



**VICTORY NICKEL INC.**  
(A Development Stage Entity)

**UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2010 AND 2009**

**DATED NOVEMBER 9, 2010**

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

The accompanying unaudited interim financial statements of Victory Nickel Inc. for the three and nine months ended September 30, 2010 and 2009 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

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

**VICTORY NICKEL INC.**  
**(A Development Stage Entity)**  
**BALANCE SHEETS**

	September 30, 2010	December 31, 2009
(in thousands of Canadian dollars)	(unaudited)	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 597	\$ 4,078
Marketable securities (Note 5)	5,523	1,254
Due from Nuinsco Resources Limited (Note 12)	22	-
Accounts receivable	180	294
Prepaid expenses and deposits	28	35
<b>Total Current Assets</b>	<b>6,350</b>	5,661
<b>Exploration and Development Projects (Note 6)</b>	<b>36,982</b>	33,597
<b>Property and Equipment (Note 7)</b>	<b>718</b>	88
	<b>\$ 44,050</b>	<b>\$ 39,346</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 12)	\$ 734	\$ 1,367
Due to Nuinsco Resources Limited (Note 12)	-	33
<b>Total Current Liabilities</b>	<b>734</b>	1,400
<b>Future Income Tax Liability (Note 9)</b>	<b>87</b>	387
	<b>821</b>	1,787
<b>Shareholders' Equity (Note 8)</b>		
Share capital	45,076	38,937
Contributed surplus	3,772	2,980
Deficit	(5,008)	(5,356)
Accumulated other comprehensive (loss) income (Note 10)	(611)	998
	<b>43,229</b>	37,559
	<b>\$ 44,050</b>	<b>\$ 39,346</b>

**NATURE OF OPERATIONS (Note 1)**

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**STATEMENTS OF OPERATIONS**

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
<b>Revenue</b>				
Interest income	\$ 1	\$ 9	\$ 9	\$ 54
Gain on sale of marketable securities	16	211	159	232
	17	220	168	286
<b>Costs and Expenses</b>				
General and administrative (Note 12)	293	220	1,047	1,017
Stock option compensation (Note 8)	39	12	620	218
Other stock-based compensation (Note 8)	-	-	173	-
Fee to Nuinsco Resources Limited (Note 8)	33	-	33	-
Amortization of property and equipment	5	11	7	17
Writedown (recovery) of exploration and development projects (Note 6)	5	-	(993)	-
	375	243	887	1,252
<b>Loss before the Undernoted</b>	<b>(358)</b>	<b>(23)</b>	<b>(719)</b>	<b>(966)</b>
<b>(Loss) Gain on Securities Held for Trading (Note 5)</b>	<b>(39)</b>	<b>-</b>	<b>1,050</b>	<b>-</b>
<b>Future Income Tax Recovery (Note 9)</b>	<b>(87)</b>	<b>(58)</b>	<b>(17)</b>	<b>(610)</b>
<b>Net (Loss) Income for the Period</b>	<b>\$ (310)</b>	<b>\$ 35</b>	<b>\$ 348</b>	<b>\$ (356)</b>
<b>(Loss) Income per Share</b>				
<b>Basic</b>	<b>\$ (0.00)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ (0.00)</b>
<b>Diluted</b>	<b>\$ (0.00)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ (0.00)</b>
<b>Weighted Average Common Shares Outstanding</b>				
<b>Basic</b>	<b>376,412,000</b>	<b>294,324,000</b>	<b>349,992,000</b>	<b>272,708,000</b>
<b>Diluted</b>	<b>378,991,000</b>	<b>296,793,000</b>	<b>353,540,000</b>	<b>274,185,000</b>

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(in thousands of Canadian dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Net (loss) income for the period	\$ (310)	\$ 35	\$ 348	\$ (356)
Other comprehensive income (loss) (Note 10)	51	110	(1,609)	410
<b>Comprehensive (Loss) Income for the Period</b>	<b>\$ (259)</b>	<b>\$ 145</b>	<b>\$ (1,261)</b>	<b>\$ 54</b>

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
**(A Development Stage Entity)**  
**STATEMENTS OF CASH FLOWS**

(in thousands of Canadian dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
<b>Cash from (used by)</b>				
<b>Operating Activities</b>				
Net (loss) income for the period	\$ (310)	\$ 35	\$ 348	\$ (356)
Items not affecting cash:				
Stock option compensation (Note 8)	39	12	620	218
Other stock-based compensation (Note 8)	-	-	173	-
Amortization	5	11	7	17
Fee to Nuinsco Resources Limited (Note 8)	33	-	33	-
Loss (gain) on securities held for trading (Note 5)	39	-	(1,050)	-
Gain on sale of marketable securities (Writedown) recovery of exploration and development projects (Note 6)	(16)	(211)	(159)	(232)
Future income tax recovery (Note 9)	(87)	(58)	(17)	(610)
Change in non-cash working capital (Note 11)	(29)	71	(168)	538
<b>Cash (used by) from operating activities</b>	<b>(331)</b>	<b>(140)</b>	<b>780</b>	<b>(425)</b>
<b>Financing Activity</b>				
Issue of common shares and warrants	368	3,780	6,055	3,717
<b>Cash from financing activities</b>	<b>368</b>	<b>3,780</b>	<b>6,055</b>	<b>3,717</b>
<b>Investing Activities</b>				
Exploration and development projects	(337)	(912)	(7,107)	(3,282)
Deposits on equipment	(301)	-	(608)	-
Proceeds from sale of marketable securities	650	383	825	426
Proceeds from option of Lynn Lake	-	-	1,100	-
Purchase of marketable securities	-	-	(4,526)	-
<b>Cash from (used by) investing activities</b>	<b>12</b>	<b>(529)</b>	<b>(10,316)</b>	<b>(2,856)</b>
<b>Net Increase (Decrease) in Cash During the Period</b>	<b>49</b>	<b>3,111</b>	<b>(3,481)</b>	<b>436</b>
<b>Cash and Cash Equivalents, Beginning of the Period</b>	<b>548</b>	<b>1,743</b>	<b>4,078</b>	<b>4,418</b>
<b>Cash and Cash Equivalents, End of the Period</b>	<b>\$ 597</b>	<b>\$ 4,854</b>	<b>\$ 597</b>	<b>\$ 4,854</b>

The accompanying notes are an integral part of these financial statements

**VICTORY NICKEL INC.**  
(A Development Stage Entity)  
**STATEMENTS OF SHAREHOLDERS' EQUITY**

(unaudited) (in thousands of Canadian dollars)	Share Capital		Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Amount				
<b>Balance as at December 31, 2008</b>	<b>261,709,809</b>	<b>\$ 38,264</b>	<b>\$ 1,857</b>	<b>\$ (4,771)</b>	<b>\$ -</b>	<b>\$ 35,350</b>
Options granted and vesting	-	-	250	-	-	250
Flow-through share renunciation	-	(2,192)	-	-	-	(2,192)
Shares and warrants issued under rights offering	65,489,952	2,783	907	-	-	3,690
Options exercised	950,000	82	(34)	-	-	48
Net loss for the year	-	-	-	(585)	-	(585)
Other comprehensive income	-	-	-	-	998	998
<b>Balance as at December 31, 2009</b>	<b>328,149,761</b>	<b>38,937</b>	<b>2,980</b>	<b>(5,356)</b>	<b>998</b>	<b>37,559</b>
Options granted and vesting	-	-	620	-	-	620
Shares issued under private placements	10,000,000	1,675	264	-	-	1,939
Shares issued pursuant to reciprocal placement	36,615,385	3,798	-	-	-	3,798
Shares issued under Share Bonus Plan	1,571,100	173	-	-	-	173
Warrants exercised	3,339,282	493	(92)	-	-	401
Net income for the period	-	-	-	348	-	348
Other comprehensive loss	-	-	-	-	(1,609)	(1,609)
<b>Balance as at September 30, 2010</b>	<b>379,675,528</b>	<b>\$ 45,076</b>	<b>\$ 3,772</b>	<b>\$ (5,008)</b>	<b>\$ (611)</b>	<b>\$ 43,229</b>

The accompanying notes are an integral part of these financial statements

## NOTES TO FINANCIAL STATEMENTS

(A Development Stage Entity)

**September 30, 2010 and 2009 (unaudited)**

(all tabular amounts are in thousands of Canadian dollars)

### 1. NATURE OF OPERATIONS

Victory Nickel Inc. (“Victory Nickel” or the “Company”) is primarily engaged in the acquisition, exploration and development of nickel properties in Canada. The Company conducts its activities on its own or participates with others on a joint venture basis. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

The Company is a development stage entity and is subject to the risks and challenges experienced by other companies in a comparable stage of development. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing to meet the minimum capital required to successfully complete its projects. Development of the Company’s current projects to the production stage will require significant financing. Given the current economic climate, the ability to raise funds is challenging.

As at September 30, 2010, the Company has working capital of \$5,616,000 (December 31, 2009 - \$4,261,000) which, along with expected cash flows from the option of the Lynn Lake property to Prophecy Resource Corp. (“Prophecy”) as described in Note 6, is available to fund ongoing operations. The Company has announced the results of its feasibility study (“FS”) on its Minago project.

None of the Company’s exploration or development projects has commenced commercial production and accordingly the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of exploration and development projects, and ultimately the Company’s ability to continue as a going concern, is dependent upon the discovery of economically recoverable reserves and resources, the Company’s ability to finance development of its projects through debt or equity financings and achieving future profitable production, or alternatively upon the profitable disposal of projects.

Should the Company not be able to discover economically recoverable reserves, obtain the necessary financing or achieve future profitable production or sale of properties, the carrying value of the Company’s assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company’s ability to continue as a going concern as contemplated under Canadian generally accepted accounting principles (“Canadian GAAP”).

### 2. BASIS OF PRESENTATION, USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

#### Basis of Presentation

These unaudited interim financial statements have been prepared by management in accordance with Canadian GAAP and include the accounts of the Company and those of Independent Nickel Corp. (“Independent”). Independent was formally wound up into Victory Nickel effective August 31, 2009.

These financial statements reflect the accounting principles described in the notes to the Company’s audited consolidated financial statements for the year ended December 31, 2009 (the “2009 Audited Financial Statements”) (with the exception of any changes set out in Note 3 below) and accordingly, should be read in conjunction with those annual financial statements and the notes thereto.

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

#### Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes those estimates are reasonable. The accounting elements which require management to make significant estimates and assumptions include determining impairment in and values of exploration and development projects and future income taxes and the valuation of stock option compensation and investments. Accounting for these areas is subject to estimates and assumptions regarding, among other things, nickel recoveries, future nickel prices, future operating costs, future mining activities and future market volatility. Management bases its

estimates on historic experience and other assumptions it believes to be reasonable under the circumstances. However, actual results could differ from those estimates.

### **Measurement Uncertainty**

The carrying values of the Company's exploration and development projects at September 30, 2010 was \$36,982,000 (December 31, 2009 - \$33,597,000). Management's review of these carrying values indicated that at September 30, 2010, the properties were not impaired. Management's conclusion is dependent on assumptions about several factors including future operating costs, nickel production levels, future nickel prices and capital equipment needs and costs. Over the last year or so, there has been unprecedented volatility in several of the factors involved in such an analysis including nickel and other metals prices, costs of fuel, power and other operating supplies and the costs of capital equipment which has resulted in an increased amount of measurement uncertainty. While such volatility appears to have somewhat calmed, future changes in these parameters could give rise to material changes in asset carrying values. Management will continue to monitor the critical factors impacting its impairment analysis and will re-evaluate the carrying value of its long-lived assets as necessary.

The Company also has investments in marketable securities classified as "level two", as described in the 2009 Audited Financial Statements, which involves making estimates on the fair value of its warrants which are derivative instruments. The Company utilizes the Black-Scholes option-pricing model to value such securities which involves making estimates on inputs to the model such as stock volatilities.

## **3. NEW AND FUTURE ACCOUNTING POLICIES**

### **New Accounting Policies**

There have been no new accounting policies adopted in these unaudited interim financial statements. 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").

### **Future Accounting Changes**

There have been no additional future accounting changes from those reported in Note 3 to the 2009 Audited Financial Statements.

## **4. FINANCIAL RISK MANAGEMENT**

### **Financial Risk Management**

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities and amounts due from or to Nuinsco Resources Limited ("Nuinsco"). The fair value of these financial instruments approximates their carrying value.

The Company's risk exposures with respect to its financial instruments and the impact on the Company's financial statements are described in Note 4 to the 2009 Audited Financial Statements and are updated below:

### **Liquidity risk**

As at September 30, 2010, the Company had working capital of \$5,616,000 (December 31, 2009 - \$4,261,000). The Company believes it has sufficient working capital to meet its obligations as they become due. As explained in Note 1, development of the Company's current projects to the production stage will require significant financing, which may prove challenging. The Company currently has no long-term liabilities except for future income taxes of \$87,000 (2009 - \$387,000). All other contractually obligated cash flows are payable within the next year, including the electrical equipment (Note 7).

### **Market risk**

The Company is exposed to interest rate risk and commodity price risk. It is not exposed to any significant currency risk with respect to its financial instruments.

### *Interest rate risk*

The Company's cash equivalents earn interest at fixed short-term rates of approximately 1.0% at September 30, 2010 and 0.7% at December 31, 2009. None of the Company's other financial investments are interest-bearing, and therefore the Company is not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

## 5. MARKETABLE SECURITIES

	September 30, 2010	December 31, 2009
Level One Securities - Common Shares	\$ 5,364	\$ 1,254
Level Two Securities - Warrants	159	-
	<b>\$ 5,523</b>	<b>\$ 1,254</b>

The Company records its level one securities, at acquisition, at available market prices with any excess of fair value above acquisition cost being recorded as gain on securities held for trading.

The warrants the Company owns are not publicly-traded. However, they are susceptible to valuation using the Black-Scholes option-pricing model, the inputs for which are readily determinable. Any change in fair value after initial recognition, is recorded through the statement of operations as a gain or loss on securities held for trading. As at September 30, 2010, the warrants were valued, using the Black-Scholes option-pricing model, at \$0.227 and \$0.287, using the following assumptions:

<b>Warrant Assumptions</b>	<b>September 30, 2010</b>
Dividend yield	-
Expected volatility	<b>138% and 145%</b>
Risk free interest rate	<b>1.40%</b>
Expected remaining term - years	<b>1.5 and 1.3</b>

## 6. EXPLORATION AND DEVELOPMENT PROJECTS

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

	Balance as at December 31, 2009 <sup>(1)</sup>	Current Expenditures	Recoveries	Writedowns/ Excess Proceeds	Balance as at September 30, 2010
Lac Rocher <sup>(2)</sup>	\$ 4,505	\$ 52	\$ -	\$ -	\$ 4,557
Mel	2,473	168	-	-	2,641
Minago <sup>(3)</sup>	25,576	4,442	(234)	-	29,784
Lynn Lake <sup>(4)</sup>	1,043	32	(2,068)	993	-
	<b>\$ 33,597</b>	<b>\$ 4,694</b>	<b>\$ (2,302)</b>	<b>\$ 993</b>	<b>\$ 36,982</b>

  

	Balance as at December 31, 2008	Current Expenditures	Recoveries	Writedowns/ Excess Proceeds	Balance as at September 30, 2009
Lac Rocher <sup>(2)</sup>	\$ 3,580	\$ 590	\$ (28)	\$ -	\$ 4,142
Mel	2,462	35	-	-	2,497
Minago	23,905	1,234	-	-	25,139
Lynn Lake	1,483	144	-	-	1,627
	<b>\$ 31,430</b>	<b>\$ 2,003</b>	<b>\$ (28)</b>	<b>\$ -</b>	<b>\$ 33,405</b>

<sup>(1)</sup> The balance as at December 31, 2009 is shown net of recoveries of \$991,000 representing the effects of tax credits on expenditures claimed for investment tax credit ("ITC") purposes.

<sup>(2)</sup> The expenditures on the Lac Rocher project in the years ended December 31, 2009 and 2008 are shown net of Québec mining duties receivable of \$28,000 and \$179,000, respectively. The claim reflected in 2008 was reduced and adjusted against current expenditures in 2009.

<sup>(3)</sup> The Minago project is shown net of recoveries of \$234,000 representing the effects of tax credits on expenditures claimed for ITC purposes.

<sup>(4)</sup> The expenditures on the Lynn Lake property are shown net of a \$300,000 payment by Prophecy in the last quarter of 2009, \$300,000 in January 2010, \$400,000 in April 2010, \$400,000 in June 2010 and reflect the receipt of Prophecy common shares in January 2010 with a fair value at that time of \$968,000. The amount of \$993,000 represents the excess of consideration received under the option agreement and is reflected as a recovery of exploration and development projects through the statement of operations.

### **Lac Rocher**

The Lac Rocher project, which is 100% owned, is located 140 kilometres northeast of Matagami in northwestern Québec. The project is subject to a royalty of \$0.50 per ton on any ores mined and milled from the property and a 2% net smelter return royalty (“NSR”).

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

Metallurgical testing of the massive sulphide mineralization from the deposit was completed in December 2007. In February, 2008, the Company announced positive results from metallurgical testing of the disseminated sulphide zone and they were incorporated into the PEA completed in November 2008.

The Company completed the construction of an access road in the third quarter of 2009 and performed diamond drilling to provide geotechnical data for portal and ramp development.

### **Mel**

Effective August 27, 1999, Nuinsco (the predecessor entity of Victory Nickel) entered into an option agreement (the “Agreement”) with Inco Limited (predecessor to CVRD Inco Limited, now Vale) for the exploration and development of Vale’s Mel properties (the “Mel Properties”) located in the Thompson area of northern Manitoba. Pursuant to the Agreement, sufficient expenditures have been incurred to earn a 100% interest in the Mel Properties, and in 2007 the Company exercised its option to acquire such interest. Vale had the right to earn back a 51% interest by incurring expenditures of \$6,000,000 over a four-year period. On September 14, 2010, Vale notified the Company that it will not exercise this back-in right.

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

### **Minago**

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

From 2006 to date, considerable work has been performed, including diamond drilling, metallurgical testing and engineering studies. This work formed the basis for the FS, the results of which were announced in December 2009 and improvements thereto announced in June 2010.

In January, 2008, the Company entered into an option agreement with Xstrata Nickel (“Xstrata”), a business unit of Xstrata Canada Corporation, to acquire a 100% interest in five mineral claims (“the Properties”) totalling 691 hectares located adjacent to the Company’s existing Minago property package.

The acquisition has been ratified by Xstrata and a 100% interest in the Properties has been registered with the Company. The Properties will be subject to an NSR interest retained by Xstrata, as follows:

- In respect of nickel:
  - a 2% NSR when the LME three-month nickel price is equal to or greater than US\$13,227 per tonne in that quarter; and
  - a 1% NSR when the LME three-month nickel price is less than US\$13,227 per tonne in that quarter.
- In respect of other metals, minerals and concentrates:
  - a 2% NSR.

In the event that the NSR is a 2% royalty, the Company may buy back up to 50% of the NSR royalty interest for a maximum of \$1,000,000. In addition, Xstrata has the right (the “Back-in Right”) to earn a 50% interest in the Properties if any resource is discovered on the Properties that exceeds 500,000,000 pounds of contained nickel in measured and indicated resources. To exercise the Back-in Right, Xstrata must commit to pay direct expenditures or an amount in cash to the Company equal to twice the aggregate of all direct exploration, development and mining expenditures incurred by the Company on the Properties prior to the delivery by Xstrata of the back-in right notice.

**Lynn Lake**

The Company owns a 100% right, title and interest in the Lynn Lake nickel property (“Lynn Lake”), covering approximately 600 hectares in northern Manitoba.

On October 21, 2009, the Company announced that it had optioned Lynn Lake to Prophecy. Under the terms of the agreement, Prophecy can acquire a 100% interest in Lynn Lake by paying the Company an aggregate of \$4,000,000 over approximately four and a half years, by incurring \$3,000,000 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. Because of delays experienced by Prophecy in receiving regulatory approvals, certain of the timing contemplated under the agreement was extended.

The agreement, as extended, provides for the \$4,000,000 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 (cash was received on April 13, 2010); and
- \$1,000,000 on March 1 of each of 2011, 2012 and 2013.

In June, 2010, the Company received an advance of \$400,000 from Prophecy out of its scheduled amount of \$1,000,000 due in March 2011. Accordingly, a balance of \$600,000 is due by March 1, 2011.

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.

As at September 30, 2010, \$993,000 excess of proceeds under the option agreement in excess of the book value of the property had been received and accordingly was recorded through the statement of operations as a recovery of exploration and development projects in respect of Lynn Lake.

**Wakami, Lar and Wellmet Projects**

The Company has incurred minimal expenditures on these properties in 2010 and 2009.

**Flow-through Commitment**

As at September 30, 2010, the Company had fulfilled its commitment to incur exploration expenditures in relation to flow-through share financings in 2010.

**7. PROPERTY AND EQUIPMENT**

	As at September 30, 2010			As at December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 43	\$ -	\$ 43	\$ 43	\$ -	\$ 43
Building	40	4	36	40	3	37
Equipment	637	29	608	29	28	1
Vehicle	32	1	31	11	4	7
	\$ 752	\$ 34	\$ 718	\$ 123	\$ 35	\$ 88

Included in equipment are deposits of \$608,000 related to the purchase of transformers and other electrical equipment; the equipment is not in service and is not being depreciated. On May 10, 2010, the Company entered into an agreement to purchase equipment for the Minago project. The total price of US\$2,840,000 is contingent upon satisfactory testing results, with specified amounts due after testing and the full remaining balance due prior to shipping.

## 8. SHAREHOLDERS' EQUITY

### Share Capital

Authorized:

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

Issued and Outstanding:

	Number of Shares		Amount
<b>Balance as at December 31, 2009</b>	<b>328,149,761</b>	<b>\$</b>	<b>38,937</b>
Shares issued pursuant to private placement <sup>(a)</sup>	3,429,139		544
Shares issued pursuant to private placement <sup>(b)</sup>	6,570,861		1,132
Shares issued pursuant to reciprocal placement <sup>(c)</sup>	36,615,385		3,797
Shares issued under Share Bonus Plan <sup>(d)</sup>	1,571,100		173
Warrants exercised <sup>(e)</sup>	3,339,282		493
<b>Balance as at September 30, 2010</b>	<b>379,675,528</b>	<b>\$</b>	<b>45,076</b>

- (a) On February 26, 2010, the Company completed the first tranche of a flow-through financing of 3,429,139 units of securities at a price of \$0.20 per unit generating gross proceeds of \$686,000. 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 share issue costs were approximately \$68,000 before income taxes of \$17,000 and the Company apportioned proceeds of approximately \$91,000 to the cost of the warrants and finder's warrants.
- (b) On April 8, 2010, the Company completed the second tranche of a flow-through financing of 6,570,861 units of securities at a price of \$0.21 per unit generating gross proceeds of \$1,380,000. 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 share issue costs were approximately \$103,000 before income taxes of \$29,000 and the Company apportioned proceeds of approximately \$174,000 to the cost of the warrants and finder's warrants. Upon closing of the second tranche, the Company issued 250,000 finder's 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.
- (c) On May 28, 2010, the Company issued 36,615,385 common shares pursuant to the reciprocal placement with Prophecy. The common shares were issued at a price of \$0.104 per share generating gross proceeds of \$3,808,000. The share issue costs were approximately \$15,000 before income taxes of \$4,000. In turn, Victory Nickel subscribed for 7,000,000 Prophecy common shares which are included in marketable securities (Note 5).
- (d) On May 28, 2010, the Company issued 1,571,100 common shares with a fair value of \$173,000 to employees and consultants as discretionary bonuses pursuant to the Company's Share Bonus Plan.
- (e) In August and September, 2010, 3,339,282 warrants were exercised at an exercise price of \$0.12 per share for aggregate consideration of approximately \$401,000; that amount plus the aggregate amount previously recorded through contributed surplus of approximately \$92,000 is reflected as an increase in share capital.

### Stock Options

A summary of options outstanding is as follows:

	Number of Options Outstanding		Average Exercise Price
<b>As at December 31, 2009</b>	<b>24,221,498</b>	<b>\$</b>	<b>0.30</b>
Options granted	5,540,000	\$	0.16
Options expired	(3,509,250)	\$	0.14
<b>As at September 30, 2010</b>	<b>26,252,248</b>	<b>\$</b>	<b>0.29</b>

The 5,540,000 options were granted at a weighted average exercise price of \$0.16 per share; most options were issued in the first quarter, with 50,000 being issued in the third quarter. The weighted average grant date fair value of options granted during the period was \$0.12 (2009 - \$0.04). Accordingly, compensation expense of \$39,000 and \$620,000 was recorded for the three and nine months ended September 30, 2010, respectively (2009 - \$12,000 and \$218,000). All expiries, except for 88,000, occurred in the three months ended September 30, 2010.

The value assigned to options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

Option Assumptions	Nine Months Ended September 30,	
	2010	2009
Dividend yield	-	-
Expected volatility	108% and 110%	106%
Risk free interest rate	2.06% and 2.50%	2.03% and 2.08%
Expected option term - years	4	4 and 5
Fair value per share of options granted	\$0.066 and \$0.119	\$0.036 and \$0.027

Of the 26,252,248 options outstanding at September 30, 2010, 1,270,000 are subject to vesting in the next fiscal year. The aggregate fair value of these unvested options not yet charged to operations is \$41,000.

The following table summarizes information about the stock options outstanding at September 30, 2010:

Range of Exercise Prices	Options Exercisable	Options Outstanding	Years to Expiry <sup>(1)</sup>	Exercise Price <sup>(1)</sup>
\$0.03 - \$0.05	5,115,000	5,115,000	3.33	\$ 0.05
\$0.06 - \$0.14	1,525,000	1,550,000	2.07	\$ 0.12
\$0.15 - \$0.16	4,245,000	5,490,000	4.26	\$ 0.16
\$0.17 - \$0.25	3,204,262	3,204,262	2.07	\$ 0.20
\$0.26 - \$0.32	3,445,750	3,445,750	2.34	\$ 0.29
\$0.33 - \$0.50	2,336,500	2,336,500	2.27	\$ 0.45
\$0.51 - \$0.64	2,850,000	2,850,000	1.44	\$ 0.64
\$0.65 - \$0.82	2,260,736	2,260,736	1.45	\$ 0.82
	24,982,248	26,252,248	2.71	\$ 0.29

<sup>(1)</sup> In this table, "Years to Expiry" and "Exercise Price" have been calculated on a weighted average basis.

### Warrants

The following table describes the warrants outstanding:

	Date Issued	Expiry Date	Number of Warrants	Average Exercise Price
Issued pursuant to rights offering and balance as at December 31, 2009	August 17, 2009	August 17, 2011	32,744,976	\$ 0.120
Exercised in the period			(3,339,282)	
			29,405,694	\$ 0.120
Issued pursuant to private placements:				
Unit warrants	February 26, 2010	February 26, 2011	1,714,569	\$ 0.260
Unit warrants	April 9, 2010	April 9, 2011	3,285,431	\$ 0.260
Finder's warrants	April 9, 2010	April 9, 2011	250,000	\$ 0.175
<b>Balance as at September 30, 2010</b>			<b>34,655,694</b>	<b>\$ 0.141</b>

The proceeds attributable to the unit warrants were estimated using the Black-Scholes option pricing model, with the assumptions as described below.

**Warrant Assumptions**

Dividend yield	-
Expected volatility	<b>115% to 116%</b>
Risk free interest rate	<b>1.10%</b>
Expected term - years	<b>1 year</b>

On July 19, 2010, \$366,000 was advanced to the Company as prepayment for the exercise of warrants. The warrants became exercisable for a one-year period on August 18, 2010. The related fee and interest expense of \$33,000 was charged to Victory Nickel for the advance, which represents the difference between the aggregate exercise price of the warrants and the amount of the advance.

**9. INCOME TAXES**

The income tax recovery differs from the amount computed by applying statutory federal and provincial income tax rates of 31.0% for the three and nine months ended September 30, 2010 (2009 – 33.0%), to the loss before income taxes.

The differences are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Current income taxes				
Expected income tax (recovery) provision based on statutory income tax rate of 31.0% (2009 - 33.0%)	\$ (123)	\$ (8)	\$ 103	\$ (324)
Non-deductible items, net	14	6	250	81
Non-taxable portion of gain/loss on securities	4	-	(187)	-
Effect of change in expected future income tax rates	15	14	(21)	63
Valuation allowance	3	(70)	(162)	(430)
Future income tax recovery	\$ (87)	\$ (58)	\$ (17)	\$ (610)

The future income tax recovery represents the recognition of future income tax assets (to the extent of the future income tax liability) since the Company currently believes that it is more likely than not that the benefit associated with these losses and costs will be realized prior to their expiry. It also includes the effect of enacted rate changes.

**10. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income (“OCI”) is comprised of unrealized gains or losses on marketable securities that are classified as available for sale (Note 5). Changes in the components of OCI are summarized as follows:

	Nine Months Ended September 30,	
	2010	2009
Accumulated OCI at beginning of period	\$ 998	\$ -
OCI for the period representing the change in the fair value of financial assets available for sale, net of related future income taxes of \$nil (2009 - \$nil)	(1,450)	642
Reclassification through operations upon sale of marketable securities	(159)	(232)
Accumulated OCI at end of period	\$ (611)	\$ 410

## 11. CHANGES IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital balances related to operations, for the three and nine months ended September 30, 2010 and 2009, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Accounts receivable, prepaid expenses and deposits	\$ 4	\$ 10	\$ 111	\$ 524
Due to/from Nuinsco Resources Limited	(16)	5	(55)	10
Accounts payable and accrued liabilities	(17)	56	(224)	4
	\$ (29)	\$ 71	\$ (168)	\$ 538

## 12. TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT

Included in accounts payable and accrued liabilities at September 30, 2010 are amounts due to officers and directors of the Company in the amount of \$110,000 (December 31, 2009 - \$265,000). These amounts relate primarily to directors' fees and expense reimbursements payable.

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement. The costs payable by the Company under the management agreement are recorded at the exchange amount which is equal to the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by Nuinsco upon 90 days notice and by the Company upon 180 days notice. Costs charged to the Company in the three and nine months ended September 30, 2010 amounted to \$192,000 and \$529,000 respectively (2009 - \$148,000 and \$445,000) and have been included in general and administrative expenses. In addition, project-related costs aggregating \$4,000 and \$29,000 have been charged to the Company by Nuinsco during the three and nine months ended September 30, 2010 respectively (2009 - \$13,000 and \$47,000) and are included in exploration and development costs on the balance sheet. The Company charged Nuinsco \$5,000 and \$19,000 for the three and nine months ended September 30, 2010 respectively for project-related costs incurred by it on behalf of Nuinsco (2009 - \$8,000 and \$16,000).

Amounts due to Nuinsco are unsecured, non-interest bearing and due on demand.



# **VICTORY NICKEL INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2010**

**DATED NOVEMBER 9, 2010**

# VICTORY NICKEL INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months ended September 30, 2010

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 November 9, 2010 consolidates management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2010, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited interim financial statements for the three and nine months ended September 30, 2010 and 2009 ("Unaudited Interim Financial Statements") and the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008 ("2009 Audited Financial Statements") and the notes thereto. Readers are encouraged to consult the 2009 Audited 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, unless otherwise stated.

### 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 with Prophecy Resource Corp. ("Prophecy") described in the Unaudited Interim Financial Statements) and Mel projects in Manitoba and the Lac Rocher project in Québec. The results of a feasibility study on the Minago Project ("FS") were announced in December 2009. 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 as metal prices are recovering.

### HIGHLIGHTS

During and subsequent to the nine months ended September 30, 2010, the Company:

- Completed a non-brokered private placement financing for aggregate gross proceeds of \$2,065,708.
- Contracted with a consortium of Aboriginal contractors from the communities surrounding Minago for construction of a 4.3km exploration road at the Minago site providing direct access from paved Hwy 6 to a limestone outcrop and the property in general.
- Completed construction of the Minago exploration road in April, on time and on budget.
- Hosted an analyst site visit at the Minago project.
- Began and completed a 10,000m diamond drilling program at Minago designed to upgrade and add to the known resource and further define North Limb mineralization.
- Announced positive results that indicate resource expansion potential and demonstrate the continuity of nickel mineralization in the Minago North Limb.
- Announced positive results from the Minago drill program designed to increase the near-surface resource as part of an ongoing program to enhance the economics of the Minago FS.
- Announced improved economics at Minago.
- Continued to evaluate alternative processes, including hydrometallurgy and DMS technology, to enhance production and lower costs at Minago.
- Continued to evaluate financing structures for both nickel and frac sand in an effort to ensure that Minago mine development will proceed on a timely basis.
- Announced that Vale has determined not to exercise its 51% back-in right on the Mel project, allowing the Company to determine its own strategy for the project.
- Began a comprehensive re-evaluation of the Lac Rocher project in light of current metal price levels.
- Completed reciprocal private placements with Prophecy; Prophecy optioned the Lynn Lake project from the Company in October 2009.

- Completed and filed the Minago Environmental Impact Statement (“EIS”), the most significant milestone in the Minago permitting process.
- Began work on an updated Minago reserve estimate incorporating results from the 10,000m drilling program.

## OUTLOOK

The metals markets, along with world economies have experienced and continue to experience extreme uncertainty and confusion. Nickel in particular has seen some historically high pricing, above US\$24 per pound, drop quickly to 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 but we are now seeing the start of what could be the recovery we have been waiting for.

Nickel recently increased to approximately US\$12 per pound for the first time since mid-2008, dropped to just above US\$8 and has again recovered to US\$10.50. Market consensus appears to be settling on a US\$10 per pound price. Victory Nickel considers this an attractive price and would welcome it as a long-term average. CRU, a London-based research group suggests that nickel production may lag 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. China continues to be the main influence on all metal prices and it is expected to boost output of stainless steel this year. In addition, the US economy is showing signs of recovery, especially in the automotive sector. 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 are recovering. We are there now and are planning for a robust nickel market for many years. For this reason, completion of the Minago FS was timely and the Company plans to move ahead with this mega project. Recent improvements in the FS economics make the Minago project even more attractive. Recent drilling indicates that reserves within the pit will increase and, as a result, waste will decrease. We are working on a revised reserve estimate which should be available before the end of the year along with the improvement in economics. Financing is the immediate challenge, but the strengthening of metal prices should help us to meet it.

The Company’s Mel project has been inactive for some time as we awaited a decision by Vale on its back-in right. This decision has now been made and the Company is pleased to say that Vale’s decision to not participate will allow us to advance this project at the Company’s pace which is significantly different than Vale’s given its relative importance to a company of our size at this stage of Mel’s development. Mel is a project which should be advanced while metal prices are attractive.

The equity markets have been good to the major mining companies as they recovered from the lows of 2008. Unfortunately, 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, investor attention will shift to the junior level. We believe that this time is quickly approaching.

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 FS completed, we are accelerating our efforts to structure a financing proposal that will work in today’s environment. At the same time, we are reviewing opportunities to optimize the economics of Minago. Efforts to date have resulted in improvements to the FS base case to the tune of a 14.7% increase in undiscounted cash flow to over \$1 billion, a 24.9% increase in the 8% discounted net present value (“NPV”) and an 11.9% increase in internal rate of return (“IRR”) to 19.8% - and we’re confident that this is just the beginning.

The recent drill program to upgrade resources within the proposed pit will improve the economics of Minago once again. Minago will make a significant contribution to the welfare of Manitoba and its residents. Construction at Minago is expected to provide approximately 600 jobs and 400 full-time jobs during production. We are receiving the full support of the Manitoba government and communities of interest near Minago to move the project forward.

In April, the Company filed its EIS with regulators in Manitoba which represents the final stage in the permitting process. This is a major achievement and represents the culmination of four years of work by the Company and its third-party consultants. It will form the blueprint for the mine and is the final requirement to prepare the project for development. Filing of the EIS triggers a 30-day public comment period. Comments have now been received and the

Company has dealt with all of them. It is now up to the Manitoba Government to complete the consultation process on a timely basis to allow the issuance of permits.

During 2009, the Company entered into an agreement to option its Lynn Lake property ("Lynn Lake") to Prophecy. In addition to receiving cash, the Company became a significant shareholder of Prophecy and will participate in the upside potential of Lynn Lake through this equity stake. Prophecy is advancing Lynn Lake as expected and is planning a drill program. Prophecy's strategy is to create appeal to international institutional investors by consolidating advanced projects worldwide in a range of commodities. In addition to the Lynn Lake property, Prophecy presently has an interest in a copper/molybdenum property in BC, a vanadium project in Ontario and recently completed a merger with Red Hill Energy Inc. which has interests in coal in Mongolia. Prophecy has also announced a combination with Northern Platinum Ltd. whose principal asset is a Ni-Cu-Pt-Pd Project in the Yukon Territory. The equity holding in Prophecy could prove to be a big winner for Victory Nickel and its stakeholders.

Lac Rocher continues to be held ready to develop until such time as metal prices are attractive enough to generate positive cash flow. With the strengthening price of nickel and the price of copper above US\$3.80 per pound, that time may be near.

With four projects and 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 to improve shareholder value.

## RESULTS OF OPERATIONS

### *Three Months Ended September 30, 2010 Compared With Three Months Ended September 30, 2009*

For the three months ended September 30, 2010, the Company had a net loss of \$310,000 or \$0.00 per share (2009 – net income of \$35,000 or \$0.00 per share).

The net loss resulted from general and administrative expenses of \$293,000 (2009 - \$220,000), stock option compensation of \$39,000 (2009 - \$12,000), loan fee of \$33,000 to Nuinsco Resources Limited ("Nuinsco"), and a write-down with respect to the Lynn Lake property of \$5,000. Results in 2010 include a loss on securities held for trading of \$39,000 related to the Company's interest in Prophecy shares and warrants and a future income tax recovery of \$87,000 (2009 –\$58,000) as well as gains on the sales of marketable securities of \$16,000 compared with \$211,000 in the prior period.

The gain on sale of marketable securities in the third quarter of 2010 was from sales of Wallbridge Mining Company Limited ("Wallbridge") and Prophecy shares; a gain was realized on the sale of Wallbridge of \$83,000 (the value of Wallbridge shares had been written down through operations in 2008) and a loss was realized on the sale of Prophecy shares of \$67,000. The sales were made for liquidity purposes and generated proceeds in the period of \$650,000. In 2009, the sales were of Wallbridge shares

General and administrative expenses include \$192,000 in costs charged by Nuinsco as described under related party transactions and management agreement below (2009 - \$148,000). Costs allocated from Nuinsco pursuant to the management agreement between the Company and Nuinsco are activity related. The relationship with Nuinsco allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company. Third quarter costs allocated reflect additional staff costs due to the hiring of a controller in July.

General and administrative expenses increased by approximately \$73,000, from \$220,000 in 2009 to \$293,000 for the three months ended September 30, 2010; \$44,000 of the increase is attributable to the management charges as described above. Discretionary expenditures continue to be closely monitored. The individual cost components of general and administrative expenses are relatively comparable period over period.

The costs of public company compliance for Victory Nickel in the third quarter of 2010 are approximately \$129,000 compared with \$111,000 in 2009. Such costs are non-discretionary and are generally weighted to the first half of a financial year. In 2009, the Company decided to eliminate the formal review process formerly performed by its auditors on its interim information as an additional way to conserve cash resources; this approach has continued in 2010. Costs increased period over period as a result of higher investor relations and shareholder support costs.

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 the third quarter of 2010 reflects the vesting of options at a weighted

average exercise price of \$0.16. During the third quarter of 2010, 50,000 options were issued with a fair value of \$0.119, half of which vested immediately and half of which vest one year after the date of issuance and are expensed across one year. The expense in 2009 reflected the vesting of options at a weighted average exercise price of \$0.05. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 8 to the Company's Unaudited Interim Financial Statements.

On July 19, 2010, \$366,000 was advanced to the Company as prepayment for the exercise of warrants. The warrants became exercisable for a one-year period on August 18, 2010. The related fee and interest expense of \$33,000 was charged to Victory Nickel for the advance, which represents the difference between the aggregate exercise price of the warrants and the amount of the advance.

Management of the Company determined that no significant impairment had been experienced in its exploration and development projects in the period. Metals prices and other market factors continue to improve. This conclusion is discussed further under Impairment Analysis Update below. The Company received a favourable feasibility study on its Minago project and continues to review alternative financing opportunities to move the project ahead as well as opportunities to optimize the feasibility study itself. On June 21, 2010, the Company announced improvements amounting to \$85 million (NPV @ 6% of the base case) in the economics of the Minago FS. This improvement increased the IRR from 17.7% to 19.8%. Additional drill results have been announced which are expected to further improve the economics of the FS.

In accordance with Canadian GAAP, the fair value of consideration from optioning of properties is deducted from the value of the property until it reaches \$nil. Any excess of consideration over the recorded value is treated as a recovery of exploration and development projects and recorded through operations. In the second quarter, the Company recorded a recovery of \$998,000 on its Lynn Lake property. The Company continues to incur small expenditures and these are adjusted through operations. Accordingly, the Company recorded a writedown of \$5,000 through operations in the third quarter of 2010 which brings the value of the property to \$nil on the balance sheet and adjusts the aggregate recovery on Lynn Lake through operations to \$993,000.

As at September 30, 2010, the Black-Scholes parameters were updated for the Prophecy warrants acquired in the first and second quarters of 2010; the resultant aggregate decrease in fair value in the third quarter of \$39,000 was recorded in loss on securities held for trading. The assumptions used for the Black-Scholes option-pricing model are disclosed in Note 5 to the Company's Unaudited Interim Financial Statements. There were no such securities in 2009.

It is important to note that changes in the value of the Prophecy shares will be reflected through other comprehensive income ("OCI") since the shares are classified as available for sale. However, changes in the fair value of warrants will be reflected through operations. Given the high level of volatility being experienced by Prophecy shares in the marketplace, such changes could be significant.

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 Financial Statements. The Company has recorded a future income tax recovery of \$87,000 in the third quarter of 2010 (2009 – \$58,000).

OCI in the three months ended September 30, 2010 of \$51,000 relates to changes in the market value of the Company's available-for-sale investments of \$67,000 net of reclassification of \$16,000 gain through operations upon the sale of marketable securities. The most significant change is in the fair value of Wallbridge shares, which was \$0.22 per share as at September 30, 2010 and represented \$250,000 in OCI offset by decreases in the fair value of Prophecy shares to \$0.46 and represented a loss of \$183,000 in OCI. The full amount of OCI in 2009 related to Wallbridge.

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

Marketable securities as at September 30, 2010 consist of the Company's available-for-sale investments and securities held for trading. The largest increase is from Prophecy shares received pursuant to the option of Lynn Lake, along with the acquisition of further shares and warrants by the Company to maintain an approximate 9.9% interest in Prophecy (including the reciprocal placement which was completed in May 2010). Under the reciprocal placement, the Company subscribed for 7,000,000 common shares of Prophecy at \$0.544 per share, approximately \$3,808,000, and Prophecy subscribed for 36,615,385 common shares of the Company at \$0.104 per share, approximately \$3,808,000 before issue costs.

Property and equipment increased over December 31, 2009 as a result of deposits of \$608,000 made in 2010, relating to the purchase of transformers and other electrical equipment for the Minago project. The total price of US\$2,840,000 is contingent upon satisfactory testing results, with specified amounts due after testing and the full remaining balance due prior to shipping.

Accounts payable and accrued liabilities consist primarily of project-related expenditures. This decreased when compared with December 31, 2009, at which point, balances included significant amounts due for road construction at the Minago project.

Share capital has increased over December 31, 2009 as a result of shares issued pursuant to the reciprocal placement with Prophecy and flow-through private placements that generated gross proceeds of \$3,808,000 and \$2,066,000 respectively. This is discussed more fully under Liquidity and Capital Resources below. Accumulated other comprehensive loss reflects the decline in the market values of available-for-sale securities.

***Nine Months Ended September 30, 2010 Compared With Nine Months Ended September 30, 2009***

For the nine months ended September 30, 2010, the Company had net income of \$348,000, or \$0.00 per share (2009 – net loss of \$356,000, or \$0.00 per share).

The net income resulted primarily from gains on sales of marketable securities of \$159,000 (2009 - \$232,000), general and administrative expenses of \$1,047,000 (2009 - \$1,017,000), stock option compensation of \$620,000 (2009 - \$218,000), other stock-based compensation of \$173,000 (2009 - \$nil), loan fee to Nuinsco of \$33,000 (2009- \$nil), and in 2010 included a net \$993,000 recovery with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property (2009-\$nil). Results in 2010 include a gain on securities held for trading of \$1,050,000 related to the Company's interest in Prophecy shares and warrants (2009 - \$nil), and are shown net of future income tax recovery of \$17,000 (2009 – \$610,000).

The gain on sales of marketable securities of \$159,000 arises from sales of Prophecy and Wallbridge shares for liquidity purposes. Wallbridge shares were written down through operations in 2008. As a result, the gain was \$226,000 with respect to Wallbridge shares, partly offset by a loss on sale of Prophecy shares aggregating \$67,000. The sales generated \$825,000 in gross proceeds in the nine-month period. In 2009, the gain of \$232,000 was related solely to the sale of Wallbridge shares; those sales generated \$426,000 in gross proceeds.

General and administrative expenses include \$529,000 in costs charged by Nuinsco as described under Related Party Transactions and Management Agreement below (2009 - \$445,000). Costs allocated from Nuinsco pursuant to the management agreement between the Company and Nuinsco are activity related; the increase in costs is primarily as a result of salary increases at Nuinsco – salaries had previously been held at 2008 levels – as well as the effects of Nuinsco hiring an additional staff member in July 2010 to support additional compliance requirements. As referred to earlier, this arrangement allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

General and administrative expenses increased by approximately \$30,000, from \$1,017,000 for the nine months ended September 30, 2009 to \$1,047,000, for the nine months ended September 30, 2010. Discretionary expenditures continue to be closely monitored. Expenses that decreased from 2009 to 2010 included audit fees, consulting fees, director fees and rent; these expenses were partially offset by increased investor and public relations fees, and costs charged by Nuinsco as described under Related Party Transactions and Management Agreement below. Expenses in 2009 included provisions for Part XII.6 tax on unexpended flow-through amounts; there were no unexpended amounts subject to such tax in 2010.

The costs of public company compliance for Victory Nickel for the nine months ended September 30, 2010 are approximately \$550,000, compared with \$486,000 in 2009. Such costs are non-discretionary and are generally weighted to the beginning of a financial year. In 2009, the Company decided to eliminate the formal review process formerly performed by its auditors on its interim information as an additional way to conserve cash resources; this approach has continued in 2010.

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 the nine months ended September 30, 2010 reflects the grant and vesting of options at a weighted average exercise price of \$0.16. The expense in 2009 reflected the grant and vesting of options at a weighted average exercise price of \$0.05. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 8 to the Company's Unaudited Interim Financial Statements.

Other stock-based compensation expense relates to common shares issued to employees and consultants as discretionary bonuses pursuant to the Company's Share Bonus Plan. The expense of \$173,000 for the nine months ended September 30, 2010 reflects the issuance of 1,571,000 shares with a fair value of \$0.11 per share; there were no shares issued under the Share Bonus Plan in 2009.

On July 19, 2010, Nuinsco advanced \$366,000 to the Company as prepayment for the exercise of warrants. The related fee and interest expense of \$33,000 was charged to Victory Nickel for the advance, which represents the difference between the aggregate exercise price of the warrants and the amount of the advance.

Management of the Company determined that no significant impairment had been experienced in its exploration and development projects in the period. Metals prices and other market factors continue to improve. This conclusion is discussed further under Impairment Analysis Update below. The Company received a favourable feasibility study on its Minago project and is presently reviewing alternative financing opportunities to move development of the project ahead as well as opportunities to optimize the feasibility study itself. In the nine months ended September 30, 2010, the all-season road at Minago was completed and drilling to upgrade and increase resources was substantially complete.

In the nine months ended September 30, 2010, the Company received additional consideration from the Lynn Lake option with Prophecy in the form of cash of \$1,100,000 and 2,419,548 shares of Prophecy with a fair value of \$968,000. In accordance with Canadian GAAP, the fair value of such consideration is deducted from the value of the property until it reaches \$nil. Any excess of consideration over the recorded value is treated as a recovery of exploration and development projects and recorded through operations. Accordingly, the Company recorded a net recovery of \$993,000 through operations in the nine months ended September 30, 2010. In the second quarter of 2010, Prophecy agreed to advance \$400,000 from the amount due by March 2011; accordingly, the amount due by that date under the option agreement reduces to \$600,000.

Also as part of the option agreement with Prophecy, the Company is entitled to maintain its 10% interest in Prophecy by participating in financings of that company. In the first six months of 2010, the Company acquired 570,270 units comprising one share and one-half of a share purchase warrant in Prophecy at a cash cost of \$0.30 per unit. At that time, the fair value of each share was \$0.41. The Company also subscribed for 675,500 units in Prophecy at \$0.59 per unit pursuant to a further private placement. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable at \$0.80 for a two-year period subject to reduction. If the closing price of the Prophecy shares is at least \$1.10 for 20 consecutive trading days at any time following four months and a day from closing, Prophecy may provide notice to reduce the remaining exercise period of the warrants to not less than 30 days from the date of such notice. At the time of issue, the fair value of each share was \$0.99.

Under the reciprocal placement described earlier and which took place in the second quarter, the Company subscribed for 7,000,000 common shares of Prophecy for \$0.544 per share. At the time of issue, the fair value of each share was \$0.62.

The combined effect of the Prophecy transactions for the nine months ended September 30, 2010 is a gain on securities held for trading of \$1,050,000; \$160,000 is as a result of the recognition of the initial fair value of warrants adjusted for cumulative fair value changes to September 30, 2010 and \$890,000 is from the fair value of shares being in excess of the amounts paid.

It is important to note that any future changes in the value of the Prophecy shares will be reflected through OCI and changes in warrants will be reflected through operations. Given the high level of volatility being experienced by Prophecy shares in the marketplace, such changes could be significant.

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 Financial Statements. Accordingly, the Company has recorded a future income tax recovery of \$17,000 for the nine months ended September 30, 2010 (2009 – \$610,000).

Other comprehensive loss for the nine months ended September 30, 2010 of \$1,609,000 relates to declines in the market value of the Company's available-for-sale investments of \$1,450,000 net of income taxes of \$nil and the reclassification of \$159,000 through operations upon the sale of marketable securities. The most significant change is in the fair value of Prophecy shares which was \$0.46 per share as at September 30, 2010.

## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eleven quarters ended September 30, 2010 is as follows:

<u>Fiscal year 2010</u>		<u>3rd Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>1<sup>st</sup> Quarter</u>
Revenue and other income		\$ 17	\$ 145	\$ 6
Net (loss) income		\$ (310)	\$ 990 <sup>(1)</sup>	\$ (332) <sup>(3)</sup>
Comprehensive (loss) income		\$ (259)	\$ (2,173) <sup>(2)</sup>	\$ 1,171 <sup>(4)</sup>
Loss per share - basic and diluted		\$ (0.00)	\$ (0.00)	\$ (0.00)
<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>(6)</sup>	\$ 39	\$ 27
Net (loss) income	\$ (229)	\$ 35	\$ (343)	\$ (48)
Comprehensive income (loss)	\$ 359 <sup>(5)</sup>	\$ 145 <sup>(7)</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>(8)</sup>	\$ (543)	\$ (520)	\$ (430)
Comprehensive income (loss)	\$ 450 <sup>(9)</sup>	\$ (2,107) <sup>(10)</sup>	\$ (1,513)	\$ 627
Loss per share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)

- (1) Net income for the period includes an \$807,000 gain on securities held for trading and a \$795,000 recovery on the Lynn Lake option with Prophecy.
- (2) Comprehensive loss for the period includes \$3,163,000 other comprehensive loss primarily related to the decline in market values of the Company's available-for-sale investments.
- (3) Net loss for the period reflects \$544,000 stock option expense, \$203,000 recovery on the Lynn Lake option with Prophecy and \$282,000 gain on securities held for trading.
- (4) Comprehensive income for the period includes \$1,503,000 other comprehensive income related to the improvement in market values of the Company's available-for-sale investments net of income taxes.
- (5) Comprehensive income for the period includes an increase in the market value of available-for-sale securities, previously written down through operations in the fourth quarter of 2008.
- (6) Revenue for the period includes \$211,000 gain on sale of shares.
- (7) Comprehensive income for the period reflects the partial recovery of the market value of available-for-sale investments.
- (8) The net loss for the period includes \$2,040,000 writedown of shares, offset by future income tax recoveries of \$1,544,000.
- (9) 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 shares.
- (10) Comprehensive loss for the period reflects the decline in market value of available-for-sale shares.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2010, the Company had working capital, including cash and cash equivalents, totalling \$5,616,000 (December 31, 2009 - \$4,261,000). 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.

In the nine months ended September 30, 2010, the Company generated \$780,000 from operating activities (2009 - cash used by operating activities of \$425,000), comprising cash generated from operations before changes in non-cash working capital of \$948,000 (2009 - cash used by operating activities before changes in non-cash working capital of \$963,000). In the nine months ended September 30, 2010, non-cash working capital balances used funds of \$168,000 primarily as a result of a decrease in non-project accounts payable (2009 - a source of \$538,000 primarily as a result of a decrease in accounts receivable, prepaid expenses and deposits). 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 the 2009 year amounted to \$639,000. In the nine months ended September 30, 2010, such costs are estimated at \$550,000. As noted earlier, many of these costs are incurred in the early part of the year. 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 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 nine months ended September 30, 2010 generated gross proceeds of \$6,055,000 (2009 - \$3,717,000) before issue costs of approximately \$187,000. This represented the completion of the first and second tranches of a flow-through financing as well as the reciprocal placement with Prophecy, described above. The first tranche of the flow-through financing closed on February 26, 2010 and generated gross proceeds of \$686,000 through the issuance of 3,429,139 units of securities at a price of \$0.20 per unit. Share issue costs before income taxes were \$69,000. 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 second tranche closed on April 9, 2010 and generated gross proceeds of \$1,380,000 through the issuance of 6,570,861 units at \$0.21 per unit – each unit as described above. Share issue costs before income taxes were \$103,000. On completion of the second tranche, the Company issued 250,000 finder's 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.

On May 28, 2010, the Company issued 36,615,385 common shares pursuant to the reciprocal placement with Prophecy. The common shares were issued at a price of \$0.104 per share generating gross proceeds of \$3,808,000 with share issue costs of approximately \$15,000 before income taxes. The reciprocal financing is a way to raise liquid assets with minimal share issue costs; as mentioned above, share issue costs are not flow-through-eligible so it is important to minimize such costs.

In August 2009, the Company successfully completed a rights offering which included the issuance of 65,489,952 Unit Shares and 32,744,976 Unit Warrants. Whole warrants are exercisable at \$0.12 during the 12-month period commencing August 18, 2010. During the nine months ended September 30, 2010, 3,339,282 warrants were exercised for aggregate cash proceeds of approximately \$368,000 (net of the fee to Nuinsco of \$33,000 as described earlier). Aggregate proceeds from the remaining warrants under the rights issue, if fully exercised, would amount to \$3,529,000.

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. Proceeds from the Company's warrants are "hard" dollars and can be utilized without restriction.

During the nine months ended September 30, 2010, investing activities used \$10,316,000, compared with \$2,856,000 in 2009. An aggregate of \$7,107,000 was used to advance exploration and development projects (2009 - \$3,282,000). Aggregate deposits of \$608,000 were made on the purchase of transformers and other electrical equipment, as referenced above. The Company has entered an agreement to purchase an aggregate of US\$2,840,000 of such electrical equipment with remaining balances due prior to shipping.

Proceeds from the sale of marketable securities were \$825,000, generating a gain on sale of \$159,000 due to provisions for permanent impairment made with respect to Wallbridge in 2008. Funds of \$1,100,000 were received with respect to the option agreement with Prophecy for the Lynn Lake property; \$400,000 of this amount was due no later than March 2011 and, accordingly, means that \$600,000 is now due by that date.

The Company participated in financings by Prophecy and acquired additional Prophecy securities for \$171,000 in the first quarter of 2010 and \$372,000 and \$3,808,000 in the second quarter. Other shares were purchased in the second quarter for \$175,000. There were no purchases of marketable securities in the nine months ended September 30, 2009. The hold periods on all shares have now expired and all shares are available for sale by the Company to fund its activities.

As described earlier, the fair value of such securities declined to September 30, 2010, changes in the fair value of the warrants are recorded through operations and changes in the fair value of shares are recorded through OCI. The Company believes that such changes are temporary and that no provision for permanent impairment is required. In particular, the Prophecy shares have recovered significantly since September 30, 2010.

These activities required cash and cash equivalents of \$3,481,000 during the first nine months of 2010, compared with cash generated of \$436,000 for the first nine months of 2009.

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 and in 2010, 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 9,165,318 shares in Prophecy with a market value as at November 9, 2010 of \$0.80 per share as well as 622,885 Prophecy warrants exercisable at \$0.40 and \$0.80. Further, the Company expects to receive additional amounts of \$600,000 on March 1, 2011 and of \$1,000,000 on March 1 of each of 2012 and 2013 in accordance with the Lynn Lake option agreement.

The Company also owns 4,174,500 shares of Wallbridge, 350,000 warrants and 862,415 special warrants in Miocene Metals Inc., distributed by Wallbridge to its shareholders, which are also available for sale or held for trading.

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 to Prophecy, 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 continue to be modest. At September 30, 2010, the major items requiring financing were Québec mining duties receivable aggregating \$28,000 and an HST receivable of \$73,000 which is expected to be received in November. The HST/GST receivable is a function of project activity and averaged approximately \$52,000 in 2009. Monthly average administrative costs for 2010 are estimated at \$122,000, most of which are incurred to meet statutory requirements. As at September 30, 2010, the Company had fulfilled its commitment to incur exploration expenditures in relation to flow-through share financings in April 2010. Further, there are remaining amounts required to fulfil the equipment purchases.

With current cash resources, liquid assets and expected inflows as described, the Company has non-core assets which can be liquidated to support core activities. However, it will monitor its activities closely and continue to spend wisely until additional financing is available or until the sale of marketable securities becomes advisable. The operating cost reduction measures which were implemented in 2008 continue in force although salary deferrals were paid in 2009 and 2010 and unpaid directors' fees for 2008 and 2009 were settled in early 2010.

Access road construction at Minago was completed in early 2010 and the drilling program results continue to be assessed as to whether resources can be upgraded in the designed open pit shell and on the North Limb of the Minago project. Results from the FS continue to be updated for improvements from capital cost reductions and other improvements and further potential improvements are being evaluated.

Development of the Minago mine will require considerable financial resources. Management is monitoring the outcome of financing initiatives being undertaken in the marketplace. The Company is actively putting together a financing strategy which is expected to include several components; the relative proportion of each will be dependent upon the market conditions at the time the strategy is executed. Anticipated components include: off-take agreements for both nickel concentrate and frac sand, plant and equipment leasing for the mine and frac sand processing plant, bank borrowing and/or equity issues (which may include one or more of: rights offering, private placement or a fully-marketed prospectus issue).

## EXPLORATION AND DEVELOPMENT ACTIVITIES

For the nine months ended September 30, 2010, the Company incurred exploration costs on its nickel properties of \$4,694,000 (2009 - \$2,003,000). This includes \$4,442,000 on the Minago project, \$168,000 on the Mel project, \$32,000 on Lynn Lake (before \$1,100,000 option payments received from Prophecy and fair value of Prophecy securities of \$968,000) and \$52,000 at the Lac Rocher project (2009 - \$1,234,000; \$35,000; \$144,000 and \$590,000 (before Québec Mining Duties receivable of \$28,000), respectively). The expenditures are shown before the effect of investment tax credits of \$234,000 on Minago and transfer of \$993,000 through operations with respect to the Lynn Lake option receipts in excess of carrying value.

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

### 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. The Minago resource, on a total nickel basis, is shown in the table below. In order to provide a more accurate determination of the recoverable nickel, Wardrop, a Tetra Tech Company (“Wardrop”) also prepared a resource that reports only the nickel that is present in sulphide minerals (denoted Ni(S)). This is necessary to allow an accurate determination of a recovery curve at various grades. The FS was prepared on the Ni(S) basis and the resource is shown below. The proven and probable reserves contained in the pit shell form part of the Ni(S) resource estimate and are also shown in the table below. It is important to note that there is considerable potential to increase proven and probable reserves as only 57.1% of the Ni(S) resource is included therein.

### Minago Project – Resources and Reserves

	Measured and Indicated				Inferred		
	Tonnes	Grade	in-situ Nickel	Cut-off Grade	Tonnes	Grade	in-situ Nickel
<b>Total Nickel Basis - Minago resource</b>	54.2 million	0.52%	620 million pounds	0.25%	14.6 million	0.53%	170 million pounds
Measured	11.1 million	0.56%					
Indicated	43.1 million	0.51%					
<b>Sulphide Nickel Basis Ni(S)</b>	44.1 million	0.43%	418.7 million pounds	0.20%	12.0 million	0.44%	115 million pounds
Measured	9.1 million	0.47%					
Indicated	35.0 million	0.42%					
<b>Proven &amp; Probable Reserves Ni(S)</b>	25.2 million	0.43%	238.8 million pounds		n/a		
Proven	6.6 million	0.49%					
Probable	18.6 million	0.41%					

Following the completion of a PEA in the fall of 2006, Wardrop was engaged to conduct the FS. Results of the FS 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 FS is based on mining open pit reserves only and does not incorporate significant parts of the resources that are below the pit bottom, as noted above, which require additional drilling to be upgraded from Inferred to Measured and Indicated. As a result, any resources below the pit bottom and inferred resources in the pit footprint are not considered in estimating the economics of the FS.

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

### Highlights of the FS Base Case and Update June 21, 2010

#### Overall Economics

The following table compares the revised economics announced June 21, 2010 with those announced in the news release of December 14, 2009:

<b>Minago Sulphide Nickel Project: Economic Summary Comparison June 21, 2010 - December 14, 2009</b>			
	Base Case June 21, 2010 <sup>(1)</sup> (\$ million, except %)	Base Case December 14, 2009 <sup>(1)</sup> (\$ million, except %)	Increase %
Undiscounted Cash Flow	1,053.7	917.7	14.8%
NPV @ 8%	367.1	293.8	24.9%
NPV @ 6%	487.6	402.6	21.1%
NPV @ 4%	636.8	538.0	18.4%
IRR	19.8%	17.7%	11.9%

(1) Three-year trailing average US\$ metal prices and exchange rates: Ni: US\$11.19/lb; Cu: US\$2.91/lb; Pd: US\$322.4/oz; Pt: US\$1,353.98/oz; Au: US\$836.25/oz; Co: US\$27.73/lb; Ag: US\$14.25/oz; Rh: US\$2,254.56/oz; \$Can/\$US exchange rate 1.097

#### Production and Operating Statistics

The Base Case reflected the following production and operating results for the open pit:

- A strip ratio of 11.7:1 to mine the nickel including hydraulic fracturing sand (“frac sand”);
- Production of the world’s highest grade nickel concentrate at 22.3% Ni with 10.4% magnesium oxide (“MgO”) content;
- Total ore tonnes mined over a seven-year nickel production mine life represents only 57.1% of the Measured and Indicated Ni(S) resource;
- The open pit mine would average annual ore production of 3.6 million tonnes with average annual nickel production in concentrate of approximately 11,000 tonnes; and
- Average annual frac sand sales revenue, net of freight, of \$70 million.

#### Production Costs per Pound of Nickel

- Cash cost (C-1), net of credits, of \$2.12 (US\$1.94);
- Metal by-product credits of \$0.79 (US\$0.72);
- Frac sand by-product value of \$4.04 (US\$3.68); and
- Cash cost before by-product credits of \$6.95 (US\$6.34).

Minago has been shown to be capable of producing a nickel concentrate grading from 22.3% up to 35.0%, making it reportedly the world’s highest grade nickel concentrate. In addition to metal by-products such as copper, cobalt, gold, platinum, palladium, silver and rhodium, a layer of silica sand averaging approximately nine metres thick overlies the nickel mineralization within the open pit. Approximately 84% of 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 FS, production of frac sand could begin 20 months after the start of mine development.

Diamond drilling conducted through the winter of 2010 consisted of 26 drill holes comprising 9,681m. The work program was in large part directed at optimizing the near surface resource at Minago to enhance the economics of the deposit. As expected, drilling continued to intersect sulphide mineralization at the top of the deposit near the contact with the immediately overlying sandstone (frac sand) that was excluded by Wardrop from the resource and reserve estimates used in the FS due to a perceived lack of drill coverage. In addition, a significant portion of in-pit resources currently classified as Inferred are expected to be upgraded to at least the Indicated category for inclusion in future economic evaluations. All analytical results from the drilling program were received by the end of September; they continue to demonstrate the grade, continuity and scale of nickel mineralization determined from earlier programs. The analytical data and geological interpretations are now being incorporated into an updated geological model and resource estimate scheduled for completion during the fourth quarter of 2010.

### *Frac Sand*

An indicated resource of 15 million tonnes of sand has been estimated to occur within the current Minago pit shell. The frac sand component of this resource is a significant contributor to the positive economics at Minago. As part of the FS, Outotec produced a feasibility-level design for a frac sand plant complete with capital and operating costs to produce 1,140,000 tonnes of frac sand annually. Considerable potential exists to expand the resource beyond the limits of the current pit.

### **Mel Project**

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

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

The Company has fully funded sufficient expenditures to earn a 100% ownership interest in this project subject to a 51% Vale back-in. The Mel project has been idle for some time, awaiting a decision by Vale as to whether it will exercise its back-in right on the project. During the third quarter, the Company announced that Vale had determined that it would not exercise its back-in right. Under the terms of the option agreement, Vale must mill ore from the Mel project at cash costs plus 5% subject to capacity availability and metallurgy – this is unaffected by Vale's decision. Accordingly, the Company is in a position to solely determine next steps for Mel.

### **Lac Rocher**

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

A road connecting the end of the existing logging road to the site of the proposed Lac Rocher portal was completed in August 2009. The road allows 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. At the same time, evaluation of the availability of borrow material was also conducted in the local region.

No fieldwork has been conducted thus far in 2010.

### **Lynn Lake**

The Lynn Lake property is located in the historic mining town of Lynn Lake in northern Manitoba, about 320km by road northwest of the Thompson mining camp. Lynn Lake is the former Sherritt producing mine site known as the Lynn Lake A Mine and Farley Mine. The mines were first operated by Sherritt-Gordon from 1953 to 1976. During their 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 mines closed in 1977 due to a period of stagnant growth in the nickel market, not because the ore was mined out.

From an updated resource estimate released in February by Prophecy, Lynn Lake has 22.9 million tons of measured and indicated resources grading 0.57% nickel or 263 million pounds of in-situ nickel as well as 8.1 million tons inferred resources grading 0.51% nickel which contains an additional 81.6 million pounds of in-situ nickel. In addition, it announced the resource contained measured and indicated resources grading 0.30% copper or 136 million pounds of in-situ copper plus inferred resources grading 0.28% copper or 45.6 million pounds of in-situ copper.

As discussed earlier and described in Note 6 to the Unaudited Interim Financial Statements, 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 \$3,000,000 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 UPDATE**

While the metals markets and other general economic factors have improved over the prior year, the Company performed a detailed impairment analysis on each of its exploration and development projects as at December 31, 2009. The Company does not believe that there have been any material changes to date which would adversely affect this analysis. Furthermore there has been no change in management's plans for the projects which would cause a reassessment.

Management concluded that no impairment existed in each of its projects effective September 30, 2010 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 Financial Statements and the updates reflected in the notes to the Unaudited Interim 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 Financial Statements as well as to Note 1 to the Unaudited Interim 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 CICA applicable to the Company has reduced significantly pending the transition to International Financial Reporting Standards ("IFRS") discussed in more detail below.

There have been no new accounting policies adopted in the Unaudited Interim Financial Statements.

## **FUTURE ACCOUNTING CHANGES**

### **International Financial Reporting Standards**

#### ***Overview***

The Company is continuing to review and implement the requirements of IFRS. Senior financial management has attended training courses on IFRS designed to be industry-specific. The Company 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. The Company has hired additional accounting staff to assist with the conversion to IFRS among other things and has continued to add literature to its expanding source material on IFRS.

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

The Company's project plan is summarized in the 2009 MD&A. No major changes have been made to the project plan or timelines with the exception that the IASB has not released the final documentation on accounting for joint venture arrangements with third parties. Consequently, the Company is not able to determine its accounting policy or to assess the impact of any differences between Canadian GAAP and IFRS for joint ventures.

**Status of Project**

The Company has completed Phase 1 of its IFRS transition and has made significant progress with Phase 2. No major IT improvements are required unless the Company makes a significant capital acquisition, secures significant financing and moves ahead towards production on a major project. In that case, it may need to upgrade accounting systems and make additional accounting policy selections. The Company has determined that, given the nature of its business and investors, its main communication tool for IFRS matters will be through the MD&A.

The Company's internal controls over financial reporting and disclosure are facilitated by the small size but hands-on involvement of senior management. The addition of staff has strengthened segregation of duties as well as improving the Company's review processes over financial information including that developed under IFRS.

The Company has developed financial statement templates complete with face financial statements, accounting policies, note disclosures and a transitional opening balance sheet complete with explanatory notes. This template contains disclosures expected to fulfil typical disclosure requirements of annual financial statements under IFRS. The Company's first financial statement under IFRS will be the quarter ended March 31, 2011, and will contain expected disclosures required under annual reporting, since the annual financial statements for the year ended December 31, 2010 will be based on the predecessor Canadian GAAP and the conventional note to the reader to refer to prior annual statements will not be adequate under IFRS. From this base, the Company is developing ongoing interim financial reporting templates using the guidance in IAS 34. Management has noted recent general correspondence to certain junior resource companies by the regulators and confirm that the project takes into account the key areas cited therein. The Company has also noted the 30-day extension available to first-time IFRS adopters for filing the March 31, 2011 interim financial statements. Furthermore, management has commenced preliminary discussions with advisors for them to perform sufficient work in order to ensure completeness and accuracy of the interim and annual financial statement templates, note disclosures and transitional opening balance sheet under IFRS.

All of the IFRS work has been carried out primarily on a "business as usual" basis; should there be any significant future transactions or other changes requiring accounting policy choices, such choices will be made with IFRS transition in mind in order to manage differences until full conversion is achieved. The main focus to date continues to be on qualitative matters with little work so far on quantitative differences. As previously reported, the potential exists for volatility in the income statement with respect to accounting for impairment under IFRS and this is expected to represent the main quantitative difference under IFRS. However, no calculations under IFRS rules have yet been made.

The Company continues to believe that it is well-positioned to meet the transition to IFRS.

**CORPORATE GOVERNANCE**

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

**Design of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal quarter ended September 30, 2010, the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at September 30, 2010. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

There were no changes to the Company's disclosure controls and procedures that occurred during the quarter ended September 30, 2010 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

### **Design 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 quarter ended September 30, 2010, the Certifying Officers have concluded that the design of the Company's internal controls over financial reporting and procedures were effective as at September 30, 2010.

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 quarter ended September 30, 2010 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 September 30, 2010 are amounts due to officers and directors of the Company in the amount of \$110,000 (December 31, 2009 - \$265,000). These amounts relate primarily to directors' fees and expense reimbursements payable.

The Company shares management, administrative assistance and facilities with Nuinsco pursuant to a management agreement. The costs payable by the Company under the management agreement are recorded at the exchange amount which is equal to the cost to Nuinsco of such services plus 10 per cent. The management agreement commenced February 1, 2007 and is terminable by Nuinsco upon 90 days notice and by the Company upon 180 days notice. Costs charged to the Company in the three and nine months ended September 30, 2010 amounted to \$192,000 and \$529,000 respectively (2009 - \$148,000 and \$445,000) and have been included in general and administrative expenses. In addition, project-related costs aggregating \$4,000 and \$29,000 have been charged to the Company by Nuinsco during the three and nine months ended September 30, 2010 respectively (2009 - \$13,000 and \$47,000) and are included in exploration and development costs on the balance sheet. The Company charged Nuinsco \$5,000 and \$19,000 for the three and nine months ended September 30, 2010 respectively for project-related costs incurred by it on behalf of Nuinsco (2009 - \$8,000 and \$16,000).

Amounts due to Nuinsco are unsecured, non-interest bearing and due on demand.

### **OUTSTANDING SHARE DATA**

At September 30, 2010, the Company had 379,675,528 common shares issued and outstanding. At November 9, 2010, the Company had 380,025,528 common shares issued and outstanding. In addition, there were 25,902,248 stock options and 34,655,694 warrants outstanding on November 9, 2010, which if exercised and issued would bring the fully diluted issued common shares to a total of 440,583,470, and would generate cash of approximately \$12,468,000.

### **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 in detail in the Company's 2009 MD&A. A summary is provided below.

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

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

## **Industry Risks**

### ***Speculative Nature of Mineral Exploration***

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

### ***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. The costs estimated under the FS 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.

## **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.

### ***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.

### ***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.

### ***Title Risks***

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

### ***Insurance Risk***

Victory Nickel faces all of the hazards and risks normally incidental to the exploration and development of base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. 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. These factors are of significant importance for the FS 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.

***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, 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.

***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.

**November 9, 2010**