VICTORY NICKEL INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

DATED MAY 15, 2014

Management's Comments on Unaudited Condensed Consolidated Financial Statements
The accompanying unaudited condensed consolidated financial statements of Victory Nickel Inc. for the three months ended March 31, 2014 and 2013 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

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

Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars)	Notes	March 31, 2014 (unaudited)	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents	6	$ **490**	$ 1,423
Receivables and prepaids	7	**1,752**	381
Marketable securities	8	**374**	278
Inventory	9	**624**	-
Total current assets		**3,240**	2,082
Non-current assets			
Property and equipment	10	**6,390**	5,279
Mine property and development project	11	**38,772**	38,668
Exploration and evaluation projects	12	**14,905**	14,865
Total non-current assets		**60,067**	58,812
Total Assets		$ **63,307**	$ 60,894
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	13	$ **2,471**	$ 1,617
Total current liabilities		**2,471**	1,617
Non-current liabilities			
Loans and borrowings - long-term portion	14	**9,408**	6,379
Lease obligations - long-term portion	15	**387**	408
Deferred tax liability		**1,300**	1,521
Total non-current liabilities		**11,095**	8,308
Total Liabilities		**13,566**	9,925
Shareholders' equity			
Share capital	16	**52,285**	51,907
Contributed surplus		**5,347**	5,441
Accumulated other comprehensive income		**1,748**	1,665
Deficit		**(9,639)**	(8,044)
Total shareholders' equity		**49,741**	50,969
Total Liabilities and Shareholders' Equity		$ **63,307**	$ 60,894

NATURE OF OPERATIONS (Note 1)

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

Condensed Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts)	Notes		Three months ended March 31, 2014 (unaudited)		2013 (unaudited)
Operating expenses					
General and administrative		**$**	**(541)**	$	(351)
Share-based payments:	*18*				
Options			**(64)**		(19)
Amortization of property and equipment	*10*		**(49)**		(4)
Recovery of exploration and evaluation project	*12*		**-**		121
Net frac sand pre-operating costs	*22*		**(214)**		(95)
Operating loss			**(868)**		(348)
Finance income	*19*		**1**		1
Finance costs	*19*		**(962)**		(38)
Net finance costs			**(961)**		(37)
Loss before income taxes			**(1,829)**		(385)
Income tax recovery			**234**		70
Net Loss for the Period		**$**	**(1,595)**	$	(315)
Loss per share	*17*				
Basic loss per share		**$**	**(0.00)**	$	(0.00)
Diluted loss per share		**$**	**(0.00)**	$	(0.00)

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

Condensed Consolidated Statements of Comprehensive Loss

(in thousands of Canadian dollars)	Note		Three months ended March 31, 2014 (unaudited)		2013 (unaudited)
Net loss for the period		**$**	**(1,595)**	$	(315)
Other comprehensive income (loss) ("OCI")					
Net change in fair value of financial assets	*8*		**96**		(145)
Income tax (expense) recovery			**(13)**		20
Other comprehensive income (loss) for the period			**83**		(125)
Total Comprehensive Loss for the Period		**$**	**(1,512)**	$	(440)

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

Condensed Consolidated Statements of Shareholders' Equity

(unaudited) (in thousands of Canadian dollars)	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income / (Loss)	Deficit	Total Equity
Balances as at January 1, 2013		$ 47,683	$ 4,397	$ 1,855	$ (2,940)	$ 50,995
Total comprehensive loss for the period						
Net loss for the period					(315)	(315)
Other comprehensive loss						
Net change in fair value of financial assets				(145)		(145)
Income tax recovery				20		20
Total other comprehensive loss						(125)
Total comprehensive loss for the period						(440)
Transactions with owners, recorded directly in equity						
Contributions by owners in the period						
Issue of common shares for settlement of liabilities, net		113	-	-	-	113
Issue of common shares under private placement, net		2,200	-	-	-	2,200
Issue of common shares for loan fee		250	-	-	-	250
Options granted and vesting		-	19	-	-	19
Total contributions by owners		2,563	19	-	-	2,582
Total transactions with owners		2,563	19	-	-	2,582
Balances as at March 31, 2013		$ 50,246	$ 4,416	$ 1,730	$ (3,255)	$ 53,137
Balances as at January 1, 2014		$ 51,907	$ 5,441	$ 1,665	$ (8,044)	$ 50,969
Total comprehensive loss for the period						
Net loss for the period					(1,595)	(1,595)
Other comprehensive loss						
Net change in fair value of financial assets				96		96
Income tax expense				(13)		(13)
Total other comprehensive loss				83		83
Total comprehensive loss for the period						(1,512)
Transactions with owners, recorded directly in equity						
Contributions by owners in the period						
Options vesting	*18*	-	64	-	-	64
Options exercised	*16,18*	378	(158)	-	-	220
Total contributions by owners		378	(94)	-	-	284
Total transactions with owners		378	(94)	-	-	284
Balances as at March 31, 2014		**$ 52,285**	**$ 5,347**	**$ 1,748**	**$ (9,639)**	**$ 49,741**

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

Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Notes	Three months ended March 31, 2014 (unaudited)	2013 (unaudited)
Cash flows from operating activities			
Net loss for the period		**$ (1,595)**	$ (315)
Adjustments for:			
Share-based payments	*18*	**64**	19
Amortization of property and equipment	*10*	**49**	4
Recovery of exploration and evaluation project	*12*	**-**	(121)
Net finance costs	*19*	**961**	8
Income tax recovery		**(234)**	(70)
Net change in working capital:			
Change in receivables		**(1,371)**	(46)
Change in inventory	*9*	**(624)**	-
Change in trade and other payables		**560**	71
Net cash used by operating activities		**(2,190)**	(450)
Cash flows from investing activities			
Expenditures on mine property and development project	*11*	**(107)**	(389)
Expenditures on exploration and evaluation projects	*12*	**(39)**	(26)
Proceeds on sale of marketable securities		**-**	59
Proceeds from option of Lynn Lake	*12*	**-**	125
Deposits on equipment	*7,10*	**-**	(10)
Expenditures on 7P Plant	*10*	**(840)**	-
Net sale of furniture and equipment		**-**	56
Net cash used by investing activities		**(986)**	(185)
Cash flows from financing activities			
Issue of common shares	*16*	**220**	2,200
Payments of interest	*14,15*	**(144)**	(9)
Payments under leases	*15*	**(45)**	-
Net proceeds of loans	*14*	**2,212**	-
Net cash from financing activities		**2,243**	2,191
Net (decrease) increase in cash and cash equivalents		**(933)**	1,556
Cash and Cash Equivalents, Beginning of the Period		**1,423**	256
Cash and Cash Equivalents, End of the Period		**$ 490**	$ 1,812

The accompanying notes are an integral part of these condensed 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 condensed consolidated financial statements as at and for the three months ended March 31, 2014 and 2013 comprise the Company and its subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel 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 condensed consolidated financial statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at March 31, 2014, the Company had working capital of $562,000, (December 31, 2013 – working capital of $465,000). Working capital is defined as current assets (excluding any restricted cash) less current liabilities. The Company has initiatives underway to improve working capital; refer to Note 24.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, 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 condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") and in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). This is GAAP for a Canadian public company.

These unaudited condensed consolidated financial statements reflect the accounting policies described in Note 3 to the Company's Audited Consolidated Financial Statements for the years ended December 31, 2013 and 2012

Notes to the Consolidated Financial Statements

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

("2013 Audited Consolidated Financial Statements") (with the exception of any changes set out in Note 3 below) and accordingly, should be read in conjunction with those financial statements and the notes thereto.

The management of Victory Nickel prepares the condensed consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. The condensed consolidated financial statements were authorized for issue by the Board of Directors on May 15, 2014 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

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

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

Significant estimates and assumptions

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

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

- Note 8 - valuation of financial assets at fair value through operations and OCI;
- Note 9 – valuation of inventory;
- Note 11 - measurement of the recoverable amount of mine property and development project;
- Note 12 - measurement of the recoverable amount of exploration and evaluation projects;
- Note 14 – measurement and valuation of the loan payable;
- Note 14 - measurement and valuation of the embedded options in convertible notes; and
- Note 18 - measurement of share-based payments.

Significant judgements

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

Notes to the Consolidated Financial Statements

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

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 9 – impairment of inventory;
- Note 11 - impairment of mine property and development project;
- Note 12 - impairment of exploration and evaluation projects.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) New Accounting Policies

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

(b) New Standards and Interpretations Not Yet Adopted

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

(c) Inventory

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview

The Company has exposure to credit risk, liquidity risk, market risk and operational risk from its use of financial instruments. A complete description of the Company's financial risk management and capital management is included in Note 4 to the 2013 Audited Consolidated Financial Statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these condensed consolidated financial statements.

Credit Risk

Receivables

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

When 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.

Notes to the Consolidated Financial Statements

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

Capital Management Disclosures

		March 31, 2014		December 31, 2013
Shareholders' equity	$	49,741	$	50,969
Loans and borrowings - long-term portion		9,301		6,379
Lease obligations - long-term portion		387		408
Loans and borrowings - available		-		500
	$	59,429	$	58,256

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

5. DETERMINATION OF FAIR VALUES

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

6. CASH AND CASH EQUIVALENTS

		March 31, 2014		December 31, 2013
Bank balances	$	278	$	1,418
Short-term deposits		5		5
Restricted deposits supporting letters of credit		207		-
Cash and Cash Equivalents in the Statement of Cash Flows	$	490	$	1,423

7. RECEIVABLES AND PREPAIDS

		March 31, 2014		December 31, 2013
Accounts receivable	$	285	$	-
Other receivables		162		231
Prepaid expenses and deposits		1,305		150
	$	1,752	$	381

8. MARKETABLE SECURITIES

		March 31, 2014		December 31, 2013
Financial assets at fair value through OCI:				
Shares	$	374	$	278
	$	374	$	278

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

Notes to the Consolidated Financial Statements

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

9. INVENTORY

	March 31, 2014	December 31, 2013
Inventory		
Raw sand		
In Winona	$ 31	$ -
In transit - at siding	215	-
Warehoused at 7P Plant	237	-
	483	-
Finished sand	141	-
	$ 624	$ -

10. PROPERTY AND EQUIPMENT

Balances as at January 1, 2013	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
Cost	$ 83	$ -	$ 32	$ 1,359	$ 1,474
Accumulated Amortization	(8)	-	(17)	(25)	(50)
Carrying Amount	**75**	**-**	**15**	**1,334**	**1,424**
Additions	-	3,086	636	160	3,882
Amortization	(1)	-	(23)	(3)	(27)
Balances as at December 31, 2013					
Cost	83	3,086	668	1,519	5,356
Accumulated Amortization	(9)	-	(40)	(28)	(77)
Carrying Amount	**74**	**3,086**	**628**	**1,491**	**5,279**
Additions	-	1,143	17	-	1,160
Amortization	-	-	(48)	(1)	(49)
Balances as at March 31, 2014					
Cost	83	4,229	685	1,519	6,516
Accumulated Amortization	(9)	-	(88)	(29)	(126)
Carrying Amount	**$ 74**	**$ 4,229**	**$ 597**	**$ 1,490**	**$ 6,390**

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 $3,429,000 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 23). Vehicles and Mobile Equipment include $651,000 (December 31, 2013 - $636,000) of equipment acquired under leases (Note 15).

11. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2014	Current Expenditures	Recoveries	March 31, 2014
Minago	$ 38,668	$ 104	$ -	**$ 38,772**
	$ 38,668	$ 104	$ -	**$ 38,772**

	January 1, 2013	Current Expenditures	Recoveries	March 31, 2013
Minago	$ 37,897	$ 137	$ -	$ 38,034
	$ 37,897	$ 137	$ -	$ 38,034

Notes to the Consolidated Financial Statements

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

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.

12. EXPLORATION AND EVALUATION PROJECTS

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

	January 1, 2014	Current Expenditures	Recoveries	Excess Proceeds	**March 31, 2014**
Lac Rocher	$ 7,388	$ -	$ -	$ -	**$ 7,388**
Mel	7,473	24	-	-	**7,497**
Lynn Lake	-	16	-	-	**16**
Other	4	-	-	-	**4**
	$ 14,865	$ 40	$ -	$ -	**$ 14,905**

	January 1, 2013	Current Expenditures	Recoveries	Excess Proceeds	March 31, 2013
Lac Rocher	$ 7,317	$ 17	$ -	$ -	$ 7,334
Mel	7,421	8	-	-	7,429
Lynn Lake	-	4	(125)	121	-
	$ 14,738	$ 29	$ (125)	$ 121	$ 14,763

The expenditures on the Lynn Lake property are shown net of cumulative option payments received of $125,000 in 2013. The excess proceeds of $121,000 for the three months ended March 31, 2013 represent the excess of consideration received under the option agreement above carrying value and are reflected in *Recovery of exploration and evaluation project* through operations. The option agreement was terminated in early 2014 and the Lynn Lake property has reverted to the Company.

Lac Rocher

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

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

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

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

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

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

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

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

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

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 three months ended March 31, 2014 and 2013.

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	March 31, 2014	December 31, 2013
Trade payables			
Mine property and development project		**$ 49**	$ 25
Exploration and evaluation projects		**1**	-
Property and equipment		**1,328**	742
Non-project related		**494**	116
Accrued liabilities			
Mine property and development project		**-**	28
Exploration and evaluation projects		**1**	1
Property and equipment		**40**	325
Non-project related		**213**	153
Other payables		**78**	-
Lease obligations - current portion	*15*	**136**	160
Due to Nuinsco Resources Limited			
Under the Management Agreement	*21*	**119**	56
Commitment fees	*14*	**12**	11
		$ 2,471	$ 1,617

14. LOANS AND BORROWINGS

	March 31, 2014	December 31, 2013
Loan payable to Nuinsco Resources Limited - long-term portion	**$ 4,250**	$ 4,100
Promissory notes	**5,158**	2,279
	$ 9,408	$ 6,379

Loan payable to Nuinsco Resources Limited	*Note*	March 31, 2014	December 31, 2013
Advance for working capital		**$ 1,000**	$ 1,000
Advance under Amended Loan for standby commitment		**1,207**	1,207
Aggregate advances		**2,207**	2,207
Less: settled in Units of Victory Nickel		**(1,207)**	(1,207)
Less: unamortized loan fees		**(146)**	(189)
		854	811
Change in fair value of loan	*19*	**3,396**	3,289
Loans and borrowings - long-term portion		**$ 4,250**	$ 4,100

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

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 net cash flows earned from the sale of frac sand from the 7P Plant. The Lender's participation is capped at $10,000,000, with a minimum of $7,500,000, and is subject to adjustment under certain circumstances. On Conversion, the Amended Loan would be considered paid in full.

Notes to the Consolidated Financial Statements

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

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

Commitment fees of $12,000 have been accrued to February 4, 2014, at which time Nuinsco and Victory Nickel agreed to cancel the amount that remained available to be drawn down under the Amended Loan; these are included in *Finance costs* in Note 19 and will be satisfied in shares. This amount, along with other loan fees, are being amortized as interest expense using the effective interest rate method; in the three months ended March 31, 2014, $43,000 was amortized as interest expense and $30,000 interest was paid to the Lender in cash (three months ended March 31, 2013 - $7,000 and $39,000, respectively). The payment in the first quarter of 2013 included $9,000 which was accrued in 2012.

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

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 had not converted its loan and the 7P Plant was not built and there were other significant uncertainties. During the fourth quarter, the plant construction was well underway and the probability of Conversion had increased substantially. Accordingly, the Company has revised the estimated future cash flows and discounted these cash flows at the loan's original effective interest rate of 22%. The estimated future cash flows were determined using a probability-weighted estimation of future expected cash flow scenarios from the frac sand business based on current expectations of business results, capital costs and pre-operating expenditures. These cash flows were on the basis of Phase 1 completion only. The Company also included probability weightings of 34%, 16% and 50% as risk factors applied to varying levels of expected cash flows – being zero, 50% and 100% of the ceiling maximum of $10,222,831.

Effective March 31, 2014, certain adjustments were made to the expected cash flows to reflect more current business expectations. In particular, because of the harsher winter and the effects of the subsequent spring break-up at the site, additional expenditures will be required. The effect of this adjustment has delayed the expected date of future payment of the net participation in cash flows but, due to the effects of the passage of time on cash flows, the revised amortized cost carrying amount has increased.

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is $10,222,831. Based on the estimated cash flows described above, payments could commence mid-2015. These assumptions resulted in revised amortized cost carrying amount of the loan of $4,250,000 and, accordingly $107,000 was recorded as a *loss on adjustment of estimated cash flows* through the statement of operations ($3,289,000 was recorded in the fourth quarter of 2013). This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will continue to review and revise its estimates of expected future cash flows as the expectations of payments of the participating interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows paid.

Notes to the Consolidated Financial Statements

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

Promissory Notes	***Notes***		**March 31, 2014**		December 31, 2013
Advances in US$			**$ 3,750**		$ 2,000
Add: effect of foreign exchange			**395**		127
Advances in C$			**265**		-
			4,410		2,127
Embedded option derivatives at inception		**$ 1,102**		$ 168	
Less: accumulated amortization	*19*	**(68)**		(12)	
		1,034	**(1,034)**	156	(156)
Less: unamortized loan fees			**(38)**		(33)
Net promissory notes			**3,338**		1,938
Embedded option derivatives at inception		**1,102**		168	
Change in value of embedded option derivatives	*19*	**718**		173	
			1,820		341
Loans and borrowings - long-term portion			**$ 5,158**		$ 2,279

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

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

Collectively, the promissory notes are referred to as the "Convertible Notes".

In the three months ended March 31, 2014, the Company paid $107,000 for interest in cash and amortized $5,000 for loan fees and $56,000 for the embedded option derivative at inception using the effective interest rate method during the year; $nil during the three months ended March 31, 2013.

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

	March 31, 2014	**(Various inception dates)**	November 11, 2013	December 31, 2013
			(At inception)	
Fair values	**$0.041 to $0.042**	**$0.033 to $0.055**	$ 0.008	$ 0.016
Share prices at valuation dates	**$ 0.060**	**$0.05 to $0.07**	$ 0.030	$ 0.045
Assumptions				
Exercise price	**$ 0.10**	**$ 0.10**	$ 0.10	$ 0.10
Expected volatilities	**116% to 122%**	**113% to 116%**	103%	109%
Expected remaining terms (years)	**1.61 to 1.99**	**2.00**	2.00	1.87
Expected dividends	**-**	-	-	-
Risk-free interest rates	**1.20%**	**1.20%**	1.20%	1.20%

Notes to the Consolidated Financial Statements

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

15. LEASE OBLIGATIONS

	Note	March 31, 2014	December 31, 2013
Vehicles and Mobile Equipment:			
Total present value of minimum lease payments		$ 523	$ 668
Principal payments		-	(100)
Total present value of minimum lease payments remaining		**523**	568
Lease obligations - current portion	*13*	**(136)**	(160)
Lease obligations - long-term		**$ 387**	$ 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 60 days prior to the end of the lease term at the purchase option price of $1. The future minimum lease payments are as follows:

	March 31, 2014	December 31, 2013
Less than 1 year	$ 166	$ 190
Between 1 and 5 years	423	447
Total minimum lease payments payable	**589**	637
Future finance charges on minimum lease payments	**66**	69
Present value of minimum lease payments	**$ 523**	$ 568

16. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

Authorized

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

Number of shares issued and outstanding

The issued and outstanding common shares for the three months ended March 31, 2014 are as follows:

	Notes	**Number of Shares**	Gross Proceeds/ Consideration	Non-cash Items	Share Issue Costs	Income Taxes	Finder's Unit Warrants	Other Warrants and Options	**Share Capital**
Balance as at January 1, 2014		**567,030,820**							**$ 51,907**
Options exercised	*(a)*	**4,630,000**	$ 220	$ 158	$ -	$ -	$ -	$ -	**378**
Balance as at March 31, 2014		**571,660,820**	$ 220	$ 158	$ -	$ -	$ -	$ -	**$ 52,285**

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

Share Incentive Plan

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

Shareholder Rights Plan

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

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

AOCI is comprised of the following separate components of equity:

Net change of financial assets at fair value through OCI

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

Notes to the Consolidated Financial Statements

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

Income tax on other comprehensive income

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

17. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the three months ended March 31, 2014 and 2013 was based on the information in the table below.

	Three months ended March 31, 2014	2013
Balance as at beginning of period	**567,031,000**	397,347,000
Effect of shares issued to settle liabilities	**-**	3,890,000
Effect of shares issued for private placements	**-**	4,855,000
Effect of shares issued for loan fees	**-**	437,000
Effect of options exercised	**3,917,000**	-
Weighted average number of common shares as at end of period - Basic	**570,948,000**	406,529,000
Effect of options granted and outstanding	**6,824,000**	20,000
Effect of warrants issued and outstanding	**-**	-
Effect of convertible promissory note	**-**	-
Weighted average number of common shares as at end of period - Diluted	**577,772,000**	406,549,000
Number of options excluded	**21,363,500**	25,843,000
Number of warrants excluded	**112,500,000**	-
Number of shares from conversion of promissory note excluded	**44,098,750**	-
Net loss attributable to shareholders - Basic	**$ (1,595)**	$ (315)
Net loss attributable to shareholders - Diluted	**$ (1,595)**	$ (315)
Basic (loss) earnings per share	**$ (0.00)**	$ (0.00)
Diluted (loss) earnings per share	**$ (0.00)**	$ (0.00)

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

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

18. SHARE-BASED PAYMENTS

Description of the Share-based Payment Arrangements

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

Stock Option Plan (equity-settled)

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

Share purchase warrants (equity-settled)

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

Notes to the Consolidated Financial Statements

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

Share Bonus Plan

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

Terms and Conditions of Share-based Payment Arrangements

Stock Option Plan and Share purchase warrants

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

Disclosure of Share-based Payment Arrangements

Stock Option Plan

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

	Number of options		Weighted average exercise price	
As at and for the periods ended	**March 31, 2014**	December 31, 2013	**March 31, 2014**	December 31, 2013
Outstanding as at beginning of period	**32,041,250**	28,651,500	**$ 0.08**	$ 0.13
Granted	**2,630,000**	9,370,000	**$ 0.06**	$ 0.03
Exercised	**(4,630,000)**	-	**$ 0.05**	$ -
Expired or forfeit	**(1,853,750)**	(5,980,250)	**$ 0.21**	$ 0.24
Outstanding as at end of period	**28,187,500**	32,041,250	**$ 0.07**	$ 0.08
Exercisable as at end of period	**24,437,500**	29,456,250	**$ 0.08**	$ 0.08

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

	Number of options outstanding		Weighted average remaining contractual life (years)	
	March 31, 2014	December 31, 2013	**March 31, 2014**	December 31, 2013
Range of exercise prices				
$0.025 to $0.05	**18,750,000**	21,010,000	**3.88**	3.19
$0.06 to $0.14	**4,247,500**	4,247,500	**2.09**	2.33
$0.15 to $0.16	**5,190,000**	5,190,000	**0.76**	1.01
$0.17 to $0.25	**-**	1,593,750	**-**	0.07
	28,187,500	32,041,250	**3.04**	2.57

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

	Three months ended March 31,	
	2014	2013
Number of options granted during the period	**2,630,000**	-
Weighted average fair value of options granted at grant date	**$ 0.060**	n/a
Number of options subject to vesting as at end of period	**3,750,000**	2,225,000
Share-based payment expense - vesting options	**$ 64**	$ 19
Unvested options not yet charged to operations	**$ 44**	$ 19

Notes to the Consolidated Financial Statements

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

Share purchase warrants

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

As at and for the periods ended	Date Issued	Life	Number of warrants **March 31, 2014**	Number of warrants December 31, 2013	Weighted average exercise price **March 31, 2014**	Weighted average exercise price December 31, 2013
Issued pursuant to rights offering						
Unit warrants	July 30, 2013	12 [(a)]	**100,000,000**	100,000,000	**$ 0.035**	$ 0.035
Issued pursuant to private placements						
Unit warrants	September 19, 2013	24	**12,500,000**	12,500,000	**$ 0.035**	$ 0.035
Outstanding as at end of period			**112,500,000**	112,500,000	**$ 0.035**	$ 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.

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 **March 31, 2014**	Options December 31, 2013	Warrants **March 31, 2014**	Warrants December 31, 2013
Fair values at grant dates	**$ 0.031**	$0.012 to $0.019	**n/a**	$0.011 and $0.019
Fair values of options modified	**n/a**	$0.004 to $0.023	**n/a**	n/a
Share prices at grant and modification dates	**$ 0.050**	$0.025 and $0.03	**n/a**	$ 0.025
Assumptions				
Exercise prices	**$ 0.055**	$0.025 to $0.16	**n/a**	$ 0.035
Expected volatilities	**91%**	88% to 111%	**n/a**	101% and 107%
Life (years)	**4**	0.5 to 4.9	**n/a**	2
Expected dividends	**-**	-	**n/a**	-
Risk-free interest rates	**1.005%**	0.78% to 1.63%	**n/a**	1.15% and 1.22%

Notes to the Consolidated Financial Statements

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

19. FINANCE INCOME AND FINANCE COSTS

		Three months ended March 31,	
	Notes	**2014**	2013
Interest income on bank deposits		**$ 1**	$ 1
Net foreign exchange gain		**-**	-
Finance income		**1**	1
Interest expense on loans			
Cash settled		**144**	30
Amortization of loan fees		**48**	7
Amortization of embedded derivatives	*14*	**56**	-
Commitment fee	*14*	**1**	-
Loss on adjustment of estimated cash flows	*14*	**107**	-
Net change in fair value of financial liabilities at fair value through operations	*14*	**545**	-
Net foreign exchange loss		**61**	1
Finance costs		**962**	38
Net Finance Costs		**$ (961)**	$ (37)

20. OPERATING SEGMENT

Reporting Segments

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

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

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

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

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

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

	March 31, 2014	December 31, 2013
Canada		
Corporate	**$ 1,663**	$ 1,952
Exploration and Development	**55,239**	55,056
Frac Sand	**6,405**	3,886
Total Assets	**$ 63,307**	$ 60,894

Notes to the Consolidated Financial Statements

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

	Three months ended March 31, 2014	2013
Canada		
Corporate	**$ 343**	$ -
Exploration and Development	**-**	-
Frac Sand	**105**	-
Inter segment elimination	**(448)**	-
Total Revenues	**$ -**	$ -

21. RELATED PARTIES AND MANAGEMENT AGREEMENT

Related Party Balances and Transactions

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

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

	March 31, 2014	December 31, 2013
Balances Outstanding		
Payable to key management personnel	**$ 251**	$ 119

Key management personnel compensation comprises:

	Three months ended March 31, 2014	2013
Short-term employee benefits	**$ 244**	$ 184
Share-based payments - options	**71**	-
	$ 315	$ 184

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.

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

	March 31, 2014	December 31, 2013
Balances Outstanding under the Management Agreement		
Payable to Nuinsco Resources Limited	**$ 119**	$ 56

Notes to the Consolidated Financial Statements

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

		Three months ended March 31,		
		2014		2013
Transaction Values under the Management Agreement				
Overhead charges from Nuinsco Resources Limited	**$**	**201**	$	158
Overhead charges to Nuinsco Resources Limited	**$**	**-**	$	6
Project costs charged to Nuinsco Resources Limited	**$**	**5**	$	8
Project recoveries charged by Nuinsco Resources Limited	**$**	**13**	$	-

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.

22. COMPANY ENTITY

Significant Subsidiary - Victory Silica

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

		March 31, 2014		December 31, 2013
Victory Silica Ltd.				
Current assets	**$**	**26**	$	81
Current liabilities	**$**	**90**	$	277
Pre-operating costs	**$**	**216**	$	520

23. COMMITMENT

Transformer Equipment

On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price is US$2,840,000. The Company has made aggregate deposits of $1,485,000 as at March 31, 2014.

24. SUBSEQUENT EVENT

Financing

On May 15, 2014, the Company announced that it has executed a securities purchase and line of credit agreement (the "SPA") to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of US$4,000,000 (each a "SPA Note"). The SPA matures on July 30, 2015. The purchaser previously purchased a convertible note in the amount of US$1,000,000 (Note 14) and this will be converted into a SPA Note on the initial closing date of May 15, 2014 (the "Initial Closing Date"). On the Initial Closing Date, the Company has drawn down US$1,500,000 and intends to draw down the balance of US$1,500,000 prior to June 30, 2015.

The Company will issue to the purchaser 5,000,000 common share purchase warrants ("Warrants") for every US$1,000,000 drawn on the SPA Facility. The number of Warrants is subject to an increase to 10,000,000 Warrants for each US$1,000,000 Note issued if any of the Notes is prepaid and the closing price of the Company's common shares is $0.20 or lower on the trading day preceding the date of such prepayment. Each Warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.10 for a period of 36 months from

Notes to the Consolidated Financial Statements

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

the Initial Closing Date and is subject to a four month plus one day hold period from the Initial Closing Date pursuant to applicable Canadian securities laws.

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

DATED May 15, 2014

VICTORY NICKEL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three Months ended March 31, 2014

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of May 15, 2014 consolidates management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2014, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited condensed consolidated financial statements for the three months ended March 31, 2014 ("Unaudited Condensed Consolidated Financial Statements") and the notes thereto.

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

Readers are also encouraged to consult the audited consolidated financial statements for the years ended December 31, 2013 and 2012 ("2013 Audited Consolidated Financial Statements") which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). The Unaudited Condensed Consolidated Financial Statements and the 2013 Audited Consolidated Financial Statements are available at www.sedar.com and at the Company's website www.victorynickel.ca. All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

COMPANY OVERVIEW

Victory Nickel is a Canadian exploration and development mineral resource company and 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 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. The Company is considering its options for the Lynn Lake property since the option agreement with Wellgreen Platinum Ltd. was terminated in March, 2014.

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.

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 Unaudited Condensed Consolidated Financial Statements have been prepared using the going concern assumption which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at March 31, 2014, the Company had working capital of $562,000, (December 31, 2013 – working capital of $465,000). Working capital is defined as current assets (excluding any restricted cash) less current liabilities. 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 three months ended March 31, 2014, the Company:

Corporate

- Announced the Conversion of the Amended Loan to a direct interest in net cash flows.
- Announced that it has executed a securities purchase and line of credit agreement (the "SPA") to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of US$4,000,000.

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.
- 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 Alberta Energy Regulator ("AER") on the recycling plant remediation.
  - Commenced sand shipments to 7P Plant.
  - Began 7P Plant commissioning.
  - Commenced sand deliveries and generated first sales.

Minago

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

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. Unfortunately the price of nickel dropped to the US$6.00 per pound level and the Canadian dollar exchange rate strengthened making the price in Canadian dollars even lower. However, this is changing as the Canadian dollar is weakening and the price of nickel is strengthening to the recent US$9.70 range. Both of these recent improvements bode well for Minago. The IRR of the Minago project based on the FS at today's metal prices and exchange rate is 17.7%. At a discount rate of 8%, the NPV of Minago is approximately $322 million. This compares to an IRR of 22.4% at the FS Base Case prices.

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, the reader should refer to the Company’s 2013 MD&A for an explanation of what frac sand is and its value.

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 initially be 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 a 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. Financing for upgrading the plant has been completed, the Phase 1 7P Plant is completed and operating and all sand supply and service contracts are in place resulting in a significantly de-risked project with approximately 90% of costs being under contract.

The 7P Plant should have been ready to go in time for the frac sand demand prior to spring break-up which results in road restrictions and a slowdown of fracking. This year’s winter, one of the harshest in living memory, has caused delays to not only the 7P Plant but to our suppliers, mainly the railroads. Delivery of concentrated sand has been delayed as the railroad companies experienced this severe cold and had to reduce the size of the trains as the cold weather played havoc with air brakes. In addition, frost penetrated to depths never before experienced and resulted in damage to gas lines and dryer gears, causing potholes and heaving of warehouse floors making the storage of finished sand difficult. The plant yard conditions deteriorated such that trucks could not deliver sand to the property. Hopefully this is behind us and production can ramp up to the expected levels in the near-term. On the bright side, all forecasts suggest a strong 2014 for the fracking industry as activities return to normal.

With this behind us, 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.

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.

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

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.

As mentioned earlier, signs of improvement in the nickel market continue as the price of nickel recently moved up to US$9.70 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.

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. This, combined with the improvement in the price of nickel, will position Victory Nickel 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.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 Compared with Three Months Ended March 31, 2013

For the three months ended March 31, 2014, the Company had a net loss of $1,595,000, or $0.00 per share, (March 31, 2013 – net loss of $315,000, or $0.00 per share).

The results are mainly a function of general and administrative expenses of $541,000 (2013 - $351,000), net finance costs of $961,000 (2013 – $37,000) and net frac sand pre-operating costs of $214,000 (2013 - $95,000). These costs were offset in 2013 by a $121,000 recovery with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property; as explained above, the option was terminated in March 2014. Results in the period also include an income tax recovery of $234,000 (2013 – income tax recovery of $70,000).

General and administrative expenses ("G&A") increased by $190,000, to $541,000 from $351,000, for the three months ended March 31, 2014 and 2013, respectively. The main reason for the increase is because of activity creating the frac sand business; direct plant costs are included in net pre-operating expenses. Costs under the management agreement with Nuinsco alone have increased by approximately $43,000 due to that activity. In addition, the CEO became a direct employee of the Company effective January 1, 2014 and his remuneration is included in G&A rather than through cost allocations. Furthermore, cost allocations used to include a portion of his time whereas the frac sand business has required full-time attention. Other cost increases relate to financing and consulting, again, mostly related to the frac sand business.

As mentioned above, general and administrative expenses include costs charged by Nuinsco for administrative services, partly offset by costs charged to Nuinsco by Victory Nickel as described under Transactions with Related Parties and Management Agreement with Nuinsco Resources Limited below; these amounted to $201,000 and $13,000 (2013 - $158,000 and $nil respectively). Costs allocated from Nuinsco pursuant to the management agreement are activity related; the increase in costs is primarily a result of increased people costs allocated under the agreement due to activity at Victory Silica and on the frac sand business. This arrangement with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel for the three months ended March 31, 2014 are estimated to be approximately $345,000, compared with $206,000 in the three months ended March 31, 2013, calculated on a comparable basis. As described above, costs have increased because of the frac sand business.

There were no write-downs necessary for impairment of projects in 2014 or 2013. Furthermore, there were no pre-exploration expenditures incurred in either period. In the quarter ended March 31, 2013, the Company received $125,000 in receipts under the Lynn Lake option; net of expenditures, $121,000 was recorded as recovery of exploration and evaluation project. As described above, Wellgreen has relinquished the Lynn Lake option and no further option payments will be received.

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. Net pre-operating costs of $214,000 have been expensed in 2014 to date and comprise start-up consulting fees and related expenses, overhead allocations, additional staff costs, and operating costs of the 7P Plant during the period after deduction of applicable costs of inventory of $624,000. The expenditures are also shown net of sales of frac sand of $274,000. In 2013, pre-operating costs of $95,000 consists mainly of start-up consulting fees and related expenses only. The 7P Plant commenced operations in March, 2014 but not at commercial production levels. At the point in which commercial production commences, expenses will be classified in accordance with their nature and amortization of plant assets will commence.

For the three months ended March 31, 2014, net finance costs were $961,000 (for the three months ended March 31, 2013 – $37,000). Finance costs increased to $962,000 from $38,000 in the comparative period, mainly due to the interest expense on the loans and convertible notes and related items which are described below. In particular, the Company recorded an increase in the fair value of the loan of $107,000 ($3,289,000 was recorded in the final quarter of 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 had not converted its loan and the 7P Plant was not built and there were other significant uncertainties. During the fourth quarter, the plant construction was well underway and the probability of Conversion has increased substantially. Accordingly, the Company revised the estimated future cash flows and discounted these cash flows at the loan's original effective interest rate of 22%. The estimated future cash flows were determined using a probability-weighted estimation of future expected cash flow scenarios from the frac sand business based on current expectations of business results, capital costs and pre-operating expenditures. These cash flows were on the basis of Phase 1 completion only. The Company also included probability weightings of 34%, 16% and 50% as risk factors applied to varying levels of expected cash flows – being zero, 50% and 100% of the ceiling maximum of $10,222,831.

Effective March 31, 2014, certain adjustments were made to the expected cash flows to reflect more current business expectations. In particular, because of the harsher winter and the effects of the subsequent spring break-up at the site, additional expenditures will be required. The effect of this adjustment has delayed the expected date of future payment of the net participation in cash flows but, due to the effects of the passage of time on cash flows, the revised amortized cost carrying amount has increased.

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for Phase 1 is $10,222,831. Based on the estimated cash flows described above, payments could commence in mid-2015. These assumptions resulted in revised amortized cost carrying amount of the loan of $4,100,000 effective December 31, 2013 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. In the first quarter of 2014, the Company reviewed and revised its estimates of expected future cash flows as the expectations of payments of the participating interest have changed. In the three months ended March 31, 2014 an additional increase in the revised amortized cost carrying amount of $107,000 was recorded. This amount and future changes in that estimate was and will be recorded through operations with appropriate adjustment for actual cash flows paid.

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

Aggregate interest settled in cash for the three months ended March 31, 2014 amounted to $144,000, approximately $30,000 was on account of the Amended Loan ($30,000 was paid in 2013) and $107,000 was on account of the Convertible Notes. Amortization of loan fees in the period amounted to $48,000 and $56,000 represented amortization of a portion of the embedded derivatives in the Convertible Notes of $1,102,000 calculated at inception ($168,000 of which was recorded in 2013). The value of the embedded derivatives increased to $1,820,000 as at March 31, 2014 and, accordingly, $545,000 was charged through operations. Other cash interest paid relates to leases on mobile equipment.

The embedded derivative is calculated using the Black-Scholes option-pricing methodology and is a function of share price, the $0.10 conversion price, risk-free interest rate, length of time to expiry and share price volatility as well as the US dollar exchange rate for loans denominated in US dollars but convertible using a Canadian price. 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 and aggregate Convertible Notes increased further to March 31, 2014. 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 three months ended March 31, 2014, the Company recorded an income tax recovery of $234,000 (2013 – income tax recovery of $70,000). This is primarily a function of higher taxable losses. 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 was adjusted at the end of 2013. The Company has estimated it has $237,000 in unrecognized deferred tax assets in relation to Victory Silica; given this is a new venture which has not yet fully 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 three months ended March 31, 2014 relates to an increase of $96,000 (March 31, 2013 – decrease of $145,000) in the market value of the Company’s financial assets at fair value through OCI along with income tax expense recorded through OCI of $13,000 (March 31, 2013 – income tax recoveries of $20,000). These changes are a result of net market value changes in the Company’s marketable securities.

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

Cash and cash equivalents have decreased from $1,423,000 to $490,000. The Liquidity and Capital Resources section describes the cash flows in the period in detail.

Receivables and prepaids as at March 31, 2014 include US$1,110,000 in sand purchases prepaid in accordance with the purchase contract signed late December. Sand commenced being delivered to the 7P Plant in February, 2014. Purchases are offset against the prepaid balances. Receivables on sales of frac sand amount to $285,000.

Marketable securities as at March 31, 2014 consist of the Company’s financial assets at fair value through OCI. Any volatility in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes. Marketable securities increased by $96,000 from December 31, 2013 as a result of improvements in market prices of shares.

Inventory of $624,000 comprises raw concentrated sand and finished sand in various grades and at various locations from the transload facility in Wisconsin, en route to the 7P Plant and at the 7P Plant itself.

Property and equipment increased to $6,390,000 from $5,279,000 as at December 31, 2013. 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, it has not been depreciated. The first sand was processed through the 7P Plant in March, 2014 and plant commissioning is underway.

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 $854,000 relates primarily to an increase in trade payables of $989,000 pertaining to property and equipment at the frac sand business because of the ramp up of activity at the 7P Plant.

Victory Nickel entered into a loan agreement and $1,000,000 was advanced prior to December 31, 2012. The loan is disclosed as a long-term liability and includes an aggregate loss on adjustment of estimated cash flows of $3,396,000 (December 31, 2013 - $3,289,000) calculated as described above. Note 14 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the loan balance.

Nuinsco exercised its conversion right to a net profits interest in the frac sand business in April 2014. Refer to the Liquidity and Capital Resources section for additional discussion.

On November 11, 2013, the Company entered into a 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. The Company had regulatory approvals for an umbrella of $5 million of additional convertible notes. In the first quarter of 2014, additional notes (in both USD and CAD) were entered into bringing the aggregate principal balance to $4,410,000. When shown net of unamortized fees and including the value of the embedded option derivatives as described above, the value of this financial liability is $5,158,000 (December 31, 2013 - $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 $651,000 at acquisition date; the long-term portion is $387,000 (December 31, 2013 - $408,000) and the short-term lease obligation of $136,000 (December 31, 2013 - $160,000) is included in *Trade and other payables* as described above. Note 15 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the lease obligation.

The deferred tax liability balance amounts to $1,300,000 as at March 31, 2014 (December 31, 2013 - $1,521,000). The main components of the balance relate to the tax effects of E&E projects and the MP&D project, partly offset by the tax value of net operating tax losses carried forward. Due to changes in the expected future income tax rate because of the frac sand activity in Alberta, the deferred tax liability amount reflects a rate of 25%. The Company estimates that it has approximately $237,000 (December 31, 2013 - $183,000) in unrecognized deferred tax assets in relation to Victory Silica.

The share capital balance has increased marginally to March 31, 2014 by $378,000 since 4,630,000 options were exercised generating cash of $220,000 and requiring a transfer from contributed surplus to share capital of $158,000.

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last nine quarters ended March 31, 2014 is as follows:

Fiscal year 2014	1st Quarter
Net finance costs	$ (961) (1)
Net loss	$ (1,595) (2)
Total comprehensive loss	$ (1,512)
Loss per share - basic and diluted	$ (0.00)

Fiscal year 2013	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net finance costs	$ (3,614) (3)	$ (69)	$ (75)	$ (37)
Net loss	$ (3,839) (4)	$ (521)	$ (429)	$ (315)
Total comprehensive loss	$ (3,810) (5)	$ (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 (7)	$ (571) (8)	$ 467 (10)
Total comprehensive (loss) income	$ (193) (6)	$ 6	$ (1,252) (9)	$ 689 (11)
(Loss) earnings per share - basic and diluted	$ (0.00)	$ 0.00	$ (0.00)	$ 0.00

(1) Net finance costs include $545,000 change in the fair value of the embedded derivatives related to the Convertible Notes as well as $107,000 loss on adjustment of estimated cash flows for the Amended Loan.
(2) Includes the effects noted above combined with increase costs relating to the frac sand business and net frac sand pre-operating costs of $214,000.
(3) 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.
(4) 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.
(5) Total comprehensive loss for the period includes the effects noted above.
(6) Total comprehensive loss for the period includes $49,000 net after-tax decline in the market value of securities.
(7) Net income for the period includes $450,000 recovery on the Lynn Lake option with Prophecy Platinum.
(8) Includes an increase in income taxes of approximately $150,000 which was reversed in the fourth quarter as it was not necessary.
(9) Total comprehensive loss for the period includes $681,000 net after-tax decline in the market value of securities.
(10) Net income for the period includes $1,000,000 recovery on the Lynn Lake option with Prophecy Platinum.
(11) 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 March 31, 2014, the Company had working capital of $562,000, including cash and cash equivalents (but not restricted cash), receivables and prepaids, marketable securities and inventory. As at December 31, 2013, the Company had working capital of $465,000.

Working capital has improved from the end of the year but financing remains challenging although the Company has continued to close convertible notes under the umbrella facility during the quarter. As the 7P Plant completion approached and the prospect of revenues became more real, the opportunities for financing have improved which facilitated the Company's consummation of the additional convertible notes. A key outstanding is securing a working capital facility which initiative the Company has been focussing on. Refer to Note 24 to the Unaudited Condensed Consolidated Financial Statements.

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 has put significant pressure on working capital. This will be a future benefit as capacity has increased by 25%.

The main financings occurring during the period and related events 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 pursuant to events at $1,707,584, $1,207,584 of which was advanced as backstop under the rights offering. 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. Again, pursuant to events, Nuinsco's participation is capped at $10,222,831, with a minimum of $7,667,124. On Conversion, the Amended Loan would be considered paid in full.

Nuinsco subscribed for units of the Company's July 2013 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.

An aggregate of $30,000 in interest expense was paid in cash for interest accrued for each of the quarters ended March 31, 2014 and 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 $78,000 for the period (2013 - $37,000).

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

As at December 31, 2013, the carrying value of the Amended Loan was revalued to take into account future expected cash flows. The amortized cost at that time was estimated to be $4,100,000. The Company has reviewed the expected future cash flows along with assumptions and has revalued the obligation at $4,250,000. The change in the value of $107,000 has been recorded through *Finance Costs* in the statement of operations.

These amounts were determined as described earlier and will be subject to ongoing revaluation as the frac sand business develops and cash flow amounts become more certain. Under present assumptions and business expectations, contractual payments to Nuinsco would not commence until approximately mid-2015 when Phase 1 capital costs and pre-operating expenditures have been recovered.

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

Convertible Notes – a promissory note for US$2,000,000 was entered into on November 11, 2013. Additional convertible notes were entered into in the first quarter of 2014 under similar terms and in both US dollars and Canadian dollars. The aggregate principal amount outstanding as at March 31, 2014 is $4,410,000 and are collectively referred to as "Convertible Notes". The accounting complexities have been described earlier. The Convertible Notes have terms of two years, bear interest at 14.8% calculated on a monthly basis and settled quarterly and may be converted in whole or in part, at any time, at the option of the holders into Victory Nickel shares at a conversion price of $0.10 per share. 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.

Discussions are also significantly advanced to source additional working capital financing for the frac sand business – refer below.

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 the first quarter of 2014 - Cash and cash equivalents as at March 31, 2014 and December 31, 2013 were held with major Canadian banks. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. Marketable securities are available to be sold for liquidity purposes, as the Company requires, providing funds for its operations and activities.

For the quarter ended March 31, 2014, the Company used cash in operating activities of $2,190,000 (March 31, 2013 - $450,000). As the Company is in the exploration, evaluation and development stage and has yet to produce commercial quantities of frac sand at the 7P Plant, there are minimal revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company and to set up the frac sand operations, including building inventory and paying in advance for sand purchases.

The Company estimates that public company costs in the quarter ended March 31, 2014 amounted to $345,000. Many of these costs are incurred in the early part of the year. In the same period of 2013, such costs were approximately $206,000, 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 presently expensed as part of pre-operating expenditures; in the three months ended March 31, 2014, $214,000 was spent on frac sand activities (net of sales revenue of $274,000), compared with $95,000 in the comparative period.

The adjustment for net finance costs of $961,000 primarily relates to the non-cash change in the carrying value of the loan with Nuinsco and the embedded derivatives on the Convertible Notes as described above. While the adjustment on the Amended Loan is a fair value adjustment it is an estimation of future outgoing cash flows under the participating interest upon Conversion. Nuinsco announced its Conversion in April, 2014.

During the three months ended March 31, 2014, net cash used by investing activities was $986,000, compared with cash used of $185,000 in the prior comparable period. Aggregate amounts of $107,000 and $39,000 were used to advance the MP&D project and E&E projects, respectively, during the periods (2013 - $389,000 and $26,000). In the first quarter of 2014, $840,000 was used for expenditures on the 7P Plant acquisition, equipment and improvements (2013 – $nil).

During the first quarter of 2013, the Company sold shares for aggregate proceeds of $59,000; the Company will continue to sell marketable securities for liquidity purposes when pricing is acceptable although present valuations would not generate significant cash flows. Funds of $125,000 were received with respect to the option agreement with Wellgreen for the Lynn Lake property in 2013; as described above, the option agreement has been terminated and no additional funds are forthcoming.

The Company generated $2,243,000 in financing activities during the three months ended March 31, 2014 compared with $2,191,000 in 2013. In 2014, the main source of funds was from the Convertible Notes; in 2013, $2,200,000 was raised pursuant to a private placement. Loan interest of $144,000 was paid during 2014; $9,000 in 2013 that relates to interest accrued in 2012. Aggregate payments under leases for deposits and other principal payments totalled $45,000; there were no such payments in 2013.

There were no equity financings completed during the quarter, although the Company received $220,000 through the exercise of options.

The Company's activities during the quarter ended March 31, 2014 used cash and cash equivalents of $933,000, compared with a net increase in cash of $1,556,000 during 2013.

The Company's remaining portfolio of marketable securities had a market value of $374,000 ($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	May 13, 2014	March 31, 2014	December 31, 2013
Transformer and electrical equipment	On shipping	US Dollar	$ 1,396	$ 1,396	$ 1,396
Loans and borrowings (including unpaid accrued interest)					
Amended Loan	January 31, 2015	Canadian Dollar	$ -	$ 1,000	$ 1,000
Convertible Notes	November 11, 2015 to March 24, 2016	US Dollar	$ 3,819	$ 3,750	$ 2,000
Convertible Notes	January 30, 2016 to March 13, 2016	Canadian Dollar	$ 270	$ 265	$ -
Purchase of 7P Plant	Refer to note below	Canadian Dollar	$ -	$ -	$ -
Leased mobile equipment	Within one year	Canadian Dollar	$ 166	$ 166	$ 190
	One to five years	Canadian Dollar	$ 396	$ 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. The Company can waive the conditions precedent in its own discretion at any time. Further note that the Amended Loan is contractually payable on January 31, 2015 but, in April, was converted to a net participating interest which has no specific payment dates. The Convertible Notes 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.

Note that, through the backstop, Nuinsco owns shares of Victory Nickel rather than having advanced funds which would otherwise 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. Moreover, Nuinsco has exercised the Conversion and outflow of funds under the net participating interest only commence after the Company has recouped the capital cost of the 7P Plant and pre-operating expenses. As at March 31, 2014, the cost of the 7P Plant was $4,229,000 and net pre-operating expenditures since the frac sand initiative commenced aggregate $978,000.

During the first quarter of 2014, employees, consultants, executives and directors of the Company exercised 4,630,000 options which generated $220,000 in cash for the Company. Also note that all 112,500,000 of the Company's warrants are "in-the money" although 100,000,000 cannot be exercised until July 31, 2014. Although such funds cannot be relied upon and tend not to be exercised until close to their expiry, the warrants, at their exercise prices of $0.035, have the potential to generate $3,937,500 in cash for the Company.

The Company will continue to balance its financing choices as a function of availability and market activity. Managing in challenging times takes as much, if not more, senior management effort. 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 in the first quarter of 2014 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.

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, did not generate cash flow from sales until late March 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 to operate the plant was received in March, 2014.

As expected, the Lender converted 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 holders of the Convertible Notes will convert them 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 $4,410,000, the cash resources available of $490,000, 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 as outlined above. The Company is also undertaking advanced discussions to secure a working capital facility to fund the future frac sand inventory and receivables activity.

Using May 14, 2014 prices, the aggregate market value of the Company's marketable securities held in public company shares is approximately $336,000. 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 May 15, 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 $0.05 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 2014 are budgeted at $171,000 – or approximately $2,056,000 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 2014 are budgeted at approximately $468,000. This brings the average monthly budgeted commitment to $210,000. Note that the budget considered the frac sand segment to be an operating segment and such costs were not included as administrative.

The Company's budgeted cash operating requirements for the first quarter of 2014 were approximately $717,000 before project expenditures or $239,000 monthly average. Calculated on the same basis, actual average monthly cash costs in the quarter were approximately $225,000 or $285,000 on the accrual basis which is higher than budget; such costs are weighted towards the beginning of a year because of statutory requirements such as audit and also include the effect of the frac sand operations in its pre-operating phase.

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 or 2014 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 extinguishment of the gross liabilities under the Amended Loan of $1,000,000 (into a net participating interest) and the expected conversion of the Convertible Notes of $4,410,000 into equity, the cash resources available of $490,000, 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 is required to support the operations of the frac sand business; it continues to be sought and advanced discussions are underway.

On May 15, 2014, the Company announced that it has executed a securities purchase and line of credit agreement (the "SPA") to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of US$4,000,000 (each a "SPA Note"). The SPA matures on July 30, 2015. The purchaser previously purchased a convertible note in the amount of US$1,000,000 (Note 14 to the Unaudited Condensed Consolidated Financial Statements) and this will be converted into a SPA Note on the initial closing date of May 15, 2014 (the "Initial Closing Date"). On the Initial Closing Date, the Company has drawn down US$1,500,000 and intends to draw down the balance of US$1,500,000 prior to June 30, 2015.

The Company will issue to the purchaser 5,000,000 common share purchase warrants ("Warrants") for every US$1,000,000 drawn on the SPA Facility. The number of Warrants is subject to an increase to 10,000,000 Warrants for each US$1,000,000 Note issued if any of the Notes is prepaid and the closing price of the Company's common shares is $0.20 or lower on the trading day preceding the date of such prepayment. Each Warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.10 for a period of 36 months from the Initial Closing Date and is subject to a four month plus one day hold period from the Initial Closing Date pursuant to applicable Canadian securities laws.

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 has entered the frac sand market and now has formal operating segments in 2014 which will become more important when the Company has operating revenues, products, processes and customers. Accordingly, the Company has commenced reporting on a segmented basis in 2014. The Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment operates 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 21 in the Unaudited Condensed 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 20 in the Unaudited Condensed Consolidated Financial Statements). The segment is located in Canada although sand purchases are expected to be sourced from the US.

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

	March 31, 2014	December 31, 2013
Canada		
Corporate	**$ 1,663**	$ 1,952
Exploration and Development	**55,239**	55,056
Frac Sand	**6,405**	3,886
Total Assets	**$ 63,307**	$ 60,894

	Three months ended March 31, 2014	2013
Canada		
Corporate	**$ 343**	$ -
Exploration and Development	**-**	-
Frac Sand	**105**	-
Inter segment elimination	**(448)**	-
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 three months ended March 31, 2014, $104,000 was incurred on the Minago project (March 31, 2013 - $137,000).

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 three months ended March 31, 2014, the Company incurred exploration expenditures on its E&E projects of $40,000 (March 31, 2013 - $29,000). 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 $121,000 through operations with respect to the Lynn Lake option receipts in excess of carrying value.

Lac Rocher

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

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

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

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

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

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

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

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

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

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

As discussed earlier and described in Note 12 to the 2013 Audited Consolidated Financial Statements, the Company had optioned Lynn Lake to Prophecy Coal with subsequent assignment to Wellgreen. In March, 2014, Wellgreen relinquished the option on the property and it has reverted to the Company. 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 20 in the Unaudited Condensed 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 has not yet been commissioned. 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. The first sales of sand were made in March 2014; sales of $274,000 have been offset against net pre-operating expenditures.

IMPAIRMENT ANALYSIS UPDATE

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

Management concluded that no impairment existed in each of its projects effective March 31, 2014 and that costs incurred to date are recoverable. The Company will continue to monitor developments as they occur in the metals markets and the economy and will update its impairment analysis to take account of any such changes, as appropriate.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

The Company has determined that it is highly probable that Victory Nickel will generate returns sufficient to utilize its taxable losses prior to their expiry. This is a significant judgement that, dependent upon future events, may turn out to be incorrect. Presently, since Victory Silica is in its pre-operating phase, a full valuation allowance has been recorded against losses incurred in that subsidiary. 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. Note 3 to the Unaudited Condensed Consolidated Financial Statements includes new accounting policies required for transactions and balances which have arisen from changes in the Company's activities – particularly in relation to the frac sand business.

FUTURE ACCOUNTING CHANGES

New Standards and Interpretations Not Yet Adopted

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

CORPORATE GOVERNANCE

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

Design of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal quarter ended March 31, 2014, the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at March 31, 2014. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

There were no changes to the Company's disclosure controls and procedures that occurred during the quarter ended March 31, 2014 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

Design of Internal Controls over Financial Reporting

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO (1992) control framework and is in the process of updating its methodology to incorporate the COSO (2013) framework into its analyses for 2014. The COSO Board has made the COSO (1992) framework available for use until December 15, 2014 at which date it will be considered superseded. For the fiscal quarter ended March 31, 2014, the Certifying Officers have concluded that the design of the Company's internal controls over financial reporting and procedures were effective as at March 31, 2014. During the period, the Company made improvements to the controls over financial reporting as part of its continuous improvement process and as part of its frac sand initiative.

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

There were no changes to the Company's internal controls over financial reporting that occurred during the quarter ended March 31, 2014 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT WITH NUINSCO RESOURCES LIMITED

Related Party Balances and Transactions for Services

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

Financial Statements). Payables to key management personnel generally relate to directors' fees, consulting fees, and expense reimbursements.

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

		March 31, 2014		December 31, 2013
Balances Outstanding				
Payable to key management personnel	**$**	**251**	$	119

Key management personnel compensation comprises:

		Three months ended March 31,		
		2014		2013
Short-term employee benefits	**$**	**244**	$	184
Share-based payments - options		**71**		-
	$	**315**	$	184

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 March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013 are shown in the following tables:

		March 31, 2014		December 31, 2013
Balances Outstanding under the Management Agreement				
Payable to Nuinsco Resources Limited	**$**	**119**	$	56

		Three months ended March 31,		
		2014		2013
Transaction Values under the Management Agreement				
Overhead charges from Nuinsco Resources Limited	**$**	**201**	$	158
Overhead charges to Nuinsco Resources Limited	**$**	**-**	$	6
Project costs charged to Nuinsco Resources Limited	**$**	**5**	$	8
Project recoveries charged by Nuinsco Resources Limited	**$**	**13**	$	-

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 Unaudited Condensed Consolidated Financial Statements as well as in the Liquidity and Capital Resources section of this MD&A. A summary of the balances and transactions of the Amended Loan is included in the table and accompanying note below:

Loan payable to Nuinsco Resources Limited		March 31, 2014		December 31, 2013
Advance for working capital	$	**1,000**	$	1,000
Advance under Amended Loan for standby commitment		**1,207**		1,207
Aggregate advances		**2,207**		2,207
Less: settled in Units of Victory Nickel		**(1,207)**		(1,207)
Less: unamortized loan fees		**(146)**		(189)
		854		811
Change in fair value of loan		**3,396**		3,289
Loans and borrowings - long-term portion	**$**	**4,250**	$	4,100

The Company has accrued $12,000 for commitment fees payable in shares to Nuinsco with respect to the Amended Loan and these are included in *Finance costs* for the respective period to which they relate. Victory Nickel incurred interest of $30,000 for each of the three months ended March 31, 2014 and 2013 which was paid in cash at the end of each respective quarter.

OUTSTANDING SHARE DATA

As at May 15, 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

Financing

Financing

On May 15, 2014, the Company announced that it has executed a securities purchase and line of credit agreement (the "SPA") to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of US$4,000,000 (each a "SPA Note"). The SPA matures on July 30, 2015. The purchaser previously purchased a convertible note in the amount of US$1,000,000 (Note 14 to the Unaudited Condensed Consolidated Financial Statements) and this will be converted into a SPA Note on the initial closing date of May 15, 2014 (the "Initial Closing Date"). On the Initial Closing Date, the Company has drawn down US$1,500,000 and intends to draw down the balance of US$1,500,000 prior to June 30, 2015.

The Company will issue to the purchaser 5,000,000 common share purchase warrants ("Warrants") for every US$1,000,000 drawn on the SPA Facility. The number of Warrants is subject to an increase to 10,000,000 Warrants for each US$1,000,000 Note issued if any of the Notes is prepaid and the closing price of the Company's common shares is $0.20 or lower on the trading day preceding the date of such prepayment. Each Warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.10 for a period of 36 months from the Initial Closing Date and is subject to a four month plus one day hold period from the Initial Closing Date pursuant to applicable Canadian securities laws.

RISKS AND UNCERTAINTIES

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

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

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

Industry Risks

Speculative Nature of Mineral Exploration

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that Victory Nickel's exploration efforts will be successful. No assurance can be given that Victory Nickel's exploration programs will result in the establishment or expansion of resources or reserves.

Evaluation and Development Projects

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

Frac Sand Industry

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

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

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

Competition

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

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

Operational Risks

Limited History of Operations

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

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

Frac Sand Processing Operations

The 7P Plant is 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.

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

Title Risks

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

Insurance Risk

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

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

Financial and Investment Risks

Going Concern

None of the Company's 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 7P Plant should be minimal. However, future phases will require additional capital. This capital requirement may be in excess of the net funds generated by the business. The frac sand operations have ongoing requirements for working capital financing. There is a risk that sufficient working capital financing may not be available at suitable prices.

Market Perception

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

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

Metal and Mineral Prices

There is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Nickel and by-product prices fluctuate on a daily basis and are affected by numerous factors beyond Victory Nickel's control – including factors which are influenced by worldwide circumstances. However, these factors are of significant importance for the FS and decisions related thereto as well as being important to the developing frac sand business.

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

Areas of Investment Risk

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

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

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

Regulatory Risks

Government Regulation

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

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

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

Other Risks

Environmental and Health Risks

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

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

Key Personnel

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

Conflicts of Interest

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

Investments and Other Agreements with Resource Companies

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

Summary

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

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

FORWARD-LOOKING STATEMENTS

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

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

May 15, 2014