



# **VICTORY NICKEL INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**DATED MARCH 11, 2010**

# VICTORY NICKEL INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the Years ended December 31, 2009 and 2008**

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of March 11, 2010 consolidates management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2009 and 2008, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008 ("2009 Audited Consolidated Financial Statements") and the notes thereto. Readers are encouraged to consult the 2009 Audited Consolidated Financial Statements which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are available at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.victorynickel.ca](http://www.victorynickel.ca). All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

### COMPANY OVERVIEW

Victory Nickel is a Canadian exploration and development-stage mineral resource company (an enterprise in the development stage as contemplated within Accounting Guideline 11 of the Canadian Institute of Chartered Accountants ("CICA")) and is engaged in the acquisition, exploration and development of nickel projects in Canada.

Formed on February 1, 2007, Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (refer to option agreement described below) and Mel projects in Manitoba and the Lac Rocher project in Québec. The results of a definitive feasibility study on the Minago Project ("DFS") were announced in December 2009. At the Lac Rocher Project, a review of the preliminary economic assessment ("PEA") is ongoing to better reflect current cost realities and permitting efforts will continue in preparation to advance to mining when metal prices recover. At the Mel project, the Company is preparing an internal study to evaluate the production potential and to identify the next program required to advance the Project.

#### Option of Lynn Lake Property

On October 21, 2009, the Company announced that it had optioned its Lynn Lake property ("Lynn Lake") to Prophecy Resource Corp. ("Prophecy"). Under the terms of the agreement, Prophecy can acquire a 100% interest in Lynn Lake by paying the Company an aggregate of \$4 million over approximately four and a half years, by incurring \$3 million in exploration expenditures over approximately three years and by issuing a 10% equity interest in Prophecy calculated on a diluted basis after Prophecy completes a private placement; such placement was completed in January 2010. The Company also has the right to participate in future equity financings on a pro-rata basis to maintain its 10% interest.

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

- \$300,000 within five business days of receiving conditional regulatory approval (such amount was received in November 2009);
- \$300,000 within 60 days of October 21, 2009 (later extended to January 9, 2010 with cash received on January 6, 2010);
- \$400,000 within 180 days of October 21, 2009; and
- \$1 million on March 1 of each of 2011, 2012 and 2013.

The Company received 2,419,548 shares of Prophecy on January 6, 2010, at which date the bid price of the shares was \$0.40. In order to maintain its 10% interest, the Company subscribed for an additional 570,270 shares at \$0.30 on January 21, 2010 for \$171,081.

Failure on the part of Prophecy to meet any of the terms will result in cancellation of the option and Lynn Lake will revert to the Company.

It is unlikely that any of the Company's projects will commence full development in 2010, although smaller sub-projects may be initiated (road construction and drilling at Minago have commenced in 2010).



As at December 31, 2009, the Company also owned an approximate 4.5% interest in Wallbridge Mining Company Limited (“Wallbridge”) as well as warrants which are exercisable at \$1.00 per share and expire on March 26, 2010.

### ACQUISITION OF INDEPENDENT NICKEL CORP.

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

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

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

<b>Purchase Price</b>			
Issuance of 66,675,103 common shares of the Company		\$	6,166
Transaction costs			1,427
Issuance of replacement options			186
Issuance of replacement warrants			-
		\$	7,779
<b>Fair Value of Independent's Net Assets Acquired:</b>			
Current assets (including cash of \$2,308)		\$	2,594
Capital assets, net			83
Future income tax assets			3,480
Exploration and development projects:			
	Lynn Lake	\$	1,241
	Minago royalty		770
			2,011
			8,168
Current liabilities			(362)
Non-controlling interests			(27)
		\$	7,779

### HIGHLIGHTS

#### Corporate

During and subsequent to the year ended December 31, 2009, the Company:

- Appointed Cynthia Thomas as Chair of the Board of Directors and Roland Horst as an independent director;
- Appointed Alison Sutcliffe as Vice-President, Finance and Chief Financial Officer;
- Adopted a Shareholder Rights Protection Plan;
- Completed the acquisition of 100% of the outstanding common shares of Independent and the wind up into Victory Nickel;
- Gained a strong new strategic investor through the sale by Nuinsco Resources Limited (“Nuinsco”) of its approximate 15% interest in Victory Nickel to a subsidiary of Jilin Jien Nickel Industry Co., Ltd.;
- Completed a fully subscribed rights offering which generated gross proceeds of approximately \$3.9 million;



- Completed a non-brokered private placement financing on a flow-through basis for gross proceeds of \$685,828;

#### **Minago**

- Released the results of the Minago DFS, confirming that the development of an open pit mine and concentrator at Minago is technically and commercially feasible;
- Announced the staking of 11 additional claims at Minago, to provide coverage to the west of Victory Nickel's existing property position, providing the Company with additional flexibility to place mine infrastructure;
- Announced permitting and construction of a 4.3 kilometre exploration road at the Minago site that will provide direct access from paved Hwy 6 to a limestone outcrop and the property in general. Material quarried from this outcrop will be used to build the road that will provide access for exploration activities and to develop initial mine infrastructure;
- Announced the start of a 7,500 metre diamond drilling program at Minago with three drill rigs to upgrade and add to the resource estimate and to further evaluate the North Limb;
- Confirmed that a NI 43-101-compliant 15 million tonne indicated sand resource, of which approximately 84% is marketable frac sand, is contained in the footprint of the proposed open pit shell at Minago;

#### **Other**

- Built an all-weather road providing year-round access to the Lac Rocher project; and
- Optioned the Lynn Lake Project to Prophecy (TSXV:PCY) for \$4 million in cash, \$3 million in exploration expenditures and 10% of Prophecy's outstanding shares.

### **OUTLOOK**

The metals market has experienced extreme volatility over recent years. Nickel in particular has seen some historically high pricing at above US\$24 per pound just to very quickly find itself at below US\$5 per pound. Similar swings were experienced by copper, zinc and lead, all of which have recovered sooner than nickel. Just as in the last metal price surge, nickel seems to lag the recovery. We are now seeing the start of what could be the recovery we have been waiting for. Nickel has broken above US\$10 per pound for the first time since mid-2008. Market consensus appears to be settling on a US\$10 per pound price. CRU, a London-based research group are suggesting that nickel production may fall behind demand in 2010 for the first time in four years on increased stainless steel production, the largest user of nickel. Although LME inventories appear high, we believe that consumers have been destocking to conserve cash and have depleted their inventories, especially in the United States. While China is currently back to full capacity, it is expected to boost output by 19% this year. The US steel industry is operating at 70% capacity and Western Europe is expected to boost output by 13%. As the US economy recovers, capacity utilization will increase.

All this bodes well both for the price of nickel and for Victory Nickel. We believe that the time to build mines is when prices have been lower than the average world costs to produce the metal and are set to recover. We believe we are there now and are planning for a robust nickel market for many years. What was referred to as a "super cycle" appeared to have fizzled faster than anyone could have imagined. This may have been only a temporary jog in the road.

For this reason, we believe the completion of the Minago DFS is timely and the Company plans to move ahead with this mega project. Financing is the immediate challenge, but the strengthening of metal prices should help us to meet it. The equity markets have been good to the major mining companies as they recovered from the lows of 2008. This recovery has yet to filter down to the juniors such as Victory Nickel but we are confident that once the majors are fully priced, investors, attention will shift to the junior level. We believe that this time is quickly approaching.

The global financial crisis appears to be behind us with signs of recovery in many countries. Once the US economic machine recovers, demand for metals will increase. There are very few new projects as advanced to fill the expected growing need for nickel in the short-term as the Company's Minago project. Victory Nickel will be ready.

Victory Nickel's objective continues to be to transition from developer to nickel producer. This is eminently possible with its four sulphide nickel projects. With the Minago DFS completed, we are

accelerating our efforts to structure a financing proposal that will work in today's environment. Minago will be a mega project for Manitoba which will make a significant contribution to the welfare of that province and its residents, particularly those living in the Minago area. We are receiving the full support of the Manitoba government and communities of interest to move the project forward.

During 2009, the Company entered into an agreement to sell its Lynn Lake properties to Prophecy. In addition to receiving cash, the Company became a 10% shareholder of Prophecy and will share in the upside potential of Lynn Lake through this equity stake. We are confident that Prophecy will move this project forward to the benefit of Victory Nickel.

Lac Rocher continues to be held ready to develop until such time as metal prices are attractive enough to generate positive cash flow. With prices moving above US\$10 per pound and copper above US\$3.30, that time may be near.

With four projects and over 900 million pounds of in-situ nickel in NI 43-101-compliant measured (171 million pounds) and indicated (778 million pounds) resources, plus an additional 244 million pounds of in-situ nickel in inferred resources, Victory Nickel has one of Canada's largest undeveloped sulphide nickel inventories. Victory Nickel will continue to take advantage of the worldwide shortage of sulphide nickel assets and to capitalize on higher nickel prices as they return.

## SELECTED FINANCIAL INFORMATION

(in thousands of Canadian dollars, except per share amounts)	2009	2008	2007
<b>Summary Operating Results Data</b>			
Revenue	\$ 294	\$ 241	\$ 559
General and administrative expenses	1,326	1,997	1,643
Stock option compensation	250	311	1,369
Writedown of available-for-sale investment	-	2,040	-
Future income tax recovery	(726)	(1,544)	(225)
Net loss	(585)	(2,543)	(2,228)
Comprehensive income (loss)	413	(2,543)	(2,228)
Loss per share	(0.00)	(0.01)	(0.01)
<b>Summary Balance Sheet Data</b>			
Cash and cash equivalents	\$ 4,078	\$ 4,418	\$ 12,885
Marketable securities	1,254	450	-
Other current assets	329	853	483
Exploration and development projects	33,597	31,430	15,762
Total assets	39,346	37,267	29,410
Current liabilities	1,400	1,917	983
Future income taxes	387	-	1,689
Total shareholders' equity	\$ 37,559	\$ 35,350	\$ 26,738

## RESULTS OF OPERATIONS

### *Year Ended December 31, 2009 Compared With Year Ended December 31, 2008*

For the year ended December 31, 2009, the Company had a net loss of \$585,000 or \$0.00 per share (2008 - net loss of \$2,543,000, or \$0.01 per share).

The loss resulted from general and administrative expenses of \$1,326,000 (2008 - \$1,997,000), stock option compensation of \$250,000 (2008 - \$311,000) and, in 2008 included the \$2,040,000 writedown of the Company's investment in Wallbridge due to the other-than-temporary decline in the market value of the shares. Wallbridge, like all other junior exploration companies in 2008, was impacted by the general deterioration of the capital markets – its value recovered significantly in 2009. Results are net of income of \$294,000 (2008 - \$241,000) and are shown net of a recovery of future income taxes of \$726,000 (\$1,544,000 in 2008).

Interest income declined significantly from \$241,000 in 2008 to \$62,000 in 2009 as a result of lower cash balances available for investment in 2009 but more significantly because of much lower interest rates.



GIC's earning approximately 3% in 2008 were replaced in 2009 with ones earning approximately 0.70%. The reduction in interest income was offset by gains on the sale of marketable securities in 2009 of \$232,000. The gains occurred on the sale of Wallbridge shares undertaken for liquidity purposes during the earlier part of the year.

General and administrative expenses include \$612,000 in costs charged by Nuinsco Resources Limited ("Nuinsco") as described under related party transactions below (2008 - \$650,000). Costs allocated from Nuinsco pursuant to the management agreement between the Company and Nuinsco are activity related. In 2009, costs included time spent on the Minago DFS; in 2008, costs included time spent on the acquisition of Independent. The relationship with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

Costs were reduced in 2009 by approximately \$671,000, from \$1,997,000 to \$1,326,000. As disclosed previously, discretionary expenditures have been cut and other cost controls are in effect which have reduced expenditures generally. The most significant reduction was achieved in personnel-related costs; 2008 included severance costs for a former employee and reflected a higher finance staff complement for the majority of the year. Furthermore, higher directors' fees were incurred in 2008 as a result of activity with respect to the acquisition of Independent. Generally, discretionary expenditures were very carefully monitored in 2009 and savings were attained through elimination of travel and other costs such as couriers. In addition, cost reductions were pursued with suppliers and opportunities to recoup costs through the use of consultants were undertaken where cost-effective. Otherwise, costs include those associated with maintaining a public company which are generally non-discretionary. Further note that costs in the fourth quarter of 2008 included approximately \$241,000 related to the then-separately-operated Independent which was wound up into Victory Nickel during 2009. This would have included some public company compliance costs which are not included in the discussion on compliance costs below.

The Company reduced the costs of public company compliance for Victory Nickel to approximately \$639,000 in 2009 from \$725,000 estimated for 2008. Certain non-discretionary consultants have been challenged to revisit costs and reductions have been attained in 2009 which related to the cost of services accrued in 2008; furthermore, such costs are accrued when services are received. In 2009, the Company decided to eliminate the formal review process formerly performed by its auditors on its interim information in favour of a less formal "look-see" approach as an additional way to conserve cash resources. Note that these public company compliance costs do not include expenses associated with issuances of shares which are offset against the related financings through equity.

Stock option compensation expense relates to stock options granted to officers, directors and employees, some of which are vesting in future periods. The expense in 2009 reflects the grant of 6,065,000 options at a weighted average exercise price of \$0.05 combined with expense of \$19,950 related to the modification of 750,000 options previously granted to retiring directors and which would otherwise have expired after 90 days. The expense in 2008 reflected the grant of 875,000 options at a weighted average exercise price of \$0.40. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 9 to the Company's 2009 Audited Consolidated Financial Statements.

Management of the Company determined that no significant impairment had been experienced in its exploration and development projects during 2009. Metals prices and other market factors improved over 2008 where no impairment was determined to be necessary despite declining metals prices and other market factors. This conclusion is discussed further under Impairment Analysis below. The Company received a favourable feasibility study on its Minago project and is presently reviewing alternative financing opportunities to move the project ahead. In the current nickel price and financial environment, it is unlikely that any of these projects will commence full development in 2010 but smaller sub-projects such as completion of the road at Minago and drilling to extend resources are underway.

In 2008 the Company determined that, in accordance with GAAP, an other-than-temporary loss had occurred with respect to its investment in Wallbridge. This conclusion did not affect the accounting value of the securities which must be recorded at market value, but required the Company to record the reduction in market value of \$2,040,000 through the statement of operations rather than through other comprehensive loss. The subsequent recovery in the market value of Wallbridge shares has been reflected through other comprehensive income if unrealized, or through operations upon sale. In 2009, \$232,000 was recorded as a

gain on sale of Wallbridge shares through operations and \$998,000 was recorded through other comprehensive income for unrealized increases in market value.

In the fourth quarter of 2008, the Company changed its assessment of the likelihood that the benefit associated with certain of the losses and costs creating future income tax assets will be realized prior to their expiry. The expiry of non-capital losses is detailed in Note 10 to the Company's 2009 Audited Consolidated Financial Statements. Accordingly, the Company has recorded a future income tax recovery of \$726,000 in 2009 (2008 - \$1,544,000). The Company has two projects at the pre-feasibility and feasibility stages and over 80% of the non-capital losses do not expire until at least 2027.

The changes in other balances not specifically addressed in other sections of this Management's Discussion & Analysis ("MD&A") are as follows:

Marketable securities as at December 31, 2009 consist of Wallbridge shares; despite the sale during 2009 of 3,880,500 shares, the portfolio increased significantly in value. The bid price increased to \$0.245 per share as at December 31, 2009 compared with \$0.05 the year before and improved the aggregate market value of the portfolio from \$450,000 to \$1,254,000 as at December 31, 2009 despite the sales.

Accounts payable and accrued liabilities consist primarily of project-related expenditures, and declined year-over-year mainly because of a decrease in balances owing on the DFS for the Minago project.

The future income tax liability balance amounts to \$387,000 as at December 31, 2009. This is related to the tax-effect of the renunciation of flow-through expenditures in 2009 of \$2,192,000 offset by the recognition of future income tax recoveries on operating losses incurred during the year of \$352,000 as well as the reversal of prior valuation allowances for non-capital losses of \$374,000 and \$88,000 recorded through capital stock related to share issue expenses and \$991,000 offset against exploration and development properties for the tax effect of claiming investment tax credits. The future income tax balance was eliminated at the end of 2008, primarily because of the recognition of future income tax assets sufficient to bring the future income tax balance to zero as described more fully below.

As a result of the acquisition of 84% of Independent effective October 6, 2008, a non-controlling interest of \$27,000 was recorded in the fourth quarter of 2008. Effective December 23, 2008, the Company acquired the remaining non-controlling interest pursuant to a subsequent compulsory acquisition transaction. Accordingly, no such amounts have been recorded in future periods. Furthermore, Independent was wound up into Victory Nickel effective August 31, 2009.

Shareholders' equity has increased significantly year-over-year as a result of a rights offering which took place in August, 2009 and is discussed more fully under Liquidity and Capital Resources.

***Year Ended December 31, 2008 Compared With Period From Inception, February 1, 2007 to December 31, 2007***

For the year ended December 31, 2008, the Company had a net loss of \$2,543,000 or \$0.01 per share (from inception, February 1, 2007, to December 31, 2007 - net loss of \$2,228,000, or \$0.01 per share). The results in 2008 include the results of operations of Independent from the date of acquisition of control on October 6, 2008.

The loss resulted from general and administrative expenses of \$1,997,000 (2007 - \$1,643,000), stock option compensation of \$311,000 (2007 - \$1,369,000) and the \$2,040,000 writedown of the Company's investment in Wallbridge due to the other-than-temporary decline in the market value of the shares, net of interest income of \$241,000 (2007 - \$559,000; including a gain on the sale of marketable securities of \$62,000). These were partially offset by a recovery of future income taxes of \$1,544,000 in 2008 compared with \$225,000 in 2007.

Interest income declined from 2007 to 2008 as a result of lower cash balances available for investment in 2008 combined with lower interest rates.

General and administrative expenses include \$650,000 in costs charged by Nuinsco as described under related party transactions below (2007 - \$809,000). Costs allocated from Nuinsco pursuant to the management agreement between the Company and Nuinsco are activity related. In 2008, costs included

time spent on the acquisition of Independent; in 2007, costs included time spent by management on a significant potential acquisition which was not completed. Furthermore, general and administrative expenses in 2008 included severance costs for a former employee, increased directors' fees as a result of activity with respect to the acquisition of Independent and a provision for estimated Part XII.6 interest payable on flow-through amounts related to financings in 2007. The relationship with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

Stock option compensation in 2008 relates to stock options granted to officers, directors and employees, some of which vest in future periods. The expense in 2008 reflects the grant of 875,000 options at a weighted average exercise price of \$0.40; the expense in 2007 reflected the grant of 4,922,500 options at an average exercise price of \$0.61. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 9 to the Company's 2009 Audited Consolidated Financial Statements. Note that replacement options issued pursuant to the Independent acquisition have been recorded as part of the acquisition cost of Independent and not through the statement of operations.

Management of the Company determined that no significant impairment had been experienced in its exploration and development projects during 2008 despite declining metals prices and other market factors.

However, the Company determined that, in accordance with GAAP, an other-than-temporary loss had occurred with respect to its investment in Wallbridge. This conclusion does not affect the accounting value of the securities which must be recorded at market value, but requires the Company to record the reduction in market value of \$2,040,000 through the statement of operations rather than through other comprehensive loss. Any subsequent recovery in the market value of such shares will be reflected through other comprehensive income.

The future income tax recovery in 2008 of \$1,544,000 relates primarily to a change in the Company's assessment of the likelihood that the benefit associated with certain of the losses and costs creating future income tax assets will be realized prior to their expiry. The expiry of non-capital losses is detailed in Note 10 to the Company's 2009 Audited Consolidated Financial Statements. The Company has two projects at or nearing the pre-feasibility and feasibility stages and, as at December 31, 2008, over 80% of the non-capital losses do not expire until at least 2027. Approximately \$134,000 of the recovery in 2008 relates to the change year-over-year in the enacted tax rates impacting future income taxes. In 2007, \$225,000 in future income tax recoveries was recorded to reflect such enacted changes occurring during 2007.

Accounts payable and accrued liabilities are primarily for project-related expenditures, and increased year-over-year primarily because of the DFS for the Minago project.

The future income tax liability balance has been eliminated during 2008, primarily because of the recognition of future income tax assets sufficient to bring the future income tax balance to zero. As a result of the Company's renunciation of flow-through expenditures in February of 2008 an amount of \$3,335,000 was added to the future income tax liability balance from December 31, 2007 of \$1,689,000. Pursuant to the acquisition of Independent and the fair value exercise performed at that time, approximately \$3,480,000 of future income tax assets was required to be recorded upon the acquisition of Independent. Combining these balances with the recognition of the future income tax recovery of \$1,544,000 in 2008 brings the balance down to zero.

As a result of the acquisition of 84% of Independent effective October 6, 2008, a non-controlling interest of \$27,000 was recorded in the fourth quarter of 2008. Effective December 23, 2008, the Company acquired the remaining non-controlling interest pursuant to a subsequent compulsory acquisition transaction. Accordingly, no such amounts will be recorded in future periods.

Shareholders' equity increased significantly year-over-year as a result of a private placement occurring in July, 2008, discussed more fully under Liquidity and Capital Resources, and the issuance of shares for the acquisition of Independent described earlier.

## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last twelve quarters ended December 31, 2009 is as follows:

<u>Fiscal year 2009</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Revenue and other income	\$ 8	\$ 220 <sup>(2)</sup>	\$ 39	\$ 27
Net (loss) income	\$ (229)	\$ 35	\$ (343)	\$ (48)
Comprehensive income (loss)	\$ 359 <sup>(1)</sup>	\$ 145 <sup>(3)</sup>	\$ (471)	\$ 380
(Loss) income per share - basic and diluted	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
<u>Fiscal year 2008</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Revenue and other income	\$ 46	\$ 41	\$ 45	\$ 109
Net loss	\$ (1,050) <sup>(4)</sup>	\$ (543)	\$ (520)	\$ (430)
Comprehensive income (loss)	\$ 450 <sup>(5)</sup>	\$ (2,107) <sup>(6)</sup>	\$ (1,513)	\$ 627
Loss per share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)
<u>Fiscal period 2007</u>	<u>4<sup>th</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Revenue and other income	\$ 158	\$ 147	\$ 219	\$ 35
Net loss and comprehensive loss	\$ (335)	\$ (387)	\$ (449)	\$ (1,057) <sup>(8)</sup>
Loss per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

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

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2009, the Company had working capital, including cash and cash equivalents, totalling \$4,261,000 (December 31, 2008 - \$3,804,000). Cash equivalents include bank-guaranteed investment certificates and bank discount notes. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board.

During the year ended December 31, 2009, the Company used \$773,000 in operating activities, (year ended December 31, 2008 - \$1,953,000) comprising cash used in operations before changes in non-cash working capital of \$1,264,000 (2008 - \$1,659,000) plus a net decrease in non-cash working capital balances of \$491,000 primarily as a result of a decrease in accounts receivables, prepaid expenses and deposits (2008 – an increase of \$294,000 including a \$249,000 decrease in accounts payable and accrued liabilities). Accounts receivable at December 31, 2008 included approximately \$351,000 of GST recoverable which was settled in early 2009.

As the Company is in the development stage, there are no revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company. The Company estimates that such costs in 2009 amounted to \$639,000 (2008 – \$725,000 – excluding Independent costs). Consequently, the Company's liquidity is reduced unless and until there are financing activities to provide funds. Note that the costs cited above do not include the costs of financing arrangements such as the rights offering which are deducted directly from equity. Costs incurred to advance the Company's projects are capitalized as summarized below under the discussion of investing activities.

Financing activities for the year generated an aggregate of \$3,650,000 (2008 - \$7,730,000). In August 2009, the Company successfully completed a rights offering which generated gross proceeds of \$3,929,000 through the issuance of 65,489,952 shares and 32,744,976 share purchase warrants; each share and half-warrant represented a "Unit" at \$0.06 per Unit. Whole warrants are exercisable at \$0.12 during the 12-month period commencing August 18, 2010. Issue costs were approximately \$327,000 before related future income taxes of \$88,000. Also, 950,000 options were exercised during 2009 for aggregate cash proceeds of approximately \$48,000. As at December 31, 2009, the Company's shares had a closing price of \$0.155 and the warrants, although not exercisable, were "in-the-money".

In July, 2008, the Company issued 18,046,700 flow-through shares pursuant to private placements at \$0.45 per share for net proceeds of \$7,689,000. In 2008, \$41,000 was received upon the exercise of options.

On February 26, 2010, the Company completed a flow-through financing of 3,429,139 units of securities at a price of \$0.20 per Unit generating gross proceeds of \$685,828. Each Unit comprises one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.26 for a period of 12 months from closing. The Company also issued 205,748 finder warrants which entitle the holder to purchase one common share at an exercise price of \$0.175 for a period of 12 months from issuance.

Flow-through financings do not provide the funding necessary to meet corporate expenditures which do not qualify for flow-through eligibility. The significant cost to maintain the Company's public listing cannot be financed with flow-through shares.

The Minago DFS has been completed and the Company plans to move ahead with this mega project. Financing is the immediate challenge but the strengthening of metal prices should help meet this challenge.

On acquisition of Independent in October, 2008, \$2,308,000 of cash was part of the assets acquired; the acquisition used cash of \$1,326,000 on legal, advisory and other transaction-related costs. These costs were included in the purchase cost of Independent as described above.

During 2009, investing activities used \$3,217,000, compared with \$16,552,000 in 2008. An aggregate of \$3,943,000 was used to advance exploration and development projects (2008 - \$12,696,000). Funds of \$300,000 were received in November 2009 on account of the option agreement with Prophecy for the Lynn Lake property. The Company sold a portion of its position in the shares of Wallbridge during 2009 for aggregate proceeds of \$426,000 for liquidity purposes prior to the closing of the rights offering. The Company now holds 5,119,500 shares of Wallbridge as well as 3,750,000 share purchase warrants, representing an approximate 4.5% interest (7.5% on a partially diluted basis). Each warrant entitles the holder thereof to purchase one additional common share of Wallbridge at an exercise price of \$1.00 per share if exercised by March 26, 2010. Wallbridge shares had a market value of \$0.245 as at December 31, 2009 (December 31, 2008 - \$0.05). The Company had acquired the shares during 2008 at an aggregate cost of \$2,490,000. As at December 31, 2008, the shares were deemed by management to have suffered an other-than-temporary decline in market value. Accordingly, accounting practice required a writedown and resulting charge to operations of \$2,040,000 in 2008.

Wallbridge has a significant strategic position in Duluth Metals Limited ("Duluth") TSX: DM and is presently enjoying the knock-on success from Duluth's success with its projects in the Duluth Complex mining camp in northern Minnesota as well as success in its own properties. Wallbridge's share price has ranged from \$0.24 to \$0.39 in 2010 to date. The Company may liquidate some or all of its position in its marketable securities for liquidity or other purposes in future.

These activities required cash and cash equivalents of \$340,000 during 2009, compared with cash requirements of \$8,467,000 for the year ended December 31, 2008.

As described above, exploration and development companies such as Victory Nickel are heavily reliant upon the equity markets to fund their activities as they have no short-term sources of revenue other than through realization of assets. Opportunities available to Victory Nickel for financing would normally be through private placements in the equity markets. Despite experiencing some improvements during 2009, today's equity markets continue to make this alternative difficult if not impossible without incurring

significant dilution to existing shareholders. The rights offering in 2009 was one way to raise financing while allowing existing shareholders the opportunity to participate and avoid dilution.

As mentioned above, the Company will consider all financing alternatives given appropriate pricing and other market conditions to advance its projects. The optioning of the Lynn Lake property is one way in which a corporate transaction to generate cash can be structured to add value for shareholders while maintaining an upside in the subject property. The Company currently owns 2,991,818 shares in Prophecy with a market value as at March 11, 2010 of \$0.58 per share; such shares are subject to a hold period which expires in April 2010. Further, the Company received \$300,000 in January and, in accordance with the option agreement, expects to receive an additional amount of \$400,000 in April 2010 with subsequent annual receipts of \$1 million on March 1 of each of 2011, 2012 and 2013.

However, despite recent improvements, the market continues to be volatile and it is uncertain how future financing initiatives will be received and how successful they will be in generating cash to finance activities. In particular, the financing required for the Minago project is considerable.

The Company has good title to its projects and will continue to maintain the projects in good standing. Prophecy has expenditure commitments to meet on the Lynn Lake project as described earlier which mitigates the pressure on the Company to do so and maintains ongoing investment in the property. In the option documentation Victory Nickel made provisions to ensure that any failure on the part of Prophecy to meet its contractual commitments would result in the Lynn Lake property reverting to full ownership by Victory Nickel.

The Company's working capital requirements are modest. At December 31, 2009, the major items requiring financing were Québec mining duties receivable aggregating \$158,000 and a GST receivable of \$72,000 which was received in February. The GST receivable averaged approximately \$53,000 per quarter in 2009. Monthly average administrative costs for 2010 are estimated at \$122,000, most of which are incurred to meet statutory requirements. As December 31, 2009, the Company had fulfilled its obligation under flow-through commitments for the 2008 financings.

Given its current cash position, liquid assets and expected inflows as described, the Company is in a stronger position than 2008. However, it will monitor its activities closely and spend wisely until additional financing is available. The operating cost reduction measures which were implemented in 2008 continue in force although a portion of salary deferrals were paid in 2009 and unpaid directors' fees for 2008 and 2009 were settled in early 2010.

Access road construction at Minago commenced in early 2010 and a drilling program is underway to upgrade resources in the designed open pit shell and on the North Limb.

Development of the Minago mine will require considerable financial resources. The Company is considering all manner of financings to proceed. Management is monitoring the outcome of financing initiatives being undertaken in the marketplace, such as rights offerings, equity issuances, etc. as well as market conditions. The Company is actively putting together a financing strategy which considers the market conditions in order to progress the Minago project.

## **EXPLORATION AND DEVELOPMENT ACTIVITIES**

For the year ended December 31, 2009, the Company incurred exploration costs on its nickel properties, before the tax effect of claims for investment tax credits of \$991,000, of \$3,159,000 (2008 - \$13,657,000). This includes \$2,278,000 on the Minago project, \$53,000 on the Mel project, \$173,000 on Lynn Lake (before \$300,000 option payment received from Prophecy) and \$954,000 at the Lac Rocher project (2008 - \$12,845,000; \$304,000; \$242,000 and \$266,000, respectively). In addition, in 2008 the Company acquired \$2,011,000 of exploration and development projects pursuant to the acquisition of Independent. The Company attributed \$770,000 to the Minago Royalty and \$1,241,000 to Lynn Lake as part of accounting for its acquisition of Independent.

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

### **Minago Project**

The Company's 100%-owned Minago project is located on the Thompson Nickel Belt in Manitoba, and is one of Canada's largest undeveloped sulphide nickel deposits with measured and indicated resources of 54.2 million tonnes grading 0.52% nickel, or 620 million pounds of in-situ nickel (0.25% nickel cut-off grade), comprised of an 11.1 million tonne measured resource grading 0.56% nickel and a 43.1 million tonne indicated resource grading 0.51% nickel. A further 14.6 million tonne inferred resource at 0.53% nickel contains an additional 170 million pounds of in-situ nickel.

Following the completion of a scoping study in the fall of 2006, Wardrop was engaged to conduct a feasibility study. The results of the DFS were released in December 2009 and are summarized below.

#### ***Minago Definitive Feasibility Study***

Wardrop, a Tetra Tech Company ("Wardrop") was engaged to conduct the feasibility study. Results of the DFS confirm that the development of an open pit mine and concentrator at Minago is technically and commercially feasible. The base case pricing uses three-year trailing averages for metal prices and the US: Canadian dollar exchange rate in accordance with the recommended practice of the US Securities and Exchange Commission Industry Guide 7. The DFS is based on mining open pit reserves only and does not incorporate the potential for underground mining that was included in the Preliminary Economic Assessment ("PEA") completed by Wardrop in November 2006.

The DFS is posted at [www.sedar.com](http://www.sedar.com)

#### ***Highlights of the DFS Base Case***

(all figures in Canadian dollars, except as indicated)

- Undiscounted cash flow (pre-tax) of \$917.7 million;
- Net present value ("NPV"), using a discount rate of 8%, of \$293.8 million;
- Internal rate of return ("IRR") of 17.66%;
- Breakeven price of nickel is US\$5.06;
- Payback period of four years from start of nickel production;
- Measured and Indicated resource of Sulphidic Nickel ("Ni(S)") of 44.1 million tonnes grading 0.43% nickel for open pit only;
- Total ore tonnes mined is 57.1% of Measured and Indicated Ni(S) resource;
- Proven and Probable reserve of Ni(S) of 25.2 million tonnes grading 0.43% nickel for open pit only;
- Strip ratio of 11.7:1 to mine the nickel including hydraulic fracturing sand ("frac sand") as overburden;
- Production of the world's highest grade nickel concentrate at 22.3% Ni with 10.4% magnesium oxide ("MgO");
- Seven-year nickel production life (open pit only);
- Capital cost forecast of \$596 million, including a contingency of \$50 million;
- Average annual ore production of 3.6 million tonnes;
- Average annual nickel production in concentrate of approximately 11,000 tonnes;
- Cash cost (C-1) per pound of nickel, net of credits, of \$2.12 (US\$1.94);
- Metal by-product credits of \$0.79 (US\$0.72) per pound of nickel;
- Frac sand by-product value of \$4.04 (US\$3.68) per pound of nickel;
- Cash cost per pound of nickel before by-product credits: \$6.95 (US\$6.34);
- Average annual frac sand sales revenue, net of freight, of \$70 million; and
- Processing cost per tonne of frac sand of \$6.50.

Minago is one of Canada's largest undeveloped sulphide nickel deposits and has been shown to be capable of producing a nickel concentrate grading up to 22.3%, making it 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 9 metres thick overlies the nickel mineralization within the open pit. With the optimum grading splits, approximately 84% of annual sand production is marketable frac sand, which is used to improve 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 DFS, production of frac sand could begin 20 months after the start of mine development.

The breakeven price of nickel is US\$5.06, maintaining all other assumptions in the Base Case.

*Mineral Resource Estimate*

In order to more accurately determine recoverable nickel, Wardrop estimated a NI 43-101-compliant Ni(S) resource as follows:

<b>Minago Sulphide Nickel Project - Sulphidic Nickel Resource Estimate</b>			
<b>Classification At 0.2% Sulphidic Nickel Cut-off Grade</b>	<b>Tonnes (millions)</b>	<b>Grade (% Ni(S))</b>	<b>Ni(S) In-Situ Nickel (millions of pounds)</b>
Measured Resource	9.1	0.47	94.4
Indicated Resource	35.0	0.42	324.3
<b>Total Measured and Indicated</b>	<b>44.1</b>	<b>0.43</b>	<b>418.7</b>
<b>Inferred Resource</b>	<b>12.0</b>	<b>0.44</b>	<b>115.0</b>

Significant parts of the resources are below the pit bottom and require additional drilling to be upgraded from Inferred to Indicated. As a result, any resources below the pit bottom are not considered in estimating the economics of the DFS.

*Frac Sand*

Frac sand is a significant contributor to the positive economics at Minago. As part of the DFS, 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.

**Work Program 2009 and 2008**

An extensive work program was conducted during the winter of 2008 comprising 26 drill holes totalling 11,530m. The objectives of this drilling were to:

- Upgrade inferred resource estimates below the existing planned bottom of the open pit (10 holes, 7,532m, dedicated to this study);
- Collect rock mechanics data for a potential underground mine;
- Provide material for metallurgical testing;
- Assess nickel potential in areas that may be covered by rock dumps, tailings and buildings (8 holes, 1,486m, dedicated to this study, located on the basis of the 2007 airborne geophysical survey); and
- Explore the Xstrata Option (8 holes, 2,512m, dedicated to this study).

The drill holes collared to test mineralization beneath the currently planned pit bottom were obtained from the east and west parts of the Minago Deposit and demonstrate the widespread distribution of elevated nickel values within the ultramafic host rock. They also show that nickel mineralization does continue to depth. All drill holes intersected nickeliferous rock, with notable intercepts occurring in drill hole V-08-04b that intersected an extensive interval of 656.98m grading 0.4% nickel, including 46.29m grading 1.31% nickel and drill hole V-08-06 that intersected 47.82m of 1.30% nickel within a 623.48m intercept grading 0.36% nickel.

An eight-hole drilling program (holes designated VX-08-01 through VX-08-08) was conducted approximately 3km north of the Minago Nose Deposit (which hosts the entire Minago nickel resource) on claims optioned from Xstrata Nickel. Drill hole VX-08-03 (302m total length) intersected 66m grading 0.52% Ni within sulphide bearing ultramafic rock. The mineralization, grade and host rocks are similar to those of the Minago Nose Deposit and serve to confirm the prospective nature of the local region at Minago which includes the extensive nickeliferous rock of the under-explored "North Limb." A total of 2,512m of drilling was completed on the optioned claims, with all of the holes targeting geophysical anomalies and intersecting considerable Thompson and Pipe formation rock - host to nickel mineralization in the Thompson Nickel Belt. Locally abundant sulphide was observed. Nickel analyses peaked at 1.69% Ni over 1.5m within the 66m interval between 78.55m and 144.55m that graded 0.52% Ni in DDH VX-08-03; this mineralized interval occurs at shallow depth in the Thompson Nickel Belt rocks.

Importantly, the drilling noted above is located northwest of the "North Limb" mineralization, thus extending the distribution of known nickeliferous rock on the property well to the north of the Minago Deposit. Other historic drilling has identified nickel mineralization elsewhere in the local region, providing further evidence of substantial nickel endowment. When coupled with the reinterpretation of magnetic surveys using inversion techniques - which indicate a possibly significant extension at depth to known nickel mineralization - the exploration potential at Minago is substantial and the possibility to expand on the existing resource in the "Nose Deposit" is significant.

No diamond drilling was conducted at Minago during the winter of 2009 as a work permit was not granted in sufficient time to allow for an effective program to be mounted. Work on the project during 2009 was directed primarily towards the completion of the DFS.

### **Mel Project**

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

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

The 2007 winter drill program comprised 30 drill holes encompassing 5,733m of drilling to better define and add to the existing resource. This program intersected significant grades over mineable widths, including 1.11% nickel over 13.67m.

No diamond drilling was conducted in 2008 or 2009. The Company has fully funded sufficient expenditures to earn a 100% ownership interest in this project subject to a 51% Vale Inco back-in. The Company awaits a decision by Vale Inco as to whether it will exercise its back-in right on the project. By agreement, Vale Inco must mill ore from the Mel project at cash costs plus 5% subject to capacity availability and metallurgy.

### **Lac Rocher**

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

During 2007, the Company was very active with respect to advancing the Lac Rocher property. A 12-hole, 1,500m diamond drill program tested for extensions to the nickel sulphide mineralization and provided metallurgical samples for completing a preliminary economic assessment ("PEA") of the near-term production and cash generation potential of the project that was being completed by Roche Limited Consulting Group ("Roche"). Drill results graded up to 9.5% nickel over 2.29m within a larger intercept of 45.92m grading 1.42% nickel, and continued to expand the Company's geological and metallurgical understanding of the massive sulphide zone at Lac Rocher.

In addition, Victory Nickel entered into a Memorandum of Understanding with the Waswanipi Cree First Nation ("WCFN") whereby the parties have agreed to work together to support development of the Lac Rocher deposit in a way that respects the collective interests of Victory Nickel, the WCFN and other stakeholders.

In 2008, the Company received positive metallurgical results from testing of material from the disseminated sulphide zone at Lac Rocher that complimented test results from Xstrata Process Support, Process Mineralogy, in Falconbridge, Ontario, announced late in 2007 on mineralization from the massive sulphide zone. A total of 15 flotation tests were completed by Corem, an independent laboratory based in Québec, on material from the disseminated sulphide zone, yielding nickel recovery of 79.9% at a grade of 11.04% and copper recovery of 94.2% at a grade of 4.14% to a nickel/copper concentrate. This compares well with nickel recovery of 85.04% at a grade of 10.90% and copper recovery of 96.67% at a grade of 4.80% from the massive sulphide zone.

No diamond drilling was conducted in 2008; however ongoing environmental baseline studies were undertaken. The PEA was completed by Roche on two phases of an underground exploration and bulk sampling program to evaluate ore continuity and provide further metallurgical evaluation.

The PEA proposes two phases of mining that would extract 317,730 tonnes of material at a grade of 1.57% nickel, 0.58% copper and 0.053% cobalt. This would result in the production of 38,400 tonnes of a mixed nickel-copper-cobalt concentrate containing some 4,040 tonnes of nickel (8.9 million pounds), 1,680 tonnes of copper (3.7 million pounds) and 160 tonnes of cobalt (0.35 million pounds). The PEA, based on the current mineable tonnes, shows that metal prices of US\$9.74/lb nickel, US\$3.65/lb copper and US\$30.43/lb cobalt (at an exchange rate of C\$1.00:US\$0.95) are necessary for the project to break even on a pre-tax, 100% equity basis.

All extracted material is assumed to be transported offsite to the Copper Rand mill operated by Campbell Resources Inc. ("Campbell") Chibougamau, Québec. Although Campbell has ceased mining operations in Chibougamau, the Copper Rand mill is expected to be available. In addition to those noted above, the PEA was based on the following parameters: concentrate grading 10.5% nickel, 3.9% copper and 0.33% cobalt; recoveries of 81% for nickel, 91% for copper and 95% for cobalt; an exchange rate of C\$1.00:US\$0.95; and, transportation, at a cost of \$35.00 per tonne, of mined material to Chibougamau for processing.

A road connecting the end of the existing logging road to the site of the proposed Lac Rocher portal was completed in August 2009 at a cost of approximately \$389,000. The road will allow year-round ground access to the site. In December 2009, diamond drilling was conducted to provide geotechnical data deemed necessary for 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. In addition, evaluation of the availability of borrow material was also conducted in the local region.

### **Lynn Lake**

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

Lynn Lake was acquired by Independent in early 2005, following which several drill programs were carried out. This included approximately 20,000m of drilling during 2007 designed to further test for new zones of resource potential at the Lynn Lake Mine.

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

In December, 2007, Independent filed a NI 43-101 compliant Pre feasibility Study, prepared by Wardrop.

Highlights of the base case of the pre-feasibility study which used a nickel price of US\$9.01 and an exchange rate of 0.87 include the following:

- A pre-tax internal rate of return of 29%;
- A pre-tax net present value ("NPV") of \$131 million using an 8% discount rate (net of CAPEX);
- A pre-tax NPV of \$179 million using an 5% discount rate (net of CAPEX);
- A payback on mine costs of three years;
- Pre-tax profit over an initial 11 year mine life of \$296 million;
- Pre-production capital cost of \$148 million;
- Cash cost of producing refined nickel product of \$4.90 per pound of nickel, net of byproduct sales;
- Production rate of 3,000 tonnes per day;
- Average annual nickel production of 11.2 million lbs. (5,090 tonnes); and
- Average annual copper production of 6.2 million lbs. (2,817 tonnes).

The base case included evaluation of a bioleach option. This option could also potentially enhance the returns of the Company's other projects noted above although this would require additional evaluation.

On April 28, 2008, Independent announced the discovery of a new zone of shallow high grade nickel mineralization at Lynn Lake, named the Disco Zone. The discovery was made by Western Areas NL close to a property boundary between Lynn Lake and Western Areas' property, and was subsequently established to have been discovered on Lynn Lake. Results, as announced by Western Areas, included the following:

- 18m @ 1.5% Ni, 0.7% Cu and 0.04% Co from 96m down hole (86m vertical depth);
- 14m @ 1.4% Ni, 0.7% Cu and 0.03% Co from 72m down hole (55m vertical depth);
- 22m @ 0.7% Ni, 0.4% Cu and 0.02% Co from 67m down hole (62m vertical depth); and
- 5m @ 1.1% Ni, 0.6% Cu and 0.03% Co from 86m down hole (82m vertical depth).

Following the announcement of these results, Independent commissioned an induced polarization ("IP") geophysical survey in and around the Disco Zone. In addition to characterizing the Disco Zone mineralization, the geophysical survey highlighted 10 similar targets. Independent also completed 3-D modelling of the Disco Zone, to aid in the interpretation of the controls and potential volume of the mineralization. This modelling has confirmed "open" areas in proximity to the Disco zone both at depth and to the southeast of the zone as defined to date.

During the third quarter of 2008 Independent continued to conduct exploration in the Disco Zone, however, given capital market conditions and the acquisition of Independent by the Company, drilling activities were suspended at Lynn Lake.

As discussed earlier, the Company has optioned Lynn Lake to Prophecy. Failure on the part of Prophecy to meet any of the terms will result in cancellation of the option on the property and it will revert to the Company. Among other things, Prophecy has committed to make \$3 million in expenditures on the property. By optioning Lynn Lake, the Company has ensured that the property will have expenditures made upon it whilst the Company maintains an upside in the property through its ownership interest in Prophecy shares.

## **IMPAIRMENT ANALYSIS**

While the metals markets and other general economic factors have improved over the prior year, the Company performed an impairment analysis. An initial indicator of impairment considers the market capitalization of a company compared with its net book value. At and around the end of December 31, 2009, the Company's market capitalization exceeded its book value and this has continued into 2010. An analysis was performed on each of the Company's exploration and development projects.

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

Forecast metals prices were estimated from third-party sources such as analyst consensus reports and other available documentation which were considered to be reasonable by management. In particular, for the DFS base case, a three-year historic average nickel price of US\$11.15 and an exchange rate of US\$0.9116 : C\$1.00 were used. An alternative model was also run using the then current nickel price of US\$7.35 and an exchange rate of US\$0.9520: C\$1.00.

Capital and operating cost estimates generally were reduced from those used in historic studies if documentary evidence had recently been obtained as part of the review work which had been undertaken for the Minago DFS. Often cost estimates used in previous studies had been derived when such were universally recognized to be at historic highs.

Furthermore, management's intentions with respect to future expenditures and plans for the projects were considered. With the exception of some small projects acquired as part of the Independent acquisition and which were valued at \$nil as part of the purchase accounting, all projects have had recent expenditures and are considered to be active. In 2005, management recorded a writedown of approximately \$4 million on the Mel project as an agreement had not been received before the time that financial statements for that year had to be issued. In accordance with GAAP, such writedown could not be reversed upon receipt of the agreement. Accordingly, the amount recorded for Mel of \$2,515,000 does not reflect the total expenditures made on that project.

Management concluded that no impairment existed in each of its projects effective December 31, 2009 and that costs incurred to date are recoverable. The Company will continue to monitor developments as they occur in the metals markets and the economy and will update its impairment analysis to take account of any such changes, as appropriate.

### **CRITICAL ACCOUNTING ESTIMATES**

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

For a complete list of the significant accounting policies as well as information concerning the use of estimates and measurement uncertainty, reference should be made to Notes 2 and 3 of the Company's 2009 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 2009 Audited Consolidated Financial Statements.

The Company's recorded value of its exploration and development projects 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 is calculated using an option-pricing model that takes into account the exercise price, expected life of the option/warrant, expected volatility of the underlying shares, expected dividend yield, and the risk free interest rate for the term of the option/warrant.

### **NEW ACCOUNTING POLICIES**

The volume of accounting pronouncements being introduced by The Canadian Institute of Chartered Accountants ("CICA") applicable to the Company has reduced significantly pending the transition to International Financial Reporting Standards ("IFRS") discussed in more detail below.

#### **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the CICA approved EIC 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The implementation of this guidance has not had any material impact on the Company's financial statements.

#### **Amendment to Financial Instruments – Disclosures**

During 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy of three levels. The levels of the fair value hierarchy are:

Level One – Unadjusted quoted market prices in active markets for identical assets or liabilities;

Level Two – Inputs other than quoted market prices that are observable for the asset or liability either directly or indirectly; and

Level Three – Inputs that are not based on observable market data.

The Company has included such disclosures in Notes 3 and 6 to the 2009 Audited Consolidated Financial Statements.

## **FUTURE ACCOUNTING CHANGES**

### **International Financial Reporting Standards**

#### ***Overview***

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

#### ***Project Plan***

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

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

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

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

#### ***Status of Project***

The Company has completed Phase 1 as outlined above and has commenced Phase 2 of its IFRS transition. The diagnostic review, in particular, has been prepared and the preliminary selection of transition election options has been made. All such work has been carried out primarily on a "business as usual" basis; should the Company make significant capital acquisitions, secure significant financing and move ahead towards production, it will need to upgrade accounting systems and make additional accounting policy selections. Such choices will be made with IFRS transition in mind in order to manage differences until full conversion is achieved. The Company believes that it is well-positioned to meet the transition to IFRS.

#### ***Diagnostic Review***

In common with many junior mining companies, the main differences in accounting under IFRS relate to exploration and development properties. In particular, accounting for impairment has some major differences. Firstly, the test for impairment requires a "trigger" rather than being an annual test. It is performed on a cash-generating-unit basis (likely analogous to a defined project for the Company), the recoverable amount uses discount factors (unlike the two-tier test under extant Canadian GAAP) and write-ups are required to original cost. The concept of a write-up is a major paradigm shift and is expected to lead to increased volatility of earnings. The Company will be required to perform impairment tests at the transition date of January 1, 2010 with any transition adjustments being made to retained earnings.

The Company may enter into joint venture arrangements with third parties. Presently, the accounting policy is to account for these using the proportionate consolidation method. IFRS may remove this alternative and require equity accounting. This is not expected to represent a major change for the Company.

The definition and test for functional currency is different under IFRS. The Company expects that the Canadian dollar will continue to be its functional currency but both primary and secondary tests are required which consider such factors as the denomination of major revenues, expenditures and financing.

Should the Company raise debt financing in the future for any of its specific projects, interest must be capitalized to that project. Under extant Canadian GAAP, there is a choice of capitalizing or expensing interest.

#### ***Expected Transition Elections***

The Company's guiding premise with respect to transition elections is to manage changes to a minimum unless there is a compelling reason for making a change. This also appears to have been the experience in other jurisdictions where IFRS conversion has already taken place. Accordingly the Company expects to make the following elections, where applicable:

- Continue to capitalize exploration costs;
- Retain prior accounting for historic business combinations – no retroactive application of IFRS;
- Use cost for property and equipment rather than revaluation model; and
- Choose not to adopt retroactive application of fair value accounting on options (or predecessor options) granted prior to November 2002.

#### **Business Combinations**

In October, 2008, the CICA issued Handbook Section 1582, Business Combinations, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

#### **Non-controlling Interests**

Also in October, 2008, the CICA issued Handbook Section 1602, Non-controlling Interests, to provide guidance on accounting for non-controlling interests subsequent to a business combination. This is effective for fiscal years beginning on or after January, 2011.

#### **Consolidated Financial Statements**

In October, 2008, the CICA issued Handbook Section 1601, Consolidated Financial Statements, to establish new standards for consolidation of financial statements. This is effective for fiscal years beginning on or after January 2011.

Should the Company engage in a future business combination, it would consider early adoption of Sections 1582, 1601 and 1602, as appropriate to coincide with the adoption of IFRS.

### **CORPORATE GOVERNANCE**

#### **Evaluation of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal year ended December 31, 2009, an evaluation was commissioned by the Company under the supervision of the Certifying Officers and with the participation of management of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2009. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

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

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external

purposes in accordance with Canadian GAAP. The Company used the COSO control framework. For the fiscal year ended December 31, 2009, an evaluation was commissioned by the Company under the supervision of the Certifying Officers and with the participation of management of the effectiveness of the Company's internal control over financial reporting. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's internal controls over financial reporting and procedures were effective as at December 31, 2009. During the evaluation process, the Company made improvements to the internal controls over financial reporting.

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

There were no changes to the Company's internal controls over financial reporting that occurred during the year ended December 31, 2009 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

### **RELATED PARTY TRANSACTIONS AND MANAGEMENT AGREEMENT**

Included in accounts payable and accrued liabilities at December 31, 2009 are amounts due to officers and directors of the Company in the amount of \$265,000 (December 31, 2008 - \$114,000). These amounts relate primarily to directors' fees payable which were settled in January 2010.

The Company's Lac Rocher property is subject to a discovery incentive plan (the "DIP") to reward certain individuals involved with 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.

The Company obtains management, administrative assistance and facilities from Nuinsco pursuant to a management agreement. The fees payable by the Company under the arrangement are recorded at the exchange amount which is equal to the cost to Nuinsco of providing such services plus 10 percent. General and administrative costs charged to the Company during the year ended December 31, 2009 totalled \$612,000 (2008 - \$650,000). In addition project-related costs aggregating \$59,000 (2008 - \$66,000) have been charged to the Company by Nuinsco during the year and are included in exploration and development costs on the balance sheet. Victory Nickel charged Nuinsco \$19,000 for the year ended December 31, 2009 (2008 - \$53,000) for project-related costs incurred by it on behalf of Nuinsco. The management agreement commenced February 1, 2007 and is terminable by Nuinsco upon 90 days notice and by the Company upon 180 days notice. No such notice has been received or made.

Amounts due to Nuinsco are unsecured, non-interest bearing and due on demand. Nuinsco ceased to be a shareholder with significant interest on July 31, 2009.

### **OUTSTANDING SHARE DATA**

At March 11, 2010, the Company had 331,578,900 common shares issued and outstanding, including the flow-through financing completed in February 2010. In addition, there were 29,711,498 stock options and 34,665,293 warrants outstanding on March 11, 2010, which if exercised and issued would bring the fully diluted issued common shares to a total of 395,955,691, and would generate cash of approximately \$12,085,000 in addition to the \$686,000 received in February. The majority of the warrants cannot be exercised until August 18, 2010.

## RECENT DEVELOPMENTS

Developments not already discussed elsewhere in this MD&A are as follows:

### **Stock Options Issuance**

On January 4, 2010, the Board of Directors granted 5,490,000 stock options at \$0.16 per share to directors, officers, employees and consultants. Of the options granted, 4,245,000 vest immediately and 1,245,000 vest over one year.

### **Flow-through financing**

On February 26, 2010, the Company completed a flow-through financing of 3,429,139 units of securities at a price of \$0.20 per Unit generating gross proceeds of \$685,828. Each Unit comprises one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.26 for a period of 12 months from closing. The Company also issued 205,748 finder warrants which entitle the holder to purchase one common share at an exercise price of \$0.175 for a period of 12 months from issuance.

## RISKS AND UNCERTAINTIES

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. The risk factors which should be taken into account in assessing Victory Nickel's activities and an investment in its securities include, but are not necessarily limited to, those set out below.

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

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

### **Industry Risks**

#### *Speculative Nature of Mineral Exploration*

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

#### *Development Projects*

In general, development projects have no operating history upon which to base estimates of future cash operating costs. For development projects such as the mineral resource properties owned by Victory Nickel, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital cost, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. In addition, there remains to be undertaken certain feasibility and/or development preparation work on the

projects that could adversely impact estimates of capital and operating costs required for the development of the projects. Costs necessary to develop the projects could be significant and will have a direct impact on the economic evaluation of the projects. As a result, it is possible that the actual capital cost, cash operating costs and economic returns of the projects may differ from those currently estimated. The costs estimated under the DFS for Minago differed from the PEA and may differ again upon actual development.

### ***Competition***

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

### **Operational Risks**

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

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

#### ***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.

#### ***Resources, Reserves and Production***

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

#### ***Title Risks***

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

No assurance can be given that Victory Nickel's properties are not subject to prior unregistered agreements or interests or undetected claims or interests which could be material and adverse to Victory Nickel. Additionally, mineral properties may carry with them significant development costs and abandonment and site restoration obligations for which Victory Nickel may, or will, become responsible for in the future.

***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.

**Financial and Investment Risks*****Substantial Capital Requirements***

Victory Nickel will have to make substantial capital expenditures for the development of and to achieve production from its projects. There can be no assurance that any debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Victory Nickel. Moreover, future activities may require Victory Nickel to alter its capitalization significantly. The inability of Victory Nickel to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects. Flow-through financing cannot be used to fund the Company's corporate costs.

***Market Perception***

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

***Metal Prices***

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

***Areas of Investment Risk***

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

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

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

**Regulatory Risks*****Government Regulation***

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

enforced. Environmental and social impact studies may be required for some operations and significant fines and clean up responsibilities may be assessed for companies causing damage to the environment in the course of their activities.

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

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

**Other Risks**

***Environmental and Health Risks***

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

***Key Personnel***

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

***Conflicts of Interest***

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

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

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

**Summary**

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

**FORWARD-LOOKING STATEMENTS**

**Forward-Looking Information:** This MD&A contains forward-looking information. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow, costs, economic return, net present value, mine life and financial models, mineral resource estimates, potential mineralization, potential mineral resources, timing of possible production and the Company's development



plans and objectives) constitute forward-looking information. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company.

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

**March 11, 2010**