1968 and 1971. Ten of the thirteen holes intersected serpentinitized ultramafic rock, while seven of these holes obtained significant intersections of nickel-mineralized serpentinite from within a body interpreted to be >2 km long. The most extensive intersection, in MXB-70-60, was 605m grading 0.3% Ni from 154m down hole. DDHS V-12-07 and V-12-09 completed 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 nine months ended September 30, 2014, the Company incurred exploration expenditures on its E&E projects of \$161,000 (September 30, 2013 - \$84,000). 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 \$392,000 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. On November 4, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area.

### **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 21 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 produce 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 Plant assets.

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

The 7P Plant was completed in March 2014 followed by commissioning until early August. During commissioning and to September 30, 2014, the 7P Plant produced 62,740 tons of frac sand and, to the end of September 2014, 46,202 tons of this sand was sold. In addition, 7,429 tons of finished goods inventory was built up. Production tonnage includes approximately 8,072 tons of sand which have been included in raw materials inventory. The balance of 37 tons represents losses. The cost to purchase and complete the 7P Plant upgrade was approximately \$4,867,000; \$5,570,000 including the cost of leased equipment (and before amortization). The 7P Plant reached full staff complement early in the fourth quarter with the addition of the fourth crew and is expected to generate positive cash flow in the near future.

The first sales of sand were made in March 2014 and sales revenue of \$1,702,000 was realized from commissioning stage production in the second quarter of which \$274,000 was netted against pre-operating expenses in the first quarter. Revenue to September 30, 2014 amounted to \$7,377,000 with associated cost of goods sold of \$6,786,000. To September 30, 2014, the Company achieved a net margin of \$13.32 per ton sold; on an encouraging note, the net margin achieved for the three months ended September 30, 2014 was \$21.49 which is further indication of operating improvements as the 7P Plant moved through commissioning. As explained, the commissioning stage included inefficiencies which are being resolved through training and experience as well as the positive impact of increased volumes through the plant.

Successful completion of Phase One will now lead to Phase Two which provides for the building of a wash plant in Wisconsin, US followed by Phase Three which provides for the construction of a second dry processing facility in Manitoba with a capacity of approximately 1,000,000 tpa.

## **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 September 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 reasonably assured.

### **Inventory**

Finished products and raw materials inventories are valued at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of processing and other costs incurred in bringing inventories to their present location and condition. 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 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 September 30, 2014, the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at September 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 September 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 September 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 September 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. As the frac sand business is still in the very early stages of the project initiative, changes in day-to-day operations are being experienced and therefore, the processes and controls required are still evolving. Controls around processes that have material impact to the financial statements such as Sales and Inventory are not operating in accordance to the design of the Company's internal control. As a result, mitigating controls for these processes were implemented and reliance was placed on these mitigating controls by management and will continue to be until the frac sand 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 September 30, 2014 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting. However, reliance was placed on mitigating controls around processes that are currently still evolving to reduce risk of material misstatement on the financial statements to an acceptable level.

## 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 September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013 are shown in the following tables:

	September 30, 2014	December 31, 2013
<b>Balances Outstanding</b>		
Payable to key management personnel	\$ 309	\$ 119

Key management personnel compensation comprises:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Short-term employee benefits	\$ 234	\$ 180	\$ 900	\$ 682
Share-based payments - options	183	6	254	124
Share-based payments - Share Bonus Plan	-	49	-	66
	\$ 417	\$ 235	\$ 1,154	\$ 872

### 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. The Company served notice of termination on September 5, 2014; accordingly, the management agreement will cease around the end of February 2015. The Company expects to replace the management agreement with a cost-sharing agreement with Nuinsco.

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

	September 30, 2014	December 31, 2013
<b>Balances Outstanding under the Management Agreement</b>		
Payable to Nuinsco Resources Limited	\$ 28	\$ 56



	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Transaction Values under the Management Agreement</b>				
Overhead charges from Nuinsco Resources Limited	\$ 190	\$ 204	\$ 549	\$ 517
Overhead charges to Nuinsco Resources Limited	\$ -	\$ 2	\$ -	\$ 17
Project costs charged to Nuinsco Resources Limited	\$ 7	\$ 8	\$ 20	\$ 30
Project recoveries charged by Nuinsco Resources Limited	\$ 24	\$ 11	\$ 53	\$ 14

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 15 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:

	September 30, 2014	December 31, 2013
<b>Participating Interest</b>		
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	(59)	(189)
	941	811
Change in fair value	3,583	3,289
<b>Participating Interest</b>	<b>\$ 4,524</b>	<b>\$ 4,100</b>

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 \$nil and \$50,000 for each of the three and nine months ended September 30, 2014 (2013 - \$43,000 and \$90,000) which amounts were paid in cash at the end of each respective quarter.

### OUTSTANDING SHARE DATA

As at November 7, 2014, the Company had 57,615,698 common shares issued and outstanding (after giving retroactive effect to the Share Consolidation). In addition, there were 3,590,000 stock options and 12,800,547 warrants outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 74,006,245 and would generate cash of approximately \$5,866,000 (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 October 1, 2014, the Company completed the arrangement of short-term financing by way of a promissory note amounting to US\$2,000,000. An advance of US\$250,000 pursuant to that financing was received on September 30, 2014 pending documentation. The promissory note bears interest at an annual rate of 28% and is due on December 1, 2014. The promissory note has been fully drawn down.

#### Option of Lynn Lake

On November 4, 2014, the Company announced it had optioned its Lynn Lake property to Corazon, an Australian public company (ASX: CZN).



## **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 expired on August 22, 2014. There is no guarantee that other development work will commence 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 Three 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 completed commissioning during the third quarter 2014. It is expected that cash flow will be generated in the future 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; these phases are independent of the 7P Plant. 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.

**November 7, 2014**