



**VICTORY NICKEL INC.**  
(A Development Stage Entity)

**UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,  
2009 AND 2008**

**DATED NOVEMBER 4, 2009**

**Management's comments on Unaudited Interim Financial Statements**

The accompanying unaudited interim financial statements of Victory Nickel Inc. for the three and nine months ended September 30, 2009 and 2008 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

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

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**BALANCE SHEETS**

|  | <b>September 30,</b><br><b>2009</b> | <b>December 31,</b><br><b>2008</b> |
|--|-------------------------------------|------------------------------------|
| (in thousands of Canadian dollars)                   | (unaudited)                         |                                    |
| <b>ASSETS</b>  |                                     |                                    |
| <b>Current</b>                                       |                                     |                                    |
| Cash and cash equivalents                            | \$ 4,854                            | \$ 4,418                           |
| Marketable securities (Note 6)                       | 666                                 | 450                                |
| Accounts receivable                                  | 308                                 | 653                                |
| Prepaid expenses and deposits                        | 49                                  | 200                                |
| <b>Total Current Assets</b>                          | <b>5,877</b>                        | <b>5,721</b>                       |
| <b>Exploration and Development Projects (Note 7)</b> | <b>33,405</b>                       | <b>31,430</b>                      |
| <b>Property and Equipment (Note 8)</b>               | <b>99</b>                           | <b>116</b>                         |
|  | <b>\$ 39,381</b>                    | <b>\$ 37,267</b>                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |                                     |                                    |
| <b>Current</b>                                       |                                     |                                    |
| Accounts payable and accrued liabilities             | \$ 715                              | \$ 1,899                           |
| Due to Nuinsco Resources Limited (Note 13)           | 28                                  | 18                                 |
| <b>Total Current Liabilities</b>                     | <b>743</b>                          | <b>1,917</b>                       |
| <b>Future Income Taxes (Note 10)</b>                 | <b>1,582</b>                        | <b>-</b>                           |
|  | <b>2,325</b>                        | <b>1,917</b>                       |
| <b>Shareholders' Equity (Note 9)</b>                 |                                     |                                    |
| Share capital  | 38,586                              | 38,264                             |
| Contributed surplus                                  | 3,187                               | 1,857                              |
| Deficit  | (5,127)                             | (4,771)                            |
| Accumulated other comprehensive income (Note 11)     | 410                                 | -                                  |
| <b>Net Shareholders' Equity</b>                      | <b>37,056</b>                       | <b>35,350</b>                      |
|  | <b>\$ 39,381</b>                    | <b>\$ 37,267</b>                   |

**NATURE OF OPERATIONS (Note 1)**

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**STATEMENTS OF OPERATIONS**

| (in thousands of Canadian dollars, except per share amounts) | Three Months Ended September 30, |                    | Nine Months Ended September 30, |                    |
|--|----------------------------------|--------------------|---------------------------------|--------------------|
|  | 2009                             | 2008               | 2009                            | 2008               |
|  | (unaudited)                      | (unaudited)        | (unaudited)                     | (unaudited)        |
| <b>Revenue</b>   |                                  |                    |                                 |                    |
| Interest income  | \$ 9                             | \$ 41              | \$ 54                           | \$ 195             |
| Gain on sale of marketable securities                        | 211                              | -                  | 232                             | -                  |
|  | 220                              | 41                 | 286                             | 195                |
| <b>Costs and Expenses</b>                                    |                                  |                    |                                 |                    |
| General and administrative (Note 13)                         | 220                              | 470                | 1,017                           | 1,430              |
| Stock option compensation (Note 9)                           | 12                               | 103                | 218                             | 258                |
| Amortization of property and equipment                       | 11                               | -                  | 17                              | -                  |
|  | 243                              | 573                | 1,252                           | 1,688              |
| <b>Loss before the Undernoted</b>                            | <b>(23)</b>                      | <b>(532)</b>       | <b>(966)</b>                    | <b>(1,493)</b>     |
| <b>Future Income Tax (Recovery) Provision (Note 10)</b>      | <b>(58)</b>                      | <b>11</b>          | <b>(610)</b>                    | <b>-</b>           |
| <b>Net Income (Loss) for the Period</b>                      | <b>\$ 35</b>                     | <b>\$ (543)</b>    | <b>\$ (356)</b>                 | <b>\$ (1,493)</b>  |
| <b>Income (Loss) per Share - Basic and Diluted</b>           | <b>\$ 0.00</b>                   | <b>\$ (0.00)</b>   | <b>\$ (0.00)</b>                | <b>\$ (0.01)</b>   |
| <b>Weighted Average Common Shares Outstanding</b>            | <b>294,324,000</b>               | <b>189,281,000</b> | <b>272,708,000</b>              | <b>180,998,000</b> |

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| (in thousands of Canadian dollars)                | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                   |
|---|----------------------------------|-------------------|---------------------------------|-------------------|
|   | 2009                             | 2008              | 2009                            | 2008              |
|   | (unaudited)                      | (unaudited)       | (unaudited)                     | (unaudited)       |
| Net income (loss) for the period                  | \$ 35                            | \$ (543)          | \$ (356)                        | \$ (1,493)        |
| Other comprehensive income (loss) (Note 11)       | 110                              | (1,564)           | 410                             | (1,500)           |
| <b>Comprehensive Income (Loss) for the Period</b> | <b>\$ 145</b>                    | <b>\$ (2,107)</b> | <b>\$ 54</b>                    | <b>\$ (2,993)</b> |

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**STATEMENTS OF CASH FLOWS**

| (in thousands of Canadian dollars)                        | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                 |
|---|----------------------------------|-----------------|---------------------------------|-----------------|
|   | 2009                             | 2008            | 2009                            | 2008            |
|   | (unaudited)                      | (unaudited)     | (unaudited)                     | (unaudited)     |
| <b>Cash from (used by)</b>                                |                                  |                 |                                 |                 |
| <b>Operating Activities</b>                               |                                  |                 |                                 |                 |
| Net income (loss) for the period                          | \$ 35                            | \$ (543)        | \$ (356)                        | \$ (1,493)      |
| Items not affecting cash:                                 |                                  |                 |                                 |                 |
| Stock option compensation                                 | 12                               | 103             | 218                             | 258             |
| Other stock-based compensation                            | -                                | 32              | -                               | 97              |
| Amortization  | 11                               | -               | 17                              | -               |
| Gain on sale of marketable securities                     | (211)                            | -               | (232)                           | -               |
| Future income tax (recovery) provision                    | (58)                             | 11              | (610)                           | -               |
| Change in non-cash working capital (Note 12)              | 71                               | (972)           | 538                             | 25              |
| <b>Cash used by operating activities</b>                  | <b>(140)</b>                     | <b>(1,369)</b>  | <b>(425)</b>                    | <b>(1,113)</b>  |
| <b>Financing Activity</b>                                 |                                  |                 |                                 |                 |
| Issue of common shares                                    | 3,780                            | 7,689           | 3,717                           | 7,730           |
| <b>Cash from financing activity</b>                       | <b>3,780</b>                     | <b>7,689</b>    | <b>3,717</b>                    | <b>7,730</b>    |
| <b>Investing Activities</b>                               |                                  |                 |                                 |                 |
| Exploration and development projects                      | (912)                            | (1,318)         | (3,282)                         | (9,264)         |
| Proceeds from sale of marketable securities               | 383                              | -               | 426                             | -               |
| Purchase of marketable securities                         | -                                | -               | -                               | (2,490)         |
| Deferred acquisition costs of Independent (Note 5)        | -                                | (317)           | -                               | (317)           |
| <b>Cash used by investing activities</b>                  | <b>(529)</b>                     | <b>(1,635)</b>  | <b>(2,856)</b>                  | <b>(12,071)</b> |
| <b>Net Increase (Decrease) in Cash During the Period</b>  | <b>3,111</b>                     | <b>4,685</b>    | <b>436</b>                      | <b>(5,454)</b>  |
| <b>Cash and Cash Equivalents, Beginning of the Period</b> | <b>1,743</b>                     | <b>2,746</b>    | <b>4,418</b>                    | <b>12,885</b>   |
| <b>Cash and Cash Equivalents, End of the Period</b>       | <b>\$ 4,854</b>                  | <b>\$ 7,431</b> | <b>\$ 4,854</b>                 | <b>\$ 7,431</b> |

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**STATEMENTS OF SHAREHOLDERS' EQUITY**

| (unaudited)<br>(in thousands of Canadian dollars)             | Share Capital       |                  | Contributed<br>Surplus | Deficit           | Accumulated<br>Other<br>Comprehensive<br>Income | Total            |
|---|---------------------|------------------|------------------------|-------------------|---|------------------|
|   | Number of<br>Shares | Amount           |                        |                   |   |                  |
| <b>Balance as at December 31, 2007</b>                        | <b>176,641,881</b>  | <b>\$ 27,606</b> | <b>\$ 1,360</b>        | <b>\$ (2,228)</b> | <b>\$ -</b>                                     | <b>\$ 26,738</b> |
| Issued on acquisition of Independent<br>Nickel Corp. (Note 5) | 66,675,103          | 6,166            | 186                    | -                 | -   | 6,352            |
| Private placement   | 18,046,700          | 7,689            | -                      | -                 | -   | 7,689            |
| Options exercised   | 150,000             | 41               | -                      | -                 | -   | 41               |
| Shares issued under Share Bonus Plan                          | 196,125             | 97               | -                      | -                 | -   | 97               |
| Options granted and vesting                                   | -                   | -                | 311                    | -                 | -   | 311              |
| Flow-through share renunciation                               | -                   | (3,335)          | -                      | -                 | -   | (3,335)          |
| Net loss for the year   | -                   | -                | -                      | (2,543)           | -   | (2,543)          |
| <b>Balance as at December 31, 2008</b>                        | <b>261,709,809</b>  | <b>38,264</b>    | <b>1,857</b>           | <b>(4,771)</b>    | <b>-</b>  | <b>35,350</b>    |
| Options granted and vesting                                   | -                   | -                | 218                    | -                 | -   | 218              |
| Flow-through share renunciation                               | -                   | (2,192)          | -                      | -                 | -   | (2,192)          |
| Shares and warrants issued under<br>rights offering           | 65,489,952          | 2,432            | 1,146                  | -                 | -   | 3,578            |
| Options exercised   | 950,000             | 82               | (34)                   | -                 | -   | 48               |
| Net loss for the period                                       | -                   | -                | -                      | (356)             | -   | (356)            |
| Other comprehensive income                                    | -                   | -                | -                      | -                 | 410   | 410              |
| <b>Balance as at September 30, 2009</b>                       | <b>328,149,761</b>  | <b>\$ 38,586</b> | <b>\$ 3,187</b>        | <b>\$ (5,127)</b> | <b>\$ 410</b>                                   | <b>\$ 37,056</b> |

The accompanying notes are an integral part of these financial statements

## NOTES TO FINANCIAL STATEMENTS

(A Development Stage Entity)

September 30, 2009 and 2008 (unaudited)

(all tabular amounts are in thousands of Canadian dollars)

### 1. NATURE OF OPERATIONS

The Company is primarily engaged in the acquisition, exploration and development of nickel properties in Canada. The Company conducts its activities on its own or participates with others on a joint venture basis.

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

None of the Company's exploration or development projects have commenced commercial production and accordingly the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of exploration and development projects, and ultimately the Company's ability to continue as a going concern, is dependent upon the discovery of economically recoverable reserves and resources, the Company's ability to finance development of its projects through debt or equity financings and achieving future profitable production, or alternatively upon the profitable disposal of projects.

Should the Company not be able to discover economically recoverable reserves, 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 Canadian generally accepted accounting principles ("GAAP").

On July 31, 2009, Nuinsco Resources Limited ("Nuinsco"), the Company's then largest and founding shareholder entered into an agreement with Jien International Investment, Ltd. ("JIIL"), a Canadian subsidiary of Jilin Jien Nickel Industry Co., Ltd. ("Jilin Jien") to sell its entire shareholding of the Company's shares.

### 2. BASIS OF PRESENTATION, USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

#### Basis of Presentation

These unaudited interim financial statements have been prepared by management in accordance with Canadian GAAP and reflect the accounting principles described in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2008 (the "2008 Audited Consolidated Financial Statements") (with the exception of the changes in accounting policies set out in Note 3 below) and accordingly, should be read in conjunction with those annual financial statements and the notes thereto. These financial statements include the accounts of the Company and those of Independent Nickel Corp. ("Independent") which was formally wound up into Victory Nickel effective August 31, 2009 (refer to Note 5).

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

#### Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes those estimates are reasonable. The accounting elements which require management to make significant estimates and assumptions include determining impairment in and values of exploration and development projects and future income taxes and the valuation of stock option compensation and investments. Accounting for these areas is subject to estimates and assumptions regarding, among other things, nickel recoveries, future nickel prices, future operating costs, future mining activities and future market volatility. Management bases its estimates on historical experience and other assumptions it believes to be reasonable under the circumstances. However, actual results could differ from those estimates.

### **Measurement Uncertainty**

The carrying values of the Company's exploration and development projects at September 30, 2009 was \$33,405,000 (December 31, 2008 - \$31,430,000). Management's review of these carrying values indicated that at September 30, 2009, the properties were not impaired. Management's conclusion is dependent on assumptions about several factors including future operating costs, nickel production levels, future nickel prices and capital equipment needs and costs. In recent months, there has been unprecedented volatility in several of the factors involved in such an analysis including nickel and other metals prices, costs of fuel, power and other operating supplies and the costs of capital equipment which has resulted in an increased amount of measurement uncertainty. While these parameters appear to be settling down, future changes in these parameters could give rise to material changes in asset carrying values. Management will continue to monitor the critical factors impacting its impairment analysis and will re-evaluate the carrying value of its long-lived assets as necessary.

## **3. NEW ACCOUNTING POLICIES**

### **New Accounting Policies**

There have been no new accounting policies adopted in these interim unaudited financial statements.

### **Future Accounting Changes**

There have been no additional future accounting changes from those reported in Note 3 to the 2008 Audited Consolidated Financial Statements.

### **2008 Figures**

Certain of the 2008 figures have been reclassified to conform to the 2009 financial statement presentation.

## **4. FINANCIAL RISK MANAGEMENT**

### **Financial Risk Management**

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities and amounts due from or to Nuinsco. The fair value of these financial instruments approximates their carrying value.

The Company's risk exposures with respect to its financial instruments and the impact on the Company's financial statements are described in Note 4 to the 2008 Audited Consolidated Financial Statements and are updated below:

### **Liquidity risk**

As at September 30, 2009, the Company had working capital of \$5,134,000 (December 31, 2008 - \$3,804,000). The Company believes it has sufficient working capital to meet its obligations as they become due. As explained in Note 1, development of the Company's current projects to the production stage will require significant financing. Given the current economic climate, the ability to raise funds may prove difficult. The Company currently has no long-term liabilities, except future income taxes. All contractually obligated cash flows are payable within the next fiscal year.

### **Market risk**

The Company is subject to interest rate risk and commodity price risk. It is not exposed to any significant currency risk with respect to its financial instruments.

### *Interest rate risk*

The Company's cash equivalents earn interest at fixed short-term rates of approximately 0.7% at September 30, 2009 and 3% at December 31, 2008. None of the Company's other financial investments are interest-bearing, and therefore the Company is not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

## **5. ACQUISITION OF INDEPENDENT NICKEL CORP.**

On August 19, 2008, the Company launched an unsolicited offer to purchase all of the common shares of Independent. The assets of Independent include a royalty on Victory Nickel's Minago nickel project in Manitoba (the "Minago royalty") and exploration and development properties in Lynn Lake, Manitoba.

Accordingly, in October, 2008, the Company acquired an aggregate of 50,830,249 shares of Independent representing approximately 84% of the issued and outstanding Independent shares. Pursuant to a subsequent

acquisition transaction (“SAT”), approved by shareholders on December 23, 2008 at a shareholder meeting of Independent, the Company, through its newly-formed wholly-owned subsidiary, 2190583 Ontario Inc., acquired the remaining 16% of Independent shares not already tendered through the issuance of 10,761,829 shares of Victory Nickel. Effective January 1, 2009, the subsidiary and Independent amalgamated, creating “new Independent Nickel Corp.” The Company has completed the wind-up of new Independent Nickel Corp. into Victory Nickel effective August 31, 2009. The Company also applied to the relevant securities commissions to cease Independent’s registration as a reporting issuer; such application was approved in January 2009.

The Company acquired 100% of the Independent shares through the issuance of an aggregate of 66,675,103 shares of the Company to former holders of Independent shares on the basis of 1.1 of a Victory Nickel share for each Independent share. The Victory Nickel shares issued under the SAT have been treated as being issued effective December 23, 2008; the shares were actually issued on January 2, 2009.

As part of the acquisition, Victory Nickel also issued 6,643,998 replacement options to the option holders of Independent based upon the same ratio. The fair value of options issued was estimated at \$186,000 using the Company’s Black-Scholes assumptions in Note 11 to the 2008 Audited Consolidated Financial Statements. The predecessor Independent options were cancelled. Furthermore, 1,537,963 replacement warrants were recorded for the benefit of the warrant holders of Independent which were outstanding at the date of the SAT. The warrants were based upon the same ratio. The fair value of the warrants was estimated at \$nil using the Company’s Black-Scholes assumptions in Note 11 to the 2008 Audited Consolidated Financial Statements. The warrants expired on May 7, 2009.

In accordance with Canadian GAAP, the actual measurement date of the purchase consideration occurred on the date that the shares were issued, or when the shareholders approved the SAT. Accordingly, the value of the purchase consideration is based on the market prices of Victory Nickel common shares on the measurement dates of October 6, 2008, October 17, 2008 and December 23, 2008 of \$0.105, \$0.075 and \$0.04 per share respectively.

The allocation of the aggregate purchase price to Independent’s net assets acquired is as follows:

**Purchase Price**

|   |    |       |
|---|----|-------|
| Issuance of 66,675,103 common shares of the Company | \$ | 6,166 |
| Transaction costs                                   |    | 1,427 |
| Issuance of replacement options                     |    | 186   |
| Issuance of replacement warrants                    |    | -     |
|   | \$ | 7,779 |

**Fair Value of Independent's Net Assets Acquired:**

|  |     |       |
|--|-----|-------|
| Current assets (including cash of \$2,308) | \$  | 2,594 |
| Capital assets, net                        |     | 83    |
| Future income tax assets                   |     | 3,480 |
| Exploration and development projects:      |     |       |
| Lynn Lake                                  | \$  | 1,241 |
| Minago royalty                             | 770 | 2,011 |
|  |     | 8,168 |
| Current liabilities                        |     | (362) |
| Non-controlling interests                  |     | (27)  |
|  | \$  | 7,779 |



## 6. MARKETABLE SECURITIES

|   | <b>September 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|-------------------------------|------------------------------|
|   | Market Value                  | Market Value                 |
| Wallbridge Mining Company Limited - Common Shares | \$ 666                        | \$ 450                       |

In the fourth quarter of 2008, the Company reclassified the decrease in the estimated fair value of the shares from the date of acquisition to December 31, 2008 of \$2,040,000 as a loss in the consolidated statement of operations from other comprehensive income. In June, 2009, the Company sold 440,000 Wallbridge shares for net proceeds of \$42,900 and generated a gain on sale of \$20,900 as a result of the afore-mentioned reclassification through the consolidated statement of operations in 2008. An additional 3,440,500 shares were sold in July and August in a series of transactions for aggregate net proceeds of approximately \$383,000 generating a gain on sale of approximately \$211,000.

The fair value of the Company's investment in Wallbridge has improved since December 31, 2008 and the resultant increase in value to September 30, 2009 has been recorded through other comprehensive income, in accordance with Canadian GAAP. A full valuation allowance has been taken against future tax assets that would arise from the capital loss that would occur if the shares were disposed of at current prices.

## 7. EXPLORATION AND DEVELOPMENT PROJECTS

Cumulative costs relating to the acquisition of mineral properties, and deferred exploration and development expenditures, have been incurred on the following projects:

|                           | <b>Balance as at<br/>December 31,<br/>2008</b> | <b>Current<br/>Expenditures</b> | <b>Balance as at<br/>September 30,<br/>2009</b> |
|---------------------------|--|---------------------------------|---|
| Lac Rocher <sup>(1)</sup> | \$ 3,580                                       | \$ 562                          | \$ 4,142  |
| Mel                       | 2,462  | 35                              | 2,497   |
| Minago                    | 23,905   | 1,234                           | 25,139  |
| Lynn Lake <sup>(2)</sup>  | 1,483  | 144                             | 1,627   |
|                           | \$ 31,430                                      | \$ 1,975                        | \$ 33,405                                       |

  

|            | <b>Balance as at<br/>December 31,<br/>2007</b> | <b>Current<br/>Expenditures</b> | <b>Balance as at<br/>September 30,<br/>2008</b> |
|------------|--|---------------------------------|---|
| Lac Rocher | \$ 3,314                                       | \$ 237                          | \$ 3,551  |
| Mel        | 2,158  | 335                             | 2,493   |
| Minago     | 10,290   | 10,112                          | 20,402  |
|            | \$ 15,762                                      | \$ 10,684                       | \$ 26,446                                       |

<sup>(1)</sup> The expenditures on the Lac Rocher project as at December 31, 2008 are shown net of Québec mining duties receivable of \$179,331. Current expenditures in 2009 are shown net of Québec mining duties receivable of \$28,281.

<sup>(2)</sup> The expenditures on the Lynn Lake property are shown net of \$72,885 recovery in 2008 under the Mineral Exploration Assistance Program.

### **Lac Rocher**

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

In 2007, the Company began environmental work in support of obtaining a permit for the Lac Rocher deposit in order to extract and direct ship mineralized material to an offsite mill for processing. A 12-hole, 1,500 metre drill program was also completed to test for extensions to the nickel sulphide mineralization and to provide metallurgical samples for the Preliminary Economic Assessment (PEA) of the near-term production and cash generation potential of the project. No fieldwork was conducted on the property during 2008.

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 for approximately \$389,000 in the third quarter of 2009.

### **Mel**

Effective August 27, 1999, Nuinsco entered into an agreement (the "Agreement") with Inco Limited (predecessor to CVRD Inco Limited, now Vale Inco) for the exploration and development of Vale Inco'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 Inco has the right to earn back a 51% interest by incurring expenditures of \$6,000,000 over a four-year period. Vale Inco has not yet notified the Company if it intends to exercise this back-in right.

Under the Agreement, Vale Inco has a contractual obligation to mill ore mined from the Mel deposit at its cash cost plus 5% (provided that the product meets Vale Inco specifications and that Vale Inco has sufficient mill capacity). The Company has the option to manage the development and operation of any mines developed on the Mel Properties.

### **Minago**

At September 30, 2009, the 100%-owned Minago project covered approximately 14,500 hectares, through a combination of mining claims, mineral leases and a mineral exploration licence, on Manitoba's Thompson Nickel Belt. The property encompasses the Nose Deposit, which contains the entire current nickel mineral resource, and the North Limb, a zone of nickel mineralization with a known strike length of 1.5 kilometres located to the north of the Nose Deposit. Prior to the acquisition of Independent (Note 5), the Minago project was subject to a graduated NSR, up to 3% if nickel prices exceed US\$6.00 per pound.

As described above in Note 5, the acquisition of Independent included the acquisition of its Minago royalty. Under the PEA of the Minago project, the undiscounted value placed on the Minago royalty on nickel production was estimated at approximately \$74 million. An amount of approximately \$0.8 million was determined for this Minago royalty after assigning values to other net assets and ascribed to the value of the Minago project as the Minago royalty has effectively been eliminated. Independent had previously paid a third party approximately \$6.3 million to acquire the Minago royalty.

From 2006 to date, considerable work, including diamond drilling, metallurgical testing and engineering studies were completed. Early work was incorporated into the PEA of the Minago project, completed in November 2006. Due to the positive outcome of the PEA and the strong pricing for nickel and other by-products that prevailed at that time, the Company engaged an engineering firm to proceed with a feasibility study. This study began in early 2007, will incorporate all of the results from completed work programs and studies and is expected to be completed in 2009.

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

Under the terms of the agreement, the Company acquired a 100% interest in the Properties through:

- A one-time cash payment of \$150,000 upon signing (which was paid in 2008); and

- Incurring \$500,000 of expenditures before September 30, 2008.

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

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

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

### **Lynn Lake**

The Company owns a 100% right, title and interest in the Lynn Lake nickel property (“Lynn Lake”), located in northern Manitoba. Lynn Lake consists of approximately 600 hectares that require annual lease payments of approximately \$7,000. An amount of approximately \$1.2 million after assigning values to other net assets was ascribed to Lynn Lake upon acquisition. Independent had expended approximately \$10.8 million on Lynn Lake since its acquisition in 2005.

On October 21, 2009, the Company announced that it had optioned Lynn Lake to Prophecy Resource Corp. (“Prophecy”). Under the terms of the agreement, which is subject to regulatory approvals, Prophecy can acquire a 100% interest in Lynn Lake by paying the Company an aggregate of \$4 million over approximately four and a half years, by incurring \$3 million in exploration expenditures over approximately three years and by issuing a 10% equity interest in Prophecy calculated on a diluted basis after Prophecy completes a private placement. The Company also has the right to participate in future equity financings on a pro-rata basis to maintain its 10% interest.

The agreement provides for the \$4 million to be paid to the Company as follows:

- \$300,000 within five business days of receiving conditional regulatory approval;
- \$300,000 within 60 days of October 21, 2009;
- \$400,000 within 180 days of October 21, 2009; and
- \$1 million on March 1 of each of 2011, 2012 and 2013.

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

### **Flow-through Commitment**

As at September 30, 2009, the Company had a remaining flow-through commitment outstanding for flow-through share financings in 2008 of approximately \$827,000 after taking into consideration amounts included in accounts payable and accrued liabilities of approximately \$212,000. This commitment is required to be incurred by December 31, 2009.

**8. PROPERTY AND EQUIPMENT**

| As at September 30, | 2009   |                             |                |
|---------------------|--------|-----------------------------|----------------|
|                     | Cost   | Accumulated<br>Amortization | Net Book Value |
| Land                | \$ 43  | \$ -                        | \$ 43          |
| Building            | 40     | 2                           | 38             |
| Equipment           | 29     | 18                          | 11             |
| Vehicle             | 11     | 4                           | 7              |
|                     | \$ 123 | \$ 24                       | \$ 99          |

  

| As at December 31, | 2008   |                             |                |
|--------------------|--------|-----------------------------|----------------|
|                    | Cost   | Accumulated<br>Amortization | Net Book Value |
| Land               | \$ 43  | \$ -                        | \$ 43          |
| Building           | 40     | 1                           | 39             |
| Equipment          | 29     | 5                           | 24             |
| Vehicle            | 11     | 1                           | 10             |
|                    | \$ 123 | \$ 7                        | \$ 116         |

**9. SHAREHOLDERS' EQUITY****Share Capital**

## Authorized:

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

## Issued and Outstanding:

|   | Number of<br>Shares | Amount           |
|---|---------------------|------------------|
| <b>Balance as at December 31, 2008</b>            | <b>261,709,809</b>  | <b>\$ 38,264</b> |
| Flow-through share renunciation <sup>(a)</sup>    | -                   | (2,192)          |
| Issued through exercise of options <sup>(b)</sup> | 950,000             | 82               |
| Issued through rights offering <sup>(c)</sup>     | 65,489,952          | 2,432            |
| <b>Balance as at September 30, 2009</b>           | <b>328,149,761</b>  | <b>\$ 38,586</b> |

- (a) In February, 2009, the Company renounced \$8,121,000 in Canadian Exploration Expenditures to investors of flow-through shares. The tax value of these renunciations amounts to \$2,192,000, and has been recorded as a charge against share capital.
- (b) In June and August, 2009, 250,000 and 700,000 options were exercised at an exercise price of \$0.05 per share for aggregate proceeds of \$47,500; that amount plus the amount of stock based compensation previously recorded through contributed surplus is reflected as an increase in share capital.
- (c) On August 17, 2009, the Company issued 65,489,952 shares and 32,744,976 share purchase warrants in connection with a rights offering. Aggregate proceeds before issue costs were approximately \$3,929,000 (excluding any potential proceeds from the exercise of the warrants). Each warrant will entitle the holder to purchase one common share at a price of \$0.12 during the 12-month period commencing August 18, 2010. The warrants were valued using the Black-Scholes option pricing model, with the assumptions as described below.

## Stock Options

A summary of options outstanding is as follows:

|                                     | Number of<br>Options<br>Outstanding | Average<br>Exercise Price |
|-------------------------------------|-------------------------------------|---------------------------|
| <b>As at December 31, 2008</b>      | <b>20,753,998</b>                   | <b>\$ 0.36</b>            |
| Options granted during the period   | 6,065,000                           | 0.05                      |
| Options exercised during the period | (950,000)                           | 0.05                      |
| Options expired during the period   | (1,647,500)                         | 0.31                      |
| <b>As at September 30, 2009</b>     | <b>24,221,498</b>                   | <b>\$ 0.30</b>            |

In total, 6,065,000 options were granted during the first nine months of 2009 at a weighted average exercise price of \$0.05 per share. The weighted average grant date fair value of options granted during the period was \$0.04. The granting and vesting of the options resulted in compensation expense of \$218,240.

The value assigned to options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

| Option Assumptions                      | Nine Months Ended September 30, |                  |
|---|---------------------------------|------------------|
|   | 2009                            | 2008             |
| Dividend yield                          | -                               | -                |
| Expected volatility                     | 106%                            | 75%              |
| Risk free interest rate                 | 2.03% to 2.08%                  | 4.50%            |
| Expected option term - years            | 4 to 5                          | 3                |
| Fair value per share of options granted | \$0.036 and \$0.027             | \$0.20 to \$0.25 |

Of the 24,221,498 options outstanding at September 30, 2009, 1,332,500 are subject to vesting over the next 12-month period. Stock options vest either immediately or over a 12-month period. The aggregate fair value of these unvested options not yet charged to operations is \$15,640. The weighted average exercise price of fully-vested options at September 30, 2009 was \$0.30.

The following table summarizes information about the stock options outstanding at September 30, 2009:

| Range of Exercise Prices | Options<br>Exercisable | Options<br>Outstanding | Years to<br>Expiry <sup>(1)</sup> | Exercise<br>Price <sup>(1)</sup> |
|--------------------------|------------------------|------------------------|-----------------------------------|----------------------------------|
| \$0.03 - \$0.05          | 3,782,500              | 5,115,000              | 4.33                              | \$ 0.05                          |
| \$0.09 - \$0.21          | 5,756,250              | 5,756,250              | 1.69                              | 0.13                             |
| \$0.22 - \$0.27          | 3,609,512              | 3,609,512              | 3.36                              | 0.24                             |
| \$0.28 - \$0.49          | 3,695,000              | 3,695,000              | 3.17                              | 0.34                             |
| \$0.50 - \$0.82          | 6,045,736              | 6,045,736              | 2.57                              | 0.68                             |
|                          | 22,888,998             | 24,221,498             | 2.94                              | \$ 0.30                          |

<sup>(1)</sup>In this table, "Years to Expiry" and "Exercise Price" have been calculated on a weighted average basis.

## Warrants

The 1,537,963 warrants issued to former Independent warrant holders expired on May 7, 2009. The 150,000 warrants issued in 2007 expired in June 2009. There are 32,744,976 warrants outstanding as at September 30, 2009 which were issued pursuant to the rights offering and are exercisable for a period of twelve months commencing August 17, 2010. The fair value of each warrant was estimated at \$0.035 using the following assumptions:

### Warrant Assumptions

|                         |         |
|-------------------------|---------|
| Dividend yield          | -       |
| Expected volatility     | 119%    |
| Risk free interest rate | 1.24%   |
| Expected term - years   | 2 years |

### Shareholder Rights Plan

In March, 2009, the Board of Directors approved the adoption of a shareholder rights plan (“the Plan”) the Plan was approved by shareholders at the Company’s Annual Meeting held on June 3, 2009.

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

If a person, or a group acting in concert, acquires (other than pursuant to an exemption available under the Plan) beneficial ownership of 20% or more of the common shares, Rights (other than those held by such acquiring person which will become void) will separate from the common shares and permit the holder therefore to purchase common shares at a 50% discount to their market price. A person, or a group acting in concert, who is the beneficial owner of 20% or more of the outstanding common shares as of the Record Time is exempt from the dilutive effects of the Plan provided such person (or persons) does not increase its beneficial ownership by more than 1% (other than in accordance with the terms of the Plan). At any time prior to the Rights becoming exercisable, the Board may waive the operation of the Plan with respect to certain events before they occur.

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

## 10. INCOME TAXES

The income tax recovery differs from the amount computed by applying statutory federal and provincial income tax rates to the loss before income taxes. The differences are summarized as follows:

|  | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|--|----------------------------------|----------|---------------------------------|----------|
|  | 2009                             | 2008     | 2009                            | 2008     |
| Current income taxes                                 |                                  |          |                                 |          |
| Expected income tax recovery based on                |                                  |          |                                 |          |
| statutory income tax rate of 33.5%                   | \$ (8)                           | \$ (178) | \$ (324)                        | \$ (500) |
| Non-deductible items, net                            | 6                                | 46       | 81                              | 128      |
| Effect of change in expected future income tax rates | 14                               | 18       | 63                              | 50       |
| Valuation allowance                                  | (70)                             | 125      | (430)                           | 322      |
| Future income tax (recovery) provision               | \$ (58)                          | \$ 11    | \$ (610)                        | \$ -     |

The future income tax recovery in 2009 represents the recognition of future income tax assets since, effective the fourth quarter of 2008, the Company believes that it is more likely than not that the benefit associated with these losses and costs will be realized prior to their expiry. It also includes the effect of enacted rate changes; the recovery in the first nine months of 2008 solely represents the impact of tax rate reductions enacted in December 2007 on the future income tax liability recognized on formation of the Company.

As at December 31, 2008, the Company had a valuation allowance against its future income tax assets (other than capital losses) of \$374,000, this amount was credited in the statement of operations combined with a recovery for non-capital losses for the three and nine months ended September 30, 2009 of \$58,000 and \$610,000 respectively. The future income tax liability balance as at September 30, 2009 of \$1,582,000 represents the effect of flow-through share renunciations in the first quarter of \$2,192,000 net of the recoveries during the period.

## 11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income ("OCI") is comprised of unrealized gains on marketable securities that are classified as available for sale and have not otherwise been recognized. Unrealized losses previously recognized through the statement of operations are not reversed and gains are not recognized through operations until realized. Changes in the components of OCI are summarized as follows:

|   | Nine Months Ended September 30, |            |
|---|---------------------------------|------------|
|   | 2009                            | 2008       |
| Accumulated OCI at beginning of period  | \$ -                            | \$ -       |
| OCI for the period representing the change in the fair value of financial assets available for sale, net of related future income taxes of \$nil (2008 - \$nil) | 642                             | (1,500)    |
| Reclassification through operations upon sale of marketable securities  | (232)                           | -          |
| Accumulated OCI at end of period  | \$ 410                          | \$ (1,500) |

## 12. CHANGES IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital balances related to operations for the three and nine months ended September 30, 2009 and 2008 are as follows:

|  | Three Months Ended September 30, |          | Nine Months Ended September 30, |         |
|--|----------------------------------|----------|---------------------------------|---------|
|  | 2009                             | 2008     | 2009                            | 2008    |
| Accounts receivable, prepaid expenses and deposits | \$ 10                            | \$ 434   | \$ 524                          | \$ (58) |
| Due from/to Nuinsco Resources Limited              | 5                                | (952)    | 10                              | (177)   |
| Accounts payable and accrued liabilities           | 56                               | (454)    | 4                               | 260     |
|  | \$ 71                            | \$ (972) | \$ 538                          | \$ 25   |

## 13. TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT

Included in accounts payable and accrued liabilities at September 30, 2009 are amounts due to officers and directors of the Company in the amount of \$231,885 (December 31, 2008 - \$114,111). These amounts relate primarily to directors' fees payable.

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement. The costs payable by the Company under the arrangement are recorded at the exchange amount which is equal to the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by Nuinsco upon 90 days notice and by the Company upon 180 days notice. Costs charged to the Company in the three and nine months ended September 30, 2009 amounted to \$147,988 and \$445,198 (\$196,053 and \$447,159 for 2008) and have been included in general and administrative expenses. In addition, project-related costs aggregating \$12,594 and \$47,320 have been charged to the Company by Nuinsco during the three and nine months ended September 30, 2009 respectively (\$13,667 and \$40,333 for 2008) and are included in exploration and development costs on the balance sheet. The Company charged Nuinsco \$8,397 and \$15,916 for the three and nine months ended September 30, 2009 (\$11,625 and \$34,875 for 2008) for project-related costs incurred by it on behalf of Nuinsco.

Nuinsco ceased to be a significant shareholder of the Company on July 31, 2009, as described above.



# **VICTORY NICKEL INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2009**

**DATED NOVEMBER 4, 2009**





## **VICTORY NICKEL INC.**

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

**For the Three and Nine Months ended September 30, 2009**

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 4, 2009 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, 2009 and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited interim financial statements for the three and nine months ended September 30, 2009 ("Unaudited Interim Financial Statements") and the Company's audited consolidated financial statements for the year ended December 31, 2008 ("2008 Audited Consolidated Financial Statements") and the notes thereto. Readers are encouraged to consult the 2008 Audited Consolidated Financial Statements which were prepared in accordance with Canadian generally accepted accounting principles (Canadian "GAAP") and 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 exploration and development-stage mineral resource company (an enterprise in the development stage as contemplated within Accounting Guideline 11 of the Canadian Institute of Chartered Accountants ("CICA")) and is engaged in the acquisition, exploration and development of nickel projects in Canada.

Formed on February 1, 2007, Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (refer to option agreement described below) and Mel projects in Manitoba and the Lac Rocher project in Québec. A feasibility study on the Minago Project is nearing completion with results expected in the fourth quarter of 2009. The Company chose to delay finalizing the report to complete an in-depth review of all of its components to ensure that the feasibility study not only reflects project economics but is also up-to-date with the current market environment. In addition, management is concerned that a study completed within the context of the present markets would be stale-dated by the time access to financing improves and would require major and costly updating. At the Lac Rocher Project, permitting efforts will continue in preparation to commence mining when metal prices recover. Review of the preliminary economic assessment ("PEA") is ongoing to better reflect current cost realities. The Company will continue to evaluate the production potential of the Mel Project.

On October 21, 2009, the Company announced that it had optioned Lynn Lake to Prophecy Resource Corp. ("Prophecy"). Under the terms of the agreement, which is subject to regulatory approvals, Prophecy can acquire a 100% interest in Lynn Lake by paying the Company an aggregate of \$4 million over approximately four and a half years, by incurring \$3 million in exploration expenditures over approximately three years and by issuing a 10% equity interest in Prophecy calculated on a diluted basis after Prophecy completes a private placement. The Company also has the right to participate in future equity financings of Prophecy on a pro-rata basis to maintain its 10% interest.

The agreement provides for the \$4 million to be paid to the Company as follows:

- \$300,000 within five business days of receiving conditional regulatory approval;
- \$300,000 within 60 days of October 21, 2009;
- \$400,000 within 180 days of October 21, 2009; and
- \$1 million on March 1 of each of 2011, 2012 and 2013.

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

It is unlikely that any of the Company's projects will commence full development in 2009, although smaller sub-projects such as road construction may be initiated.



As at September 30, 2009, the Company also owned an approximate 5% interest in Wallbridge Mining Company Limited (“Wallbridge”) as well as warrants which, if exercised, would have increased the ownership to approximately 8% on a partially diluted basis at that date. The warrants are exercisable at \$1.00 per share and expire March 26, 2010.

#### **ACQUISITION OF INDEPENDENT NICKEL CORP.**

The Company acquired 100% of the Independent Nickel Corp. (“Independent”) shares through the issuance of an aggregate of 66,675,103 shares of the Company to former holders of Independent shares on the basis of 1.1 of a Victory Nickel share for each Independent share. The Victory Nickel shares issued under the subsequent acquisition transaction (“SAT”) approved at a shareholder meeting of Independent, have been treated as being issued effective December 23, 2008; the shares were actually issued on January 2, 2009. As part of the acquisition, Victory Nickel also issued 6,643,998 replacement options to the option holders of Independent based upon the same ratio, as well, 1,537,963 replacement warrants were recorded for the benefit of warrant holders of Independent which were outstanding at the date of the SAT. The warrants expired on May 7, 2009.

Effective August 31, 2009, the Company completed the wind-up of Independent Nickel Corp. into Victory Nickel; the Company had already, in January 2009, received approval from the relevant securities commissions to cease Independent’s registration as a reporting issuer.

In accordance with Canadian GAAP, the actual measurement date of the purchase consideration occurred on the date that the shares were issued, or when the shareholders approved the SAT. Accordingly, the value of the purchase consideration is based on the market prices of Victory Nickel common shares on the measurement dates of October 6, 2008, October 17, 2008 and December 23, 2008 of \$0.105, \$0.075 and \$0.04 per share respectively.

The allocation of the aggregate purchase price to Independent’s net assets acquired is as follows:

|   |                |    |              |
|---|----------------|----|--------------|
| <b>Purchase Price</b>                                   |                |    |              |
| Issuance of 66,675,103 common shares of the Company     |                | \$ | 6,166        |
| Transaction costs                                       |                |    | 1,427        |
| Issuance of replacement options                         |                |    | 186          |
| Issuance of replacement warrants                        |                |    | -            |
|   |                | \$ | <b>7,779</b> |
| <b>Fair Value of Independent's Net Assets Acquired:</b> |                |    |              |
| Current assets (including cash of \$2,308)              |                | \$ | 2,594        |
| Capital assets, net                                     |                |    | 83           |
| Future income tax assets                                |                |    | 3,480        |
| Exploration and development projects:                   | Lynn Lake      | \$ | 1,241        |
|   | Minago royalty |    | 770          |
|   |                |    | 8,168        |
| Current liabilities                                     |                |    | (362)        |
| Non-controlling interests                               |                |    | (27)         |
|   |                | \$ | <b>7,779</b> |



## OUTLOOK

The global economy appears to be on the mend. Signs continue to suggest that the recession is essentially over in Canada albeit with some caution regarding the frailty of the financial systems in the United States and Europe. When the U.S. economy turns, this will further boost the Canadian economy because Canada's export sector will disproportionately benefit from the U.S. recovery starting next year.

Base metal prices are showing some strengthening. Nickel has increased from below US\$5.00 per pound earlier this year to in excess of US\$8.00 per pound. While inventories continue to be relatively high, there has been a consistent and gradual decrease since April 2009. Nickel production continues to decline as major producers close uneconomic mines and curtail production through temporary shutdowns as well as strike activity over the summer months. This should reduce inventories further and create an environment for the price of nickel to increase as economies continue to improve and the demand for stainless steel returns.

The benefit of these improving metal prices is being tempered somewhat by the weakening US dollar.

Victory Nickel is fortunate to have four sulphide nickel projects in two locations rated among the world's strongest supporters of the resource industry. Québec, where Lac Rocher is located, has once again been rated the best place to be in the resource business by the Fraser Institute and Manitoba, where the Mel, Lynn Lake and Minago projects are located, has been ranked 8th. Although economics are tougher at today's nickel prices, we believe that the nickel production cost curve will continue to improve as sulphide deposits amenable to conventional processing become scarcer. Good deposits do not go bad in times of low metal prices.

Management continues to move the Minago feasibility study toward completion. As noted above, with the global financial meltdown, it became apparent that many of the costs estimated during the highest cost cycle in history needed to be reviewed and reconsidered. This process is ongoing and expectations are that this will be completed in 2009.

The Lac Rocher and Mel sulphide nickel projects will be kept ready to move ahead quickly when metal prices recover. The PEA of the Lac Rocher project completed in November 2008 indicated that the project could be brought to production quickly when prices recover. Construction of a road to join the Lac Rocher site to an existing road was completed in the third quarter. This will allow year round access.

The Lynn Lake Mine is a quality asset that was acquired, along with the Minago royalty, via the acquisition of Independent. Given the Company's focus on advancing Minago, it was felt that optioning Lynn Lake to Prophecy was the most effective way to ensure that the Lynn Lake project received the attention it deserves in the near term. Over and above the cash component, the option agreement was structured to ensure that Prophecy would put money in the ground, that Victory Nickel shareholders are able to participate in the upside as Lynn Lake moves ahead and that the project would be returned in the event of any default by Prophecy. We will keep shareholders updated on progress at Lynn Lake as it develops.

The Company's objective continues to be to make the transition from developer to nickel producer. Once the Minago feasibility study is completed, we will continue efforts to structure a financing proposal that will work in today's environment. Minago will be a mega project for Manitoba and contribute greatly to the welfare of that province and its residents in the Minago area. We expect to receive the full support of the Manitoba government and First Nations to move the project forward. Minago alone will provide much-needed employment, for Manitoba and particularly for the First Nations communities in the vicinity of the mine.

The Company recently completed a successful rights offering to shareholders and raised approximately \$3.9 million. These funds are needed to support the effort which will be required to find financing for the Minago project assuming the completion of a positive feasibility study in the near future. The Board of Directors chose the rights offering structure for financing because it allows shareholders to benefit from the low equity price and prevents dilution of existing shareholder ownership.



The recently announced acquisition of Nuinsco's 15% equity interest by a subsidiary of Jilin Jien Nickel Industry Co., Ltd. ("Jilin Jien") demonstrates the attractiveness of Victory Nickel's assets and should add strength to the Company's ability to raise funding. Jilin Jien is a large-scale nonferrous metals enterprise with exploration, mining, smelting, refining and chemicals operations principally in the production and sale of nickel sulphate, nickel matte, electrolytic nickel, nickel hydroxide, nickel chloride, copper sulphate, copper concentrate and sulphuric acid. They have total assets of approximately \$500 million and a market capitalization of approximately \$4.5 billion.

With four projects and over 900 million pounds of in-situ nickel in NI 43-101-compliant measured (159 million pounds) and indicated (775 million pounds) resources, plus an additional 250 million pounds of in-situ nickel in inferred resources, Victory Nickel has one of Canada's largest undeveloped sulphide nickel inventories. Victory Nickel will continue to take advantage of the worldwide shortage of sulphide nickel assets and to capitalize on higher nickel prices when they return.

In the interim, the Company will continue to preserve cash and focus only on activities which are required to protect its projects to the benefit of all of our shareholders.

## HIGHLIGHTS

During and subsequent to the three months ended September 30, 2009, the Company:

- Gained a strong new strategic investor through the sale by Nuinsco of its approximate 15% interest in Victory Nickel to a subsidiary of Jilin Jien;
- Successfully completed its previously announced rights offering which was fully subscribed and generated gross proceeds of approximately \$3.9 million;
- Confirmed that a NI 43-101-compliant 15 million tonne indicated sand resource, of which approximately 84% is marketable frac sand, is contained in the footprint of the proposed open pit shell at Minago, a 215% increase in tonnage compared with the November 2006 Minago PEA;
- Announced that the comprehensive review of the geology section of the Minago feasibility study had been completed and that the feasibility study remains on track for completion in 2009; and
- Optioned the Lynn Lake Project to Prophecy (TSX V: PCY). Under the agreement, Prophecy must pay Victory Nickel \$4 million over approximately four and a half years, incur \$3 million in exploration expenditures over approximately three years and issue Victory Nickel 10% of Prophecy's outstanding shares subsequent to Prophecy completing a private placement.

## RESULTS OF OPERATIONS

*Three months ended September 30, 2009 compared with the three months ended September 30, 2008*

For the three months ended September 30, 2009, the Company had net income of \$35,000, or \$0.00 per share, (for the three months ended September 30, 2008 - net loss of \$543,000, or \$0.00 per share).

The net income improvement resulted from a decrease in general and administrative expenses to \$220,000 (2008 - \$470,000) and stock option compensation of \$12,000 (2008 - \$103,000), net of interest income of \$9,000 (2008 - \$41,000) and a gain on sale of marketable securities of \$211,000 (2008 - \$nil). These amounts also reflect a recovery of future income taxes of \$58,000 in 2009, compared with a provision of \$11,000 in 2008.

Interest income declined from 2008 to 2009 as a result of lower cash balances available for investment in 2009 combined with significantly lower interest rates. To August 2009, the Company's redeemable GIC earned a rate of 2.8%; upon maturity, along with proceeds from the rights offering, funds were reinvested at approximate rates of 0.7%. The gain on sale of marketable securities arose from the sale of 3,440,500 Wallbridge shares in the third quarter of 2009. Effective December 31, 2008, the Company had recorded a permanent impairment through the statement of operations for the Wallbridge shares.

General and administrative expenses include \$148,000 in costs charged by Nuinsco as described under related party transactions below (2008 - \$196,000). Costs allocated from Nuinsco pursuant to the management agreement between the Company and Nuinsco are activity related and, in the third quarter of



2008, included activity related to the Independent acquisition. In 2009, financial and accounting services are being provided primarily by individuals employed by Nuinsco and are included in the charges from Nuinsco, whereas in 2008, the CFO was employed and remunerated directly by the Company and included as part of general and administrative expenses. The relationship with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

Directors have accepted deferral of payment of their fees and management has accepted deferrals of salary until financial circumstances improve. The aggregate amount was approximately \$36,000 for the three months ended September 30, 2009 and has been accrued but will not be cash settled until the financial condition of the Company improves. It is estimated that approximately \$111,000 of non-discretionary general and administrative expenditures were incurred to maintain the Company's public status in the three months ended September 30, 2009; note that this amount does not include expenses associated with issuances of shares which are offset against the related financings through equity.

Certain non-discretionary consultants have been challenged to revisit costs and reductions have been attained in 2009 which related to the cost of services accrued in 2008; furthermore, such costs are now being accrued when services are received. In 2009, the Company decided to eliminate the formal review process formerly performed by its auditors on its interim information as an additional way to conserve cash resources. Other cost controls have reduced general and administrative expenses in the period compared with the prior year as well as reflecting a timing effect of project capitalization and a refund of mailing costs which had been overestimated in the second quarter and funds returned in the third quarter.

Stock option compensation expense relates to stock options granted to officers, directors and employees, some of which are vesting in future periods. The expense in the three months ended September 30, 2009 reflects the amortization of costs from options issued primarily in the first quarter of 2009; the expense in 2008 reflected the grant of options issued in the second quarter of 2008 as well as amortization from options issued previously and not yet vested. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 9 to the Company's Unaudited Interim Financial Statements.

Management of the Company determined that no significant impairment had been experienced in its exploration and development projects during the third quarter of 2009. Metal prices have continued to show some signs of recovery since the end of December 2008 but management continues to monitor metal prices and other market factors for implications to its projects. In the current nickel price and financial environment, management continues to believe that it is unlikely that any of its projects will commence full development in 2009 except for smaller sub-projects such as road construction as occurred for Lac Rocher.

The future income tax recovery in the third quarter of 2009 of \$58,000 relates primarily to the benefit associated with non-capital losses in the quarter. In the last quarter of 2008, the Company determined that the likelihood of the benefits of losses and costs creating future income tax assets was more likely than not to be realized prior to their expiry. The expiry of non-capital losses is detailed in Note 12 to the Company's 2008 Audited Consolidated Financial Statements. The provision of \$11,000 in the third quarter of 2008 relates to the change in market value of Wallbridge securities recorded at that time through other comprehensive income.

Effective December 31, 2008, the Company determined that, in accordance with GAAP, an other-than-temporary loss had occurred with respect to its investment in Wallbridge. This conclusion required the Company to record the reduction in market value of \$2,040,000 through the consolidated statement of operations rather than through other comprehensive loss. In the third quarter of 2009, a partial recovery in the market value of such shares occurred which caused other comprehensive income in the period of \$110,000 after income taxes of \$nil. In the same period of 2008, the writedown through the statement of operations had not occurred and the full effect of the decline at that time below acquisition cost was reflected through OCI in the amount of \$1,564,000 after income taxes of \$11,000.



*Nine months ended September 30, 2009 compared with the nine months ended September 30, 2008*

For the nine months ended September 30, 2009, the Company had a net loss of \$356,000, or \$0.00 per share, (for the nine months ended September 30, 2008 - net loss of \$1,493,000, or \$0.01 per share).

The loss resulted from general and administrative expenses of \$1,017,000 (2008 - \$1,430,000) and stock option compensation of \$218,000 (2008 - \$258,000), net of interest income of \$54,000 (2008 - \$195,000) and a gain on sale of marketable securities of \$232,000 (2008 - \$nil). These amounts were partially offset by a recovery of future income taxes of \$610,000 in 2009, compared with \$nil in 2008.

Interest income declined from 2008 to 2009 as a result of lower cash balances available for investment in 2009 combined with lower interest rates. The gain on sale of marketable securities of \$232,000 arose from the sale of 3,880,500 Wallbridge shares in 2009 as described above and in the previous period's unaudited interim consolidated financial statements.

General and administrative expenses include \$445,000 in costs charged by Nuinsco as described under the management agreement section below (2008 - \$447,000). Costs allocated from Nuinsco pursuant to the management agreement between the Company and Nuinsco are activity related. As described above, costs in the third quarter of 2008 included activity related to the acquisition of Independent. In 2009, financial and accounting services were provided primarily by individuals employed by Nuinsco and included in the charges by Nuinsco, whereas in 2008, the CFO was employed and remunerated directly by the Company. These factors offset each other and result in comparable year-over-year charges under the management agreement. The relationship with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

As previously mentioned, discretionary expenditures have been cut and other cost controls are in effect which have reduced expenditures generally. Certain non-discretionary consultants have been challenged to revisit costs and reductions have been attained in 2009 which related to the cost of services accrued in 2008; furthermore, such costs are now being accrued when services are received. In 2009, the Company decided to eliminate the formal review process formerly performed by its auditors on its interim information as an additional way to conserve cash resources. More specifically, general and administrative expenses in 2008 included a portion of severance pay attributable to services rendered to Victory Nickel.

Directors have accepted deferral of payment of their fees and management has accepted deferrals of salary until financial circumstances improve. The aggregate amount of such expenses accrued but which will not be cash settled until such improvement is approximately \$137,000 for the nine months ended September 30, 2009. It is estimated that approximately \$486,000 of non-discretionary general and administrative expenditures were incurred to maintain the Company's public status in the nine months ended September 30, 2009.

Stock option compensation expense relates to stock options granted to officers, directors and employees, some of which are vesting in future periods. The expense in the nine months ended September 30, 2009 reflects the amortization of costs from options issued primarily in the first quarter of 2009; the expense in 2008 reflected the grant of options issued in the first and second quarters of 2008 and vesting immediately as well as amortization from options issued previously and not yet vested. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 9 to the Company's Unaudited Interim Financial Statements.

Management of the Company determined that no significant impairment had been experienced in its exploration and development projects during the third quarter of 2009. Metal prices have continued to show some signs of recovery since the end of December 2008 but management continues to monitor metal prices and other market factors for implications to its projects.

The future income tax recovery in the nine months ended September 30, 2009 of \$610,000 relates primarily to the benefit associated with non-capital losses in the period of \$236,000 as well as a release of a valuation allowance of \$374,000 in the first quarter of 2009. In the last quarter of 2008, the Company determined that the likelihood of the benefits of losses and costs creating future income tax assets was more likely than





not to be realized prior to their expiry. The expiry of non-capital losses is detailed in Note 12 to the Company's 2008 Audited Consolidated Financial Statements. There was no recovery recorded in 2008.

Effective December 31, 2008, the Company determined that, in accordance with GAAP, an other-than-temporary loss had occurred with respect to its investment in Wallbridge. This conclusion required the Company to record the reduction in market value of \$2,040,000 through the consolidated statement of operations rather than through other comprehensive loss. In the nine months ended September 30, 2009, a partial recovery in the market value of such shares occurred which caused other comprehensive income in the period of \$410,000 after the transfer through the statement of operations of the realized gain on the sale of marketable securities of \$232,000. The other comprehensive loss of \$1,500,000 recorded in 2008 represents the full amount of the decline in value of Wallbridge at that time since the determination of permanent impairment had not been made until the final quarter of 2008.

A summary of the more significant changes in the unaudited interim balance sheet as at September 30, 2009 compared with December 31, 2008 not discussed elsewhere is as follows. Accounts payable and accrued liabilities primarily relate to project-related expenditures and decreased period-over-period largely because of the slow-down in activity.

The future income tax liability balance was eliminated during 2008, primarily because of the recognition of future income tax assets sufficient to bring the future income tax balance to zero. As a result of the Company's renunciation of flow-through expenditures in February 2009 an amount of \$2,192,000 was added to the future income tax liability balance. Offsetting this amount was the recognition of income tax recoveries of \$610,000 through the statement of operations bringing the balance as at September 30, 2009 to \$1,582,000.

Shareholders' equity has increased period-over-period primarily as a result of the rights offering completed in August of 2009, partially offset by the effect of the flow-through share renunciation in February 2009 as referred to above, the issuance of stock options and warrants from the rights offering through contributed surplus; and the increase in the market value of Wallbridge shares recorded through accumulated other comprehensive income.



## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eleven quarters ended September 30, 2009 is as follows:

| <u>Fiscal year 2009</u>                     | <u>3<sup>rd</sup> Quarter</u> | <u>2<sup>nd</sup> Quarter</u> | <u>1<sup>st</sup> Quarter</u> |
|---|-------------------------------|-------------------------------|-------------------------------|
| Revenue and other income                    | \$ 220 <sup>(1)</sup>         | \$ 39                         | \$ 27                         |
| Net income (loss)                           | \$ 35                         | \$ (343)                      | \$ (48)                       |
| Comprehensive income (loss)                 | \$ 145 <sup>(2)</sup>         | \$ (471)                      | \$ 380                        |
| Income (loss) per share - basic and diluted | \$ 0.00                       | \$ (0.00)                     | \$ (0.00)                     |

  

| <u>Fiscal year 2008</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> |
|------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Revenue and other income           | \$ 46                         | \$ 41                         | \$ 45                         | \$ 109                        |
| Net loss                           | \$ (1,050) <sup>(3)</sup>     | \$ (543)                      | \$ (520)                      | \$ (430)                      |
| Comprehensive income (loss)        | \$ 450 <sup>(4)</sup>         | \$ (2,107) <sup>(5)</sup>     | \$ (1,513)                    | \$ 627                        |
| Loss per share - basic and diluted | \$ (0.01)                     | \$ (0.00)                     | \$ (0.00)                     | \$ (0.00)                     |

  

| <u>Fiscal period 2007</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> |
|------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Revenue and other income           | \$ 158                        | \$ 147                        | \$ 219                        | \$ 35                         |
| Net loss and comprehensive loss    | \$ (335)                      | \$ (387)                      | \$ (449)                      | \$ (1,057) <sup>(6)</sup>     |
| Loss per share - basic and diluted | \$ (0.00)                     | \$ (0.00)                     | \$ (0.00)                     | \$ (0.01)                     |

- (1) Revenue for the period includes \$211,000 gain on sale of Wallbridge securities, previously written down through operations in the fourth quarter of 2008.
- (2) Comprehensive income for the period reflects the partial recovery of the market value of Wallbridge securities, previously written down through operations in the fourth quarter of 2008.
- (3) The net loss for the period includes \$2,040,000 writedown of an available-for-sale investment, offset by future income tax recoveries of \$1,544,000.
- (4) Comprehensive income for the period reflects the effect of the net loss combined with the effects of the transfer through operations of the change in market value of Wallbridge securities.
- (5) Comprehensive loss for the period reflects the decline in market value of Wallbridge securities.
- (6) For the period from inception, February 1, 2007, to March 31, 2007.
- (7) Includes stock option compensation of \$863,000.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2009, the Company had working capital, including cash and cash equivalents, totalling \$5,134,000 (December 31, 2008 - \$3,804,000). Working capital improved as a direct result of the successful completion of the rights offering to shareholders which raised approximately \$3,929,000 before issue costs. Cash equivalents include bank-guaranteed investment certificates and bank discount notes. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company's current investments earn approximate rates of 0.7% compared with the 2.80% rate previously earned until maturity of the GIC in August.

During the nine months ended September 30, 2009, the Company used \$425,000 in operating activities, (nine-month period ended September 30, 2008 - used \$1,113,000) comprising cash used in operations before changes in non-cash working capital of \$963,000 (2008 - used \$1,138,000) plus a net increase in non-cash working capital balances of \$538,000 (2008 - \$25,000).

As the Company is in the development stage, there are no revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company as well as the effect of corporate transactions such as the sale of Wallbridge securities or the non-cash recognition of future income tax recoveries. The Company estimates that public company costs in 2008 amounted to \$725,000 and costs in 2009 to date are estimated at \$485,000. Consequently, the Company's liquidity is reduced unless and until there are financing activities to provide funds. Note that such costs cited above do not include the costs of financing arrangements such as the recent rights offering which are





deducted directly from equity. Costs incurred to advance the Company's projects are capitalized as summarized below under the discussion of investing activities.

Financing activities in 2009 generated \$3,717,000 compared with \$7,730,000 in 2008. The rights offering, which closed in August, 2009, and was over-subscribed, represented the most significant financing activity during 2009. This financing mechanism is one way to raise funds while allowing existing shareholders to participate without dilution unless they so choose. As discussed in the Company's annual management's discussion and analysis, the availability of finance without unacceptable dilution to existing shareholders has been severely curtailed.

The rights offering enabled holders of its outstanding common shares on the record date of July 9, 2009 to purchase units of the Company (each a "Unit") at a price per Unit of \$0.06. Each Unit consisted of one common share of the Company (each a "Unit Share") and one-half of one Common Share Purchase Warrant (each whole Common Share Purchase Warrant a "Unit Warrant"). The rights offering closed on August 17, 2009 and resulted in the issuance of 65,489,952 Unit Shares and 32,744,976 Unit Warrants. Aggregate proceeds before issue costs were approximately \$3.9 million (excluding any potential proceeds from the exercise of the Unit Warrants). Each Unit Warrant will entitle the holder to purchase one common share at a price of \$0.12 during the 12-month period commencing August 18, 2010.

In 2008, the most significant financing activity was the private placement which closed in the third quarter and generated gross proceeds of \$8,121,000 through the issue of 18,046,700 shares at \$0.45 per share on a flow-through basis.

In addition, \$48,000 was generated from the exercise of options in the nine months ended September 30, 2009 (2008 - \$41,000).

During the nine months ended September 30, 2009, investing activities used \$2,856,000, compared with \$12,071,000 in 2008. Funds used to advance exploration and development projects were \$3,282,000 (2008 - \$9,264,000). In 2008, the Company acquired 9,000,000 shares of Wallbridge at an aggregate cost of \$2,490,000; at the end of 2008, the Company made a provision for permanent impairment of \$2,040,000 through operations, thereby recording the shares at a market value of \$450,000. In the second and third quarters of 2009, the Company sold 3,880,500 Wallbridge shares for cash proceeds of \$426,000 reducing the Company's interest to approximately 5%.

These activities generated cash and cash equivalents of \$436,000 during 2009, compared with the use of cash of \$5,454,000 for the comparative period ended September 30, 2008.

As described above, exploration and development companies such as Victory Nickel are heavily reliant upon the equity markets to fund their activities as they have no short-term sources of revenue other than through realization of assets. Opportunities available to Victory Nickel for financing would normally be through private placements in the equity markets. Today's equity markets, although showing signs of improvement, make this alternative difficult without incurring significant dilution to existing shareholders. Accordingly, the Company decided to launch the rights offering detailed above and is very pleased that the offering was fully subscribed.

The Company may be required to consider additional financing mechanisms or carry out a corporate transaction to protect its assets or sell assets. It is uncertain how such additional initiatives will be received and how successful they will be in generating cash to finance activities.

The Company has good title to its projects and will maintain the projects in good standing as market conditions improve.

As mentioned earlier, the Company is excited by the opportunity to work with Jilin Jien which acquired the approximate 15% shareholding from Nuinsco effective July 31, 2009. This is a clear vote of confidence in Victory Nickel's projects and can only be a positive step in furthering their development.

The Company's working capital requirements are modest. The major recurring item requiring financing is a GST receivable which averaged approximately \$180,000 per quarter of 2008 but amounted to \$55,000 as



at September 30, 2009; the reduction reflects the decline in both project and administrative expenditures. Monthly average cash-based administrative costs for 2009 are estimated at \$110,000, most of which are incurred to meet statutory requirements. The Company's remaining flow-through commitment which will be completed by December 31, 2009 is \$827,000.

Given its cash position prior to completion of the rights offering, the Company had reduced its activities to a minimum until additional funding became available. Cost reduction measures have already been implemented and will be continued to ensure the Company remains viable and retains its assets until metal, financial and equity markets return. The successful completion of the rights offering has certainly been a positive step forward and has enhanced liquidity as well as providing a supportive message from our shareholders. The funds expected from the option of the Lynn Lake project to Prophecy will also augment the Company's treasury over time and the investment in Prophecy, once the four-month hold period expires, could be monetized for additional liquidity, if required.

The completion of the Minago feasibility study along with the third-party review costs is expected to use approximately \$0.3 million of the \$5.1 million working capital available as at September 30, 2009. In addition, remaining costs to complete and file the Environmental Impact Study required to obtain permits and commence an access road at Minago could cost approximately \$1.3 million by the end of the year, weather permitting. Both of these expenditures are discretionary in nature but would delay the project if not completed as planned.

The Lac Rocher access road has been completed and additional work at Lac Rocher is planned before the end of the year. Such work includes geophysical surveys, geotechnical studies around the planned portal site and possible diamond drilling at an estimated cost of \$0.3 million.

Assuming completion of all of these programs, the balance of working capital available to meet the Company's flow-through commitment and fund corporate costs for the remainder of the year will be approximately \$3.2 million.

However, there are several programs which should be advanced so the Company is continuing to consider all manner of financings given the current financial market environment as well as strategic partnerships, including developing the relationship with Jilin Jien. Management is continuing to monitor the outcome of financing initiatives being undertaken in the marketplace.

Assuming a positive outcome of the Minago feasibility study and/or a determination to bring the Lac Rocher or Mel projects to production, significant construction financing will be required. It is unlikely that these projects could be financed in the current metal price and financial environment without strong support from a strategic partner which could include potential customers, shipping companies and suppliers.

#### **EXPLORATION AND DEVELOPMENT ACTIVITIES**

For the nine months ended September 30, 2009, the Company incurred exploration costs on its nickel properties of \$1,975,000 (2008 - \$10,684,000), including \$1,234,000 on the Minago project, \$35,000 on the Mel project, \$144,000 on Lynn Lake and \$562,000 at the Lac Rocher project (2008 - \$10,112,000; \$335,000, \$nil and \$237,000, respectively). The reduction in spending reflects the slow-down which was discussed in the Company's 2008 Annual Management's Discussion and Analysis.

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



### Minago Project

The Company's 100%-owned Minago project is located on the Thompson Nickel Belt in Manitoba, and is one of Canada's largest undeveloped sulphide nickel deposits as updated in the first quarter of 2009 and described in the table below.

Following the completion of a scoping study in the fall of 2006, Wardrop Engineering Limited ("Wardrop") was engaged to conduct a feasibility study. The feasibility study is ongoing, and is expected to be completed in 2009 following a comprehensive review to ensure that costs reflect the changing market conditions. Current activities are centred on verification of capital cost estimates and revision where necessary to reflect market realities. Ongoing work consists of continuation and refining of geological and geophysical interpretations with the aim of improved deposit modelling and identification of exploration targets in the local region for future field programs.

On January 6, 2009, the Company announced the receipt of a NI-43-101-compliant revised resource estimate for the Minago Project. The revised resource estimate prepared by Wardrop reports only the nickel that is present in sulphide minerals (denoted NiS and representing %Ni in NiS), and excludes unrecoverable nickel in silicate. This is necessary to allow accurate determination of a recovery curve at various grades. Previous Minago resource estimates have been reported on a Total Nickel basis at a 0.25% cut-off grade. The adoption of %Ni in NiS values for the resource estimate (using a 0.20% Ni in nickel sulphide cut-off grade as a minimum for economic viability) provides a more accurate determination of the recoverable nickel.

The Minago Project NiS resource estimate is as follows:

| <b>Sulphide Nickel Resource Estimate, January 2009</b>          |                              |                                |   |
|---|------------------------------|--------------------------------|---|
| <b>Classification<br/>At 0.2% Nickel Sulphide Cut-off Grade</b> | <b>Tonnes<br/>(millions)</b> | <b>Grade<br/>(% Ni in NiS)</b> | <b>%Ni in NiS In-Situ Nickel<br/>(millions of pounds)</b> |
| Measured Resource   | 9.1                          | 0.47                           | 94  |
| Indicated Resource  | 35.0                         | 0.42                           | 327   |
| <b>Total Measured and Indicated</b>                             | <b>44.1</b>                  | <b>0.43</b>                    | <b>420</b>  |
| <b>Inferred Resource</b>  | <b>12.0</b>                  | <b>0.44</b>                    | <b>115</b>  |

In addition to the large sulphide nickel resource and other metal byproducts, including copper, gold, platinum, palladium, silver and rhodium, the scoping study identified the presence of hydraulic fracturing ("frac") sand, a material used to enhance recoveries in the oil and gas industry. This frac sand overlies the proposed open pit and will need to be removed as part of pre-stripping to access the nickel deposit.

Frac sand is a high-value commodity with significant potential to generate substantial value as a by-product of mining the sulphide nickel deposit. Minago is ideally located with respect to infrastructure and is in close proximity to potential frac sand markets in western Canada and the United States. Various studies completed to date indicate that the frac sand operation alone could cover the cost to pre-strip and equip the nickel open pit, and should enhance the ability to finance development of the nickel deposit.

In late 2008, Outotec (USA) Inc. ("Outotec") evaluated the frac sand plant design and capital and operating costs to produce 914,245 tonnes of frac sand annually. Key conclusions of the Outotec study include:

- Throughput of 1.2 million tonnes of sand per year produces 914,245 tonnes of frac sand annually over approximately nine years;
- Average life of mine operating costs of \$10.37 per tonne of frac sand;
- Plant capital cost of \$44.0 million; and
- A processing plant designed to allow for production to increase should market conditions warrant.

The Company is continuing to evaluate alternatives to maximize the value of the frac sand resource, including the possibility of operating a frac sand operation on a standalone basis.



### **Lynn Lake**

The Lynn Lake property, acquired by Victory Nickel via its acquisition of Independent, is located in the historic mining town of Lynn Lake in northern Manitoba, about 320km by road northwest of the Thompson mining camp. The Lynn Lake property is the former Sherritt producing mine site known as the Lynn Lake A Mine and Farley Mine. The Lynn Lake nickel mine was first operated by Sherritt-Gordon from 1953 to 1976. During its 23 years of operation, the mine produced over 20 million tonnes of nickel-copper ore at an average grade of 1.02% nickel and 0.54% copper, making Lynn Lake the third largest nickel producer in North America. The mine closed in 1977 due to a period of stagnant growth in the nickel market, not because the ore was mined out.

The Lynn Lake project has 0.86 million tonnes of measured resources grading 0.80% nickel or 15 million pounds of in-situ nickel as well as 13.7 million tonnes of indicated resources at 0.65% grade or 196 million pounds. A further 4.2 million tonnes inferred resources grading 0.59% nickel contains an additional 55 million pounds of in-situ nickel.

Exploration upside on the property exists within the mine infrastructure below the 3,000 foot level as well as along an inferred secondary mine structure distinct from the historic main mine trend. This secondary structure was outlined in 2008 with the drilling of the Company's Disco Zone - a small near-surface deposit (approximately 30 m from surface) that extends approximately 200m below surface. The morphology and style of mineralization of the Disco Zone is similar to the historic orebodies mined at Lynn Lake, with similar apparent structural controls, which is that of vertically-extensive, pipe-like orebodies, truncated by reactivated shear zones. The Disco Zone remains open at depth and the inferred northeast-southwest structure that abuts the zone remains unexplored along strike.

The pre-feasibility study, dated December 2007, gave the project a net present value of \$131 million at an 8% discount rate (\$179 million at a 5% discount rate). Highlights of the pre-feasibility study which is available on SEDAR are as follows:

- Pre-tax IRR of 29%;
- Payback on mine costs of three years;
- Pre-tax profit over an initial 11-year mine life of \$296 million; and
- Likelihood of extending mine life via continued mine exploration, conversion of inferred resources to reserves.

On October 21, 2009, the Company announced that it had optioned Lynn Lake to Prophecy Resource Corp. ("Prophecy"). Under the terms of the agreement, which is subject to regulatory approvals, Prophecy can acquire a 100% interest in Lynn Lake by paying the Company an aggregate of \$4 million over approximately four and a half years, by incurring \$3 million in exploration expenditures over approximately three years and by issuing a 10% equity interest in Prophecy calculated on a diluted basis after Prophecy completes a private placement. The Company also has the right to participate in future equity financings on a pro-rata basis to maintain its 10% interest.

The agreement provides for the \$4 million to be paid to the Company as follows:

- \$300,000 within five business days of receiving conditional regulatory approval;
- \$300,000 within 60 days of October 21, 2009;
- \$400,000 within 180 days of October 21, 2009; and
- \$1 million on March 1 of each of 2011, 2012 and 2013.

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

### **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.



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.

The Company has fully funded sufficient expenditures to earn a 100% ownership interest in this project subject to a 51% Vale Inco back-in. Vale Inco is continuing to assess metallurgical characteristics of typical Mel mineralization prior to making a decision on exercising its back-in right. By agreement, Vale Inco must mill ore from the Mel project at cash costs plus 5% subject to capacity availability and metallurgy.

### **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 (representing 8 million pounds measured and 12 million pounds indicated). Additional inferred resources total 0.44 million tonnes grading 0.65% Ni (or 6 million pounds in-situ). Mineralization remains open to the southwest.

Road construction has been completed in the third quarter of 2009 from the end of the existing logging road to the site of the proposed Lac Rocher portal, which will allow year-round ground access to the site. The Company is reviewing the PEA prepared in 2008 by Roche to review input costs and to see if more economic mining methods are possible.

The PEA envisions the Lac Rocher deposit being contract mined in two phases using mechanized cut-and-fill mining over a span of 24-26 months. In Phase One, 65,000 tonnes would be extracted at 1.75% nickel, 0.57% copper and 0.062% cobalt; in Phase Two, an additional 252,730 tonnes would be extracted at 1.52% nickel, 0.59% copper and 0.051% cobalt (see news release dated November 3, 2008).

Victory Nickel has obtained a Certificate of Exemption (“C of E”) for Phase One from the Québec government, and is now working towards obtaining a mining permit for Phase One. For Phase Two, the Company has completed its environmental baseline programs and, in July 2009, submitted to the Québec government its environmental impact statement in order to obtain a C of A. Upon receipt of a C of A, the Company will then work toward obtaining a mining permit for Phase Two.

Currently, additional work contemplated in the near term at Lac Rocher includes geophysical surveys, geotechnical studies around the planned portal site and possible diamond drilling.

### **IMPAIRMENT ANALYSIS UPDATE**

Given the changes in the metals markets and other general economic factors, the Company performed a detailed impairment analysis on each of its exploration and development projects as at December 31, 2008. The Company does not believe that there have been any further material changes to date which would adversely affect this analysis. In fact, there have been some sporadic signs of metals prices recovery which is encouraging. Furthermore, there has been no change in management’s plans for the projects.

Management concluded that no impairment existed in each of its projects effective September 30, 2009 and that costs incurred to date are recoverable. The Company will continue to monitor developments as they occur in the metals markets and the economy and will update its impairment analysis to take account of any such changes, as appropriate.

### **CRITICAL ACCOUNTING ESTIMATES**

Critical accounting estimates used in the preparation of the financial statements include determining the carrying value of investments and exploration and development projects, assessing the impairment of long-lived assets, determining future income taxes and the valuation of stock option compensation. These estimates involve considerable judgment and are, or could be, affected by significant factors that are beyond the Company’s control.



For a complete list of the significant accounting policies as well as information concerning the use of estimates and measurement uncertainty, reference should be made to Notes 2 and 3 of the Company's 2008 Audited Consolidated Financial Statements and the updates reflected in the notes to the Unaudited Interim Financial Statements for the three and nine months ended September 30, 2009 and 2008. The Company's financial statements have been prepared using the going concern assumption; reference should be made to Note 1 to each of the Company's financial statements referred to above.

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

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

#### **NEW ACCOUNTING POLICIES**

There have been no new accounting policies adopted in the interim unaudited financial statements.

#### **FUTURE ACCOUNTING CHANGES**

There have been no additional future accounting changes from those reported in Note 3 to the 2008 Audited Consolidated Financial Statements.

#### **International Financial Reporting Standards**

The Company is continuing to review the requirements of International Financial Reporting Standards ("IFRS"). Senior financial management has attended training courses on IFRS designed to be industry-specific. Victory Nickel will be required to produce IFRS-compliant financial statements for the quarter ended March 31, 2011 which will include the applicable disclosures and information for the comparative 2010 period.

A project management document has been prepared and approved by the Company's Audit Committee which includes the project governance, including escalation and issues management as well as the key steps required to meet conversion. The document includes a high-level project plan which will continue to be developed and refined as the project progresses past the diagnostic review. The project plan includes three main phases, which may overlap:

Phase 1: Preliminary Impact Assessment – this includes the preparation of a diagnostic review, the identification of preliminary GAAP differences, will define additional information requirements, will define the preliminary approach for managing dual reporting, will include a project timeline and a training plan.

Phase 2: Detailed Planning and Implementation – this includes determination of accounting policies and transition elections, development of statement and note disclosure templates, development of transition balance sheet, identification of new system requirements and their design.

Phase 3: Post Implementation Review – this includes an analysis of ongoing roles, continuous improvement process and ongoing monitoring of future IFRS changes.

In the annual MD&A for 2009, the Company expects to have completed its diagnostic review and will include qualitative information on the major identified differences between the Company's extant accounting policies and those which it is required or expects to apply under IFRS in force at that date, including those made under transition elections.





## **CORPORATE GOVERNANCE**

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

### *Design of Disclosure Controls and Procedures*

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal quarter ended September 30, 2009, the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at September 30, 2009. 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, 2009 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

### *Design of Internal Control over Financial Reporting*

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO control framework. For the fiscal quarter ended September 30, 2009, 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, 2009.

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

There were no changes to the Company's internal controls over financial reporting that occurred during the quarter ended September 30, 2009 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

## **MANAGEMENT AGREEMENT**

The Company obtains management, administrative assistance and facilities from Nuinsco pursuant to a management agreement. The fees payable by the Company under the arrangement are recorded at the exchange amount which is equal to the cost to Nuinsco of providing such services plus 10 percent. General and administrative costs charged to the Company during the three and nine months ended September 30, 2009 totalled \$148,000 and \$445,000 (2008 - \$196,000 and \$447,000). In addition project-related costs aggregating \$13,000 and \$47,000 (2008 - \$14,000 and \$40,000) have been charged to the Company by Nuinsco during the respective periods and are included in exploration and development costs on the balance sheet. Victory Nickel charged Nuinsco \$8,000 and \$16,000 for the three and nine months ended September 30, 2009 for project-related costs incurred by it on behalf of Nuinsco (2008 - \$12,000 and \$35,000). The management agreement commenced February 1, 2007 and is terminable by Nuinsco upon 90 days notice and by the Company upon 180 days notice. No such notice has been received or made.



## **OUTSTANDING SHARE DATA**

At November 4, 2009, the Company had 328,149,761 common shares issued and outstanding. In addition, there were 24,221,498 stock options outstanding on November 4, 2009 as well as 32,744,976 warrants which, if exercised and issued, would bring the fully diluted issued common shares to a total of 385,116,235 and would generate approximately \$11,196,000. The figures above include the effects of the 32,744,976 warrants issued pursuant to the rights offering which can be exercised no earlier than August 17, 2010 at a cost per warrant of \$0.12 thereby generating estimated proceeds included above of \$3,929,000 if fully exercised.

## **RISKS AND UNCERTAINTIES**

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. The risk factors which should be taken into account in assessing Victory Nickel's activities and an investment in its securities include, but are not necessarily limited to, those set out in detail in the Company's 2008 Annual Management's Discussion and Analysis. A summary is provided below.

The relative significance of each risk 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.

#### ***Development Projects***

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

#### ***Competition***

The mineral exploration business is highly competitive in all of its phases. Victory Nickel competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Victory Nickel, in the search for and acquisition of exploration and development rights on attractive mineral properties.

### **Operational Risks**

#### ***Limited History of Operations***

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

#### ***Development Targets, Permitting and Operational Delays***

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

#### ***Resources and Production***

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





### ***Title Risks***

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

### ***Insurance Risk***

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

### **Financial and Investment Risks**

#### ***Substantial Capital Requirements***

Victory Nickel will have to make substantial capital expenditures for the development of and to achieve production from its projects. There can be no assurance that any debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Victory Nickel. Moreover, future activities may require Victory Nickel to alter its capitalization significantly. The inability of Victory Nickel to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

#### ***Market Perception***

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

#### ***Metal Prices***

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

#### ***Areas of Investment Risk***

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

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

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

### **Regulatory Risks**

#### ***Government Regulation***

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

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

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



## **Other Risks**

### ***Environmental and Health Risks***

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

### ***Key Personnel***

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

### ***Conflicts of Interest***

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

### ***Investments and Other Agreements with Resource Companies***

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

## **Summary**

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

## **FORWARD-LOOKING STATEMENTS**

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

Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; the possibility that actual circumstances will differ from estimates and



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

**November 4, 2009**