VICTORY NICKEL INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

DATED MARCH 31, 2014

MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

All of the information in the annual report and accompanying consolidated financial statements of Victory Nickel Inc. is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for public companies, being international financial reporting standards. Where necessary, management has made judgements and estimates in preparing the consolidated financial statements and such statements have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the annual report has been reviewed to ensure that it is consistent with the consolidated financial statements.

Management maintains appropriate systems of internal control to give reasonable assurance that its assets are safeguarded, and the financial records are properly maintained.

The 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 and the external auditors to review the auditors' report and the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

A firm of independent Chartered Accountants, appointed by the shareholders, audits the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provides an independent professional opinion thereon. The external auditors have free and full access to the Audit Committee with respect to their findings regarding the fairness of financial reporting and the adequacy of internal controls.

René R. Galipeau
Vice-Chairman and CEO
March 31, 2014

Alison J. Sutcliffe
Vice-President, Finance & CFO
March 31, 2014

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF VICTORY NICKEL INC.

We have audited the accompanying consolidated financial statements of Victory Nickel Inc. which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Victory Nickel Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has not commenced commercial production and accordingly the Company is dependent upon debt or equity financing and the optioning and/or sale of resource or resource-related assets for its funding. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

(signed) BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 31, 2014

Consolidated Balance Sheets

As at December 31, (in thousands of Canadian dollars)	*Notes*		2013		2012
ASSETS					
Current assets					
Cash and cash equivalents	*6*	**$**	**1,423**	$	256
Receivables and prepaids	*7*		**381**		155
Marketable securities	*8*		**278**		557
Total current assets			**2,082**		968
Non-current assets					
Property and equipment	*10*		**5,279**		1,424
Mine property and development project	*11*		**38,668**		37,897
Exploration and evaluation projects	*12*		**14,865**		14,738
Total non-current assets			**58,812**		54,059
Total Assets		**$**	**60,894**	$	55,027
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Trade and other payables	*13*	**$**	**1,617**	$	551
Loans and borrowings - current portion	*14*		**-**		1,000
Total current liabilities			**1,617**		1,551
Non-current liabilities					
Loans and borrowings - long-term portion	*14*		**6,379**		8
Lease obligations - long-term portion	*15*		**408**		-
Deferred tax liability	*16*		**1,521**		2,473
Total non-current liabilities			**8,308**		2,481
Total Liabilities			**9,925**		4,032
Shareholders' equity					
Share capital	*17*		**51,907**		47,683
Contributed surplus			**5,441**		4,397
Accumulated other comprehensive income			**1,665**		1,855
Deficit			**(8,044)**		(2,940)
Total shareholders' equity			**50,969**		50,995
Total Liabilities and Shareholders' Equity		**$**	**60,894**	$	55,027

NATURE OF OPERATIONS (Note 1)

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

Approved by the Board of Directors

(signed)
Cynthia P. Thomas
Director

(signed)
Roland Horst
Director

Consolidated Statements of Operations

Years ended December 31, (in thousands of Canadian dollars, except per share amounts)	*Notes*		**2013**		2012
Operating expenses					
General and administrative		**$**	**(1,631)**	$	(1,321)
Share-based payments:	*19*				
Options			**(205)**		(263)
Share Bonus Plan			**(43)**		-
Amortization of property and equipment	*10*		**(27)**		(18)
Recovery of exploration and evaluation project	*12*		**392**		1,450
Frac sand pre-operating costs			**(605)**		(159)
Operating loss			**(2,119)**		(311)
Finance income	*20*		**13**		3
Finance costs	*20*		**(3,808)**		(16)
Net finance costs			**(3,795)**		(13)
Loss before income taxes			**(5,914)**		(324)
Income tax recovery	*21*		**810**		141
Net Loss for the Year		**$**	**(5,104)**	$	(183)
(Loss) earnings per share	*18*				
Basic (loss) earnings per share		**$**	**(0.01)**	$	(0.00)
Diluted (loss) earnings per share		**$**	**(0.01)**	$	(0.00)

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

Consolidated Statements of Comprehensive Loss

Years ended December 31, (in thousands of Canadian dollars)	*Notes*		**2013**		2012
Net loss for the year		**$**	**(5,104)**	$	(183)
Other comprehensive loss ("OCI")					
Net change in fair value of financial assets	*9*		**(220)**		(655)
Income tax recovery	*16*		**30**		88
Other comprehensive loss for the year			**(190)**		(567)
Total Comprehensive Loss for the Year		**$**	**(5,294)**	$	(750)

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

Consolidated Statements of Shareholders' Equity

(in thousands of Canadian dollars)	*Notes*	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income / (Loss)	Deficit	Total Equity
Balances as at January 1, 2012		$ 47,631	$ 4,134	$ 2,422	$ (2,757)	$ 51,430
Total comprehensive loss for the year						
Net loss for the year					(183)	(183)
Other comprehensive loss						
Net change in fair value of financial assets	*9*			(655)		(655)
Income tax recovery	*16*			88		88
Total other comprehensive loss				(567)		(567)
Total comprehensive loss for the year						(750)
Transactions with owners, recorded directly in equity						
Contributions by owners in the year						
Issue of common shares for settlement of liabilities	*17*	38	-	-	-	38
Expiry of finder's unit warrants	*17*	14	-	-	-	14
Options granted and vesting or modified	*19*	-	263	-	-	263
Total contributions by owners		52	263	-	-	315
Total transactions with owners		52	263	-	-	315
Balances as at December 31, 2012		$ 47,683	$ 4,397	$ 1,855	$ (2,940)	$ 50,995
Balances as at January 1, 2013		$ 47,683	$ 4,397	$ 1,855	$ (2,940)	$ 50,995
Total comprehensive loss for the year						
Net loss for the year					(5,104)	(5,104)
Other comprehensive loss						
Net change in fair value of financial assets	*9*			(220)		(220)
Income tax recovery	*16*			30		30
Total other comprehensive loss				(190)		(190)
Total comprehensive loss for the year						(5,294)
Transactions with owners, recorded directly in equity						
Contributions by owners in the year						
Issue of common shares for settlement of liabilities, net	*17*	115	-	-	-	115
Issue of common shares under private placement, net	*17*	2,200	-	-	-	2,200
Issue of common shares for loan fee	*17*	271	-	-	-	271
Issue of common shares and warrants under private placement, net	*17*	179	106	-	-	285
Issue of common shares and warrants under rights offering, net	*17*	1,393	733	-	-	2,126
Issue of common shares under Share Bonus Plan	*17*	66	-	-	-	66
Options granted and vesting or modified	*19*	-	205	-	-	205
Total contributions by owners		4,224	1,044	-	-	5,268
Total transactions with owners		4,224	1,044	-	-	5,268
Balances as at December 31, 2013		**$ 51,907**	**$ 5,441**	**$ 1,665**	**$ (8,044)**	**$ 50,969**

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

Consolidated Statements of Cash Flows

Years ended December 31,			**2013**		2012
(in thousands of Canadian dollars)	***Notes***				
Cash flows from operating activities					
Net loss for the year		**$**	**(5,104)**	$	(183)
Adjustments for:					
Share-based payments	*19*		**248**		263
Expiry of finder's unit warrants	*17*		**-**		14
Amortization of property and equipment	*10*		**27**		18
Recovery of exploration and evaluation project	*12*		**(392)**		(1,450)
Net finance costs	*20*		**3,781**		11
Income tax recovery	*21*		**(810)**		(141)
Net change in working capital:					
Change in receivables			**(227)**		9
Change in trade and other payables			**103**		164
Net cash used by operating activities			**(2,374)**		(1,295)
Cash flows from investing activities					
Expenditures on mine property and development project	*11*		**(973)**		(2,201)
Expenditures on exploration and evaluation projects	*12*		**(138)**		(183)
Proceeds on sale of marketable securities			**59**		1,168
Proceeds from option of Lynn Lake	*12*		**400**		1,450
Deposits on equipment	*7,10*		**(152)**		(200)
Expenditures on 7P Plant	*10*		**(2,021)**		-
Net sale of furniture and equipment	*10*		**27**		-
Net cash (used by) from investing activities			**(2,798)**		34
Cash flows from financing activities					
Issue of common shares and warrants	*17*		**4,496**		-
Payments of interest	*14*		**(173)**		-
Payments under leases	*15*		**(100)**		-
Net proceeds of loans	*14*		**2,096**		1,000
Net cash from financing activities			**6,319**		1,000
Net increase (decrease) in cash and cash equivalents			**1,147**		(261)
Unrealized foreign exchange gain on cash and cash equivalents			**20**		-
Cash and Cash Equivalents, Beginning of the Year			**256**		517
Cash and Cash Equivalents, End of the Year		**$**	**1,423**	$	256

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

Notes to the Consolidated Financial Statements

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

1. NATURE OF OPERATIONS

Nature of Operations

Victory Nickel Inc. ("Victory Nickel" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The consolidated financial statements as at and for the years ended December 31, 2013 and 2012 comprise the Company and its subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel is primarily engaged in the acquisition, exploration and development of nickel properties and associated products in Canada and is preparing to enter the oilfield services market via the sale of frac sand. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

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

Going Concern

These consolidated financial statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2013, the Company had working capital of $465,000, (December 31, 2012 – working capital deficiency of $583,000 which included approximately $176,000 of voluntary deferrals owing to directors and senior management and $118,000 of accounts payable subsequently settled through issuing shares). Working capital is defined as current assets less current liabilities. The Company has initiatives underway to improve working capital which are expected to be announced shortly as well as the convertible promissory notes described in Note 26.

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

None of the Company's projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. Plans to enter the frac sand business and generate cash flow are significantly advanced with expected production in early 2014. The recoverability of the carrying value of exploration and evaluation projects and the mine property and development project, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which have the potential for the discovery of economically-recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding.

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

The management of Victory Nickel prepare the consolidated financial statements which are then reviewed by the

Notes to the Consolidated Financial Statements

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

Audit Committee and the Board of Directors. The consolidated financial statements were authorized for issue by the Board of Directors on March 31, 2014 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

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

The accompanying consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation.

Significant estimates and assumptions

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

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

- Note 9 - valuation of financial assets at fair value through operations and OCI;
- Note 11 - measurement of the recoverable amount of mine property and development project;
- Note 12 - measurement of the recoverable amount of exploration and evaluation projects;
- Note 14 – measurement and valuation of the loan payable;
- Note 14 - measurement and valuation of the embedded options in convertible notes; and
- Note 19 - measurement of share-based payments.

Significant judgements

Judgements are reviewed on an ongoing basis. Changes resulting from the effects of amended judgements are recognized in the period in which the circumstance giving rise to the change occurs and in any future periods presented.

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

- Note 1 - going concern assessment;
- Note 11 - classification of expenditures as mine property and development project or operating expenses;
- Note 12 - classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 11 - impairment of mine property and development project;
- Note 12 - impairment of exploration and evaluation projects;
- Note 16 - recoverability of deferred tax assets.

Notes to the Consolidated Financial Statements

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail below. Such policies have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Victory Nickel entities.

(a) New Accounting Policies

There have been no new accounting policies adopted by the Company.

(b) Basis of Consolidation

Subsidiary

A subsidiary is an entity controlled by Victory Nickel. Control exists when Victory Nickel has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by Victory Nickel. Significant Company entities are listed in Note 24.

(i) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of Victory Nickel's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(c) Foreign Currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Victory Nickel at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized through operations, except for differences arising on the retranslation of marketable securities, which are recognized directly in OCI. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Financial Instruments

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9"), which impacts the classification and measurement of financial assets, has been adopted by the Company.

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments, with the exception of financial assets and liabilities at fair value through OCI, are recognized initially at fair value plus, for instruments not at fair value through operations, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits.

Loans, receivables and borrowings are financial assets with fixed or determinable payments that are not quoted in

Notes to the Consolidated Financial Statements

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

an active market. Such assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans, receivables and borrowings are measured at amortized cost using the effective interest method, less any impairment losses. Loans, receivables and borrowings comprise receivables or payables.

Accounting for finance income and expenses is discussed in Note 3(n).

Financial assets at fair value through OCI
Victory Nickel's investments in equity securities are measured at fair value and changes therein, as well as foreign currency differences on monetary items (which do not include equity investments), are recognized directly in OCI.

Financial instruments at amortized cost
Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments
Victory Nickel may periodically hold warrants as part of its portfolio of marketable securities which are financial assets at fair value through operations. Convertible promissory notes contain embedded derivatives which are separated from the financial instrument measured at amortized cost.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized through operations when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately through operations.

(e) Property and Equipment
(i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within *Other income* in the consolidated statement of operations.

(ii) Depreciation
Depreciation is calculated as a function of the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized through operations as follows over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. Depreciation commences when an asset is placed into service. The plant at Seven Persons, near Medicine Hat, Alberta (the "7P Plant") has not yet been commissioned and is not being depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Item	**Method**	**2013**	2012
Building	Declining-balance	**5%**	5%
Equipment and Furniture	Declining-balance	**20%**	20%
Vehicles and Mobile Equipment	Declining-balance	**30%**	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Exploration and Evaluation Projects
(i) Exploration and Evaluation expenditures
Exploration and Evaluation ("E&E") expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs related to the following: acquisition of exploration rights; conducting

geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are capitalized as E&E assets on an "area of interest basis" which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises a single mine or deposit.

E&E assets are recognized if the rights to the project are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale; or
- activities on the project have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the project are continuing.

E&E expenditures are initially capitalized as intangible E&E assets. Such E&E expenditures may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable, permitted and development is approved by the Board, E&E assets attributable to that project are first tested for impairment and then reclassified to *Mine property and development projects* on the consolidated balance sheet.

(ii) Pre-E&E expenditures

Pre-E&E expenditures are incurred on activities that precede exploration for an evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area. Pre-E&E expenditures are expensed immediately as *Pre-exploration write-offs* through the consolidated statement of operations.

(iii) Impairment

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount and any impairment loss is recognized as *Writedown of exploration and evaluation projects* through the consolidated statement of operations. The following facts and circumstances, among other things, indicate that E&E assets must be tested for impairment:

- the term of exploration license for the project has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and the Company plans to discontinue activities in the specific area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full through such activity.

E&E assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to *Mine property and development projects* on the consolidated balance sheet.

(g) Mine Property and Development Project

(i) Pre-production development expenditures

The Company considers a project to be in the development phase when an identified mineral reserve is being prepared for production as approved by the Board, for example when there is construction of access to the mineral

reserves upon determination that there is economic viability of the project under a successful feasibility study and is permitted for development. As such, project development activities are related to the construction of an asset to be used in production or preparation for extraction of a specific mineral resource.

The costs of mining properties, which include the costs of acquiring and developing mining properties and mineral rights, are capitalized in the same manner as property and equipment under *Mine property and development project* ("MP&D") assets on the consolidated balance sheet in the period in which they are incurred or transferred from E&E assets upon determination of economic viability. At that point, all further pre-production primary development expenditure other than land, buildings, plant and equipment, etc. is capitalized as part of the cost of the project until the project is capable of commercial production. This includes costs incurred in preparing the site for mining operations, including pre-stripping costs.

Presently, the Company's sole project classified as *Mine property and development project* on the consolidated balance sheet is the Minago project; it continues to be in the pre-production phase and costs continue to be capitalized without depreciation.

(ii) Impairment

If a property were to be abandoned, there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, the cumulative capitalized cost relating to the property is written off to its recoverable amount through operations.

(h) Borrowing Costs

The Company's policy is to capitalize project-related borrowing costs related to qualifying assets as incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company presently does not have any project-related borrowings on qualifying assets.

(i) Government Grants

Government grants that compensate Victory Nickel for expenses incurred are recognized through operations on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate Victory Nickel for the cost of an asset are recognized through operations on a systematic basis over the useful life of the asset. For assets which are not being amortized, such as E&E assets or MP&D assets, the government grant is deducted from the related asset.

(j) Investment Tax Credits ("ITCs")

Investment tax credits may be claimed by the Company on qualifying expenditures. The Company accounts for these when such qualifying expenditures have been made by reducing the deferred tax liability and recording an income tax recovery through the consolidated statement of operations.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized through operations.

(ii) Non-financial assets

The carrying amounts of Victory Nickel's non-financial assets, other than deferred tax assets, are reviewed at each

Notes to the Consolidated Financial Statements

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

reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") (see definition below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates, or has the potential to generate, cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Generally, a CGU is analogous to an individual project. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized through operations. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Employee Benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Victory Nickel is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Victory Nickel has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if Victory Nickel has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(iii) Share-based payment transactions

The grant-date fair value of options granted to employees, directors and consultants is recognized as an employee expense, with a corresponding increase in equity, over the period that the individuals become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by Victory Nickel.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Notes to the Consolidated Financial Statements

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

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when the land is contaminated and there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities.

(n) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including financial assets at fair value through operations), dividend income, gains on the disposal of financial assets at fair value through operations, amortization of flow-through premiums and changes in the fair value of financial assets (warrants) at fair value through operations. Interest income is recognized as it accrues through operations, using the effective interest method. Dividend income is recognized through operations on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Gains on the disposal of financial assets are recognized on the settlement date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preferred shares classified as liabilities, changes in the fair value of financial assets and liabilities at fair value through operations and losses recognized on financial assets that are recognized through operations. All borrowing costs are recognized through operations using the effective interest method, except for those amounts capitalized as part of the cost of qualifying assets.

Foreign currency gains and losses are reported on a net basis.

(o) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized through operations except to the extent that it relates to items recognized either in OCI or directly in equity, in which case it is recognized in OCI or in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In 2009, pursuant to the receipt of a positive feasibility study for the Minago project, Victory Nickel determined that it was probable that it would be able to realize the benefit associated with its losses and costs prior to their expiry. Accordingly, the Company recognized the deferred tax assets (to the extent of the deferred tax liability) at that time. Victory Nickel continues to believe it is probable that the benefit of its losses and other costs will be realized prior to their expiry. The frac sand business represents a new venture for the Company; as the plant is not yet in operation and sales have not yet been generated, the Company has not recognized any deferred tax assets relating to Victory Silica.

Notes to the Consolidated Financial Statements

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

(p) Share Capital

(i) Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has financed a portion of its E&E activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("flow-through premium"). Flow-through shares may also be issued with a warrant feature. At the time of issue, the Company estimates the proportion of proceeds attributable to the flow-through premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The flow-through premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a liability in *Trade and other payables* on the consolidated balance sheet (Note 13). The proceeds attributable to the warrants is also treated as equity and recorded in *Contributed surplus* on the consolidated balance sheet until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise.

The effect of renunciation of the tax benefits to holders of such shares is recognized pro rata with the associated expenditures being incurred by the Company. This could occur either before or after the formal renunciation of expenditures to the tax authorities have been made. When the eligible expenditures are incurred, the tax value of the renunciation is recorded as a deferred tax liability and charged against operations as a deferred tax provision.

Furthermore, as eligible expenditures are incurred, the Company recognises a pro rata amount of the flow-through premium through *Finance income* in the consolidated statement of operations (Note 20) with a decrement to the liability in *Trade and other payables* on the consolidated balance sheet.

(ii) Share-based payment arrangements

Stock Option Plan

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 19. Awards to non-employees are measured at the fair value of the goods or services received. Awards made to employees are measured at the grant date. All stock-based awards made to employees and non-employees are recognized at the date of grant using a fair-value-based method to calculate the share-based payment. The share-based payment is charged to operations over the vesting period of the options or service period, whichever is shorter. Stock options vest either immediately or over a 12-month period.

Share Incentive Plan

The Company has a share incentive plan (the "Share Incentive Plan"), which includes both a share purchase plan (the "Share Purchase Plan") and a share bonus plan (the "Share Bonus Plan"). The Share Incentive Plan is administered by the directors of the Company. The Share Incentive Plan provides that eligible persons thereunder include directors, senior officers and employees of the Company and its designated affiliates and consultants who are primarily responsible for the management and profitable growth of the business.

The Share Incentive Plan is described in Note 17. The Company uses the fair value method of accounting for, and to recognize as compensation expense, its share-based payments for employees. Shares issued under the Share Incentive Plan are valued based on the quoted market price on the date of the award. This amount is expensed over the vesting period.

(q) Earnings (Loss) per Share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise warrants and share options.

Notes to the Consolidated Financial Statements

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

(r) New Standards and Interpretations Not Yet Adopted

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued several new and revised standards and interpretations which are not yet effective for the year ended December 31, 2013 and have not been applied in preparing these consolidated financial statements unless stated otherwise. However, the revised standards and interpretations are either not applicable to the Company or are expected to have minimal impact.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview

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

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities including entry into new operations such as the frac sand business. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined. The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

Credit Risk

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, receivables and marketable securities.

Cash and cash equivalents

The Company's cash and cash equivalents are held through large Canadian financial institutions. 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.

Receivables

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

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

Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

Notes to the Consolidated Financial Statements

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

Marketable securities

The Company limits its exposure to credit risk by investing only in securities which are listed on public stock exchanges. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will enure to the Company. As at December 31, 2013, the Company had $nil in third party guarantees outstanding (2012 - $nil).

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and marketable securities. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. When possible, spending plans are adjusted accordingly to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future. However, the frac sand business is expected to provide liquidity to the Company shortly after it has commenced operation.

The Company has several long-term liabilities including its deferred tax liability and long-term obligations relating to equipment financing, loan with Nuinsco Resources Limited ("Nuinsco") and other promissory notes. All other contractually-obligated cash flows are payable within the next fiscal year. It is expected that operating funds from frac sand activity will significantly assist in servicing and repaying such long-term obligations. In addition, certain loan obligations are convertible into equity and successful implementation of the frac sand business could improve the attractiveness of conversion.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Company's income, the value of its E&E and MP&D properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The frac sand market is relatively new to the Company and is subject to market forces affecting oil and natural gas pricing and related demand for frac sand.

Currency risk

The Company is exposed to currency risk on purchases and other payables that are denominated in a currency other than the functional currency of the Company; the Canadian dollar. The primary currency in which these transactions are denominated is the United States dollar ("US$"). The Company does not actively hedge its foreign currency exposure. Frac sand sales are expected to be denominated in the US$; presently, many of the costs of that business are expected also to be denominated in the US$ therefore providing a natural hedge.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash equivalents earn interest at variable short-term rates. The Company's debt bears interest at fixed rates (Note 14). Accordingly, the estimated effect of a 50bps change in interest rate would not have a material effect on the Company's results of operations. None of the Company's

other financial instruments are interest-bearing. Consequently, the Company is not presently exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates. The Company is in the process of securing working capital financing to support the short-term requirements of the frac sand business; this financing may have variable interest rates.

Other market price risk
The Company's marketable securities and strategic investments are subject to equity price risk. The values of these investments will fluctuate as a result of changes in market prices, the price of metals or other factors affecting the value of the investments.

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The value of the Company's mineral resource properties is related to the price of, and outlook for, base and precious metals. Historically, such prices have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures.

The Company does not have any hedging or other commodity-based risks respecting its operations. The value of the Company's strategic investments is also related to the price of, and outlook for, base and precious metals and other minerals. The future prices of frac sand sales are also subject to similar risks.

Operational Risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Company has a small but hands-on and experienced executive team which facilitates communication across the Company. This expertise is supplemented, when necessary, by the use of experienced consultants in legal, compliance and industry-related specialties. The Company also has standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the Occupational Health and Safety Act and related regulations and codes, and the Railway Safety Act and requirements of the Canadian Transportation Agency;
- documentation of controls and procedures, including quality control and plant maintenance;
- development of contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective and available.

Compliance with Company standards is supported by a code of conduct which is provided to employees, officers and directors. The Company requires sign-off of compliance with the code of conduct.

Capital Management Disclosures
The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity as well as any long-term debt, equipment-based and/or project-based financing.

Notes to the Consolidated Financial Statements

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

		December 31, 2013		December 31, 2012
Shareholders' equity	**$**	**50,969**	$	50,995
Loans and borrowings - long-term portion		**6,379**		8
Lease obligations - long-term portion		**408**		-
Loans and borrowings - available		**500**		-
	$	**58,256**	$	51,003

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based, working capital and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments. Refer to Note 26 for financings closed subsequent to December 31, 2013.

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

5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and Equipment

The fair value of property and equipment recognized as a result of a business combination is based on the amount for which a property could be exchanged on the date of valuation between knowledgeable, willing parties in an arm's length transaction.

(b) Intangible Assets

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Marketable Securities

The fair value of financial assets at fair value through operations or OCI is determined by reference to their quoted closing bid price at the reporting date.

Fair value hierarchy

The different levels of valuation are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs).

(d) Receivables

The fair value of receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes only.

(e) Warrants

The fair values of warrants included in either financial assets at fair value through operations or in equity are based upon the Black-Scholes option-pricing model. Measurement inputs include: share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly-available information), weighted average expected life of the instruments (based

Notes to the Consolidated Financial Statements

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

on historic experience and general option-holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

(f) Non-derivative Financial Liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(g) Share-based Payment Transactions
The fair value of share options is measured using the Black-Scholes option-pricing model. The measurement inputs are described above under Note 5(e). Any service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

6. CASH AND CASH EQUIVALENTS

		December 31, 2013		December 31, 2012
Bank balances	**$**	**1,418**	$	256
Short-term deposits		**5**		-
Cash and Cash Equivalents in the Statement of Cash Flows	**$**	**1,423**	$	256

7. RECEIVABLES AND PREPAIDS

	Note		**December 31, 2013**		December 31, 2012
Receivables		**$**	**231**	$	68
Prepaid expenses and deposits			**150**		50
Due from Nuinsco Resources Limited	*23*		**-**		37
		$	**381**	$	155

8. MARKETABLE SECURITIES

		December 31, 2013		December 31, 2012
Financial assets at fair value through OCI:				
Shares	**$**	**278**	$	557
	$	**278**	$	557

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

Sensitivity Analysis – Equity Price Risk
All of the Company's financial assets at fair value through OCI are listed on public stock exchanges, including the TSX and the TSX-V. Recently, the markets have experienced extreme volatility; therefore the sensitivity analysis is performed using 15%. For such investments, a 15% increase in the equity prices at the reporting date would have increased equity by $36,000, after tax effects of $6,000 (as at December 31, 2012 - an increase of $72,000, after tax effects of $11,000); an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

Notes to the Consolidated Financial Statements

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

9. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

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

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

	Notes		**December 31, 2013**		December 31, 2012
Carrying amount					
Cash and cash equivalents	*6*	**$**	**1,423**	$	256
Receivables	*7*		**381**		155
Financial assets at fair value through OCI	*8*		**278**		557
		$	**2,082**	$	968

Liquidity Risk

The following table shows the contractual maturities of financial liabilities including estimated interest payments.

	Non-derivative financial liabilities							
		Leases payable (1)		**Long-term liabilities (2)**		**Trade and other payables (1)**		**Total**
As at December 31, 2013								
Carrying amount	$	567	$	6,379	$	1,446	$	8,392
Contractual cash flows		637		3,844		1,446		5,927
6 months or less		112		216		1,446		1,774
6 - 12 months		78		219		-		297
1 - 2 years		157		3,409		-		3,566
2 - 5 years		290		-		-		290
As at December 31, 2012								
Carrying amount	$	-	$	1,008	$	551	$	1,559
Contractual cash flows		-		1,250		551		1,801
6 months or less		-		60		551		611
6 - 12 months		-		60		-		60
1 - 2 years		-		120		-		120
2 - 5 years		-		1,010		-		1,010

(1) Balances reflect $160,000 current leases payable as Leases payable; these are disclosed within Trade and other payables (Note 13) on the consolidated balance sheet.

(2) Note that the long-term loan to Nuinsco is contractually payable on January 31, 2015, however up to $nil (December 31, 2012 - $1,000,000) of option payments may be diverted to the lender as prepayment, that amount is classified as a current liability on the consolidated balance sheet (See Notes 12 and 14).

Currency Risk

Exposure to currency risk

As at December 31, 2013

(in thousands of Canadian dollars)		**US$**
Cash and cash equivalents	$	1,356
Receivables		143
Marketable securities		-
Trade and other payables		(118)
Loans and borrowings		(2,127)
	$	(746)

The Company's exposure to foreign currency risk as at and for the year ended December 31, 2012 was immaterial; refer also to Note 25 for commitment.

Notes to the Consolidated Financial Statements

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

Sensitivity analysis

A 10% weakening of the Canadian dollar would have an approximate effect on the Company's equity or profit or loss of $75,000 on balances denominated in US$ as at December 31, 2013. The analysis assumes that all other variables, in particular interest rates, remain constant. There would have been an immaterial impact on balances as at December 31, 2012.

Fair Value

Fair values versus carrying amounts

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

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

	Level 1	Level 2	Level 3	Total
As at December 31, 2013				
Financial assets at fair value through OCI	**$ 278**	**$ -**	**$ -**	**$ 278**
	$ 278	**$ -**	**$ -**	**$ 278**
As at December 31, 2012				
Financial assets at fair value through OCI	$ 557	$ -	$ -	$ 557
	$ 557	$ -	$ -	$ 557

There have been no transfers between Level 1 and Level 2 during the current and prior reporting periods. All of the shares owned by the Company are valued using Level 1 methodologies.

10. PROPERTY AND EQUIPMENT

Balance as at January 1, 2012	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
Cost	$ 83	$ -	$ 32	$ 1,211	$ 1,326
Accumulated Amortization	(6)	-	(11)	(32)	(49)
Carrying Amount	**77**	**-**	**21**	**1,179**	**1,277**
Additions	-	-	-	200	200
Disposals - cost	-	-	-	(52)	(52)
Disposals - accumulated amortization	-	-	-	(17)	(17)
Amortization	(2)	-	(6)	(10)	(18)
Balance as at December 31, 2012					
Cost	83	-	32	1,359	1,474
Accumulated Amortization	(8)	-	(17)	(25)	(50)
Carrying Amount	**75**	**-**	**15**	**1,334**	**1,424**
Additions	-	3,086	636	160	3,882
Amortization	(1)	-	(23)	(3)	(27)
Balance as at December 31, 2013					
Cost	83	3,086	668	1,519	5,356
Accumulated Amortization	(9)	-	(40)	(28)	(77)
Carrying Amount	**$ 74**	**$ 3,086**	**$ 628**	**$ 1,491**	**$ 5,279**

Equipment and furniture includes deposits of $1,485,000 related to the purchase of transformers and other electrical equipment; the equipment is not available for use and is not being depreciated. Property and equipment also includes assets amounting to $2,288,000 at the 7P Plant which has not yet been commissioned, accordingly, neither it nor the cost to acquire the 7P Plant of $800,000 is being depreciated. On May 10, 2010, the Company entered into an agreement to purchase the transformers and other electrical equipment for the Minago project. The total price is US$2,840,000 (Note 25). Vehicles and Mobile Equipment include $636,000 (2012 - $nil) of equipment acquired under leases (Note 15).

Notes to the Consolidated Financial Statements

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

11. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2013	Current Expenditures	Recoveries	**December 31, 2013**
Minago	$ 37,897	$ 843	$ (72)	**$ 38,668**
	$ 37,897	$ 843	$ (72)	**$ 38,668**

	January 1, 2012	Current Expenditures	Recoveries	December 31, 2012
Minago	$ 35,571	$ 2,376	$ (50)	$ 37,897
	$ 35,571	$ 2,376	$ (50)	$ 37,897

Recoveries in 2013 and 2012 represent grants from the Manitoba Government.

Minago

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

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

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

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

As at December 31, 2013, the Company tested the Minago project for impairment. The economic model in the FS was re-run using a range of prices derived from forecasts from US$7.18 to US$8.75 for nickel and an exchange rate of US$0.8978:C$1.00. Identified cost savings from subsequent evaluation relating to costs of overburden removal and transformers and electrical equipment were reflected. A discount rate of 12% was used in the analysis. These factors resulted in an NPV in excess of the book value of Minago.

12. EXPLORATION AND EVALUATION PROJECTS

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

	January 1, 2013	Current Expenditures	Recoveries	Excess Proceeds	**December 31, 2013**
Lac Rocher	$ 7,317	$ 71	$ -	$ -	**$ 7,388**
Mel	7,421	52	-	-	**7,473**
Lynn Lake	-	8	(400)	392	**-**
Other	-	4	-	-	**4**
	$ 14,738	$ 135	$ (400)	$ 392	**$ 14,865**

Notes to the Consolidated Financial Statements

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

	January 1, 2012	Current Expenditures	Recoveries	Excess Proceeds	December 31, 2012
Lac Rocher	$ 7,254	$ 63	$ -	$ -	$ 7,317
Mel	7,323	98	-	-	7,421
Lynn Lake	-	-	(1,450)	1,450	-
	$ 14,577	$ 161	$ (1,450)	$ 1,450	$ 14,738

The expenditures on the Lynn Lake property are shown net of cumulative option payments received which include $400,000 in 2013 and $1,450,000 in 2012. The excess proceeds of $392,000 and $1,450,000 for the years ended December 31, 2013 and 2012, respectively, represent the excess of consideration received under the option agreement above carrying value and are reflected in *Recovery of exploration and evaluation project* through operations.

Lac Rocher

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

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

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

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

Mel

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

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

Ongoing updating of Mel data is being conducted and applies to both the drilling data on the Mel deposit/lease as

Notes to the Consolidated Financial Statements

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

well as the 111 drill holes collared on the claims portion of the property. When completed, additional modelling of the resource will be continued. No fieldwork has been conducted during 2013.

Lynn Lake

The Company owns a 100% right, title and interest in the Lynn Lake nickel property ("Lynn Lake"), covering approximately 600 ha in northern Manitoba. As at December 31, 2013, the Lynn Lake property was subject to an option agreement with Wellgreen Platinum Ltd. ("Wellgreen") (formerly Prophecy Platinum Corp.). The Company received $1,000,000 in February 2012; on August 8, 2012, the Company received $450,000 from Wellgreen in consideration for removal of the exploration expenditure condition from the Lynn Lake option agreement and had received all payments scheduled under the option agreement to December 31, 2012. Accordingly, under the original agreement, the sole remaining condition for the Lynn Lake property to transfer to Wellgreen was the $1,000,000 option payment which was originally due from Wellgreen by March 1, 2013.

On March 1, 2013, the Company agreed to an additional amendment to the option agreement which allowed Wellgreen to make a series of payments through 2013 and 2014 aggregating $1,125,000 in satisfaction of the remaining option conditions. On March 1, 2013, the Company received the first payment of $125,000; $125,000 was received in May 2013 and $150,000 in September 2013; $175,000 was due in December 2013 with a further $550,000 being payable by August 29, 2014.

On March 17, 2014, Wellgreen formally confirmed to the Company that it was relinquishing the Lynn Lake option and is presently in the process of fulfilling the termination conditions within the option agreement which includes vacating the option properties in good condition and returning all exploration materials and data to the Company.

In 2013, $392,000 excess of proceeds under the option agreement above the book value of the property had been received and accordingly was recorded through the consolidated statement of operations as a recovery of exploration and evaluation project in respect of Lynn Lake (December 31, 2012 - $1,450,000).

Other Projects

The Company has incurred minimal expenditures on other properties in 2013 and 2012.

Impairment and Pre-exploration Costs

Costs relating to discontinued projects in the amounts of $nil were provided for through operations as *Writedown of exploration and evaluation projects* in the consolidated statement of operations during the years ended December 31, 2013 and 2012.

Notes to the Consolidated Financial Statements

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

13. TRADE AND OTHER PAYABLES

	Notes	December 31, 2013	December 31, 2012
Trade payables			
Mine property and development project		$ 25	$ 293
Exploration and evaluation projects		-	3
Property and equipment		742	-
Non-project related		116	84
Accrued liabilities			
Mine property and development project		28	2
Exploration and evaluation projects		1	1
Property and equipment		325	-
Non-project related		153	160
Other payables		-	8
Lease obligations - current portion	15	160	-
Due to Nuinsco Resources Limited			
Under the Management Agreement	23	56	-
Commitment fees	14	11	-
		$ 1,617	$ 551

14. LOANS AND BORROWINGS

	December 31, 2013	December 31, 2012
Loan payable to Nuinsco Resources Limited - long-term portion	$ 4,100	$ 8
Promissory note	2,279	-
	$ 6,379	$ 8

Loan payable to Nuinsco Resources Limited	Notes	December 31, 2013	December 31, 2012
Advance for working capital		$ 1,000	$ 1,000
Advance under Amended Loan for standby commitment		1,207	-
Aggregate advances		2,207	1,000
Accrued interest payable		-	9
		2,207	1,009
Less: settled in Units of Victory Nickel	17	(1,207)	-
Less: unamortized loan fees		(189)	(1)
		811	1,008
Less: loans and borrowings - current portion		-	(1,000)
Change in fair value of loan	20	3,289	-
Loans and borrowings - long-term portion		$ 4,100	$ 8

In 2012, the Company entered into a loan agreement for $1,000,000 with Nuinsco (the "Lender"). The loan was amended and restated on March 25, 2013 (the "Amended Loan") to up to $3,000,000 with the additional amount being available to fund capital expenditures relating to the 7P Plant. The Amended Loan bears interest at 12% per annum and matures on January 31, 2015; the loan is secured by equipment and a general security agreement over the equipment of the Company. At the option of the Lender, and under certain circumstances, the Lender can elect to receive prepayment of the loan from up to $1,000,000 of the proceeds of the Lynn Lake option payments originally due by March 1, 2013. As at December 31, 2012, this amounted to $1,000,000 and, accordingly,

Notes to the Consolidated Financial Statements

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

$1,000,000 of the loan has been classified as a current liability due within one year effective that date. As described in Note 12, Wellgreen has relinquished the option and no further option payments are due therefore the whole of the amount due to Nuinsco is classified as long-term.

Prior to June 1, 2014, the Lender has the right to convert the outstanding balance of the Amended Loan into a limited participating interest (the "Conversion") whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. The Lender's participation is capped at $10,000,000, with a minimum of $7,500,000, and is subject to adjustment under certain circumstances. On Conversion, the Amended Loan would be considered paid in full. The Lender had also agreed to backstop an equity issue, if any was announced, with cash or by converting a portion of the Amended Loan into shares, at the Lender's option, to an amount up to $1,500,000 under certain circumstances. On June 14, 2013, the Company announced a rights offering for existing shareholders to raise gross proceeds of up to approximately $2,700,000 (see Note 17). The rights offering closed on July 30, 2013 and raised gross proceeds of $2,400,000 which included the backstop provided by the Lender in cash of $1,207,584. This has capped the Amended Loan at $2,707,584 and reduced the amount available to be drawn down to $500,000. Upon exercise of the backstop, Nuinsco increased its shareholding in the Company to approximately 12.24%, thereby becoming a related party of the Company.

The Company was to pay, with shares, an arrangement fee of up to $300,000 plus a commitment fee of 1.5% per annum on unutilized balances. Commitment fees of $11,000 have been accrued to December 31, 2013 and are included in *Finance costs* in Note 20; shares will be issued upon the final advance under the loan terms. Effective March 2013, the Company issued 5,681,818 shares in satisfaction of the arrangement fee at that time of $250,000; an additional 789,294 shares with a stated value of $20,758 were issued in August 2013 under the loan terms related to the backstop of the rights offering; this satisfies the arrangement fee in full. These amounts, along with other loan fees, are being amortized as interest expense using the effective interest rate method; in the year ended December 31, 2013, $134,000 was amortized as interest expense and $129,000 interest was paid to the Lender in cash. The payment in the first quarter included $9,000 which was accrued in 2012.

On February 4, 2014, both Nuinsco and Victory Nickel agreed to cancel the amount that remained available to be drawn down under the Amended Loan. This fixed the commitment fee to be paid in shares at $12,000 and also amended the range of the Company's participation in the net cash flows earned from the sale of frac sand to a maximum of $10,222,831 with a minimum of $7,667,124. This range could be decreased should Victory Nickel repay some or all of the $1,000,000 balance outstanding before Conversion.

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

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is $10,222,831. Based on the estimated cash flows described above, payments could commence as early as mid-2015. These assumptions resulted in revised amortized cost carrying amount of the loan of $4,100,000 and, accordingly $3,289,000 was recorded as a *loss on adjustment of estimated cash flows* through the statement of operations. This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will review and revise its estimates of expected future cash flows as the expectations of payments of the participating interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows paid.

Notes to the Consolidated Financial Statements

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

Promissory Note	***Notes***		**December 31, 2013**
Advance in US$			**$ 2,000**
Add: effect of foreign exchange			**127**
			2,127
Embedded option derivative at inception		**$ 168**	
Less: amortization	*20*	**(12)**	
		156	**(156)**
Less: unamortized loan fees			**(33)**
Net promissory note			**1,938**
Embedded option derivative at inception		**168**	
Change in value of embedded option derivative	*20*	**173**	
			341
Loans and borrowings - long-term portion			**$ 2,279**

On November 11, 2013, the Company entered into an unsecured convertible promissory note by way of a private placement (the "Convertible Note"). The Convertible Note is denominated in US$, bears interest calculated and payable quarterly at 14.8% and is convertible at the option of the holder into the Company's shares at $0.10. The Convertible Note has a two-year term. The Company paid US$41,000 ($44,000) for interest in cash and amortized $2,000 for loan fees and $12,000 for the embedded option derivative at inception using the effective interest rate method during the year.

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

	November 11, 2013 (At inception)	**December 31, 2013**
Fair values	**$ 0.008**	**$ 0.016**
Share prices at valuation date	**$ 0.030**	**$ 0.045**
Assumptions		
Exercise price	**$ 0.10**	**$ 0.10**
Expected volatilities	**103%**	**109%**
Expected remaining terms (years)	**2.00**	**1.87**
Expected dividends	**-**	-
Risk-free interest rates	**1.20%**	**1.20%**

15. LEASE OBLIGATIONS

	Note	**December 31, 2013**	December 31, 2012
Vehicles and Mobile Equipment:			
Total present value of minimum lease payments		**$ 668**	$ -
Principal payments		**(100)**	-
Total present value of minimum lease payments remaining		**568**	-
Lease obligations - current portion	*13*	**(160)**	-
Lease obligations - long-term		**$ 408**	$ -

The Company has finance lease obligations for equipment in use at the 7P Plant. At the end of the lease obligations, ownership is transferred to the Company for all leases except one, whereby an election is to be made

Notes to the Consolidated Financial Statements

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

60 days prior to the end of the lease term at the purchase option price of $1. The future minimum lease payments (also reflected in the liquidity analysis in Note 9) are as follows:

	December 31, 2013	December 31, 2012
Less than 1 year	**$ 190**	$ -
Between 1 and 5 years	**447**	-
Total minimum lease payments payable	**637**	-
Future finance charges on minimum lease payments	**69**	-
Present value of minimum lease payments	**$ 568**	$ -

16. DEFERRED TAX LIABILITY

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying value of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are considered probable to be realized.

Significant components of the Company's deferred tax assets and liability, after applying enacted corporate income tax rates, are as follows:

	December 31, 2013	December 31, 2012
Temporary differences		
Property and equipment	**$ (11)**	$ (24)
Exploration, evaluation and development projects	**5,831**	6,345
Share issue and other costs	**(704)**	(193)
Non-capital tax losses carried forward	**(4,108)**	(3,569)
Capital losses carried forward	**-**	(63)
Capital losses unrealized	**(76)**	(65)
	932	2,431
Unrecognized deferred tax assets	**589**	42
	$ 1,521	$ 2,473

The income tax recovery represents the recognition of deferred income tax assets (to the extent of the deferred tax liability) since the Company currently believes that it is probable 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.

Non-capital losses, on which a deferred tax asset was recorded, expire as follows:

2014	**$ 367**
2015	**636**
2026	**1,092**
2027	**2,312**
2028	**2,491**
2029	**1,801**
2030	**1,947**
2031	**1,134**
2032	**1,529**
2033	**2,253**
	$ 15,562

Notes to the Consolidated Financial Statements

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

Non-capital losses on which a deferred tax asset was not recorded expire as follows:

2032	**$ 155**
2033	**519**
	$ 674

As at December 31, 2013, the Company had estimated capital losses of $nil available for carryforward (December 31, 2012 - $467,000).

Movement in Deferred Tax Assets and Liability during the Year

	As at January 1, 2013	Recognized in operations	Recognized in OCI	Recognized in share capital	**As at December 31, 2013**
Property and equipment	$ (24)	$ 13	$ -	$ -	**$ (11)**
Exploration and evaluation projects	6,345	(514)	-	-	**5,831**
Share issue and other costs	(193)	(399)	-	(112)	**(704)**
Net tax losses carried forward	(3,569)	(457)	(82)	-	**(4,108)**
Capital losses (net)	(63)	-	63	-	**-**
Capital losses unrealized	(65)	-	(11)	-	**(76)**
	2,431	(1,357)	(30)	(112)	**932**
Unrecognized deferred tax assets	42	547	-	-	**589**
Deferred tax liability, net	$ 2,473	$ (810)	$ (30)	$ (112)	**$ 1,521**

	As at January 1, 2012	Recognized in operations	Recognized in OCI	Recognized in share capital	**As at December 31, 2012**
Property and equipment	$ (26)	$ 2	$ -	$ -	**$ (24)**
Exploration and evaluation projects	6,179	166	-	-	**6,345**
Share issue and other costs	(247)	54	-	-	**(193)**
Net tax losses carried forward	(3,147)	(317)	(105)	-	**(3,569)**
Capital losses (net)	-	(63)	-	-	**(63)**
Capital losses unrealized	(57)	(25)	17	-	**(65)**
	2,702	(183)	(88)	-	**2,431**
Unrecognized deferred tax assets	-	42	-	-	**42**
Deferred tax liability, net	$ 2,702	$ (141)	$ (88)	$ -	**$ 2,473**

17. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

Authorized

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

Number of shares issued and outstanding

The issued and outstanding common shares for 2013 and 2012 are as follows:

	Notes	**Number of Shares**	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Income Taxes	Finder's Unit Warrants	Other Warrants and Options	**Share Capital**
Balance as at January 1, 2012		**395,807,042**							**$ 47,631**
Issue of common shares	*(a)*	**1,540,000**	$ -	$ 38	$ -	$ -	$ -	$ -	**38**
Expiry of finder's unit warrants	*(b)*	**-**	-	-	-	-	14	-	**14**
Balance as at December 31, 2012		**397,347,042**	$ -	$ 38	$ -	$ -	$ 14	$ -	**$ 47,683**

Notes to the Consolidated Financial Statements

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

	Notes	Number of Shares	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Income Taxes	Finder's Unit Warrants	Other Warrants and Options	Share Capital
Balance as at January 1, 2013		**397,347,042**							**$ 47,683**
Issue of common shares for liabilities	*(c)*	**4,720,000**	$ -	$ 118	$ (5)	$ 2	$ -	$ -	**115**
Issue of common shares for cash	*(d)*	**44,178,500**	2,209	-	(12)	3	-	-	**2,200**
Issue of common shares for loan fee	*(e)*	**5,681,818**	-	250	-	-	-	-	**250**
Issue of shares under Share Bonus Plan	*(f)*	**367,500**	-	17	-	-	-	-	**17**
Issue of shares under Share Bonus Plan	*(g)*	**1,180,000**	-	41	-	-	-	-	**41**
Issue of common shares and warrants under rights offering	*(h)*	**100,000,000**	2,400	-	(375)	101	-	(733)	**1,393**
Issue of common shares for loan fee	*(i)*	**789,294**	-	21	-	-	-	-	**21**
Issue of shares under Share Bonus Plan	*(j)*	**266,666**	-	8	-	-	-	-	**8**
Issue of common shares and warrants under private placement	*(k)*	**12,500,000**	300	-	(21)	6	-	(106)	**179**
Balance as at December 31, 2013		**567,030,820**	$ 4,909	$ 455	$ (413)	$ 112	$ -	$ (839)	**$ 51,907**

(a) In December, 2012, the Company issued common shares to a vendor for settlement of outstanding amounts owed by the Company.

(b) On May 25, 2011 the Company completed a private placement on a flow-through basis which included finder's warrants which also included finder's unit warrants. The finder's unit warrants were recorded at a fair value of $14,000 in accrued liabilities. The finder's warrants expired unexercised; accordingly, the finder's unit warrants expired and related costs were reversed in 2012.

(c) In January 2013, the Company issued 4,720,000 shares to satisfy $118,000 in accounts payable owing to a vendor for settlement of outstanding amounts owed by the Company.

(d) In March 2013, the Company entered into a private placement with a key investor and issued 44,178,500 shares at $0.05 per share generating gross proceeds of approximately $2,209,000.

(e) Effective March 2013, the Company issued 5,681,818 shares to satisfy $250,000 of the arrangement fee then outstanding on the Amended Loan.

(f) In April 2013, the Company issued 367,500 shares under the Share Bonus Plan to an employee.

(g) In July 2013, the Company issued 1,180,000 shares under the Share Bonus Plan to senior officers of the Company.

(h) On June 14, 2013, the Company announced the terms of a rights offering to existing shareholders to raise gross proceeds of up to approximately $2,700,000. The offering closed on July 30, 2013 and raised gross proceeds of $2,400,000 (excluding any potential proceeds from the exercise of the warrants). Accordingly, the Company issued 100,000,000 shares and 100,000,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of $0.035 during the 12-month period beginning July 31, 2014.

(i) In August 2013, the Company issued 789,294 shares with a stated value of $20,758 for the arrangement fee under the terms related to the backstop of the rights offering (Note 14).

(j) In September 2013, the Company issued 266,666 shares under the Share Bonus Plan to an officer and employee of the Company.

(k) In September 2013, the Company entered into a private placement and issued 12,500,000 shares and 12,500,000 share purchase warrants at $0.024 per share generating gross proceeds of $300,000. Each warrant entitles the holder to purchase one common share at a price of $0.035 for two years from issue date.

Share Incentive Plan

The Company has a Share Incentive Plan which includes a Share Purchase Plan and a Share Bonus Plan. The purpose of the Share Incentive Plan is to encourage ownership of common shares by directors, senior officers and employees of the Company and its designated affiliates and consultants who are primarily responsible for the management and profitable growth of its business, to advance the interests of the Company by providing additional incentive for superior performance by such persons and to enable the Company and its designated affiliates to attract and retain valued directors, officers, employees and consultants.

Notes to the Consolidated Financial Statements

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

Share Purchase Plan

Under the Share Purchase Plan, eligible directors, senior officers and employees of the Company and its designated affiliates and consultants can contribute up to 10% of their annual basic salary before deductions to purchase common shares. The Company matches each participant's contribution. The purchase price per common share is the volume-weighted average of the trading prices of the common shares on the TSX for the calendar quarter in respect of which the common shares are issued. Common shares acquired are held in safekeeping and delivered to employees as soon as practicable following March 31, June 30, September 30 and December 31 in each calendar year. No common shares have yet been issued pursuant to the Share Purchase Plan. The maximum number of common shares issuable under the Share Purchase Plan is the lesser of: (i) that number of common shares that can be purchased with a dollar amount equal to 20% of the gross annual salary of the Participants (as defined in the Share Incentive Plan); and (ii) 1% of the aggregate number of issued and outstanding common shares (calculated on a non-diluted basis) from time to time.

Share Bonus Plan

The Share Bonus Plan permits common shares to be issued as a discretionary bonus to eligible directors, senior officers and employees of the Company and its designated affiliates, and consultants from time to time. At the Company's Annual and Special Meeting of Shareholders held on June 26, 2012, shareholders approved an increase in the maximum number of common shares issuable under the Share Bonus Plan to 10,000,000.

In 2013, 1,814,166 shares were issued under the Share Bonus Plan (2012 – nil). The entitlement to shares issued under the Share Bonus Plan in 2013 vested immediately. The fair value of common share entitlements granted under the Share Bonus Plan is determined using the quoted market value on the date of grant for an aggregate fair value of $66,000 in 2013, which was charged immediately.

Shareholder Rights Plan

In March, 2009, the Board of Directors approved the adoption of a shareholder rights plan (the "Shareholder Rights Plan") which was subsequently confirmed by its shareholders at the Company's Annual and Special Meeting held on June 3, 2009 (the "ASM"). At the ASM, shareholders approved the extension of this plan to the termination of the annual meeting of shareholders in 2012, at which meeting this plan was further extended to the termination of the annual meeting of shareholders in 2015.

In order to implement the adoption of the Shareholder Rights 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 (the "Record Time"). 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 Shareholder Rights 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 thereof 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 Shareholder Rights 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 Shareholder Rights Plan). At any time prior to the Rights becoming exercisable, the Board may waive the operation of the Shareholder Rights 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.

Notes to the Consolidated Financial Statements

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

Accumulated Other Comprehensive Income or (Loss) ("AOCI")
AOCI is comprised of the following separate components of equity:

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

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

18. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the years ended December 31, 2013 and 2012 was based on the information in the table below.

Years ended December 31,		2013		2012
Balance as at beginning of year		**397,347,000**		395,807,000
Effect of shares issued to settle liabilities		**4,526,000**		55,000
Effect of shares issued for private placements		**38,057,000**		-
Effect of shares issued for loan fees		**4,725,000**		-
Effect of shares issued under rights offering		**42,466,000**		-
Effect of shares issued under Share Bonus Plan		**962,000**		-
Weighted average number of common shares as at end of year - Basic		**488,083,000**		395,862,000
Effect of options granted and outstanding		**590,000**		19,000
Effect of warrants issued and outstanding		**-**		-
Effect of convertible promissory note		**-**		-
Weighted average number of common shares as at end of year - Diluted		**488,673,000**		395,881,000
Number of options excluded		**31,451,000**		28,632,500
Number of warrants excluded		**112,500,000**		-
Number of shares from conversion of promissory note excluded		**21,272,000**		-
Net loss attributable to shareholders - Basic	**$**	**(5,104)**	$	(183)
Net loss attributable to shareholders - Diluted	**$**	**(5,104)**	$	(183)
Basic (loss) earnings per share	**$**	**(0.01)**	$	(0.00)
Diluted (loss) earnings per share	**$**	**(0.01)**	$	(0.00)

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

There have been no share issuances subsequent to the end of the year which would have had a significant effect on the EPS; however, the Company has issued convertible promissory notes (Note 26).

19. SHARE-BASED PAYMENTS

Description of the Share-based Payment Arrangements
The Company's share-based payment arrangements are described below.

Stock Option Plan (equity-settled)
The Company has a Stock Option Plan to encourage ownership of its shares by key management personnel (directors and executive management), employees and consultants, and to provide compensation for certain services. The terms of the Stock Option 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

Notes to the Consolidated Financial Statements

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

grant. 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

As at December 31, 2013, the Company had 53,013,373 common shares available for the granting of future options (December 31, 2012 – 30,951,000 common shares). Options are exercisable at the closing market price of the shares at the date prior to grant. The Company does not have any cash-settled transactions.

Share purchase warrants (equity-settled)
Pursuant to the rights offering which closed on July 30, 2013, the Company issued 100,000,000 warrants. The Company also issued 12,500,000 warrants pursuant to a private placement on September 19, 2013. The Company does not have any cash-settled transactions.

Share Bonus Plan
The terms of the Share Bonus Plan are set out in Note 17.

Terms and Conditions of Share-based Payment Arrangements
The terms and conditions relating to the grants of the Stock Option Plan are as follows:

- Options issued during the year and granted to executive management, consultants and employees have a maximum term of five years and are equity-settled. Of the options granted, 50% vest immediately, while the remaining options are exercisable after one year.
- Options issued during the year and granted to directors have a maximum term of five years and are equity-settled. All options granted vest immediately.
- Certain options issued upon formation of the Company under a plan of arrangement had terms of up to 10 years.
- All options are to be settled by physical delivery of shares.

Share purchase warrants
The terms and conditions relating to the grants of the share purchase warrants are as follows: all warrants are to be settled by physical delivery of shares and as such, are equity-settled. Warrants issued are generally exercisable for a period of 12 to 18 months from issue date; the warrants issued under the rights offering in 2013 are exercisable on July 31, 2014 and expire on July 31, 2015. The Company's share purchase warrants issued pursuant to the private placement are exercisable on issue and expire on September 19, 2015.

Disclosure of Share-based Payment Arrangements
Stock Option Plan
The number and weighted average exercise prices of options are as follows:

	Number of options		Weighted average exercise price	
As at and for the years ended	**December 31, 2013**	December 31, 2012	**December 31, 2013**	December 31, 2012
Outstanding as at beginning of year	**28,651,500**	27,074,736	**$ 0.13**	$ 0.28
Granted	**9,370,000**	8,050,000	**$ 0.03**	$ 0.05
Expired or forfeit	**(5,980,250)**	(6,473,236)	**$ 0.24**	$ 0.65
Outstanding as at end of year	**32,041,250**	28,651,500	**$ 0.08**	$ 0.13
Exercisable as at end of year	**29,456,250**	26,426,500	**$ 0.08**	$ 0.15

There were no options exercised during 2013 or 2012.

Notes to the Consolidated Financial Statements

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

As at December 31,	Number of options outstanding 2013	2012	Weighted average remaining contractual life (years) 2013	2012
Range of exercise prices				
$0.025 to $0.05	**21,010,000**	12,315,000	**3.19**	3.31
$0.06 to $0.14	**4,247,500**	5,322,500	**2.33**	2.86
$0.15 to $0.16	**5,190,000**	5,490,000	**1.01**	2.01
$0.17 to $0.25	**1,593,750**	1,593,750	**0.07**	1.07
$0.26 to $0.32	**-**	2,956,250	**-**	0.34
$0.33 to $0.50	**-**	974,000	**-**	0.40
	32,041,250	28,651,500	**2.57**	2.45

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

As at and for the years ended December 31,		2013		2012
Number of options granted during the year		**9,370,000**		8,050,000
Weighted average fair value of options granted at grant date	**$**	**0.018**	$	0.035
Number of options subject to vesting as at end of year		**2,585,000**		2,225,000
Share-based payment expense - vesting options	**$**	**184**	$	263
Share-based payment expense - extended options	**$**	**21**	$	-
Unvested options not yet charged to operations	**$**	**26**	$	38

Share purchase warrants

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

As at and for the years ended December 31,	Date Issued	Life	Number of warrants 2013	2012		Weighted average exercise price 2013		2012
Issued pursuant to rights offering								
Unit warrants	July 30, 2013	12 (a)	**100,000,000**	-	**$**	**0.035**	$	-
Issued pursuant to private placements								
Unit warrants	September 19, 2013	24	**12,500,000**	-	**$**	**0.035**	$	-
Unit warrants	January 10, 2011	12		2,500,000			$	0.140
Expired				(2,500,000)				
Unit warrants	May 25, 2011	18		4,347,826			$	0.150
Expired				(4,347,826)				
Finder's warrants	May 25, 2011	18		456,960			$	0.150
Expired				(456,960)				
Outstanding as at end of year			**112,500,000**	-	**$**	**0.035**	$	-

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

Inputs for Measurement of Grant-Date Fair Values

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

Notes to the Consolidated Financial Statements

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

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

	Options		Warrants	
Years ended December 31,	**2013**	2012	**2013**	2012
Fair values at grant dates	**$0.012 to $0.019**	$ 0.035	**$0.011 and $0.019**	n/a
Fair values of options modified	**$0.004 to $0.023**	n/a	**n/a**	n/a
Share prices at grant and modification dates	**$0.025 and $0.03**	$ 0.050	**$ 0.025**	n/a
Assumptions				
Exercise prices	**$0.025 to $0.16**	$ 0.050	**$ 0.035**	n/a
Expected volatilities	**88% to 111%**	104%	**101% and 107%**	n/a
Life (years)	**0.5 to 4.9**	4	**2**	n/a
Expected dividends	**-**	-	**-**	n/a
Risk-free interest rates	**0.78% to 1.63%**	1.18%	**1.15% and 1.22%**	n/a

20. FINANCE INCOME AND FINANCE COSTS

Years ended December 31,	***Notes***	**2013**	2012
Interest income on bank deposits		**$ 13**	$ 3
Finance income		**13**	3
Interest expense on loans			
Cash settled		**168**	9
Amortization of loan fees		**136**	-
Amortization of embedded derivative	*14*	**12**	-
Commitment fee		**11**	-
Loss on adjustment of estimated cash flows	*14*	**3,289**	-
Net change in fair value of financial liabilities at fair value through operations	*14*	**173**	-
Net change in fair value of financial assets at fair value through operations		**-**	3
Net foreign exchange loss		**19**	4
Finance costs		**3,808**	16
Net Finance Costs		**$ (3,795)**	$ (13)

Notes to the Consolidated Financial Statements

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

21. INCOME TAXES

The income tax amount in 2013 is a recovery of $810,000 (2012 – recovery of $141,000).

The income tax recovery differs from the amount computed by applying the statutory federal and provincial income tax rates for 2013 of 26.5% and 2012 of 26.5%, to the loss before income taxes. The differences are summarized as follows:

Years ended December 31,		**2013**		2012
Statutory rate applied to loss before income taxes	**$**	**(1,567)**	$	(86)
Effect of investment tax credits, net		**(34)**		(182)
Non-deductible items, net		**67**		78
Non-taxable portion of capital loss on financial liabilities through operations		**411**		-
Effect of change in expected future income tax rates and other		**(234)**		7
Unrecognized deferred tax assets		**547**		42
Income Tax Recovery	**$**	**(810)**	$	(141)

22. OPERATING SEGMENT

Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company is about to enter the frac sand market and will have formal operating segments in 2014 when it expects to have operating revenues, products, processes and customers. Accordingly, the Company will commence reporting on a segmented basis in 2014. The Company expects to have three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment will operate to support the Company's activities, including exploration and development projects and the frac sand business. The Company will continue to receive administrative support from Nuinsco (Note 23) to do so.

Senior management makes decisions with respect to Exploration and Development by considering exploration and development potential and results on a project basis. The exploration and development projects are all located in Canada. Any applicable amounts relating to such projects will continue to be capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 24). The segment is located in Canada although sand purchases are expected to be sourced from the US.

Geographic Information

As at December 31,		**2013**		2012
Canada				
Corporate	**$**	**7,365**	$	2,392
Minago		**38,668**		37,897
Lac Rocher		**7,388**		7,317
Mel		**7,473**		7,421
Total Assets	**$**	**60,894**	$	55,027

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

Notes to the Consolidated Financial Statements

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

In order to assist in understanding the Company's transition, the following tables provide information on the Company's segments in accordance with expected reporting for 2014 onwards.

As at December 31,		2013
Canada		
Corporate	$	1,952
Exploration and Development		55,056
Frac Sand		3,886
Total Assets	$	60,894

Year ended December 31,		2013
Canada		
Corporate	$	324
Exploration and Development		-
Frac Sand		-
Inter segment elimination		(324)
Total Revenues	$	-

23. RELATED PARTIES AND MANAGEMENT AGREEMENT

Related Party Balances and Transactions

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

Balances and transactions with related parties as at and for the years ended December 31, 2013 and 2012 are shown in the following tables:

As at December 31,		2013		2012
Balances Outstanding				
Payable to key management personnel	$	119	$	157

Key management personnel compensation comprises:

Years ended December 31,		2013		2012
Short-term employee benefits	$	952	$	807
Share-based payments - options		118		217
Share-based payments - Share Bonus Plan		66		-
	$	1,136	$	1,024

Balances and Transactions with Nuinsco Resources Limited under the Management Agreement

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

Notes to the Consolidated Financial Statements

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

Balances and transactions with Nuinsco under the management agreement as at and for the years ended December 31, 2013 and 2012 are shown in the following tables:

As at December 31,		**2013**		2012
Balances Outstanding under the Management Agreement				
Payable to Nuinsco Resources Limited	**$**	**56**	$	-
Receivable from Nuinsco Resources Limited	**$**	**-**	$	37

Years ended December 31,		**2013**		2012
Transaction Values under the Management Agreement				
Overhead charges from Nuinsco Resources Limited	**$**	**755**	$	654
Overhead charges to Nuinsco Resources Limited	**$**	**18**	$	27
Project costs charged to Nuinsco Resources Limited	**$**	**37**	$	22
Project recoveries charged by Nuinsco Resources Limited	**$**	**30**	$	31

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

Balances and Transactions with Nuinsco Resources Limited under the Amended Loan

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

24. COMPANY ENTITY

Significant Subsidiary - Victory Silica

On June 19, 2012, the Company announced a new initiative through the hiring of Ken Murdock as the CEO and the creation of Victory Silica. The objective is to establish the Company as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project. Victory Silica's executives and employees will manage the frac sand business on behalf of the Company. Presently, costs of the frac sand business relate either to pre-operating costs which have been expensed through operations or to plant commissioning and mobile equipment which have been capitalized. Refer also to Note 22.

As at and for the years ended December 31,		**2013**		2012
Victory Silica Ltd.				
Current assets	**$**	**81**	$	-
Current liabilities	**$**	**277**	$	-
Pre-operating costs	**$**	**520**	$	159

25. COMMITMENT

Transformer Equipment

On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price is US$2,840,000. The Company has made aggregate deposits of $1,485,000 as at December 31, 2013.

26. SUBSEQUENT EVENTS

Private Placements

In January and March, 2014, the Company issued promissory notes under private placements, generating gross proceeds of approximately $265,000. The promissory notes bear interest at a rate of 14.8% payable quarterly, have terms of two years and are convertible into the Company's common shares at the holder's option at $0.10 per share.

In February and March, 2014, the Company issued promissory notes under private placements, generating gross proceeds of approximately US$1,750,000. The promissory notes bear interest at a rate of 14.8% payable quarterly, have terms of two years and are convertible into the Company's common shares at the holder's option at $0.10 per share.

Stock Options

In January and February, 2014, 4,630,000 options were exercised generating aggregate gross proceeds of $220,000.

On February 4, 2014, the Company granted 2,630,000 options to officers, employees and consultants at an exercise price of $0.055. Of these options, 1,465,000 vest immediately and 1,165,000 vest over one year.

Other

There have been no other additional developments not already discussed elsewhere in these consolidated financial statements.

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

DATED MARCH 31, 2014

VICTORY NICKEL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years ended December 31, 2013 and December 31, 2012

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of March 31, 2014 consolidates management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2013 and 2012, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's audited consolidated financial statements for the years ended December 31, 2013 and 2012 ("2013 Audited Consolidated Financial Statements") and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

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

The 2013 Audited Consolidated Financial Statements are available at www.sedar.com and at the Company's website www.victorynickel.ca. All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

COMPANY OVERVIEW

Victory Nickel is a Canadian exploration and development mineral resource company and is primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada and is preparing to enter the oilfield services market via the sale of frac sand.

Formed on February 1, 2007, Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (under option with Wellgreen Platinum Ltd. ("Wellgreen" – formerly Prophecy Platinum Corp. "Prophecy Platinum") and Mel projects in Manitoba and the Lac Rocher project in Québec. The results of a feasibility study on the Minago Project ("FS") were announced in December 2009, the Environmental Impact Study ("EIS") was filed in May 2010 with subsequent improvements to the project announced in June 2010 and July 2011. Receipt of the Environmental Act Licence ("EAL") was announced in August 2011. A preliminary economic assessment of Lac Rocher ("PEA") was announced in November 2008. At the Mel project, now 100%-owned, ongoing updating of data is being conducted; when completed, additional modelling of the resource will be continued.

A significant product of the Minago project is frac sand. Frac sand is a silica sand meeting certain specifications and is used in drilling for oil and gas. On June 19, 2012, the Company announced the creation of Victory Silica Ltd. ("VSL" or "Victory Silica") a wholly-owned subsidiary that has been established to manage the Company's entry into and future operation of the frac sand distribution and sales market. The Company expects to establish itself as a frac sand provider by acquiring concentrated sand in Wisconsin, US and processing it into finished frac sand product at its 500,000 ton per annum ("tpa") frac sand processing plant at Seven Persons near Medicine Hat, Alberta (the "7P Plant"), for sale initially in the Alberta, Saskatchewan, Manitoba and North Dakota markets. If successful, this strategy is expected to generate significant cash flow for Victory Nickel prior to development and sale of frac sand from its Minago project. The 7P Plant processed its first sand for delivery during the week commencing March, 24, 2014.

Option of Lynn Lake Property

On October 21, 2009, the Company announced that it had optioned its Lynn Lake property ("Lynn Lake") to Prophecy Coal Corp. In 2011, the agreement, with the consent of Victory Nickel, was assigned to Prophecy Platinum pursuant to a corporate transaction between Prophecy Coal and Prophecy Platinum. As at December 31, 2012, the sole remaining term of the original agreement wherein Prophecy Platinum, now Wellgreen, could acquire a 100% interest in Lynn Lake was the payment of $1,000,000 due on or before March 1, 2013.

On March 1, 2013, the Company agreed to an additional amendment to the option agreement which allows Wellgreen to make a series of payments through 2013 and 2014 aggregating $1,125,000 in satisfaction of the remaining option conditions (the "Amended Option"). On March 1, 2013, the Company received the first payment of $125,000; a further $125,000 was received in May, $150,000 in September and $175,000 remained due by the end of 2013 with an additional $550,000 being payable by August 29, 2014. On March 18, 2014, Wellgreen formally confirmed it had terminated the option agreement and has vacated the Lynn Lake property. It is in the process of returning exploration data and various associated materials to the Company.

Prior to that time, because of the stage of the option agreement, the Company had ceased to consider Lynn Lake to be a material project.

On June 14, 2013, the Company announced the terms of a rights offering to existing shareholders to raise gross proceeds of up to approximately $2,700,000. The rights offering closed on July 30, 2013 and raised gross proceeds of $2,400,000 (excluding any potential proceeds from the exercise of the warrants). Accordingly, the Company issued 100,000,000 shares and 100,000,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of $0.035 during the 12-month period beginning July 31, 2014.

The proceeds of the rights offering included the exercise of the backstop contemplated in the Amended Loan described below. Upon exercise of the backstop and exercise of existing rights, Nuinsco Resources Limited ("Nuinsco" or the "Lender") increased its shareholding in the Company to approximately 12.24%, thereby becoming a related party of the Company.

In September, 2013, the Company closed a private placement which raised gross proceeds of $300,000 through the issuance of 12,500,000 common shares and 12,500,000 share purchase warrants which entitle the holder to purchase one common share at a price of $0.035 for a two-year period.

On November 11, 2013, the Company issued an unsecured convertible promissory note for US$2,000,000 (the "Convertible Note"). The Convertible Note has a term of two years, bears interest at 14.8% calculated on a monthly basis and settled quarterly and may be converted in whole or in part, at any time, at the option of the holder into Victory Nickel shares at a conversion price of $0.10 per share.

Going Concern

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

None of the Company's exploration and development projects has commenced commercial production and, accordingly, the Company is presently dependent upon debt and/or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of the Company's mine property and development project and exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon factors including exploration results which indicate the potential for the discovery of economically recoverable reserves and resources, the Company's ability to finance exploration and development of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding. As at the date of this report, the Company has begun commissioning the 7P Plant and anticipates generating cash flow from the Frac Sand segment in 2014. The Company is at the cusp of having an operating activity being the Frac Sand segment which is expected to generate significant cash flows for the Company.

The Company's 2013 Audited Consolidated Financial Statements have been prepared using the going concern assumption which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2013, the Company had working capital of $465,000, (December 31, 2012 – working capital deficiency of $583,000; this included approximately $176,000 of agreed-upon deferrals owing to directors and senior management and accounts payable of $118,000 subsequently settled in the Company's common shares post year-end). Working capital is defined as current assets less current liabilities. Effective December 31, 2012, GAAP required the Company to treat $1,000,000 of the long-term loan due January 31, 2015 as current since the Lender had the right to require prepayment from the Lynn Lake option receipts to be received in the future. Given the termination of the option agreement, this reclassification is no longer applicable. The Company considers that working capital, combined with funds remaining from the convertible promissory notes entered into in 2014 to date and other financing initiatives underway should be sufficient to fund the Company's activities. However, should the Company not be able to continue to obtain the necessary financing, achieve future profitable production or sale of properties, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

HIGHLIGHTS

During and subsequent to the year ended December 31, 2013, the Company:

Corporate

- Completed:
  - a loan agreement for $1,000,000 (the “Facility”) with Nuinsco which was subsequently increased by up to $2,000,000 (the “Amended Loan”) to be used for capital expenditures related to the 7P Plant.
  - private placement financings aggregating approximately $2,509,000.
  - a rights offering to existing shareholders which closed on July 30, 2013 and raised gross proceeds of $2,400,000.
  - the Convertible Note for US$$2,000,000 – part of an umbrella $5 million approval; and.
  - additional financing under the umbrella of $2,190,000.
- Announced the retirement of Mr. Howard Stockford from the Board of Directors.

Frac Sand and Victory Silica

- Completed an asset purchase agreement to acquire the 7P Plant, subject to certain conditions and made the initial payment of $300,000.
- Filed a reclamation plan with the Alberta Energy Regulator (the “AER”, the successor to Energy Resources Conservation Board) to convert the 7P Plant site to a frac sand plant from a sand recycling facility; such plan was approved on July 11, 2013.
- Completed the restoration work and filed the final remediation report with the AER on November 2, 2013.
- Filled three senior management positions – the General Manager, the VP Marketing and the Plant Manager.
- Commenced conversion of the 7P Plant to a 400,000 tpa frac sand plant.
- Achieved numerous milestones, including:
  - Completed key agreements for: sand purchase, sand washing, transload in Winona, rail transport, rail siding, railcar leasing, Seven Persons trucking, mobile equipment leasing.
  - Upgraded the design and build of the 7P Plant to accommodate 500,000 tpa.
  - Completed plant construction.
  - Received final clearance from the AER on the recycling plant remediation.
  - Commenced sand shipments to 7P Plant.
  - Began 7P Plant commissioning.

Minago and Mel

- Extended the Minago and Mel mining leases for 21 years.
- Received a permit from the Manitoba government to drill 12 water wells to be used for the dewatering of the Minago open pit.
- Advanced the compilation of exploration information that is required to submit an environmental impact statement for the Mel project.
- Completed a study to relocate the tailings impoundment area at Minago.

OUTLOOK

Victory Nickel is a development stage nickel company with four sulphide nickel projects in Canada; three in Manitoba and one in Québec. The Minago Project, the most significant and advanced of the four projects has shown its value on completion of a FS in late 2009 and then was permitted for production in 2011, at a time when the price of nickel was in the US$11-US$13 per pound range and projections were for long term pricing of US$10-US$12 per pound. With a FS projected IRR exceeding 22%, the Company set off to finance the development of the Minago Project. A significant part of the value of the Minago Project is frac sand. The frac sand overlies the nickel deposit and will be removed as overburden during the first three years of development and production. The FS assumed that the frac sand will only be sold over a ten-year period at a rate of approximately 1 million tonnes per year. The recent growth in the frac sand market suggests that this assumption is very conservative.

Initially frac sand was considered a by-product but it is actually a co-product if we consider the value. The cost to produce a pound of nickel is reduced by US$2.90 per pound of nickel for the value of frac sand and brings the cost to produce a pound of nickel down to US$2.20 per pound making Minago one of the lowest cost producers in the world. However, the frac sand industry is fairly young and not yet well understood and it has been difficult to demonstrate its value to the Minago Project. Until early 2012, the industry was entirely privately held and very little public information was available.

This all changed starting in early 2012 when public transactions were announced which gave support to the valuation for frac sand reflected in the Minago FS. Preferred Sands LLC purchased the assets of Winn Bay Sand, including its Hanson Lake frac sand mine in Saskatchewan, for $200,000,000. Winn Bay is on the same geological structure as Minago, just a bit farther north and west. US Silica Holdings Inc. took its frac sand business public in February 2012 by completing an initial public offering ("IPO") raising US$200,000,000. Later in the year, Hi-Crush Partners LP completed an IPO and raised US$225,000,000. More recently, in 2013, Emerge Energy Services LP completed an IPO and raised US$140,000,000. The total market capitalization of these three companies is in excess of US$2,000,000,000. To Victory Nickel, these transactions are an indication of the attractiveness and value of its Minago sand deposit and its potential in the frac sand business.

Before going any further in this discussion, we should understand frac sand.

What is Fracking?
Fracking or hydraulic fracturing is a process whereby a mixture of proppant (such as frac sand), additives and water is injected down oil and gas wells under pressure. This causes the rock layer to crack. The sand particles then enter the fissures to hold them open so that oil and natural gas can more freely flow up the well opening created by drilling.

The development of horizontal drilling has resulted in the tremendous growth of the fracking process over the last few years. According to market researcher the Freedonia Group, the quantity of sand used in North America for fracking has increased from 12.3 billion pounds in 1997 to 53.6 billion pounds in 2012. The forecast is for consumption to grow to 93.9 billion pounds by 2017. The highest annual growth rate will be in Canada at 16.3% per year.

How significant is Fracking?
According to recent news articles, fracking of shale oil and natural gas have allowed the US to rise to become the number one energy producer with the ability to be self-sufficient for the first time in history and is on the verge of energy independence. Other articles claim that last year, hydraulic fracking has been the biggest driver of employment in the US and it has lowered utility bills. Others suggest that, by lowering the cost of energy, fracking is creating a manufacturing renaissance in the US and attracting manufacturing back to that country.

Why is Victory Nickel so interested in frac sand?
In Canada, there are basically three qualities of sand available which meet the specifications for frac sand. Specs include: roundness and sphericity, crush resistance and sands must be free of debris or clean. The highest quality sands are imported into Canada from the old, in geological age, deposits around the US great lakes, and more specifically from sands in Wisconsin. At times, this sand is only available to service companies in the US. The second highest quality is domestic sand derived from sandstone deposits which is our Minago sand. The lowest quality sands are younger and more angular dune sands.

Victory Nickel's Minago Project in central Manitoba has sufficient sand from the footprint of the open pit alone to produce 11 million tonnes of frac sand and, at the same time, produce nickel for nine years or more as described in the FS. On the surrounding property, there is potentially enough of a deposit to supply frac sand for many years to come.

In June 2012, while waiting for the general market malaise to improve, including the price of nickel, the Company made the decision to be pro-active and established a three-phase plan to enter into the frac sand business prior to development of the Minago Project. The objectives were not only to generate cash flow but at the same time enhance the profile of Minago within the frac sand industry.

To this end, Ken Murdock joined the Company as Chief Executive Officer of Victory Silica, a wholly-owned subsidiary created for this purpose. We first met Ken when he was hired by Wardrop Engineering to complete the frac sand portion of the Minago FS. The business plan is a three-phase approach with the first phase being the acquisition or construction of a plant in Canada to process wet sand concentrate purchased from Wisconsin. This sand will be initially sold into the Alberta, Saskatchewan, Manitoba and North Dakota markets.

Phase 1 of the three-phase plan has been implemented. Phase 1 was achieved by acquiring the sand recycling facility in Seven Persons, 18km south of Medicine Hat, Alberta. The plant required reclamation, upgrading and conversion from a sand recycling facility to a sand processing facility capable of producing various grades of frac sand at the rate of 500,000 tons per annum. The 7P Plant is completed and being commissioned; concentrated washed sand has been received from Wisconsin for final processing; high quality frac sand is being produced and sales of finished sand have been made.

To start production at the new 7P Plant, the Company is purchasing high quality washed concentrated sand from a producer in Wisconsin. As part of the sand purchase agreement, the Company has the ability to enter into a joint venture

with the supplier. The joint venture would be created by Victory Silica constructing a sand wash plant at the mine site as its contribution to the joint venture. The partner would contribute its sand properties. This would not only generate additional cash flow but it would give Victory Silica a guaranteed supply of high quality sand. Due diligence has started on the sand deposits. Building the wash plant in Wisconsin is Phase 2 of the three-phase business plan.

Phase 3 is to build a second facility in Winnipeg, Manitoba to produce an additional 1 million tons of frac sand per annum. This facility will be used to accommodate sand delivered from Minago once the mine is developed. In the interim, concentrated sand will be purchased in Wisconsin for final processing in Winnipeg. Construction of the Winnipeg plant will take approximately 18 months from commencement.

It has been almost two years since we announced that we planned to enter the frac sand business. Since then a lot has happened:

- Initial financing had to be obtained;
- Senior management positions had to be filled with individuals knowledgeable about the production and sale of frac sand;
- Supply contracts had to be negotiated - including:
    - Sand Purchase Agreement,
    - Sand Washing Agreement,
    - Transload Agreement,
    - Rail Shipping Agreement,
    - Rail Siding Agreement,
    - Rail Car Lease Agreement and
    - Equipment Leasing Agreements.

With these agreements in place, approximately 90% of the costs are fixed.

- The restoration of the original Seven Persons recycling plant site had to be completed with final closure approval necessary to begin production;
- Plant commissioning had to be completed; and
- A work force had to be hired.

This is now behind us as we enter the final stage to become a producer of 500,000 tons of frac sand annually.

The next step is to grow and maximize our presence in the frac sand industry.

Since we began our phased entry into the frac sand business, there have been numerous reorganizations and acquisitions of frac sand deposits in Canada and the US. This is another indication that the frac sand business is booming. Everybody wants in. We are already in.

The Company's plan for a three-phase entry into the frac sand business is a pivotal event and deserves a summary once again. Initially, wet sand concentrate will be purchased to feed the 7P Plant which will produce high-grade finished product of various grades. As Victory Silica's presence becomes established, phase 2 will be to partially replace purchased sand with sand from a mine in Wisconsin operated by Victory Silica. Phase 3 provides for building a second dry plant in Winnipeg to process both sand from Wisconsin and Minago. The plan is to eventually produce approximately 1.5 million tons of imported (from Wisconsin) and domestic (from Minago) frac sand annually.

The 500,000 tpa 7P Plant is expected to generate profit margins of $25 per ton or in excess of $12,000,000 per year. Phases 2 and 3, will bring the eventual production target to 1.5 million tons of frac sand per annum and are expected to improve these margins. At full production, expected cash flow is expected to exceed $40,000,000 per annum.

General:

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

Signs of improvement in the nickel market are appearing as the price of nickel recently moved up to US$7.30 per pound from the low US$6.00 range. In addition, the Canada/US exchange rate makes the price in Canadian dollars even more

attractive. Tsingshan Holding Group is currently constructing the world's first integrated nickel pig iron plant to use nickel sulphide concentrate as part of the stainless steel production process. Minago's nickel concentrate is one of the highest grade nickel concentrates in the world and could be suitable for this process.

Management recognizes that liquidity is a luxury due to the lack of other cash available from the equity markets. This situation is not unique to Victory Nickel, as valuations and trading volumes of junior exploration and development companies are generally low at the present time.

The expected cash flow from the entry into the frac sand business is a game changer. Victory Nickel will now be positioned to advance and grow its businesses and generate significant valuations for its shareholders. Victory Nickel will soon be a cash flowing company with a very significant warrant on nickel.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

As at and for the years ended December 31, (in thousands of Canadian dollars, except per share amounts)	**2013**	2012	2011
Summary Operating Results Data			
General and administrative expenses	**$ 1,631**	$ 1,321	$ 1,575
Share-based payments	**248**	263	366
Recovery of exploration and evaluation projects	**392**	1,450	597
Frac sand pre-operating costs	**605**	159	-
Net finance costs	**3,795**	13	121
Income tax recovery	**810**	141	340
Net loss	**5,104**	183	1,137
Total comprehensive loss	**5,294**	750	2,834
Loss per share	**(0.01)**	(0.00)	(0.00)
Summary Balance Sheet Data			
Cash and cash equivalents	**$ 1,423**	$ 256	$ 517
Marketable securities	**278**	557	2,383
Other current assets	**381**	155	129
Property, plant and equipment	**5,279**	1,424	1,277
Exploration and evaluation projects	**14,865**	14,738	14,577
Mine property and development project	**38,668**	37,897	35,571
Total assets	**60,894**	55,027	54,454
Trade and other payables	**1,617**	551	322
Loans and borrowings	**6,787**	1,008	-
Deferred tax liability	**1,521**	2,473	2,702
Total shareholders' equity	**50,969**	50,995	51,430

RESULTS OF OPERATIONS

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

For the year ended December 31, 2013, the Company had a net loss of $5,104,000, or $0.01 per share, (December 31, 2012 – net loss of $183,000, or $0.00 per share).

The results are mainly a function of general and administrative expenses of $1,631,000 (2012 - $1,321,000), aggregate share-based payment expenses of $248,000 (2012 - $263,000), net finance costs of $3,795,000 (2012 – $13,000) and pre-operating costs related to Victory Silica of $605,000 (2012 - $159,000); these costs were offset by a $392,000 recovery (2012 - $1,450,000) with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property. Results in the year also include an income tax recovery of $810,000 (2012 – income tax recovery of $141,000).

General and administrative expenses increased by $310,000, to $1,631,000 from $1,321,000, for the years ended December 31, 2013 and 2012, respectively. The main reason for the increase is because of activity creating the frac sand business. Costs under the management agreement with Nuinsco alone have increased by approximately $100,000 due to that activity. There were finance consulting and due diligence fees of approximately $60,000 and increases in directors fees and meeting expenses because of a higher number of meetings, increases in investor relations expenses because of

the new business as well as increased legal and insurance costs also for the new business. Costs include a bonus to senior officers which was partly paid in cash and partly in shares in July, 2013. In 2012, the Company incurred travel and legal costs associated with securing financing.

As mentioned above, general and administrative expenses include costs charged by Nuinsco for administrative services, partly offset by costs charged to Nuinsco by Victory Nickel as described under Transactions with Related Parties and Management Agreement with Nuinsco Resources Limited below; these amounted to $755,000 and $18,000 (2012 - $654,000 and $27,000 respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the increase in costs is primarily a result of increased people costs allocated under the agreement due to activity at Victory Silica and on the frac sand business. This arrangement with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel for the year ended December 31, 2013 are estimated to be approximately $848,000, compared with $730,000 in the year ended December 31, 2012, calculated on a comparable basis. As described above, investor relations costs have increased because of the frac sand business.

The share-based payment expense for options in the year ended December 31, 2013 reflects the grant and partial vesting of 9,370,000 options with a weighted average fair value at grant date of $0.018. In addition, 1,814,166 shares were issued under the Share Bonus Plan with a closing price on grant date of between $0.03 to $0.045 in consideration for bonuses which were declared in 2013. The expense in 2012 reflects the grant and partial vesting of 8,050,000 options with a weighted average fair value at grant date of $0.035. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 19 to the Company's 2013 Audited Consolidated Financial Statements.

There were no write-downs necessary for impairment of projects in 2013 or 2012. Furthermore, there were no pre-exploration expenditures incurred in either period. In the year ended December 31, 2013, the Company received an aggregate of $400,000 in receipts under the Lynn Lake option; net of expenditures, $392,000 was recorded as recovery of exploration and evaluation project. As described earlier, the Company agreed to schedule out the previously-agreed option payment, along with an additional amount of $125,000. In 2012, the full option receipt of $1,000,000 was received in the first quarter of that year and another $450,000 was received in the third quarter. Also as described above, Wellgreen has relinquished the Lynn Lake option and no further option payments will be received.

In 2012, the Company announced the creation of Victory Silica as described earlier; VSL's executive and staff are responsible for managing the frac sand business. Pre-operating costs of $605,000 expensed in 2013 comprise start-up consulting fees and related expenses, overhead allocations, additional staff costs, and repairs and maintenance of the 7P Plant during the period. In 2012, pre-operating costs of $159,000 consists mainly of start-up consulting fees and related expenses only. The 7P Plant commenced operations in March, 2014 at which point expenses will be classified in accordance with their nature and amortization of plant assets will commence.

For the year ended December 31, 2013, net finance costs were $3,795,000 (for the year ended December 31, 2012 – $13,000). Finance costs increased to $3,808,000 from $16,000 in the years ended December 31, 2013 and 2012, respectively, mainly due to the interest expense on the loans and related items; in particular, given the potential conversion to a participating interest by Nuinsco, the Company recorded an increase in the fair value of the loan of $3,289,000 effective December 31, 2013.

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

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is $10,222,831. Based on the estimated cash flows described above, payments could commence as early as mid-2015. These assumptions resulted in revised amortized cost carrying amount of the loan of $4,100,000 and, accordingly $3,289,000 was recorded as a *loss on adjustment of estimated cash flows* through the statement of operations. This is a

Level 3 methodology and is subject to the highest level of uncertainty. The Company will review and revise its estimates of expected future cash flows as the expectations of payments of the participating interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows paid.

In the fourth quarter of 2013, the Company entered into the Convertible Note. There are several elements of finance expense associated with this: cash-settled interest expense paid on a calendar quarter basis, non-cash amortization of loan fees, non-cash amortization of the embedded derivative related to the value of the convertibility feature at inception and the change in the value of that embedded derivative at the end of a reporting period. All amortizable elements are calculated using the effective interest rate method.

Aggregate interest settled in cash for the year ended December 31, 2013 amounted to $173,000, approximately $120,000 was on account of the Amended Loan ($9,000 was paid in 2013 relating to 2012) and $44,000 was on account of the Convertible Note. Amortization of loan fees in the period amounted to $134,000 and $12,000 represented amortization of a portion of the embedded derivative in the Convertible Note of $168,000 calculated at inception. The value of the embedded derivative increased to $341,000 as at December 31, 2013 and, accordingly, $173,000 was charged through operations.

The embedded derivative is calculated using the Black-Scholes option-pricing methodology and is a function of share price, the $0.10 conversion price, risk-free interest rate, length of time to expiry and share price volatility as well as the US dollar exchange rate since the loan is denominated in US dollars but convertible using a Canadian price. Ceteris paribus, one would expect the value of the option to decline as time approaches the expiry date. However, because of the volatility of exchange rates and the Company's share price, the value increased from inception mid-November to December 31, 2013. Whether this will continue is speculative, but what is certain is that it can cause a significant amount of variability in the finance income and finance costs in the statement of operations.

In the year ended December 31, 2013, the Company recorded an income tax recovery of $810,000 (2012 – income tax recovery of $141,000). This is primarily a function of higher taxable losses partly offset by the tax effect of non-capital losses of $195,000 which expired in 2013. Furthermore, because of the frac sand business activity expected to be in place when the losses are utilized, the income tax rate in place is expected to be 25%; this reduced the required future income tax liability by $302,000 which is recorded in the income tax recovery. The Company has estimated it has $183,000 in unrecognized deferred tax assets in relation to Victory Silica; given this is a new venture which has not yet started operation, it is not currently assessed as more-likely-than-not that losses and costs incurred in Victory Silica will be realized prior to their expiry.

Other comprehensive income ("OCI") in the year ended December 31, 2013 relates to a decrease of $220,000 (December 31, 2012 – $655,000) in the market value of the Company's financial assets at fair value through OCI along with income tax recoveries recorded through OCI of $30,000 (December 31, 2012 – income tax recoveries of $88,000). These changes are a result of net market value changes in the Company's marketable securities.

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

Receivables and prepaids as at December 31, 2013 include US$110,000 in sand purchases prepaid in accordance with the purchase contract signed late December. Sand commenced being delivered to the 7P Plant in February, 2014.

Marketable securities as at December 31, 2013 consist of the Company's financial assets at fair value through OCI; the Company's investment in shares is at fair value through OCI; the Company no longer has any investment in warrants at fair value through operations. The Company's interest in warrants had a value of $nil at the end of December 31, 2012 and the warrants expired unexercised in April 2013. Any volatility in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes. Marketable securities decreased by $279,000 from December 31, 2012 as a result of sales and declines in market prices of shares. The Company generated $59,000 in sales proceeds in the first quarter of 2013; there were no sales in the balance of 2013 (year ended December 31, 2012 - $1,168,000).

Property and equipment increased to $5,279,000 from $1,424,000 as at December 31, 2012. The primary reason for the increase relates to expenditures on the 7P Plant and leased mobile equipment related thereto. The costs include acquisition costs as well as plant improvements. The mobile equipment is in use and is being depreciated; since the plant had not yet been commissioned as at December 31, 2013, it has not been depreciated. The first sand was processed through the 7P Plant in March, 2014.

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

The increase in trade and other payables of $1,066,000 relates primarily to an increase in trade payables of $742,000 and accrued liabilities of $325,000 pertaining to property and equipment at the frac sand business as well as $160,000 increase in the current portion of lease obligations for mobile equipment because of the ramp up of activity at the 7P Plant. Such increases are partly offset by the settlement of 2012 balances being: deferred directors' fees of $121,000 and settlement of $118,000 of accounts payable in shares in the first quarter of 2013.

Victory Nickel entered into a loan agreement and $1,000,000 was advanced prior to December 31, 2012. At the option of the Lender (Nuinsco), and under certain circumstances, the Lender can elect to receive prepayment of the loan from up to $1,000,000 of the proceeds of the Lynn Lake option payments. Accordingly, under the option agreement in effect at December 31, 2012, $1,000,000 of the loan was classified as a current liability since this matched the Lynn Lake option payments which were available to be diverted to the Lender at their option under agreements in place as at December 31, 2012. As described in Note 14 to the 2013 Audited Consolidated Financial Statements, the option has been relinquished by Wellgreen and no further option payments are due.

Therefore the loan is disclosed as a long-term liability and is shown net of unamortized loan costs which are accounted for under the effective interest rate method and also includes a loss on adjustment of estimated cash flows of $3,289,000 calculated as described above. Note 14 to the 2013 Audited Consolidated Financial Statements includes an analysis of the loan balance.

The loan was amended and extended in the first quarter of 2013 to up to $3,000,000 pursuant to certain conditions and is subject to conversion to a net profits interest in the frac sand business or repayment by January 31, 2015. With the closing of the rights offering on July 30, 2013, the Amended Loan was capped at $2,707,584 with a remaining amount available to be advanced at that time of $500,000. Refer to the Liquidity and Capital Resources section for additional discussion of the Amended Loan and the impact of the rights offering on its terms and its conversion.

On November 11, 2013, the Company entered into the Convertible Note for US$2,000,000. This has a two-year term and is convertible into the Company's shares at a conversion price of $0.10 at the holder's option in part or in whole at any time prior to due date. When converted to Canadian dollars, shown net of unamortized fees and including the value of the embedded option derivative as described above, the value of this financial liability is $2,279,000 and comprises the lion's share of the long-term liability.

In the latter half of 2013, the Company entered into several finance leases to purchase mobile equipment with a total fair value of $636,000 at acquisition date; the long-term portion is $408,000 and the short-term lease obligation of $160,000 is included in *Trade and other payables* as described above. Note 15 to the 2013 Audited Consolidated Financial Statements includes an analysis of the lease obligation.

The deferred tax liability balance amounts to $1,521,000 as at December 31, 2013, compared with $2,473,000 as at December 31, 2012. The main components of the balance relate to the tax effects of E&E projects and the MP&D project, partly offset by the tax value of net operating tax losses carried forward. In 2013, $195,000 of available operating losses expired and $53,000, the tax effect of that amount, reduced the income tax recovery in the year. Due to changes in the expected future income tax rate, the deferred tax liability amount was reduced by $302,000 in the year ended December 31, 2013. The Company estimates that it has approximately $183,000 (2012 - $42,000) in unrecognized deferred tax assets in relation to Victory Silica.

The share capital balance has increased significantly year over year by $4,224,000. Note 17 to the 2013 Audited Consolidated Financial Statements includes a detailed analysis of the account and the Liquidity and Capital Resources section describes the transactions more fully. The most significant transactions were as follows: $2,509,000 in gross proceeds were generated from private placements and $2,400,000 in gross proceeds were raised in the rights offering; share issue costs are applied against these balances and an apportionment of proceeds was also attributed to the warrants and recorded in *Contributed surplus* at an aggregate of $839,000 which, combined with the issuance of options, accounts for the increase in that account of $1,044,000.

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

For the year ended December 31, 2012, the Company had a net loss of $183,000, or $0.00 per share, (December 31, 2011 – net loss of $1,137,000, or $0.00 per share).

The results are mainly a function of general and administrative expenses of $1,321,000 (December 31, 2011 - $1,575,000), share-based payment expenses of $263,000 (December 31, 2011 - $366,000), net finance costs of $13,000 (December 31, 2011 – net finance costs of $121,000) and pre-operating costs related to Victory Silica of $159,000 (December 31, 2011 - $nil); these costs were offset by a $1,450,000 recovery (December 31, 2011 - $597,000) with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property. Results in the year ended December 31, 2012 also include an income tax recovery of $141,000 (December 31, 2011 – a recovery of $340,000).

General and administrative expenses decreased by $254,000, to $1,321,000 from $1,575,000, for the years ended December 31, 2012 and 2011, respectively. Expenses that decreased in 2012 from 2011 include discretionary investor and public relations costs and allocated charges by Nuinsco as described below; these expense decreases were partially offset by increased staff costs, and legal fees and management travel expenses related to investigating financing opportunities. Furthermore, in 2011, bonuses were given to senior management to recognize the significant effort and accomplishment of successfully obtaining the Minago EAL and a refund for Part XII.6 tax was received in relation to flow-through financing completed during 2008; no such bonuses or refund occurred in 2012. Effective August 1, 2012, senior management of Victory Nickel had accepted salary deferrals until better economic times prevail; Nuinsco has accepted deferral of payment by Victory Nickel for a portion of allocations of executive salaries charged under the management agreement, consistent with deferrals accepted by the Company's executive employees. These deferrals were settled in 2013.

General and administrative expenses include $654,000 in costs charged by Nuinsco for administrative services, partly offset by $27,000 charged to Nuinsco by Victory as described under Transactions with Related Parties and Management Agreement below (December 31, 2011 - $829,000 and $nil, respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the decrease in costs is primarily a result of decreased people costs allocated under the agreement along with the effects of a reduced proportion of fixed costs since Nuinsco entered into a further management agreement with a third party. This arrangement allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel for the year ended December 31, 2012 are estimated to be approximately $636,000, compared with $815,000 in the year ended December 31, 2011 calculated on a comparable basis. The decrease is mainly due to lower costs allocated from Nuinsco and lower investor and public relations costs, partly offset by increases in legal fees. These costs are estimated; in 2013, a slightly different methodology was adopted which calculated the costs to be $730,000 for 2012. The main difference in methodology related to the treatment of directors' fees.

The share-based payment expense of $263,000 in the year ended December 31, 2012 mainly reflects the grant and partial vesting of 2,225,000 options and the grant and immediate vesting of 5,825,000 options with a fair value of $0.035. The expense in 2011 reflected the grant and partial vesting of 742,500 options and the grant and immediate vesting of 1,692,500 options with a fair value of $0.077, the grant and immediate vesting of 1,900,000 options with a fair value of $0.07 and a modification expense relating to certain options issued to a retiring director that were approved by the Board to retain their original terms or would otherwise have expired. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 18 to the Company's 2012 Audited Consolidated Financial Statements.

In the year ended December 31, 2012, the Company received additional consideration from the Lynn Lake option with Wellgreen (formerly Prophecy Platinum) for an aggregate total of $1,450,000 in cash (December 31, 2011 - $600,000 in cash). Accordingly, the Company recorded a net recovery of $1,450,000 through operations in the year ended December 31, 2012 (December 31, 2011 - $597,000; net of expenditures of $3,000).

There were no writedowns necessary for impairment of projects in 2012. The factors used in arriving at this conclusion are summarized under Impairment Analysis below.

In 2012, the Company announced the creation of Victory Silica as described earlier. Victory Silica pre-operating costs of $159,000 expensed in 2012 comprise start-up consulting fees and related expenses incurred on the frac sand project to date; no such costs were incurred in 2011. As announced on January 9, 2013, the Company completed an asset purchase agreement for the 7P Plant.

For the year ended December 31, 2012, net finance costs were $13,000 (December 31, 2011 – net finance costs were $121,000). The decrease in finance income to $3,000 in 2012 from $96,000 in 2011 was mainly due to the reduction in the flow-through premium liability of $87,000 that was amortized through finance income in 2011. There were no flow-

through premium liabilities amortized or outstanding during 2012. See Liquidity and Capital Resources below for more details on flow-through financings. Finance costs decreased to $16,000 from $217,000 in the years ended December 31, 2012 and 2011, respectively, mainly due to the significant decline in the fair value of warrants of $213,000 during 2011. The assumptions used in determining the fair value of the warrants as at December 31, 2012 are included in Note 9 to the 2012 Audited Consolidated Financial Statements.

The Company continues to believe that it is more-likely-than-not that the benefit associated with certain of the losses and costs creating future income tax assets will be realized prior to their expiry. Accordingly, the Company may record periodic future income tax recoveries. Note that the Company has not recognized any income tax recovery for its subsidiary company Victory Silica since it has not yet commenced operations.

In the year ended December 31, 2012, the Company recorded an income tax recovery of $141,000 (December 31, 2011 – a recovery of $340,000). The change in the income tax recovery is a function of decreased operating loss combined with a reduction in the availability of investment tax credits. Furthermore, the Company has estimated it has $42,000 in unrecognized deferred tax assets in relation to the frac sand business contained in Victory Silica; given this is a new venture which had not yet started operation, it was not currently assessed as more-likely-than-not that losses and costs incurred in Victory Silica will be realized prior to their expiry.

OCI in the year ended December 31, 2012 relates to a decrease of $655,000 (December 31, 2011 – $1,962,000) in the market value of the Company's financial assets at fair value through OCI along with income tax recoveries recorded through OCI of $88,000 (December 31, 2011 – $265,000). These changes are a result of net market value decreases in marketable securities.

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

Marketable securities as at December 31, 2012 consist of the Company's financial assets at fair value through OCI and operations; the Company's investment in shares is at fair value through OCI and the investment in warrants is at fair value through operations. Accordingly, any volatility in the market price of warrants will impact the statement of operations but changes in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes. Marketable securities decreased by $1,826,000 from December 31, 2011 as a result of sales and declines in market prices and value of warrants. The Company generated $1,168,000 in sales proceeds in 2012 from sales of marketable securities (2011 - $6,112,000).

Property and equipment increased from December 31, 2011 mainly as a result of deposits of $200,000 made during the year ended December 31, 2012 relating to the purchase of transformers and other electrical equipment for the Minago project partly offset by some furniture sales.

The changes in trade and other payables relate primarily to the timing of project-related expenditures. The balance increased by $229,000 when compared with December 31, 2011 and includes approximately $176,000 of agreed-upon deferrals, mostly directors' fees and deferred salaries. Subsequent to December 31, 2012, $118,000 in accounts payable were settled through the issuance of 4,720,000 of the Company's shares.

Victory Nickel entered into a loan agreement and $1,000,000 was advanced prior to December 31, 2012. The loan bears interest at 12% per annum and matures on January 31, 2015. At the option of the lender (Nuinsco), and under certain circumstances, the lender can elect to receive prepayment of the loan from up to $1,000,000 of the proceeds of the Lynn Lake option payments. Accordingly, under the option agreement in effect at December 31, 2012, $1,000,000 of the loan has been classified as a current liability due within one year since this matches the Lynn Lake option payments which were available to be diverted to the lender at their option under agreements in place as at December 31, 2012.

The deferred tax liability balance amounts to $2,473,000 as at December 31, 2012 compared with $2,702,000 as at December 31, 2011. The main components of the balance relate to the tax effects of E&E projects and the MP&D project, partly offset by the tax value of net operating tax losses carried forward.

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eight quarters ended December 31, 2013 is as follows:

Fiscal year 2013	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
Net finance costs	$	(3,614) [1]	$	(69)	$	(75)	$	(37)
Net loss	$	(3,839) [2]	$	(521)	$	(429)	$	(315)
Total comprehensive loss	$	(3,810) [3]	$	(537)	$	(507)	$	(440)
Loss per share - basic and diluted	$	(0.01)	$	(0.00)	$	(0.00)	$	(0.00)

Fiscal year 2012	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
Net finance (costs) income	$	(9)	$	(2)	$	2	$	(4)
Net (loss) income	$	(139)	$	60 [5]	$	(571) [6]	$	467 [8]
Total comprehensive (loss) income	$	(193) [4]	$	6	$	(1,252) [7]	$	689 [9]
(Loss) earnings per share - basic and diluted	$	(0.00)	$	0.00	$	(0.00)	$	0.00

(1) Net finance costs for the period includes $3,289,000 for the loss on adjustment of estimated cash flows for the Amended Loan and $173,000 for the increase in value of the embedded derivative related to the convertible promissory note.
(2) Net loss for the period includes $240,000 for costs charged under the management agreement with Nuinsco and reflects increased activity on the frac sand business and an income tax recovery of $558,000.
(3) Total comprehensive loss for the period includes the effects noted above.
(4) Total comprehensive loss for the period includes $49,000 net after-tax decline in the market value of securities.
(5) Net income for the period includes $450,000 recovery on the Lynn Lake option with Prophecy Platinum.
(6) Includes an increase in income taxes of approximately $150,000 which was reversed in the fourth quarter as it was not necessary.
(7) Total comprehensive loss for the period includes $681,000 net after-tax decline in the market value of securities.
(8) Net income for the period includes $1,000,000 recovery on the Lynn Lake option with Prophecy Platinum.
(9) Total comprehensive income for the period includes the recovery noted above as well as $222,000 net after-tax improvement in the market value of securities.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2013, the Company had working capital of $465,000, including cash and cash equivalents and marketable securities. As at December 31, 2012, the Company had a working capital deficiency of $583,000 which included approximately $176,000 of agreed-upon deferrals owing to directors and senior management as well as accounts payable of $118,000 subsequently settled in shares of the Company.

Working capital as improved from the prior year but financing remains challenging although the Company has closed many successful financings during the year. As the 7P Plant completion approached and the prospect of revenues became more real, the opportunities for financing have improved and the Company has been able to consummate even more financings.

The 7P Plant has been designed to be able to process 500,000 tpa rather than the initial 400,000 tpa originally planned. This occurred because of some necessary engineering changes which were not originally contemplated but were then leveraged to build a plant with increased capacity. This caused the cost of the 7P Plant to be in excess of its original plan and put significant pressure on working capital. This will be a future benefit as capacity has increased by 25%.

The main financings occurring during the year are described in the following sections.

Loan and Amended Loan with Nuinsco of up to $3,000,000 was entered into in 2012 and was amended in March 2013. Recognizing the challenging financing markets, the Company entered into the loan agreement with Nuinsco, $1,000,000 of which was advanced prior to December 31, 2012 and was used for working capital purposes; the Amended Loan provided additional funds of up to $2,000,000 under certain circumstances which were capped as described under the Rights offering narrative below at $1,707,584, $1,207,584 of which was advanced as backstop under the rights offering. As described earlier, as at December 31, 2012, despite the loan having a contractual repayment term of January 31, 2015, the ability of the Lender to divert payments under the Lynn Lake option agreement required the Company to classify the whole principal balance as being due within one year. On March 1, 2013, the Lynn Lake option agreement was amended to include $125,000 due March 1, 2013 which was received and retained by Victory Nickel. Other payments of $125,000 and $150,000 were received in May and September (and also retained by the Company) and the remaining $175,000 was due by the end of 2013 with an additional $550,000 due by August 29, 2014. However, as described earlier, Wellgreen has relinquished the option agreement and no further option receipts are due.

On March 25, 2013, the Company amended and extended the loan agreement to up to $3,000,000 under certain circumstances – and which was capped at $2,707,584. The Amended Loan bears interest at 12% per annum, payable quarterly, and matures on January 31, 2015. Prior to June 1, 2014, the Lender, Nuinsco, has the right to convert the outstanding balance of the Amended Loan into a participating interest (the "Conversion") whereby the Lender is entitled to receive a share of net cash flows earned from the sale of frac sand from the 7P Plant. Nuinsco's participation is capped at $10,000,000, with a minimum of $7,500,000, and is subject to adjustment under certain circumstances – refer below. On Conversion, the Amended Loan would be considered paid in full.

Nuinsco had also agreed to backstop an equity issue, if any was announced, with cash or by converting a portion of the Amended Loan into shares, at the Lender's option to an amount up to $1,500,000 under certain circumstances. On June 14, 2013, the Company announced a rights offering as described more fully below with maximum gross proceeds of approximately $2,700,000. Under the backstop provision, Nuinsco subscribed for units of the rights offering for cash in the amount of $1,207,584 which, along with exercise of other rights and its pre-existing shares, resulted in Nuinsco increasing its share ownership in the Company to approximately 12.24% as at July 30, 2013 and made Nuinsco a related party of the Company.

The Company agreed to pay, with shares, an arrangement fee of up to $300,000 plus a commitment fee of 1.5% per annum on unutilized balances. Effective July 2013, the cumulative arrangement fee was capped at $270,758 and was settled with shares. Such fees are amortized into interest expense using the effective interest rate method. An aggregate of $120,000 in interest expense was paid in cash for interest accrued for the year ended December 31, 2013; interest is due in cash at the end of each calendar quarter. Non-cash amortization of loan fees brings interest expense on the loan to $254,000 for the year. The commitment fee will be settled in shares and amounts to $11,000 as at December 31, 2013.

On February 4, 2014, both Nuinsco and Victory Nickel agreed to cancel the amount that remained available to be drawn down under the Amended Loan. This fixed the commitment fee to be paid in shares at $12,000 and also amended the range of the Company's participation in the net cash flows earned from the sale of frac sand to a maximum of $10,222,831 with a minimum of $7,667,124. This range could be decreased should Victory Nickel repay some or all of the $1,000,000 balance outstanding before Conversion.

Because the 7P Plant is being commissioned and the frac sand business is commencing, the Company expects that the Conversion right will be exercised by Nuinsco. While this will eliminate the loan payable, it will be replaced by a future outgoing cash flow stream. Accordingly, the Company has recorded the loan at an amortized cost of $4,100,000. This amount was determined as described earlier and will be subject to ongoing revaluation as the frac sand business develops and cash flow amounts become more certain. Under present assumptions and business expectations, contractual payments to Nuinsco would not commence until approximately mid-2015 when Phase 1 capital costs and pre-operating expenditures have been recovered.

The Company will reassess the carrying value of the loan as circumstances warrant.

Private placement of $2,209,000 was entered into with a key investor. On March 22, 2013, the Company issued 44,178,500 common shares under the private placement with a key investor at $0.05 per share, generating gross proceeds of approximately $2,209,000. This, along with the Amended Loan, significantly improved available working capital in early 2013.

Rights offering of $2,400,000 was completed on July 30, 2013 which generated gross proceeds of $2,400,000 through issuing 100,000,000 units, each unit comprising one common share and one common share purchase warrant. Each warrant enables the holder to buy an additional common share of the Company for $0.035 per share for a 12-month period commencing July 31, 2014. The proceeds included provisions under the Amended Loan for a backstop and top-up which aggregated $1,207,584 and effectively capped the Amended Loan at $2,707,584 with then future available advances to the Company being $500,000. As noted above, both the Company and Nuinsco have cancelled the available amount outstanding effective February 4, 2014.

Private placement of $300,000 was closed on September 19, 2013 generating gross proceeds of $300,000 through issuing 12,500,000 units, each unit also comprising one common share and one common share purchase warrant. Each warrant enables the holder to buy an additional common share of the Company for $0.035 per share for two years from the closing date of September 19, 2013.

Convertible Note for US$2,000,000 was entered into on November 11, 2013. The accounting complexities have been described earlier. The Convertible Note has a term of two years, bears interest at 14.8% calculated on a monthly basis

and settled quarterly and may be converted in whole or in part, at any time, at the option of the holder into Victory Nickel shares at a conversion price of $0.10 per share. This is part of an umbrella package of convertible financing approved by regulatory authorities to a maximum of $5,000,000. The financing has been completed in tranches and has similar terms to the Convertible Note. Subsequent to December 31, 2013, the Company has closed an aggregate of US$1,750,000 and $265,000 under the umbrella package.

Discussions are also underway to source additional working capital financing for the frac sand business.

Other asset sales, as well as the sale of royalties on certain properties, are possibilities which would provide liquidity during this difficult period. With lower trading volumes, marketable securities are not as saleable as they have been in the past. Consequently, management is looking to realize on the sale of other assets as a mechanism to improve liquidity. The Company is also investigating the possibility of generating cash through the sale of new royalty arrangements on its properties.

Cash flows in 2013 - Cash and cash equivalents as at December 31, 2013 and 2012 were held with major Canadian banks. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. Marketable securities are available to be sold for liquidity purposes, as the Company requires, providing funds for its operations and activities.

For the year ended December 31, 2013, the Company used cash in operating activities of $2,374,000 (December 31, 2012 - $1,295,000). As the Company is in the exploration, evaluation and development stage and has yet to produce frac sand at the 7P Plant, there are no revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company and to set up the frac sand operations. The Company estimates that public company costs in the year ended December 31, 2013 amounted to $848,000. Many of these costs are incurred in the early part of the year. In the same period of 2012, such costs were approximately $730,000, calculated on a comparable basis. Consequently, the Company's liquidity is reduced unless and until there are revenues, financing activities or sales of assets to provide funds. Note that the costs cited above do not include the costs of financing arrangements which are deducted directly from equity – these can be significant. Costs incurred to advance the Company's exploration, evaluation and development projects are capitalized, as summarized below under the discussion of investing activities. Costs to set up the Company's frac sand operations are expensed as part of pre-operating expenditures, in 2013, $605,000 was spent on frac sand activities, compared with $159,000 in 2012.

The adjustment for net finance costs of $3,781,000 primarily relates to the non-cash change in the carrying value of the loan with Nuinsco as described above. While this is a fair value adjustment it is an estimation of future outgoing cash flows under the participating interest should Nuinsco opt for Conversion. Nuinsco has not yet announced its intention.

During the year ended December 31, 2013, net cash used by investing activities was $2,798,000, compared with cash generated of $34,000 in the prior comparable period. Aggregate amounts of $973,000 and $138,000 were used to advance the MP&D project and E&E projects, respectively, during the year ended 2013 (2012 - $2,201,000 and $183,000). In 2013, $2,021,000 was used for expenditures on the 7P Plant acquisition and improvements (2012 – $nil).

During the early part of the year, the Company sold shares for aggregate proceeds of $59,000 (2012 – $1,168,000); the Company will continue to sell marketable securities for liquidity purposes when pricing is acceptable although present valuations would not generate significant cash flows. Aggregate funds of $400,000 were received with respect to the option agreement with Wellgreen for the Lynn Lake property in 2013 compared with $1,450,000 received in 2012.

The Company made payments of $152,000 in the year ended December 31, 2013 relating to the transformer equipment (2012 - $200,000) under the agreement to purchase transformers and other electrical equipment at an aggregate cost of US$2,840,000. The balance is due prior to shipping.

The Company generated $6,319,000 in financing activities during the year compared with $1,000,000 in 2012. In 2013, this comprised net cash of $4,496,000 from the issuance of shares and warrants; being $2,197,000 pursuant to a private placement with a key investor in the first quarter of 2013, net proceeds of $2,025,000 from the rights offering that closed on July 30 2013 and net proceeds of $279,000 from the private placement completed on September 19, 2013 ($5,000 in share issue costs were incurred on a non-cash item). Loan interest of $173,000 was paid during 2013; $9,000 of that relates to interest accrued in 2012. Aggregate payments under leases for deposits and other principal payments totalled $100,000; there were no such payments in 2012. The Convertible Note generated net funds of $2,096,000 in 2013 compared with funds of $1,000,000 under the Facility with Nuinsco in 2012 as amended in 2013.

There were no equity financings completed during the year ended December 31, 2012, although the Company received $1,000,000 under the Facility. The Company's operations in 2012 were financed through sales of marketable securities, option payments and the loan advance noted above.

The Company's activities during the year ended December 31, 2013 provided cash and cash equivalents of $1,147,000, compared with a net decrease in cash of $261,000 during 2012. In 2013, there was an unrealized foreign exchange gain of $20,000 on cash and cash equivalents.

The Company's remaining portfolio of marketable securities had a market value of $278,000 as at December 31, 2013. Effective February 4, 2014, there are no amounts available under the Amended Loan.

Table of Contractual Commitments

	Due Date	Currency	March 31, 2014	December 31, 2013	December 31, 2012
Transformer and electrical equipment	On shipping	US Dollar	$ 1,396	$ 1,396	$ 1,546
Flowthrough expenditures outstanding	Not applicable	Canadian Dollar	$ -	$ -	$ -
Loans and borrowings (including unpaid accrued interest)					
Amended Loan	January 31, 2015	Canadian Dollar	$ 1,000	$ 1,000	$ 1,009
Convertible Note	November 11, 2015	US Dollar	$ 2,000	$ 2,000	$ -
Purchase of 7P Plant	Refer to note below	Canadian Dollar	$ -	$ -	$ -
Leased mobile equipment	Within one year	Canadian Dollar	$ 166	$ 190	$ -
	One to five years	Canadian Dollar	$ 423	$ 447	$ -

Note that the final acquisition of the 7P Plant is subject to conditions precedent, including the transfer of leases which requires regulatory approval. The Company has fulfilled all of the reporting obligations required to secure the approval and received signoff by the AER on March 18, 2014. Further note that the Amended Loan (unless converted to a participating interest by Nuinsco) is contractually payable on January 31, 2015. The Convertible Note may also be settled in part or in whole through the issuance of the Company's shares.

As described above, exploration, evaluation and development companies such as Victory Nickel have historically been heavily reliant upon the equity markets to fund their activities as they have no short-term sources of revenue other than through monetization of assets. Opportunities available to Victory Nickel for financing would normally be through private placements in the equity markets. Today's equity markets continue to make this alternative difficult if not impossible without incurring significant dilution to existing shareholders. For this reason, the Company had chosen to liquidate portions of its securities holdings rather than raise equity financing. However, the results of this are also dependent upon market conditions which are outside the control of the Company, and market circumstances have also impacted the Company's investees and their market values impacting the funds which could be generated from sales.

In the first quarter of 2013, an opportunity was identified to enter into a private placement with an investor at an appropriate price. On March 22, 2013, the Company completed a private placement of 44,178,500 shares which generated approximately $2,209,000 in cash. While this is dilutive to existing shareholders, alternative financing sources, if any, take considerable time and resources to complete – as was the case with the rights offering.

The rights offering to existing shareholders announced mid-June raised $2,400,000 in gross proceeds effective July 30, 2013; all shareholders at the record date had the opportunity to participate in this potentially non-dilutive financing. The warrants issued under the rights offering have the ability to generate an additional $3,500,000 in funding between one and two years from closing – that is from July 31, 2014 onwards. The warrants are exercisable at $0.035; Victory Nickel shares have consistently traded in excess of that price since mid-December. Because the standby facility was utilized in the rights offering, the funds available under the Amended Loan with Nuinsco as at December 31, 2013 were $500,000; as described above, this amount has been cancelled and is no longer available to Victory Nickel.

Note that, through the backstop, Nuinsco owns shares of Victory Nickel rather than having advanced funds which would need to be repaid by Victory Nickel at a future date. Further note that advances under the backstop are considered in the same fashion as loan advances and form part of the calculation of cash flows under the convertibility feature of the Amended Loan.

Another private placement was completed mid-September 2013 generating gross proceeds of $300,000. The warrants issued under this private placement (issued on the same terms as the rights offering but exercisable at any time) have the potential to generate additional cash of approximately $438,000 until September 19, 2015.

The Company will continue to balance its financing choices as a function of availability and market activity. Managing in challenging times takes as much, if not more, senior management effort. However, senior management of both the Company and Nuinsco have periodically agreed to accept salary deferrals. Although all deferrals have now been settled, this is a mechanism that the Company has been able to utilize on a number of occasions. Directors have also periodically accepted deferrals of fees. More recently, the Company has issued convertible notes. Regulatory approval has been received to issue up to $5 million in aggregate. On November 11, 2013, the Convertible Note in the amount of US$2,000,000 was issued and several tranches of similar notes have been issued to date on similar terms aggregating $265,000 and US$1,750,000.

The Company will continue to consider all financing alternatives given acceptable pricing and other market conditions to advance its projects, put the frac sand plant into production and maintain liquidity. The optioning of the Lynn Lake property is one example of a corporate transaction that can generate cash and add value for shareholders while maintaining participation in the upside in the subject property.

The loan advance of $1,000,000 in 2012 was the first stage of an expanded loan agreement announced by the Company in March 2013. The initial advance was for working capital purposes and other amounts under the Amended Loan were advanced by way of the standby facility under the rights offering. The Amended Loan is subject to the Conversion right by the Lender which would allow the Lender to convert its debt (including funds advanced under the backstop of the rights offering) into a net cash flow participation in funds expected to be generated by the frac sand initiative.

In addition to generating cash flow, the frac sand initiative is intended to establish the Company's presence in the frac sand market. However, this initiative, while relatively near-term compared with mine-building, is not expected to begin generating cash flow from sales until early 2014. As reported already, the Company has announced the acquisition of the 7P Plant which continues to be subject to certain conditions precedent, including the transfer of leases. On July 11, 2013, the Company received approval from the AER, which allowed for restoration and development of the 7P Plant. Site restoration has been completed and the closure report has been filed; follow-up questions have been received and responded to and final clearance was received in March, 2014.

The Company expects that the Lender will convert its loan payable to a participating interest in future cash flows from the frac sand business; similarly, the Company expects that the share price will improve as the frac sand business develops and that the holder of the Convertible Note will convert it into equity. Conversion of any amounts will also reduce the future interest burden. With the expected extinguishment of those gross contractual liabilities of $1,000,000 and US$2,000,000, the cash resources available of $1,423,000, combined with the advances available under the convertible notes entered into to date of approximately $2,190,000, the Company is positioning itself to be able to fund the remaining refurbishment costs of the 7P Plant and commence generating positive cash flows from the frac sand business. Note that cash flows under the participating interest do not commence until the company has recovered its Phase 1 capital costs as well as its pre-operating expenditures. The Company is also undertaking advanced discussions to secure a working capital facility to fund the future frac sand inventory and receivables activity.

In January, 2014, employees, consultants, officers and directors exercised options which generated cash of $220,000 to the Company.

As at March 31, 2014, the aggregate market value of the Company's marketable securities held in public company shares is approximately $374,000, using closing March 28, 2014 prices. The market value of such shares may go up or down. Trading volumes have experienced declines and it is generally acknowledged that equities are being undervalued.

As at March 31, 2014, the Company had options outstanding which could bring in additional cash funds of approximately $1,973,000. Most of those instruments are presently not "in-the-money" and the receipt of such funds cannot be relied upon. However, the exercisable options at $0.055 cents or below could generate $633,000. Furthermore, the warrants issued under the rights offering and private placement could generate additional cash of $3,500,000 from July 31, 2014 and $438,000 from now. These warrants are "in-the-money".

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

The Company has good title to its projects and will continue to maintain the projects in good standing. The Lynn Lake property has been returned to the Company and could be subject to a further option.

Monthly average administrative costs for 2013 are budgeted at $119,000 – or approximately $1,400,000 on an annual basis, most of which are incurred to meet statutory requirements; actual annual cash-based costs for 2013 were $1,631,000 before frac sand pre-operating costs. These figures exclude salary amounts capitalized as part of project expenditures which need to be considered as part of annual cash requirements. Annual capitalized salaries in 2012 (including some part-time workers) amounted to $487,000; for 2013 these are budgeted at approximately $373,000 and actual salaries capitalized to projects amounted to $378,000.

The Company's budgeted cash operating requirements for 2013 were approximately $1,800,000 before project expenditures or $150,000 monthly average. Calculated on the same basis, average monthly cash costs in the year ended December 31, 2013 were approximately $180,000 which is higher than budget; such costs are weighted towards the beginning of a year because of statutory requirements such as audit and include the effect of the frac sand operations in its pre-operating phase.

Budgeted corporate cash operating requirements for 2014 (excluding frac sand operations) are approximately $2,056,000 before project expenditures or $171,000 monthly. Additional budgeted salary amounts capitalized to exploration and development projects amount to $395,000.

Controls on minimizing discretionary expenditures are in place and non-essential services have been cancelled. The Company continues to control operating costs; Victory Nickel and Nuinsco did not implement an across-the-board salary increase for 2012 and there were no general salary increases in 2013 in either company.

The Company continues to have amounts owing to fulfil the electrical equipment purchases initiated during 2010.

Through the combination of sales of marketable securities, the expected extinguishment of the gross liabilities under the Amended Loan of $1,000,000 (into a net participating interest) and the Convertible Note of US$2,000,000 (into equity), the cash resources available of $1,423,000 combined with the additional tranches of convertible notes of $2,190,000 to date, the Company expects to be able to meet its annual operating obligations and finance the acquisition of, and capital expenditures at, the 7P Plant. Additional working capital funding to support the operations of the frac sand business continues to be sought and advanced discussions are underway.

Development of the Minago mine will require considerable financial resources. The Company has put together a financing strategy which includes several components; the relative proportion of each will be dependent upon the market conditions at the time the strategy is executed. Components include: securing a joint venture partner for nickel and/or frac sand, off-take agreements for both nickel concentrate and frac sand, plant and equipment leasing for the mine and frac sand plant, bank borrowing and/or equity issues.

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

BUSINESS UPDATE

Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company is about to enter the frac sand market and will have formal operating segments in 2014 when it expects to have operating revenues, products, processes and customers. Accordingly, the Company will commence reporting on a segmented basis in 2014. The Company expects to have three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment will operate to support the Company's activities, including exploration and development projects and the frac sand business. The Company will continue to receive administrative support from Nuinsco (Note 23 in the 2013 Audited Consolidated Financial Statements) to do so.

Senior management makes decisions with respect to Exploration and Development by considering exploration and development potential and results on a project basis. The exploration and development projects are all located in Canada. Any applicable amounts relating to such projects will continue to be capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 24 in the 2013 Audited Consolidated Financial Statements). The segment is located in Canada although sand purchases are expected to be sourced from the US.

In order to assist in understanding the Company's transition, the following tables provide information on the Company's segments in accordance with expected reporting for 2014 onwards.

As at December 31,		**2013**
Canada		
Corporate	**$**	**1,952**
Exploration and Development		**55,056**
Frac Sand		**3,886**
Total Assets	**$**	**60,894**

Year ended December 31,		**2013**
Canada		
Corporate	**$**	**324**
Exploration and Development		**-**
Frac Sand		**-**
Inter segment elimination		**(324)**
Total Revenues	**$**	**-**

EXPLORATION AND DEVELOPMENT ACTIVITIES

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

MINE PROPERTY AND DEVELOPMENT ACTIVITIES

During the year ended December 31, 2013, $843,000 (before receipt of a government grant of $72,000) was incurred on the Minago project (December 31, 2012 - $2,376,000 before receipt of a government grant of $50,000).

Minago Project

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

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

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

[1] Lerch-Grossman pit optimization shell [2] Whittle pit optimization shell [3] Nickel in sulphide form

A winter work program was conducted at Minago in 2011. The program comprised 8,793m of diamond drilling in 20 drill holes with associated ground and borehole electromagnetic geophysics. The program was intended to evaluate parts of

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

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

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

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

Frac Sand

An indicated resource of 15 million tonnes of sandstone has been estimated to occur within the current Minago pit shell. The frac sand component of this resource of approximately 11 million tonnes is a significant contributor to the positive economics at Minago. As part of the FS, Outotec produced a feasibility-level design for a frac sand plant complete with capital and operating costs to produce 1,140,000 tonnes of frac sand annually for a ten-year period. Considerable potential exists to expand the resource beyond the limits of the current pit. The Company has also announced the creation of Victory Silica to advance a plan which will allow the Company to exploit this long-term sand resource. Refer to Discussion on Frac Sand segment activities

EXPLORATION AND EVALUATION ACTIVITIES

For the year ended December 31, 2013, the Company incurred exploration expenditures on its E&E projects of $135,000 (December 31, 2012 - $161,000). Expenditures have been minimal due to the tight equity markets and management's focus on Victory Silica and the frac sand business. The 2013 expenditures are shown before the transfer of $392,000 through operations (December 31, 2012 - $1,450,000) with respect to the Lynn Lake option receipts in excess of carrying value.

Lac Rocher

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

The Lac Rocher property is subject to a discovery incentive plan (the "DIP") to reward certain individuals involved in the discovery of Lac Rocher with a 2% net smelter royalty ("NSR") for mines that were discovered on certain properties prior to the expiry of the DIP. The NSR is payable only on revenues earned after recovery of all development costs for any mine on the property. The terms of the DIP provide the Company with a right of first refusal on any proposed disposition of the NSR. In addition, the DIP contains put/call provisions under which the Company may be required to purchase, or may exercise an option to purchase, the NSR at the value of its discounted cash flows, as defined therein. The Lac

Rocher property is the only property subject to the DIP. As the Lac Rocher property is not yet in production, no royalties are currently payable.

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

Mel Project

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

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

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

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

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

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

Lynn Lake

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

As discussed earlier and described in Note 12 to the 2013 Audited Consolidated Financial Statements, the Company had optioned Lynn Lake to Prophecy Coal with subsequent assignment to Wellgreen. In March, 2014, Wellgreen relinquished the option on the property and it has reverted to the Company. Given the stage of the option agreement, the Company had not considered Lynn Lake to be a material mineral project of the Company. The Company will review the exploration material and data once Wellgreen fulfils its obligation to provide this and will determine next steps accordingly.

FRAC SAND SEGMENT

As explained above, the Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 24 in the 2013 Audited Consolidated Financial Statements). The segment is located in Canada although sand purchases are expected to be sourced from both Canada and the US.

On June 19, 2012, the Company announced this initiative through the creation of Victory Silica and the hiring of Ken Murdock as its CEO. The objective is to establish the Company as a supplier of premium frac sand prior to commencing

frac sand sales from the Minago project at the same time as generating significant cash flow. On January 9, 2013, the Company announced that it had completed an asset purchase agreement for the purchase of the 7P Plant located near Medicine Hat, Alberta.

Expenditures on non-capital items are presently classified as pre-operating expenditures and are charged through operations. Plant acquisition costs and plant improvement costs are capitalized as 7P Plant within Property and Equipment on the consolidated balance sheet without amortization since the plant is not available for use as at December 31, 2013. Certain mobile equipment used in the plant improvements are being depreciated.

Site reclamation work has been completed and the final closure report has been filed with the AER and was cleared on March 18, 2014. Major equipment has been received and the 7P Plant is in the process of being commissioned. All supply and service contracts have been completed, including agreements on the terms for purchase of, and for the washing and concentrating of, Jordan Formation frac sand in Wisconsin. A rail contract and credit facility has been approved by Canadian Pacific ("CP") for the shipping of concentrated sand from Wisconsin for finishing at the 7P Plant, as has a siding agreement to provide access for private cars on the CP rail line. Rail car leasing and transload agreements have also been completed.

Several deliveries of sand have been made to the 7P Plant and are warehoused ready for processing. Processing of sand as part of commissioning occurred in March 2014.

IMPAIRMENT ANALYSIS

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

The challenge remains to find financing for development of projects*.* This difficulty is not a reflection of the quality of the Company's projects but is indicative of a continued general malaise affecting the junior resources sector in general. The Company performed a detailed impairment analysis at the project level.

An initial indicator of impairment considers the market capitalization of a company compared with its net book value. At and around the end of December 31, 2013, the Company's market capitalization was below its net book value – being approximately 50% of net book value which represents an improvement from December 31, 2012. A 100% ratio would require a share price of approximately $0.09 which was most recently achieved in late 2011. However, many resource companies continue to experience similar circumstances in present markets despite having good projects. In particular, the Company continues to note situations where a company's cash balances may exceed its market capitalization. An analysis was performed on each of the Company's E&E projects and the MP&D project.

The analysis reviewed historic expenditures recorded on each project along with any purchase price allocations from acquisitions, reflected the existence of previous writedowns or reversals of impairment and also considered the existence of any economic studies which had been performed. The assumptions used in such studies were reviewed for such factors as: forecast metals prices, foreign exchange rates, changes in resource and/or cost estimates, changes in royalty arrangements, the existence of significant by-products and other matters as necessary. In addition, any third-party arrangements, such as the Lynn Lake option, were also taken into consideration.

Forecast metals prices were estimated from third-party sources such as analyst consensus reports and other available documentation which were considered to be reasonable by management. In particular, for the FS base case, long-term annual forecasted nickel prices with an average of US$11.19 and an exchange rate of US$0.9116 : C$1.00 were used. Since the FS was performed, metals prices have changed. The Company continues to work on updating the FS for improved economics and announced updated resource estimates in 2011 as a result of the drilling performed in 2010. For the purposes of impairment testing, the FS was re-run using prices derived from forecasts using a range of US$7.18 to US$8.75 for nickel and an exchange rate of US$0.8978: C$1.00. Market consensus appears to be that the US dollar will continue to strengthen and that has a positive impact on the FS economics. In 2012, the Company identified cost savings of approximately $5.6 million with respect to removing the overburden on the Minago pit footprint and, as yet unquantified, savings from the relocation of the tailings pond. A discount rate of 12% was used in the analysis. Considering these factors has produced a positive NPV in excess of the book value of the project. In addition, the Minago project contains significant frac sand and only that portion removed as part of the open pit shell has been included in project economics. Accordingly, no impairment exists on the Minago project.

Capital and operating cost estimates generally were reduced from those used in historic studies if documentary evidence had recently been obtained as part of the review work which had been undertaken for the Minago FS. For the Minago project in particular, the transformer commitment has been made at a much-reduced cost than was used in the FS. Used equipment prices cannot be typically reflected in a FS, as the market is unpredictable, except where firm pricing has been negotiated. Often cost estimates used in previous studies had been derived when such were universally recognized to be at historic highs. We have seen evidence of engineering firms broadly announcing price freezes. Experience with equipment strategies at the 7P Plant has proved that good quality used equipment can be sourced and equipment financing is available. This represents an additional cost-saving opportunity which has not been quantified in the impairment analysis.

Furthermore, management's intentions with respect to future expenditures and plans for the projects were considered. With the exception of some small projects, all projects have had recent expenditures and are considered to be active. All of the Company's projects were tested for impairment as at the balance sheet dates.

Management concluded that no impairment existed in each of its projects effective December 31, 2013 and that costs incurred to date are recoverable. The Company will continue to monitor developments as they occur in the metals markets and the economy and will update its impairment analysis to take account of any such changes, as appropriate.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

The Company has determined that it is highly probable that Victory Nickel will generate returns sufficient to utilize its taxable losses prior to their expiry. This is a significant judgement that, dependent upon future events, may turn out to be incorrect. Presently, since Victory Silica is in its pre-operating phase, a full valuation allowance has been recorded against losses incurred in that subsidiary. Given that operations at the 7P Plant commenced in March, 2014, the Company expects that it will be able to reverse the valuation allowance in 2014.

NEW ACCOUNTING POLICIES

IFRS issued by the International Accounting Standards Board ("IASB") have been adopted in the Company's 2013 Audited Consolidated Financial Statements. Note 3 to those statements include the accounting policies that have been applied.

FUTURE ACCOUNTING CHANGES

New Standards and Interpretations Not Yet Adopted

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

CORPORATE GOVERNANCE

The Company's Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of directors, none of whom are employees or officers of the Company, meets with management to review the 2013 Audited Consolidated Financial Statements to satisfy itself that management is properly discharging its responsibilities to the directors who approve the financial statements. The Board of Directors has also appointed compensation and corporate governance and nominating committees composed of non-executive directors.

Evaluation 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 year ended December 31, 2013, an evaluation was commissioned by the Company under the supervision of the Certifying Officers and with the participation of management of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2013. 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 year ended December 31, 2013 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

Evaluation 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 consolidated financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO (1992) control framework and is in the process of updating its methodology to incorporate the COSO (2013) framework into its analyses for 2014. The COSO Board has made the COSO (1992) framework available for use until December 15, 2014 at which date it will be considered superseded. For the fiscal year ended December 31, 2013, an evaluation was commissioned by the Company under the supervision of the Certifying Officers and with the participation of management of the effectiveness of the Company's internal control over financial reporting. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's internal controls over financial reporting and procedures were effective as at December 31, 2013. During the year, the Company made improvements to the controls over financial reporting as part of its continuous improvement process.

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

There were no changes to the Company's internal controls over financial reporting that occurred during the year ended December 31, 2013 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT WITH NUINSCO RESOURCES LIMITED

Related Party Balances and Transactions for Services

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

Balances and transactions with related parties as at and for the years ended December 31, 2013 and 2012 are shown in the following tables:

As at December 31,		2013		2012
Balances Outstanding				
Payable to key management personnel	**$**	**119**	$	157

Key management personnel compensation comprises:

Years ended December 31,		2013		2012
Short-term employee benefits	**$**	**952**	$	807
Share-based payments - options		**118**		217
Share-based payments - Share Bonus Plan		**66**		-
	$	**1,136**	$	1,024

Balances and Transactions with Nuinsco Resources Limited under the Management Agreement

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

Balances and transactions with Nuinsco under the management agreement as at and for the years ended December 31, 2013 and 2012 are shown in the following tables:

As at December 31,		2013		2012
Balances Outstanding under the Management Agreement				
Payable to Nuinsco Resources Limited	**$**	**56**	$	-
Receivable from Nuinsco Resources Limited	**$**	**-**	$	37

Years ended December 31,		2013		2012
Transaction Values under the Management Agreement				
Overhead charges from Nuinsco Resources Limited	**$**	**755**	$	654
Overhead charges to Nuinsco Resources Limited	**$**	**18**	$	27
Project costs charged to Nuinsco Resources Limited	**$**	**37**	$	22
Project recoveries charged by Nuinsco Resources Limited	**$**	**30**	$	31

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

Balances and Transactions with Nuinsco under the Amended Loan

The terms of the Amended Loan are described in Note 14 to the 2013 Audited Consolidated Financial Statements as well as in the Liquidity and Capital Resources section of this MD&A. A summary of the balances and transactions of the Amended Loan is included in the table and accompanying note below:

Loan payable to Nuinsco Resources Limited		**December 31, 2013**		December 31, 2012
Advance for working capital	**$**	**1,000**	$	1,000
Advance under Amended Loan for standby commitment		**1,207**		-
Aggregate advances		**2,207**		1,000
Accrued interest payable		**-**		9
		2,207		1,009
Less: settled in Units of Victory Nickel		**(1,207)**		-
Less: unamortized loan fees		**(189)**		(1)
		811		1,008
Less: loans and borrowings - current portion		**-**		(1,000)
Change in fair value of loan		**3,289**		-
Loans and borrowings - long-term portion	**$**	**4,100**	$	8

The Company has accrued $11,000 for commitment fees payable in shares to Nuinsco upon the final advance under the Amended Loan and these are included in *Finance costs* for the year ended December 31, 2013. Victory Nickel incurred interest of $120,000 for the year ended December 31, 2013 which was paid in cash at the end of each respective quarter; $9,000 related to 2012 was paid in the first quarter of 2013.

OUTSTANDING SHARE DATA

As at March 31, 2014, the Company had 571,660,820 common shares issued and outstanding. In addition, there were 28,187,500 stock options and 112,500,000 warrants outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 712,348,320 and would generate cash of approximately $5,911,000. However, many of the options are not “in the money” and most of the warrants cannot be exercised until July 31, 2014.

RECENT DEVELOPMENTS

Private Placements

In January and March, 2014, the Company issued promissory notes under private placements, generating gross proceeds of approximately $265,000. The promissory notes bear interest at a rate of 14.8% payable quarterly, have terms of two years and are convertible into the Company’s common shares at the holder’s option at $0.10 per share.

In February and March, 2014, the Company issued promissory notes under private placements, generating gross proceeds of approximately US$1,750,000. The promissory notes bear interest at a rate of 14.8% payable quarterly, have terms of two years and are convertible into the Company’s common shares at the holder’s option at $0.10 per share.

The Company has reserved 66,666,666 common shares for the convertible notes issued under the umbrella approval by the TSX of $5,000,000.

Stock Options

In January and February 2014, 4,630,000 options were exercised generating aggregate gross proceeds of $220,000.

On February 4, 2014, the Company granted 2,630,000 options to officers, employees and consultants at an exercise price of $0.055. Of these options, 1,465,000 vest immediately and 1,165,000 vest over one year.

Other

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

RISKS AND UNCERTAINTIES

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

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

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

Industry Risks

Speculative Nature of Mineral Exploration

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that Victory Nickel's exploration efforts will be successful. Few properties that are explored are ultimately developed into economically-viable operating mines. Success in establishing reserves is a result of a number of factors, including the quality of Victory Nickel's management, level of geological and technical expertise, the quality of land available for exploration and other factors. Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling to determine the optimal extraction method for the ore and the metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. It is possible that even preliminary due diligence will show adverse results, leading to the abandonment of projects. It is impossible to ensure that preliminary feasibility studies or full feasibility studies, such as has been released with respect to Minago, on Victory Nickel's projects or the current or proposed exploration programs on any of the properties in which Victory Nickel has exploration rights will result in a profitable commercial mining operation. As a result of these uncertainties, no assurance can be given that Victory Nickel's exploration programs will result in the establishment or expansion of resources or reserves.

Evaluation and Development Projects

In general, evaluation and development projects have no operating history upon which to base estimates of future cash operating costs. For evaluation and development projects such as the mineral resource properties owned by Victory Nickel, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital cost, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. In addition, there remains to be undertaken certain feasibility and/or development preparation work on the projects that could adversely impact estimates of capital and operating costs required for the development of the projects. Costs necessary to develop the projects could be significant and will have a direct impact on the economic evaluation of the projects. As a result, it is possible that the actual capital cost, cash operating costs and economic returns of the projects may differ from those currently estimated. The costs estimated under the FS for Minago differed from the PEA and may differ again upon actual development.

Frac Sand Industry

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

With respect to the frac sand industry itself, risks include: changes in transportation availability and pricing, inclement or hazardous weather conditions from flooding or climate change, environmental hazards, industrial accidents, changes in the regulatory framework impacting mining, processing and the fracking industries in both Canada and the US, inability to

procure sand in the required quantities or qualities, inability to obtain replacement parts or equipment on a timely basis, reduction in the availability of water for processing, inability to hire, train and retain qualified staff at acceptable rates; and other technical difficulties or failures. Any prolonged downtime could impact deliveries and reputation.

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

Competition

The mineral exploration business is highly competitive in all of its phases. Victory Nickel competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Victory Nickel, in the search for and acquisition of exploration and development rights on attractive mineral properties. Victory Nickel's ability to acquire exploration and development rights in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on other suitable properties. There is no assurance that Victory Nickel will compete successfully in acquiring exploration and development rights on such other properties or in securing customers, sand supplies or other resources such as transportation.

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

Operational Risks

Limited History of Operations

Victory Nickel has no history of earnings and limited financial resources. Victory Nickel currently has no operating mines and its ultimate success may depend on the ability of active mining operations to generate cash flow in the future, as well as its ability to access capital markets for its development requirements. There is no assurance that Victory Nickel will earn profits in the future. Significant capital investment will be required to achieve commercial production at Victory Nickel's existing nickel projects. There is no assurance that Victory Nickel will be able to raise the required funds to continue these activities.

In particular, frac sand processing represents a new initiative for Victory Nickel which is expected to generate significant cash flow for the Company, if successful. While the Company believes it has mitigated the risks of entering a new market through the hiring of experienced personnel, there is no assurance that this initiative will be successful.

Frac Sand Processing Operations

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

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

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

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

Development Targets, Permitting and Operational Delays

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

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

Resources and Reserves

The figures for mineral resources and mineral reserves are estimates and no assurance can be given that the anticipated level of recovery and/or grades of mineral reserves or mineral resources will be realized. Moreover, short-term operating factors relating to ore reserves and resources, such as the need for orderly development of an ore body or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period.

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

Title Risks

Victory Nickel's ability to hold various mineral rights require licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various governmental and quasi-governmental authorities. Management believes that Victory Nickel currently holds or has applied for all necessary licences, permits and authorizations to carry on the activities which Victory Nickel is currently conducting and to hold the mineral rights Victory Nickel currently holds under applicable laws and regulations in effect at the present time. Management also believes that Victory Nickel is complying in all material respects with the terms of such licences, permits and authorizations. However, Victory Nickel's ability to obtain, sustain or renew such licences, permits and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governmental and quasi-governmental bodies.

Insurance Risk

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

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

Financial and Investment Risks

Going Concern

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

potential for the discovery of economically-recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding.

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

Substantial Capital Requirements

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

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

Market Perception

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

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

Metal and Mineral Prices

There is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Nickel and by-product prices fluctuate on a daily basis and are affected by numerous factors beyond Victory Nickel's control – including factors which are influenced by worldwide circumstances. The level of interest rates, the rate of inflation, world supply and demand for commodities and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The prices of nickel and by-products have historically fluctuated widely and future price declines could cause commercial production to be uneconomical and such fluctuations could have a material adverse effect on Victory Nickel's business, financial condition and prospects. As Victory Nickel has historically been in the exploration and development stage, the above factors have had no material impact on present operations but were considered in evaluating the impairment of long-lived assets. However, these factors are of significant importance for the FS and decisions related thereto as well as being important to the developing frac sand business.

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

Areas of Investment Risk

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

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

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

Regulatory Risks

Government Regulation

Existing and possible future environmental and social impact legislation, regulations and actions, including the regulation of air and water quality, mining reclamation, solid and hazardous waste handling and disposal, the promotion of occupational health and safety, the protection of wildlife and ecological systems and the protection of the societies and communities of indigenous peoples, could cause significant expense, capital expenditures, restrictions and delays in activities, the extent of which cannot be predicted and which may well be beyond Victory Nickel's capacity to fund. Environmental laws are becoming more stringent and actively enforced. Environmental and social impact studies may be required for some operations and significant fines and clean-up responsibilities may be assessed for companies causing damage to the environment in the course of their activities.

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

Victory Nickel may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors in the areas in which Victory Nickel does or will operate and holds its interests, as well as unforeseen matters. In particular, the fracking industry is often at the forefront of public attention whether or not deserved. Nonetheless, this provokes attention and scrutiny.

Other Risks

Environmental and Health Risks

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

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

Key Personnel

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

Conflicts of Interest

Certain of the Company's directors and officers are also directors and officers of other natural resource companies. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers relating to Victory Nickel will be made in accordance with their duties and obligations to deal fairly and in good faith with Victory Nickel and such other companies.

Investments and Other Agreements with Resource Companies

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

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

The Company has attempted to mitigate some of the risks associated with securing financing through its entry into the frac sand processing business. This is expected to generate significant cash flows to the Company and should enable it to become financially stable. In turn, this could be leveraged to assist in securing funds to ultimately develop Minago. However, the frac sand business also has its own set of risks as indicated earlier, and of which investors should be aware.

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

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

March 31, 2014