

Report to:

**VICTORY NICKEL INC.**



**Technical Report on the Mel Deposit,  
Northern Manitoba**

Project No. 0751330400-REP-L0001-00

## 1.0 SUMMARY

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Located in north central Manitoba, the Mel property is situated within the Nelson House Resource Management Area, approximately 25 kilometres (km) north of the city of Thompson and 764 km north of the provincial capital of Winnipeg, Manitoba, Canada.

The Mel property comprises one mineral lease (ML-007) and 37 unpatented mineral claims totalling an aggregate of 9,516.973 hectares (ha). Both the Mel lease and the Mel claims are held and 100% owned by Inco Limited (Inco), subject to an option/buy-back letter of agreement with Victory Nickel Incorporated (Victory) dated August 27, 1999, as well as subsequent agreements and amendments.

Victory has commissioned Wardrop Engineering Inc. (Wardrop) to carry out an independent resource estimation of the nickel development potential of the Mel deposit. The work entailed estimating mineral resources in conformance with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Mineral Resource and Mineral Reserve definitions referred to in National Instrument 43-101 (NI 43-101) Standards and Disclosure for Mineral Projects.

Road access to the property is provided by Provincial Highway 391, which crosses the extreme southwest corner of the Mel claims. In the summer months, access to the property is possible by boat on the Odei River that meanders throughout the entire length of the Mel property. Access to most of the property is restricted primarily to the winter months when the ground is frozen due to much of the area being covered by muskeg. Access to the property is also possible via helicopter from the city of Thompson.

In the city of Thompson, Inco conducts nickel mining, milling, smelting and refining operations. The city of Thompson, known as a regional trade and service centre of Northern Manitoba, boasts an excellent transportation system of scheduled daily air service, overnight truck delivery, paved roads, and a railway system that connects Thompson with other communities throughout the province. It has all of the services and amenities that would be expected in a much larger, urban centre. There is no mining infrastructure on the Mel property.

The first record of exploration in the vicinity of the Mel property was in 1961, when the Canadian Nickel Company Ltd. (a wholly owned subsidiary of Inco) first discovered the Mel deposit on what is now mineral lease ML-007. Numerous companies were active in the area beginning in 1961; however, activity ceased in 1971 with the advent of exploration prohibitive legislation. The region remained dormant until 1999 when Inco staked the Mel claims. Until recently, Inco along with Victory, have actively explored the Mel property.

The Mel property is situated within the Thompson Nickel Belt; a northeast-southwest trending 10 to 35 km wide belt of Early Proterozoic sedimentary rocks interfolded with

Archean age basement gneisses. The nickel deposits are associated with ultramafic intrusions that occur within the Proterozoic rocks, which have been metamorphosed to schists and gneisses and have subsequently been folded into complex patterns. The Thompson Nickel Belt is fault bounded on both the eastern and western margins. To the east along the Superior Rift fault zone, Archean Superior Province rocks are in contact with the Thompson Nickel Belt (Peredery et al., 1982). To the west, the Thompson Nickel Belt is in direct contact with the Kisseynew domain, located within the Trans-Hudson Orogeny tectonic domains of the Churchill Province (Bleeker, 1990). The Kisseynew paragneisses have been interpreted to represent the metamorphosed remnants of a back-arc or inter-arc basin.

At the Mel deposit, nickel-bearing massive and stringer sulphides occur within and in contact with an ultramafic intrusion. The sulphides are dominantly pyrrhotite with lesser amounts of pentlandite and chalcopyrite. Mineralization strikes approximately 345 degrees (°) for a distance of 1500 metres (m), dips from 70° to 80° east and extends to a known depth of 825 m below surface. The deposit consists of folded, continuous to discontinuous higher-grade nickel bearing sulphide layers up to 15 m thick (horizontal) within a broader mineralized zone with horizontal thicknesses locally exceeding 30 m. Folding appears to have locally caused thickening of the mineralized layers.

Diamond drilling from 1961 to 1971 was AXT size core except for a few holes of AQ size core drilled at the end of the 1971 campaign. Core from that period has been preserved and is stored by Inco in Thompson as abbreviates only with generally one representative sample approximately 10 centimetre (cm) long collected approximately every three metres in the hole. Diamond drilling from 1999 to 2006 is NQ core size. The core is logged, sampled and stored by Inco in Thompson. Mineralized sections of the core are subdivided into sample intervals not exceeding 1.5 m of core length based on rock type, alteration, sulphide abundance and textural variations.

## 1.1 RESOURCE STATEMENT

Wardrop completed an estimation of the mineral resource on the Mel Deposit for Victory. This has resulted in an Indicated resource of 4,279,000 tons grading 0.875% nickel (Ni) plus an Inferred resource of 1,010,000 tons grading 0.839% Ni at a cut-off of 0.5% Ni.

Wardrop carried out data verification on 5% of the drillhole database from drill logs and assay values. The database verification conducted by Wardrop found no discrepancies with the original information. Wardrop concludes that the database meets industry standards for resource estimation.

Estimation of the resource included the interpolation methods of nearest neighbour, inverse distance squared and ordinary kriging. The methods were validated by comparison of global mean grades, visual review of coded block grades and swath plots. No significant discrepancies exist between the methods. Ordinary kriging methodology was selected for grade estimation on the deposit.

## 1.2 RECOMMENDATIONS

Additional drilling is recommended on the Mel deposit in order to improve the resource classification and to increase confidence in grade continuity. Wardrop suggests performing infill drilling along strike as well as bracket holes at depth where the higher grade material is identified.

Wardrop recommends exploration on the Mel lease to extend the Mel deposit along strike thereby potentially increasing the tonnage estimates and drilling on Mel mineral claims to further explore the lower Pipe Formation.

This resource estimate only included nickel (Ni) values but the assay database includes values for copper (Cu) and cobalt (Co). Wardrop recommends that all samples be assayed for Ni, Cu, Co and Platinum Group Elements (PGE) as well as all potential payable and deleterious elements.

Additional bulk density determinations of the mineralized material should be carried out so that specific gravity data can be incorporated into resource block model for estimation.

Additional drilling is recommended so that samples can be collected for metallurgical testing and mineral processing at Mel deposit.

Wardrop believes that the current resource block model honours the high grade values well and that local grade variations are reasonably well represented. However, more work is required to improve the local grade estimation within the block model estimation, possibly multiple indicator kriging and unfolding to compare with the current estimation method. Globally, the Wardrop resource compares well with previous Inco estimates. For preliminary economic assessment or feasibility type study work, where selective mining methods or detailed engineering design work will be required, Wardrop recommends updating the current resource block model. This exercise will be beneficial once new drilling data becomes available.