



# **VICTORY NICKEL INC.**

## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

**PERIOD ENDED MARCH 31, 2007**

### **Management's Comments on Unaudited Interim Financial Statements**

The accompanying unaudited interim financial statements of Victory Nickel Inc. for the period ended March 31, 2007 have been prepared by management, reviewed by the Audit Committee, and approved by the Board of Directors of the Company.

# VICTORY NICKEL INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS Period ended March 31, 2007

*This Management's Discussion and Analysis is dated May 10, 2007, reflects the period from inception, February 1, 2007 to March 31 2007 and should be read in conjunction with the interim financial statements for the period then ended. These documents, along with other documents published by Victory Nickel Inc. ("Victory Nickel" or the "Company"), are available on SEDAR at [www.sedar.com](http://www.sedar.com) or from the office of the Company.*

### COMPANY OVERVIEW

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

Following its formation on February 1, 2007 as described below, Victory Nickel owns three advanced sulphide nickel projects, the Mel and Minago projects located on Manitoba's Thompson Nickel Belt and the Lac Rocher project in Quebec.

### CORPORATE REORGANIZATION AND FORMATION OF THE COMPANY

Pursuant to a Plan of Arrangement which became effective February 1, 2007, the Company was formed upon the amalgamation of two predecessor companies incorporated in December, 2006 for the purpose of carrying out the Plan of Arrangement. Upon completion of the amalgamation and pursuant to the Plan of Arrangement, the Company completed a series of transactions which resulted in the following:

The acquisition of:

- a) three mineral resource properties, namely the Minago and Mel sulphide nickel projects on the Thompson Nickel Belt in Manitoba and the Lac Rocher sulphide nickel project in Quebec (collectively the "Nickel Properties") from Nuinsco Resources Limited ("Nuinsco"). These properties were recorded at their carrying value in the accounts of Nuinsco of \$5,800,746, net of related accounts payable of \$527,871;
- b) exploration advances to the Company's joint venture partner managing the Mel project of \$448,428; and
- c) cash of \$12,667,740

in exchange for the issuance of 154,003,146 common shares of the Company.

The terms of the Plan of Arrangement resulted in Nuinsco initially owning 25% of the Company's common shares and 75% being distributed to Nuinsco's shareholders. Accordingly, Nuinsco's shareholders continued to own 100% of the transferred assets by virtue of their direct holdings of the Company's shares and their indirect ownership interest through their Nuinsco share ownership. As a consequence, this related party transaction was recorded by the Company at the carrying value in the accounts of Nuinsco of the Nickel Properties transferred and the cash received.

The cash transferred from Nuinsco to the Company was the amount of the net proceeds of \$14,045,317 received by Nuinsco in a December 2006 private placement less the aggregate of \$929,149 expended by Nuinsco on the transferred Nickel Properties from the date of the private placement to February 1, 2007, the effective date of the Plan of Arrangement and exploration advances as at February 1, 2007 amounting to \$448,428. The latter amount represents cash advanced to CVRD Inco Limited, the Company's joint venture partner on the Mel project, in excess of exploration costs incurred.

In addition, the Company was responsible for all costs relating to the Plan of Arrangement. The total of such costs in the amount of \$762,062 has been treated as a capital transaction and shown as a reduction in share capital.

A summary of the assets acquired is as follows:

Assets		
Cash (net of out-of-pocket costs incurred to complete the Plan of Arrangement of \$762,062)		\$ 11,905,678
Nickel Properties:		
Exploration Advances - Mel		448,428
Exploration and Development Projects		
Minago	\$ 2,976,125	
Mel	706,311	
Lac Rocher	2,118,310	5,800,746
Total Assets		18,154,852
Less Liabilities:		
Accounts Payable		(527,871)
Future Income Taxes <sup>(1)</sup>		(2,095,000)
Net Assets Acquired		\$ 15,531,981

<sup>(1)</sup> The future income taxes result from the fact that pursuant to tax elections to be filed as part of the Plan of Arrangement, the cost basis for tax purposes of the nickel assets is nil versus a net carrying value on acquisition of \$5,800,746.

## RESULTS OF OPERATIONS

For the period from inception, February 1, 2007 to March 31, 2007, the Company had a net loss of \$1,057,000, or \$0.01 per share.

The loss resulted from general and administrative expenses of \$229,000 (including \$102,000 in charges from Nuinsco as described under related party transactions below) and stock option compensation of \$863,000 relating to 3,437,500 stock options granted to officers and directors and employees during the period less interest income of \$35,000. The value assigned to the stock options was calculated using the Black-Scholes option - pricing model as explained in Note 5 to the Company's March 31, 2007 unaudited interim financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007, the Company had working capital of \$19,357,000, including cash and cash equivalents and cash for exploration expenditures totaling \$20,540,000.

During the period, the Company used \$496,000 in operating activities comprising cash used in operations before changes in non-cash working capital of \$145,000 plus an increase in non-cash working capital balances of \$351,000 (including \$236,000 due from Nuinsco).

The Company completed a private placement of common shares in March 2007 which resulted in the issuance of 16,428,571 flow-through common shares of net proceeds after costs of issue of \$10,695,000. It also received \$32,000 on the exercise of warrants during the period.

Investing activities included \$1,597,000 expended on exploration and development projects net of exploration advances transferred to the Company on inception of \$448,000 which were used to fund expenditures during the period.

Cash transferred to the Company on formation totaled \$11,906,000, net of Plan of Arrangement costs of \$762,000, resulting in a net increase in cash for the period of \$20,540,000.

## EXPLORATION AND DEVELOPMENT ACTIVITIES

For the period ended March 31, 2007, the Company incurred exploration expenditures on its nickel properties of \$3,052,000 including \$2,010,000 on the Minago project and \$994,000 on the Mel project.

### Mel Project

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

The Company currently has incurred sufficient expenditures to earn a 100% ownership interest in this project subject to an Inco CVRD back-in. This project has 4.3 million tonnes of measured and indicated resources and offers significant exploration up-side as well as near-term production potential. The winter drill program comprised



29 drill holes encompassing approximately 6,000 metres of drilling to further define the existing resource. Sampling and assaying is still underway.

### **Minago Project**

The Company's 100%-owned Minago project is also located on the Thompson Nickel Belt in Manitoba, and is one of Canada's largest undeveloped nickel deposits with measured and indicated resource of 49 million tonnes grading 0.516% nickel. Following the completion of a scoping study in the fall of 2006, Wardrop Engineering Inc. has been engaged to conduct a bankable feasibility study expected to be completed in the second quarter of 2008. A 13,000 metre winter drilling program has recently been completed including 40 resource and geotechnical drill holes and five for metallurgical purposes. Data from this program will be forwarded to Wardrop to be incorporated into an updated resource model. While many of the analytical results are still to be received, results to date are consistent with those obtained in earlier drill programs.

All hydrogeological drilling and site geotechnical drilling required for the feasibility study was also completed as planned by Wardrop.

In addition, an airborne AEM/AMAG survey was completed in March 2007. The data is currently being processed and interpreted and the results from the survey will be used to generate exploration targets on mining leases and adjacent claims outside of the currently identified deposit.

### **Lac Rocher**

Located in northwestern Quebec, 140 kilometres northeast of Matagami, the high-grade Lac Rocher project has measured and indicated resources of 1,190,288 tonnes grading 0.91% nickel, at a 0.5% nickel cutoff, for approximately 25,000,000 pounds of in-situ nickel located between surface and 125 vertical metres. Mineralization is open to the southwest, and the Company is currently evaluating near-term production potential from the property.

### **CRITICAL ACCOUNTING ESTIMATES**

Critical accounting estimates used in the preparation of the financial statement include the Company's estimate of the recoverable value of its exploration and development properties and fair value estimates for stock options. These estimates involve considerable judgment and are, or could be affected by, significant factors that are out of the Company's control.

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.

For a complete list of the significant accounting policies reference should be made to Note 2 of the 2006 audited financial statements of Nuinsco, the entity which initiated the formation of the Company as explained more fully in Note 3 to the Company's unaudited interim financial statements for the period ended March 31, 2007, as well as the new accounting policies recently issued by the Canadian Institute of Chartered Accountants described below.

### **NEW ACCOUNTING POLICIES**

On inception, the Company adopted new accounting standards that were issued by the Canadian Institute of Chartered Accounts: Handbook Section 1530 - Comprehensive Income, Section 3855 - Financial Instruments – Recognition and Measurement and Section – 3865 - Hedges.

The requirements of these new standards and the effect of their adoption are set out in detail in Note 2 to the Company's unaudited interim financial statements for the period ended March 31, 2007.

### **DISCLOSURE CONTROLS**

The Company's certifying officers have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them with respect to financial and operational conditions as of March 31, 2007. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures as of March 31, 2007 and have concluded that these disclosure controls and procedures are effective at the reasonable assurance level. Such controls are facilitated by the small size of the Company's senior management team and their access to material information. 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.

### **RELATED PARTY TRANSACTIONS**

The Company obtains management, administrative assistance and facilities from Nuinsco pursuant to a management agreement. The fees payable by the Company are equal to the cost to Nuinsco of providing such services plus 10 percent. Fees charged to the Company in the current period total \$101,615. The management agreement has an initial term of twenty four months and is terminable thereafter by Nuinsco upon ninety days notice and by the Company upon one hundred and eighty days notice.

### **OUTSTANDING SHARE DATA**

At May 10, 2007, the Company had 173,057,922 common shares issued and outstanding. In addition, there were 12,437,500 stock options granted and as explained in Note 5 to the March 31, 2007 unaudited interim financial statements, the Company has a commitment to issue 3,143,951 common shares of the Company to current holders of Nuinsco warrants.

### **RISK FACTORS**

The Company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. The risks, include, but are not limited to, limited operating history, speculative nature of mineral exploration and development activities, operating hazards and risks, mining risks and insurance, environmental and other regulatory requirements, competition, stage of development, fluctuations in commodity prices, currency risk, conflicts of interest, reliance on key individuals and enforcement of civil liabilities.

### **2007 OUTLOOK**

The market for nickel is expected to remain robust for the foreseeable future. With over 660 million pounds of in-situ nickel in National Instrument 43-101-compliant measured (154 million pounds) and indicated (511 million pounds) resources at the Minago, Mel and Lac Rocher sulphide nickel projects, and an additional 530 million pounds of in-situ nickel in inferred resources, Victory Nickel is well positioned to take advantage of the worldwide shortage of sulphide nickel assets with near-term production potential. Victory Nickel is aggressively advancing all three projects to production. Current programs on the three projects include:

#### **Minago**

Completion of the final feasibility on time and on budget remains a focus for the Company in 2007 and early 2008. Wardrop Engineering Inc. ("Wardrop") has been engaged to complete the feasibility study and is moving ahead rapidly with all aspects to meet the expected completion date of mid-2008. A \$3.0 million infill, metallurgical and geotechnical drilling program was completed this winter, and metallurgical testing, frac sand testing, permitting and community relations activities are ongoing in preparation for a positive final feasibility, the start of construction in late 2008, and production in 2010.

Wardrop was responsible for the Scoping Study completed in November 2006, which confirmed that Minago is a robust nickel project with significant upside. The Scoping Study indicated an internal rate of return of 23.1% using the three-year trailing average nickel price at the time of US\$7.43 per pound, a net present value of \$334 million calculated using an 8% discount rate, and total pre-tax cash flow of \$953 million. Since completion of the Scoping Study, positive fundamentals for nickel have led to record high metal prices and an increased value for Minago. By way of comparison, using recent nickel pricing (\$23.00 per pound), all else being equal, gives Minago an IRR of 83.6%, a net present value of \$2.7 billion calculated using an 8% discount rate, and total pre-tax cash flow of \$5.9 billion.

#### **Mel**

The Mel deposit has a National Instrument 43-101-compliant indicated resource of 4.3 million tonnes grading 0.875% nickel (approximately 83 million pounds in-situ nickel) and an additional inferred resource of 1.0 million tonnes grading 0.839% nickel (approximately 19 million pounds in-situ nickel). This near-surface resource, along with a stipulation in the option agreement that joint venture partner CVRD Inco Limited shall mill ore mined from the Mel deposit at cost plus 5% (provided that the product meets CVRD Inco specifications and that CVRD Inco has sufficient mill capacity), makes near-term nickel production from the Mel deposit a possibility that the Company is currently evaluating.

The \$2.0 million drill program completed during the first quarter by the Company and CVRD Inco is designed to upgrade and expand the current resource, and results are pending. In addition, further exploration drilling will test additional targets on this under explored and highly prospective 108 km<sup>2</sup> property.

### **Lac Rocher**

The Company is finalizing an internal economic assessment with a view to achieving near-term production by direct shipping high-grade material. Roche Consulting Engineering has been engaged to complete all environmental studies necessary to obtain a Certificate of Authorization for a 50,000 tonne bulk sample.

As part of the economic evaluation, a 1,500 to 2,000 metre drill program to test the extension of the orebody and provide metallurgical samples is planned for the second quarter. Metallurgical testwork will be done in the fourth quarter of 2007.

Based on the Company's recent share price, and given the strength of the Minago, Mel and Lac Rocher projects, management recognizes that Victory Nickel's assets remain significantly undervalued by the market, and is committed to realizing full value on behalf of all shareholders.

### **FORWARD LOOKING STATEMENTS**

*These unaudited interim consolidated financial statements and Management's Discussion and Analysis contain certain forward-looking statements relating to, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe," "expect," "goal," "plan," "intend," "estimate," "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.*

*Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.*

May 10, 2007

**VICTORY NICKEL INC.**  
**BALANCE SHEET AS AT MARCH 31, 2007**  
(Unaudited - in thousands of Canadian dollars)

**ASSETS**

**Current**

Cash and cash equivalents	\$ 9,040
Cash for exploration expenditures	11,500
Due from Nuinsco Resources Limited	236
Accounts receivable	148
Prepaid expenses and deposits	181
<b>Total Current Assets</b>	<b>21,105</b>

<b>Exploration and Development Projects</b> (Note 4)	8,852
	<b>\$ 29,957</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b> - accounts payable and accrued liabilities	\$ 1,748
<b>Future Income Taxes</b> (Note 3)	2,095
	<b>3,843</b>

**Shareholders' Equity** (Note 5)

Share capital	26,308
Stock option compensation	863
Deficit	(1,057)

<b>Net Shareholders' Equity</b>	<b>26,114</b>
	<b>\$ 29,957</b>

**Nature of Operations** (Note 1)

**Corporate Reorganization and Formation of the Company** (Note 3)



**VICTORY NICKEL INC.**  
**STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT**  
**For the Period From Inception, February 1, 2007 to March 31, 2007**  
(unaudited - in thousands of Canadian dollars, except per share amounts)

<b>Revenue</b>	
Interest income	\$ <u>35</u>
<b>Costs and Expenses</b>	
General and administrative (Note 7)	229
Stock option compensation (Note 5)	863
	<u>1,092</u>
<b>Loss Before Income Taxes</b>	(1,057)
<b>Income Tax Recoveries</b> (Note 6)	-
<b>Net Loss and Comprehensive Loss and Deficit, End of Period</b>	<u>\$ (1,057)</u>
<b>Loss Per Share – Basic and Diluted</b>	<u>\$ (0.01)</u>
<b>Weighted Average Outstanding Common Shares</b>	<u>154,153,302</u>

**STATEMENT OF CASH FLOWS**  
**For The Period From Inception, February 1, 2007 to March 31, 2007**  
(unaudited - in thousands of Canadian dollars)

<b>Cash from (used by)</b>	
<b>Operating Activities</b>	
Net loss for the period	\$ (1,057)
Items not affecting cash :	
Stock option compensation	863
Other stock-based compensation	49
Changes in non-cash working capital (Note 8)	(351)
<b>Cash used by operating activities</b>	<u>(496)</u>
<b>Financing Activities - Issue of common shares</b>	<u>10,727</u>
<b>Cash Received on Formation</b> (Note 3)	<u>11,906</u>
<b>Investing Activities - additions to exploration and development projects</b> (net of exploration advances of \$448)	<u>(1,597)</u>
<b>Net Increase in Cash and Cash and Cash Equivalents, End of Period</b>	<u>\$ 20,540</u>
<b>Cash and Cash Equivalents, End of Period</b>	
Cash and Cash Equivalents	\$ 9,040
Cash for Exploration Expenditures	11,500
	<u>\$ 20,540</u>



## NOTES TO FINANCIAL STATEMENTS

March 31, 2007 (unaudited)

(all tabular amounts are in thousands of Canadian dollars)

### 1. Nature of Operations and Basis of Presentation

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.

At March 31, 2007, the Company had working capital of \$19,357,000 available to fund ongoing operations. However as a development stage enterprise, 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, or alternatively upon the profitable disposal of projects.

Should the Company not be able to discover economically recoverable reserves, obtain the necessary financings and 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.

The unaudited interim financial statements of the Company are prepared by management using generally accepted accounting principles for interim financial statements and reflect the accounting principles that will be used in the preparation of its audited financial statements for its first fiscal period ending December 31, 2007. More specifically, the accounting principles conform to those set out in the December 31, 2006 audited consolidated financial statements of Nuinsco Resources Limited ("Nuinsco"), the entity which initiated the Plan of Arrangement that resulted in the formation of the Company as explained more fully in Note 3. The accounting principles also reflect the new accounting policies that the Company has adopted as described in Note 2 below.

The accompanying unaudited interim financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The result of operations and cash flows for the current period are not necessarily indicative of the results expected for the remainder of the year.

### 2. New Accounting Policies

Upon inception February 1, 2007, the Company adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1530 - Comprehensive Income, Section 3855 - Financial Instruments – Recognition and Measurement and Section 3865 - Hedges. The changes are applied prospectively with no restatement of prior periods.

Section 1530 established standards for reporting and presenting a comprehensive income statement. Section 3855 requires all financial assets and financial liabilities to be classified as one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the balance sheet, except held to maturity, loans and receivables and other financial liabilities which are carried at amortized cost.

Subsequent accounting for changes in fair value will depend on initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the statement of operations. Unrealized gains and losses on financial assets that are held as available for sale are to be recorded in other comprehensive income until realized, at which time they will be recorded in the statement of operations.

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self sustaining foreign operations. Currently the Company is not involved in any hedging activities.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents and cash for exploration expenditures as held for trading for accounting purposes, which are measured on the balance sheet at fair value. Accounts receivable are classified as loans and receivables and along with amounts due from Nuinsco, are recorded at amortized cost. Accounts payable and accrued liabilities are also measured at amortized cost, and are classified as other financial liabilities.

### 3. Corporate Reorganization and Formation of the Company

Pursuant to a Plan of Arrangement which became effective February 1, 2007, the Company was formed upon the amalgamation of two predecessor companies incorporated in December, 2006 for the purpose of carrying out the Plan of Arrangement. Upon completion of the amalgamation and pursuant to the Plan of Arrangement, the Company completed a series of transactions which resulted in the following acquisitions:

- a) Three mineral resource properties namely the Minago and Mel sulphide nickel projects on the Thompson Nickel Belt in Manitoba and the Lac Rocher sulphide nickel project in Quebec (collectively the "Nickel Properties) from Nuinsco. These properties were recorded at their carrying values in the accounts of Nuinsco of \$5,800,746, net of related accounts payable of \$527,871;
- b) Exploration advances to the Company's joint venture partner managing the Mel project of \$448,428; and
- c) Cash of \$12,667,740

in exchange for the issuance of 154,003,146 common shares of the Company.

The terms of the Plan of Arrangement resulted in Nuinsco initially owning 25% of the Company's common shares and 75% being distributed to Nuinsco's shareholders. Accordingly Nuinsco's shareholders continued to own 100% of the transferred assets by virtue of their direct holdings of the Company's shares and their indirect ownership interest through their Nuinsco share ownerships. As a consequence, this related party transaction was recorded by the Company at Nuinsco's recorded carrying values of the Nickel Properties transferred and the cash received.

The cash transferred from Nuinsco to the Company was the amount of the net proceeds of \$14,045,317 received by Nuinsco in a December 2006 private placement less the aggregate of \$929,149 expended by Nuinsco on the transferred Nickel Properties from the date of the private placement to February 1, 2007, the effective date of the Plan of Arrangement and exploration advances at as February 1, 2007 amounting to \$448,428. The latter amount represents cash advanced to CVRD Inco Limited, the Company's joint venture partner on the Mel project in excess of exploration costs incurred.

In addition, the Company was responsible for all costs relating to the Plan of Arrangement. The total of such costs has been treated as a capital transaction and shown as a reduction in share capital.

A summary of assets acquired is as follows:

Cash (net of out-of-pocket costs incurred to complete the Plan of Arrangement) of \$762,062		\$ 11,905,678
Nickel Properties		
Exploration Advances – Mel		448, 428
Exploration and Development Projects		
Minago	\$2,976,125	
Mel	706,311	
Lac Rocher	<u>2,118,310</u>	<u>5,800,746</u>
Total Assets		<u>18,154,852</u>
Less Liabilities		
Accounts Payable		(527, 871)
Future Income Taxes <sup>(1)</sup>		<u>(2,095,000)</u>
Net Assets Acquired		<u>\$ 15,531,981</u>

<sup>(1)</sup> The future income taxes result from the fact that, pursuant to the tax elections to be filed as part of the Plan of Arrangement, the cost bases for tax purposes of the nickel assets is nil, versus a net carrying value on acquisition of \$5,800,746.

#### 4. Exploration and Development Projects

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

	<u>Acquired on Formation of the Company (Note 3)</u>	<u>Current Expenditures</u>	<u>Balance March 31, 2007</u>
Lac Rocher	\$ 2,118	\$ 48	\$ 2,166
Mel <sup>(1)</sup>	706	994	1,700
Minago	2,976	2,010	4,986
	<u>\$ 5,800</u>	<u>\$ 3,052</u>	<u>\$ 8,852</u>

<sup>(1)</sup>The expenditures on the Mel project in the current period include \$448,428 funded from exploration advances on deposit with CVRD Inco and transferred to the Company on formation, February 1, 2007 (see Note 3)

#### 5. Share Capital

Authorized:

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

Issued and Outstanding:

	<u>Number of Shares</u>	<u>Amount</u>
Issued on formation of Company pursuant to Plan of Arrangement (Note 3)	154,003,146	\$ 15,532
Issued in private placement <sup>(a)</sup>	16,428,571	10,695
Issued under the Share Bonus Plan <sup>(b)</sup>	80,100	49
Warrants exercised <sup>(c)</sup>	193,207	32
Balance – March 31, 2007	<u>170,705,024</u>	<u>\$ 26,308</u>

(a) In March, 2007, the Company issued 16,428,571 flow-through shares at \$0.70 per share for gross proceeds of \$11,500,000, before costs of issue of \$805,463.

(b) During the period, 80,100 common shares were issued to employees as discretionary bonuses pursuant to the Company's Share Bonus Plan.

(c) During the period, 193,207 common shares were issued upon the exercise of warrants for proceeds of \$32,191.

Stock Options

The Company has a stock option plan (the "Plan") to encourage ownership of its shares by directors, officers, employees and others, and to provide compensation for certain services. The terms of the Plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to 10 years. No compensation is recognized when options are exercised. The number of shares reserved for issuance is not to exceed 15% of the aggregate number of common shares issued and outstanding (calculated on a non-diluted basis) from time to time.

A summary of options outstanding is as follows:

	<u>Number of Options</u>	<u>Amount</u>
Options issuable on the exchange of options of Nuinsco pursuant to the Plan of Arrangement	9,187,500	\$ -
Options granted during period	3,437,500	863
Outstanding, March 31, 2007	<u>12,625,000</u>	<u>\$ 863</u>

Pursuant to the Plan of Arrangement, holders of 12,250,000 options of Nuinsco, converted their options into 12,250,000 new Nuinsco options and 9,187,500 options of the Company with an average exercise price of \$0.19 per share.

In total, 3,437,500 options were granted during the period at an exercise price of \$0.64 per share. The weighted average grant date fair value of options granted during the period was \$0.33. The grant of 3,437,500 options resulted in compensation expense totally \$863,367. The value assigned to options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

Dividend yield	-
Expected volatility	75%
Risk free interest rate	5.0%
Expected option term – years	3
Fair value per share of options granted	0.33

Of the 12,625,000 options outstanding at March 31, 2007, 925,000 are subject to vesting in future periods. The aggregate fair value of these unvested options not yet charged to operations is \$272,233.

#### Commitment to Issue Shares

Pursuant to the Plan of Arrangement, the Company is committed to issue common shares of the Company to holders of Nuinsco warrants as of February 1, 2007, the effective date of the Plan of Arrangement, upon the exercise of such warrants.

Each outstanding Nuinsco warrant will entitle the holder to receive upon exercise, the number of new Nuinsco common shares and the number of common shares of the Company that such holder would have received under the Plan of Arrangement if such warrant had been exercised immediately before the Plan of Arrangement became effective. The aggregate exercise price of the Nuinsco warrant is unchanged with the Company receiving 41.25% of the proceeds.

During the period, 193,207 common shares were issued pursuant to this arrangement for proceeds of \$32,191. As at March 31, 2007, the Company has a commitment to issue a further 5,309,350 common shares for aggregate proceeds of approximately \$818,000.

## 6. Income Taxes

No income tax recovery has been recorded with respect to the current period loss for tax purposes of \$145,000 (after excluding non-deductible stock option and other stock-based compensation) or Plan of Arrangement costs of \$762,022 charged to share capital as it cannot be determined at this time whether it is more likely than not that the benefit associated with these losses and costs will be realized prior to their expiry.

## 7. Related Party Transactions

The Company obtains management, administrative assistance and facilities from Nuinsco pursuant to a management agreement. The fees payable by the Company are equal to the cost to Nuinsco of providing such services plus 10 per cent. The management agreement has an initial term of twenty four months and is terminable thereafter by Nuinsco upon ninety days notice and by the Company upon one hundred and eighty days notice. Fees charged to the Company in the current period totalled \$101,615 and have been included in general and administrative expenses.

**8. Changes in Non-Cash Working Capital**

Changes in non-cash working capital balances related to operations are as follows:

Accounts receivable, prepaid expenses and deposits	\$ (329)
Due from Nuinsco Resources Limited	(236)
Accounts payable and accrued liabilities	214
	<u>\$ (351)</u>

**9. Subsequent Events**

In April 2007, the Company issued 2,165,399 common shares for proceeds of \$388,477 pursuant to its commitment to issue shares on the exercise of Nuinsco warrants (see Note 5). It also issued 187,500 common shares for proceeds of \$113,250 upon the exercise of options in April 2007.