

VICTORY NICKEL INC.
(A Development Stage Entity)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008 AND THE PERIOD
FROM INCEPTION, FEBRUARY 1, 2007,
TO DECEMBER 31, 2007**

DATED MARCH 27, 2009



MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management and the external auditors to review the auditors' report and the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

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

René R. Galipeau
Chief Executive Officer
March 27, 2009

Alison J. Sutcliffe
Vice-President, Finance & CFO
March 27, 2009

AUDITORS' REPORT

TO THE SHAREHOLDERS OF VICTORY NICKEL INC.

We have audited the consolidated balance sheets of Victory Nickel Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the year ended December 31, 2008 and the period from inception, February 1, 2007, to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the year ended December 31, 2008 and the period from inception, February 1, 2007, to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 27, 2009

(signed) "BDO Dunwoody LLP"
Chartered Accountants
Licensed Public Accountants



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

As at December 31, (in thousands of Canadian dollars)	2008	2007
ASSETS		
Current		
Cash and cash equivalents	\$ 4,418	\$ 12,885
Marketable securities (Note 7)	450	-
Accounts receivable	653	480
Prepaid expenses and deposits	200	3
Total Current Assets	5,721	13,368
Exploration Advances (Note 8)	-	280
Exploration and Development Projects (Note 9)	31,430	15,762
Property and Equipment (Note 10)	116	-
	\$ 37,267	\$ 29,410
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 1,899	\$ 825
Due to Nuinsco Resources Limited (Note 15)	18	158
Total Current Liabilities	1,917	983
Future Income Taxes (Note 12)	-	1,689
	1,917	2,672
Shareholders' Equity (Note 11)		
Share capital	38,264	27,606
Contributed surplus	1,857	1,360
Deficit	(4,771)	(2,228)
Net Shareholders' Equity	35,350	26,738
	\$ 37,267	\$ 29,410

NATURE OF OPERATIONS (Note 1)

Approved by the Board of Directors

(signed)

W. Warren Holmes

Director

(signed)

Cynthia P. Thomas

Director

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

VICTORY NICKEL INC.

(A Development Stage Entity)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Year Ended December 31, 2008	Period from Inception, February 1, 2007, to December 31, 2007
<i>(in thousands of Canadian dollars, except per share amounts)</i>		
Revenue		
Interest income	\$ 241	\$ 497
Gain on marketable securities	-	62
	241	559
Costs and Expenses		
General and administrative (Note 15)	1,997	1,643
Stock option compensation (Note 11)	311	1,369
Amortization of property and equipment	7	-
Writedown of available-for-sale investment (Note 7)	2,040	-
	4,355	3,012
Loss before the Undernoted	(4,114)	(2,453)
Future Income Tax Recovery (Note 12)	(1,544)	(225)
Non-controlling Interests (Note 5)	27	-
Net Loss and Comprehensive Loss for the Period	\$ (2,543)	\$ (2,228)
Loss per Share - Basic and Diluted	\$ (0.01)	\$ (0.01)
Weighted Average Common Shares Outstanding	197,794,000	171,542,000

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

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

<small>(in thousands of Canadian dollars)</small>	Year Ended December 31, 2008	Period from Inception, February 1, 2007, to December 31, 2007
Cash from (used by)		
Operating Activities		
Net loss for the period	\$ (2,543)	\$ (2,228)
Items not affecting cash:		
Stock option compensation	311	1,369
Other stock-based compensation	97	109
Amortization	7	-
Expenses settled through issuance of warrants	-	25
Gain on marketable securities	-	(62)
Writedown of available-for-sale investment (Note 7)	2,040	-
Future income taxes	(1,544)	(225)
Non-controlling interests	(27)	-
Change in non-cash working capital (Note 14)	(294)	(133)
Cash used by operating activities	(1,953)	(1,145)
Financing Activities - issue of common shares	7,730	11,750
Net Cash Received on Acquisition of Independent (Note 5)	2,308	-
Net Cash Received on Formation (Note 6)	-	11,906
Investing Activities		
Additions to exploration and development projects	(12,696)	(9,408)
Exploration advances	-	(280)
Purchase of land	(40)	-
Sale of marketable securities	-	1,789
Purchase of marketable securities	(2,490)	(1,727)
Acquisition costs of Independent (Note 5)	(1,326)	-
Cash used by investing activities	(16,552)	(9,626)
Net (Decrease) Increase in Cash During the Period	(8,467)	12,885
Cash and Cash Equivalents, Beginning of the Period	12,885	-
Cash and Cash Equivalents, End of the Period	\$ 4,418	\$ 12,885

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

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

(in thousands of Canadian dollars)	<u>Share Capital</u>		Contributed Surplus	Deficit	Total
	Number of Shares	Amount			
Issued on formation of the Company	154,003,146	\$ 15,713	\$ -	\$ -	\$ 15,713
Private placement	16,428,571	10,694	-	-	10,694
Options exercised	475,000	209	-	-	209
Warrants exercised	5,502,514	847	-	-	847
Shares issued under Share Bonus Plan	232,650	109	-	-	109
Warrants issued for services rendered	-	-	25	-	25
Options granted and vesting	-	-	1,369	-	1,369
Transfer of value on exercise of options	-	34	(34)	-	-
Net loss for the period	-	-	-	(2,228)	(2,228)
Balance as at December 31, 2007	176,641,881	27,606	1,360	(2,228)	26,738
Issued on acquisition of Independent Nickel Corp. (Note 5)	66,675,103	6,166	186	-	6,352
Private placement	18,046,700	7,689	-	-	7,689
Options exercised	150,000	41	-	-	41
Shares issued under Share Bonus Plan	196,125	97	-	-	97
Options granted and vesting	-	-	311	-	311
Flow-through share renunciation	-	(3,335)	-	-	(3,335)
Net loss for the year	-	-	-	(2,543)	(2,543)
Balance as at December 31, 2008	261,709,809	\$ 38,264	\$ 1,857	\$ (4,771)	\$ 35,350

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(A Development Stage Entity)

December 31, 2008 and 2007

(all tabular amounts are in thousands of Canadian dollars)

1. NATURE OF OPERATIONS

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 as described more fully in Note 6.

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 difficult.

None of the Company's exploration or development projects have 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 consolidated 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 ("GAAP").

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

Basis of Presentation

These consolidated 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") (see Note 5) from the date of its acquisition of October 6, 2008.

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 historical 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 December 31, 2008 was \$31,430,000 (2007 - \$15,762,000). Management's review of these carrying values indicated that at December 31, 2008, 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. In recent months, 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents consist of balances with banks and investments in money market instruments. The investments are recorded at market value and are redeemable on demand.

Financial Instruments

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, derivative contracts, accounts payable, accrued liabilities and amounts due from or to Nuinsco Resources Limited ("Nuinsco"). Each financial asset and financial liability instrument is initially measured at fair value, adjusted for any associated transaction costs. In subsequent periods, the estimated fair values of financial instruments are determined based on the Company's assessment of available market information and appropriate valuation methodologies including reviews of current interest rates, related market values and current pricing of financial instruments with comparable terms; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction.

Financial assets, financial liabilities and derivative financial instruments are classified into one of five categories: held to maturity, available for sale, loans and receivables, other financial liabilities and held for trading.

All financial instruments classified as available for sale or held for trading and derivative financial instruments are measured at fair value. Changes in the fair value of financial instruments designated as held for trading and recognized derivative financial instruments are charged or credited to the consolidated statement of operations for the relevant period, while changes in the fair value of financial instruments designated as available for sale, excluding impairments that are other than temporary, are charged or credited to other comprehensive income until the instrument is realized. All other financial assets and liabilities are accounted for at cost or at amortized cost depending upon the nature of the instrument. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

The Company has classified its cash and cash equivalents and derivative contracts as held for trading and its marketable securities as available for sale for accounting purposes. These instruments are measured on the consolidated balance sheet at fair value. Accounts receivable have been designated as loans and receivables and carried at amortized cost. Accounts payable and accrued liabilities along with amounts due from or to Nuinsco are carried at amortized cost and are classified as other financial liabilities.

Marketable Securities

The Company currently only holds public investments traded in active markets. The fair value is based on the quoted bid prices at the reporting date. When information or events indicate other than a temporary decline in value, the impairment loss is recognized in income in the period in which such events occur. Impairment losses recognized in net income for a financial instrument classified as available for sale are not reversed.

Exploration and Development Projects

Exploration and development projects include the direct costs related to the various mineral properties, including cost of acquisition of the properties and deferred exploration and development costs, net of any recoveries. These costs are capitalized and accumulated on a property-by-property basis and will be amortized as operating expenses against future revenue upon commencement of commercial production using a unit-of-production method based upon estimated proven and probable mineral reserves.

The carrying values of exploration and development projects represent unamortized net costs incurred to date and do not necessarily reflect present or future values. The recoverability of these amounts is dependent upon the existence of economically recoverable reserves, upon the Company's ability to obtain the necessary financing to complete the development and upon future profitable production and/or sale.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided over the related assets' estimated useful lives using the declining-balance method at an annual rate of 5% for the building, 20% to 30% for equipment and 30% for the vehicle.

Impairment of Long-Lived Assets

On an ongoing basis, the Company evaluates each property based on results to date to determine the nature of exploration and development activities that are warranted in the future or if there is any impairment in the carrying value. In the event that facts and circumstances indicate that the Company's long-lived assets may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required. Fair value is normally determined using the discounted value of future net cash flows. Where estimates of future net cash flows are not available, management's assessment of the properties' estimated fair value is based on exploration results to date, a review of comparable transactions and a consideration of historic costs. Impairment losses on exploration and development projects are recorded as writedown of exploration and development projects in the consolidated statement of operations.

Government Assistance

Government assistance is recorded in the financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions necessary to obtain the assistance. Any government assistance relating to the exploration and development properties is recorded as a reduction of those related expenditures.

Asset Retirement Obligations

The fair value of liabilities for asset retirement obligations will be recognized in the period in which they are incurred and the fair value can be reasonably estimated. Currently there are no asset retirement obligations recognized. However, as the development of any project progresses, the Company will assess whether an asset retirement obligation liability ("ARO") has arisen. At the point where such a liability arises and can be estimated, the financial statement adjustment required will be to increase the project's carrying value and ARO by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to operations each year to accrete the discounted ARO amount to the final expected liability.

Stock-Based Compensation Plans

Stock Option Plan

The Company has a stock option plan which is described in Note 11. Awards to non-employees are measured at the earliest of the date at which performance is complete, the date at which a commitment for performance by the counterparty to earn the option is reached or the date at which the equity instruments are granted. Awards made to employees are measured at the grant date. All stock-based awards made to employees and non-employees are recognized at the date of grant using a fair value-based method to calculate compensation expense. Compensation expense is charged to operations over the vesting period of the options or service period, whichever is shorter. Stock options vest either immediately or over a twelve-month period.

Share Incentive Plan

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

The Share Incentive Plan is described in Note 11. The Company uses the fair value method of accounting for, and to recognize as compensation expense, its stock-based compensation for employees. Shares issued under the Share Incentive Plan are valued based on to the quoted market price on the date of the award. This amount is expensed over the vesting period.

Flow-through Shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. When the renunciation is made, the value of the renunciation is recorded as a liability and charged against share capital. Where the Company has a valuation allowance which reduces future income tax assets, the valuation allowance is reduced and an income tax recovery is recorded in the consolidated statement of operations.

Revenue Recognition

Revenue is principally composed of interest income and gain on marketable securities. Other income, including interest income, is recognized on an accrual basis using the effective interest rate method; marketable securities are accounted for as described above.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates enacted is included in operations in the period in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Loss Per Share

The Company uses the treasury stock method in determining the diluted loss per share. The diluted loss per share data assumes the exercise of all outstanding warrants and options except when the assumed exercise is anti-dilutive. Loss per share amounts are calculated using the weighted average number of common shares outstanding during the period. The total options and warrants outstanding as at December 31, 2008 which could dilute future earnings should they be fully exercised is 22,441,961.

New Accounting Policies

Financial Instruments and Capital Disclosures

The Canadian Institute of Chartered Accountants (“CICA”) has issued the following accounting standards effective for fiscal years beginning on or after January 1, 2008: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862) and Financial Instruments – Presentation (Handbook Section 3863).

Handbook Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally-imposed capital requirements; and (iv), if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook Section in Note 4 to these consolidated financial statements.

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook Section in Note 4 to these consolidated financial statements.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The standard requires that management make an assessment of a company’s ability to continue as a going concern and to use the going concern basis in the preparation of the financial statements unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon a company’s ability to continue as a going concern, those uncertainties should be disclosed. The adoption of these amendments has not had a material impact on the Company’s consolidated financial statements.

Future Accounting Changes

International Financial Reporting Standards

The CICA plans to transition Canadian GAAP for public companies to International Financial Reporting Standards (“IFRS”). The effective changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company’s consolidated financial statements is currently being assessed.

Business Combinations

In October 2008, the CICA issued Handbook Section 1582, Business Combinations, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the

acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Should the Company engage in a future business combination, it would consider early adoption to coincide with the adoption of IFRS.

Non-controlling Interests

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

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

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

2007 Figures

Certain of the 2007 figures have been reclassified to conform to the 2008 financial statement presentation.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL DISCLOSURES

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. 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 summarized below:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper. The Company's accounts receivable consist primarily of amounts due from federal and provincial governments. Amounts due from or to Nuinsco are settled on a regular basis. Therefore, the Company is not exposed to significant credit risks arising from its financial instruments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company attempts to ensure that there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day to day operations and may require doing so again in the future.

As at December 31, 2008, the Company had working capital of \$3,804,000 (December 31, 2007 - \$12,385,000). 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. Given the current economic climate, the ability to raise funds may prove difficult. The Company currently has no long-term liabilities. All contractually obligated cash flows are payable within the next fiscal year.

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash equivalents earn interest at fixed short-term rates of approximately 3% at December 31, 2008 and 4% at December 31, 2007. 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.

Commodity price risk

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

The value of the Company's mineral resource properties is related to the price of, and outlook for, nickel. Historically, nickel prices have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures. The Company does not have any hedging or other commodity-based risks respecting its operations.

Price risk

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

Capital Disclosures

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

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company would require long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly liquid, rated financial instruments. There are no externally-imposed capital restrictions.

5. ACQUISITION OF INDEPENDENT NICKEL CORP.

On August 19, 2008, the Company launched an unsolicited offer to purchase all of the common shares of Independent. The assets of Independent include a royalty on Victory Nickel's Minago nickel project in Manitoba ("Minago royalty") and exploration and development properties in Lynn Lake, Manitoba.

Accordingly, in October, 2008, the Company acquired an aggregate of 50,830,249 shares of Independent representing approximately 84% of the issued and outstanding Independent shares. Pursuant to a subsequent acquisition transaction ("SAT"), approved by shareholders on December 23, 2008 at a shareholder meeting of Independent, the Company, through its newly-formed wholly-owned subsidiary, 2190583 Ontario Inc., acquired the remaining 16% of Independent shares not already tendered through the issuance of 10,761,829 shares of Victory Nickel. Effective January 1, 2009, the subsidiary and Independent amalgamated, creating new "Independent Nickel Corp." The Company has commenced the wind-up of new Independent Nickel Corp. into Victory Nickel. The Company also made application to the relevant securities commissions to cease Independent's registration as a reporting issuer; such application was approved in January 2009.

The Company acquired 100% of the Independent shares through the issuance of an aggregate of 66,675,103 shares of the Company to former holders of Independent shares on the basis of 1.1 of a Victory Nickel share for each Independent share. The Victory Nickel shares issued under the SAT have been treated as being issued effective December 23, 2008; the shares were actually issued on January 2, 2009.

As part of the acquisition, Victory Nickel also issued 6,643,998 replacement options to the option holders of Independent based upon the same ratio. The fair value of options issued was estimated at \$186,000 using the Company's Black-Scholes assumptions in Note 11. The predecessor Independent options were cancelled. Furthermore, 1,537,963 replacement warrants were recorded for the benefit of the warrant holders of Independent which were outstanding at the date of the SAT. The warrants were based upon the same ratio. The fair value of the warrants was estimated at \$nil using the Company's Black-Scholes assumptions in Note 11.

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

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

Purchase Price

Issuance of 66,675,103 common shares of the Company	\$	6,166
Transaction costs		1,427
Issuance of replacement options		186
Issuance of replacement warrants		-
	\$	7,779

Fair Value of Independent's Net Assets Acquired:

Current assets (including cash of \$2,308)	\$	2,594
Capital assets, net		83
Future income tax assets		3,480
Exploration and development projects:		
Lynn Lake	\$	1,241
Minago royalty		770
		2,011
		8,168
Current liabilities		(362)
Non-controlling interests		(27)
	\$	7,779

6. CORPORATE REORGANIZATION AND FORMATION OF THE COMPANY

Pursuant to a Plan of Arrangement which became effective February 1, 2007, the Company was formed upon the amalgamation of two predecessor companies incorporated in December, 2006 for the purpose of carrying out the Plan of Arrangement. Upon completion of the amalgamation and pursuant to the Plan of Arrangement, the Company completed a series of transactions which resulted in the following transfers to the Company:

- a) three mineral resource properties, namely the Minago and Mel sulphide nickel projects in Manitoba and the Lac Rocher sulphide nickel project in Québec (collectively the "Nickel Properties"), from Nuinsco. These properties were recorded at their carrying values in the accounts of Nuinsco of \$5,800,746, net of related accounts payable of \$527,871;
- b) exploration advances to the Company's joint venture partner managing the Mel project of \$448,428; and
- c) cash of \$12,667,740

in exchange for the issuance of 154,003,146 common shares of the Company.

The terms of the Plan of Arrangement resulted in Nuinsco initially owning 25% of the Company's common shares and 75% being distributed to Nuinsco's shareholders. Accordingly Nuinsco's shareholders continued to own 100% of the transferred assets by virtue of their direct holdings of the Company's shares and their indirect ownership interest through their Nuinsco share ownership. As a consequence, this related party transaction was recorded by the Company at Nuinsco's recorded carrying values of the Nickel Properties transferred and the cash received.

The cash transferred from Nuinsco to the Company was the amount of the net proceeds of \$14,045,317 received by Nuinsco in a December 2006 private placement, less the aggregate of \$929,149 expended by Nuinsco on the

transferred Nickel Properties from the date of the private placement to February 1, 2007, the effective date of the Plan of Arrangement and exploration advances at as February 1, 2007 amounting to \$448,428. The latter amount represents cash advanced to CVRD Inco Limited (now Vale Inco Limited “Vale Inco”), the Company’s joint venture partner on the Mel project, in excess of exploration costs incurred.

In addition, the Company was responsible for all costs relating to the Plan of Arrangement. The total of such costs has been treated as a capital transaction and shown as a reduction in share capital.

A summary of net assets acquired is as follows:

Cash (net of out-of-pocket costs incurred to complete the Plan of Arrangement of \$762)		\$	11,906
Nickel Properties			
Exploration advances - Mel			448
Exploration and development projects:			
Minago	\$	2,976	
Mel		706	
Lac Rocher		2,118	5,800
			18,154
Less liabilities:			
Accounts payable			527
Future income taxes ⁽¹⁾			1,914
		\$	15,713

⁽¹⁾ The future income taxes result from the fact that, pursuant to the tax elections filed as part of the Plan of Arrangement, the cost bases for tax purposes of the nickel assets is \$nil, versus a net carrying value on acquisition of \$5,800,746.

7. MARKETABLE SECURITIES

As at December 31,	2008
	Market Value
Wallbridge Mining Company Limited - Warrants	\$ -
Wallbridge Mining Company Limited - Common Shares	450
	\$ 450

In March, 2008, the Company privately purchased from a third party 7,500,000 units of Wallbridge Mining Company Limited (“Wallbridge”), a public company, for \$1,912,500. Each unit comprises one common share and one-half of one share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of Wallbridge at an exercise price of \$0.80 per share if the warrant is exercised prior to March 26, 2009, or \$1.00 per share if exercised during the period between March 26, 2009 and March 26, 2010. The units were subject to a hold period which expired on July 27, 2008. On initial recognition, no value was allocated to the share purchase warrants given the significant excess of the exercise price over current market value.

In April, 2008, the Company acquired a further 1,500,000 Wallbridge common shares at a cost of \$577,515. During the third quarter of 2008, Wallbridge issued shares under private placements; accordingly, as at December 31, 2008, the Company’s interest has been diluted to approximately 9.8% (or 13.3% on a partially diluted basis, if all the Company’s warrants are exercised - not including the exercise of any other securities convertible into Wallbridge shares held by any other holder).

Prior to the fourth quarter of 2008, the Company had originally considered that the decline in market value was temporary and recorded decreases in estimated fair value through other comprehensive income. However, in the fourth quarter of 2008, due to continued adverse market conditions and a market price of Wallbridge which has been below average cost for six months, the Company concluded that the decline in value is other than temporary. Accordingly, the Company has reclassified the decrease in the estimated fair value of the shares from the date of acquisition to December 31, 2008 of \$2,040,000 as a loss in the consolidated statement of operations. A full

valuation allowance has been taken against future tax assets that would arise from the capital loss that would occur if the shares were disposed of at current prices.

Should market conditions subsequently recover, any improvement in the fair value of the Company's investment in Wallbridge will be recorded through other comprehensive income, in accordance with Canadian GAAP.

8. EXPLORATION ADVANCES

The Company's Mel sulphide nickel project is managed by Vale Inco. By the end of December 31, 2008, cash advanced to Vale Inco had been applied to exploration costs and accordingly included in exploration and development projects. As at December 31, 2007, cash advanced to Vale Inco in excess of exploration costs incurred totalled \$280,075.

9. 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, 2007	Acquired Through Acquisition of Independent	Current Expenditures	Writedowns	Balance as at December 31, 2008
Note 5					
Lac Rocher ⁽¹⁾	\$ 3,314	\$ -	\$ 266	\$ -	\$ 3,580
Mel	2,158	-	304	-	2,462
Minago	10,290	770	12,845	-	23,905
Lynn Lake ⁽²⁾	-	1,241	242	-	1,483
	\$ 15,762	\$ 2,011	\$ 13,657	\$ -	\$ 31,430

	Acquired on Formation of the Company	Current Expenditures	Writedowns	Balance as at December 31, 2007
Note 6				
Lac Rocher	\$ 2,118	\$ 1,196	\$ -	\$ 3,314
Mel ⁽³⁾	706	1,452	-	2,158
Minago	2,976	7,314	-	10,290
	\$ 5,800	\$ 9,962	\$ -	\$ 15,762

⁽¹⁾ The expenditures on the Lac Rocher project in the period ended December 31, 2008 are shown net of Québec mining duties receivable of \$179,331.

⁽²⁾ The expenditures on the Lynn Lake property are shown net of \$72,885 recovery in 2008 under the Mineral Exploration Assistance Program.

⁽³⁾ The expenditures on the Mel project in the period ended December 31, 2007 include \$448,428 funded from exploration advances on deposit with Vale Inco and transferred to the Company on formation, February 1, 2007 (see Note 6).

Lac Rocher

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

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) of the near-term production and cash generation potential of the project. No fieldwork was conducted on the property during 2008.

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

Mel

Effective August 27, 1999, Nuinsco entered into an agreement (the “Agreement”) with Inco Limited (predecessor to CVRD Inco Limited, now Vale Inco) for the exploration and development of Vale Inco’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 Inco has the right to earn back a 51% interest by incurring expenditures of \$6,000,000 over a four-year period. Vale Inco has not yet notified the Company if it intends to exercise this back-in right.

Under the Agreement, Vale Inco has a contractual obligation to mill ore mined from the Mel deposit at its cash cost plus 5% (provided that the product meets Vale Inco specifications and that Vale Inco has sufficient mill capacity). The Company has the option to manage the development and operation of any mines developed on the Mel Properties.

Minago

At December 31, 2008, the 100%-owned Minago project covered approximately 14,500 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. Prior to the acquisition of Independent (Note 5), the Minago project was subject to a graduated NSR, up to 3% if nickel prices exceed US\$6.00 per pound.

From 2006 to date, considerable work, including diamond drilling, metallurgical testing and engineering studies were completed. Early work was incorporated into the PEA of the Minago Project, completed in November, 2006. Due to the positive outcome of the PEA and the strong pricing for nickel and other by-products that prevailed at that time, the Company engaged an engineering firm to proceed with a feasibility study. This study began in early 2007, will incorporate all of the results from completed work programs and studies and is expected to be completed in 2009.

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.

Under the terms of the agreement, the Company could acquire a 100% interest in the Properties through:

- A one-time cash payment of \$150,000 upon signing (which was paid and is included in current period project expenditures); and
- Incurring \$500,000 of expenditures before September 30, 2008. The Company has fulfilled this obligation.

The acquisition has been ratified by Xstrata and a 100% interest in the claims 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 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.

As described above in Note 5, the acquisition of Independent included the acquisition of its Minago royalty. Under the PEA of the Minago project, the undiscounted value placed on the Minago royalty on nickel production was estimated at approximately \$74 million. An amount of approximately \$0.8 million was determined for this Minago royalty after assigning values to other net assets and ascribed to the value of the Minago project. Independent had previously paid a third party approximately \$6.3 million to acquire the Minago royalty.

The acquisition of Independent also included the following projects:

Lynn Lake

The Company owns a 100% right, title and interest in the Lynn Lake nickel property, located in northern Manitoba. The property consists of approximately 600 hectares that require annual lease payments of approximately \$7,000. An amount of approximately \$1.2 million after assigning values to other net assets was ascribed to the Lynn Lake property upon acquisition. Independent had expended approximately \$10.8 million on the property since its acquisition in 2005.

Wakami, Lar and Wellmet Projects

Upon the acquisition of Independent, a fair value of \$nil was ascribed to each of the Wakami, Lar and Wellmet projects. Independent had written Wakami down to zero during 2007 and had not expended any amounts on either Lar or Wellmet in 2008.

Flow-through Commitment

As at December 31, 2008, the Company had fulfilled its commitment to incur exploration expenditures in relation to prior flow-through share financings in 2007. The remaining flow-through commitment outstanding for flow-through share financings in 2008 is approximately \$2,769,000 after taking into consideration amounts included in accounts payable and accrued liabilities of approximately \$1,493,000. This commitment is required to be incurred by December 31, 2009.

10. PROPERTY AND EQUIPMENT

As at December 31,	2008		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 43	\$ -	\$ 43
Building	40	1	39
Equipment	29	5	24
Vehicle	11	1	10
	\$ 123	\$ 7	\$ 116

11. SHAREHOLDERS' EQUITY

Share Capital

Authorized:

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

Issued and Outstanding:

	Number of Shares	Amount
Issued on formation of Company pursuant to Plan of Arrangement (Note 6)	154,003,146	\$ 15,713
Shares issued pursuant to private placement ^(a)	16,428,571	10,694
Options exercised ^(b)	475,000	243
Warrants exercised ^(c)	5,502,514	847
Shares issued under the Share Bonus Plan ^(d)	232,650	109
Balance as at December 31, 2007	176,641,881	27,606
Shares issued pursuant to private placement ^(e)	18,046,700	7,689
Shares issued pursuant to acquisition of Independent (Note 5) ^(f)	66,675,103	6,166
Options exercised ^(g)	150,000	41
Shares issued under the Share Bonus Plan ^(h)	196,125	97
Flow-through share renunciation ⁽ⁱ⁾	-	(3,335)
Balance as at December 31, 2008	261,709,809	\$ 38,264

- (a) In March, 2007, the Company issued 16,428,571 flow-through shares at \$0.70 per share for gross proceeds of \$11,500,000, before costs of issue of \$805,463.
- (b) During the period ended December 31, 2007, 475,000 common shares were issued upon the exercise of options for proceeds of \$209,329 plus the carrying value of the options exercised of \$33,400.
- (c) During the period ended December 31, 2007, 5,502,514 common shares were issued upon the exercise of warrants for proceeds of \$846,900.
- (d) During the period ended December 31, 2007, 232,650 common shares were issued to employees and consultants as discretionary bonuses and were valued at \$108,763.
- (e) In July, 2008, the Company issued 18,046,700 flow-through shares at \$0.45 per share for gross proceeds of \$8,121,015 before costs of issue of \$432,636.
- (f) In October 2008, pursuant to the acquisition of Independent as described in Note 5, the Company issued an aggregate of 55,913,274 shares in exchange for an approximate 84% interest in Independent. Under the SAT, an additional 10,761,829 shares were treated as issued for the remaining 16% shares of Independent not already owned. The shares were actually issued on January 2, 2009.
- (g) During the year ended December 31, 2008, 150,000 common shares were issued upon the exercise of options, for proceeds of \$40,500.
- (h) During the year ended December 31, 2008, 196,125 common shares were issued to employees and consultants as discretionary bonuses, and were valued at approximately \$97,000.
- (i) In February, 2008, the Company renounced \$11,500,000 in Canadian Exploration Expenditures to investors of flow-through shares. The tax value of these renunciations amounts to \$3,335,000, and has been recorded as a future income tax liability and charged against share capital.

Stock Options

The Company has a stock option plan (the "Plan") to encourage ownership of its shares by Directors, officers, employees and others, and to provide compensation for certain services. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to 10 years. The number of shares reserved for issuance is not to exceed 15% of the aggregate number of common shares issued and outstanding (calculated on a non-diluted basis) from time to time. At December 31, 2008, the Company had 18,502,473 common shares available for granting of future options.

A summary of options outstanding is as follows:

	Number of Options Outstanding	Average Exercise Price
Options issuable on the exchange of options of Nuinsco pursuant to the Plan of Arrangement	9,187,500	\$ 0.19
Options granted during the period	4,922,500	0.61
Options exercised	(475,000)	0.44
Options forfeited and expired during the period	(250,000)	0.64
As at December 31, 2007	13,385,000	0.32
Options granted during the year		
Replacement options	6,643,998	0.44
Other options	875,000	0.40
Options exercised	(150,000)	0.27
As at December 31, 2008	20,753,998	\$ 0.36

In total, 7,518,998 options were granted during 2008 at a weighted average exercise price of \$0.44 per share. The weighted average grant date fair value of options granted during the year was \$0.05, including 6,643,998 replacement options, the cost of which was treated as an acquisition cost of Independent as described in Note 5. The granting and vesting of 7,518,998 options resulted in compensation expense of \$310,825 with an additional \$186,000 becoming part of the acquisition cost of Independent.

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

Option Assumptions	Year Ended December 31, 2008	Period from Inception, February 1, 2007, to December 31, 2007
Dividend yield	-	-
Expected volatility	75%	75%
Risk free interest rate	3.0% to 3.5%	4.5%
Expected option term - years ⁽¹⁾	1 1/2 to 5	3
Fair value per share of options granted	\$0.03 to \$0.28	\$0.26 to \$0.43

⁽¹⁾ The replacement options were issued under the terms which were outstanding at the date of issue, accordingly, a range of 1 1/2 to 5 years expected option term was used.

Of the 20,753,998 options outstanding at December 31, 2008, 250,000 are subject to vesting in the next fiscal year. The aggregate fair value of these unvested options not yet charged to operations is \$16,439. The weighted average exercise price of fully-vested options at December 31, 2008 was \$0.36.

The following table summarizes information about the stock options outstanding at December 31, 2008:

Range of Exercise Prices	Options Exercisable	Options Outstanding	Years to Expiry ⁽¹⁾	Exercise Price ⁽¹⁾
\$0.09 - \$0.21	6,543,750	6,543,750	2.44 \$	0.13
\$0.22 - \$0.27	3,797,012	3,797,012	4.16 \$	0.24
\$0.28 - \$0.49	3,667,500	3,917,500	3.83 \$	0.34
\$0.50 - \$0.82	6,495,736	6,495,736	3.33 \$	0.68
\$0.09 - \$0.82	20,503,998	20,753,998	3.30 \$	0.36

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

Pursuant to the Support Agreement entered into between Victory Nickel and Independent dated September 2, 2008 under which the Board of Directors and management of Independent agreed to support the bid, upon acquisition, the Company issued 6,643,998 replacement options to the option holders of Independent based upon the same ratio (1.1 of a Victory share for each Independent share) under the bid. The exercise prices were calculated so that the aggregate proceeds of the replacement options remained the same (except for necessary rounding) as the former Independent options. The other contractual terms including term to expiry also remained the same as the former Independent options. The predecessor options were cancelled.

Accordingly, all of the replacement options were issued at exercise prices which exceeded the market price on the date of grant, as shown in the following table:

	Options Issued	Grant Date Fair Value ⁽¹⁾	Exercise Price ⁽¹⁾
Options issued at market price	875,000	\$ 0.23	\$ 0.40
Replacement options issued above market price	6,643,998	\$ 0.03	\$ 0.44
	7,518,998	\$ 0.05	\$ 0.44

⁽¹⁾In this table, "Grant Date Fair Value" and "Exercise Price" have been calculated on a weighted average basis.

Pursuant to the Plan of Arrangement, holders of 12,250,000 options of Nuinsco converted their options into 12,250,000 new Nuinsco options and 9,187,500 options of the Company with an average exercise price of \$0.19 per share.

The issuance of the 9,187,500 options under the Plan of Arrangement has been treated as a modification of the respective original Nuinsco awards and the new option grants were made in accordance with the provisions of the Plan of Arrangement. The exercise prices were determined based on the intrinsic values immediately before the effective date of the Plan of Arrangement and the relative fair value of the net assets transferred to the Company

and the fair value of all property, net of liabilities, of Nuinsco prior to the spinoff. The strike prices were calculated so that the total intrinsic value immediately prior to and after the effective date remained unchanged. The vesting periods and the contractual terms were determined based on the vesting periods and contractual terms of each award being modified and in no case did the contractual term exceed 10 years from the grant date. Since these awards were a modification of existing Nuinsco awards under the anti-dilution provisions of its stock option plan, the Company has not recognized an expense pursuant to the issuance of these options.

Commitment to Issue Shares

Pursuant to the Plan of Arrangement, the Company was committed to issue common shares of the Company to holders of Nuinsco warrants as of February 1, 2007, the effective date of the Plan of Arrangement, upon the exercise of such warrants.

Each outstanding Nuinsco warrant entitled the holder to receive upon exercise, the number of new Nuinsco common shares and the number of common shares of the Company that such holder would have received under the Plan of Arrangement if such warrant had been exercised immediately before the Plan of Arrangement became effective. The aggregate exercise price of the Nuinsco warrant was unchanged, with the Company receiving 41.25% of the proceeds.

During the period ended December 31, 2007, 5,502,514 common shares were issued pursuant to this arrangement for proceeds of \$846,900. Also pursuant to the Plan of Arrangement, the Company was committed to issue 232,650 common shares to employees and consultants as discretionary bonuses pursuant to Nuinsco's Share Bonus Plan with respect to bonus share entitlements granted in December, 2006 and which vested in 2007. During the period ended December 31, 2007, 232,650 common shares were issued pursuant to this arrangement with a value of \$108,763.

There are no remaining commitments to issue shares pursuant to the Plan of Arrangement.

Warrants

During the period ended December 31, 2007, 150,000 warrants were issued to a third party for services rendered. The warrants have an exercise price of \$0.48 per share, and expire in June, 2009. The warrants were valued at \$25,352 using a fair value based method. Pursuant to the SAT (Note 5), 1,537,963 replacement warrants were issued to former Independent warrant holders using the same ratio and basis as described above for replacement options. The warrants have an exercise price of \$0.82 and expire May 7, 2009. The warrants were valued at \$nil using a fair value based method. No other warrants are outstanding as at December 31, 2008.

Share Incentive Plan

The Company has a share incentive plan ("Share Incentive Plan") which includes both a share purchase plan (the "Share Purchase Plan") and a share bonus plan (the "Share Bonus Plan").

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

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

The Share Bonus Plan permits common shares to be issued as a discretionary bonus to eligible directors, senior officers and employees of the Company and its designated affiliates, and consultants from time to time. For the period ended December 31, 2007, 232,650 shares were issued under the Share Bonus Plan. The maximum number of common shares issuable under the Share Bonus Plan is the lesser of: (i) 2,000,000 common shares; and (ii) 2% of the aggregate number of issued and outstanding common shares (calculated on a non-diluted basis) from time to time.

Entitlements to 196,125 common shares were granted under the Share Bonus Plan effective December 31, 2007. The entitlement to the shares vests over the following nine months as to one-third in each fiscal quarter. The individuals awarded the right to receive shares have no rights of ownership associated with the shares until the shares have vested and are actually issued to the employees. The fair value of the 196,125 common shares granted under the Share Bonus Plan was determined based on the quoted market price of the shares on the date of grant (\$0.50 per share) for an aggregate fair value of \$98,063 and was charged to income over the vesting period.

There were no entitlements to common shares granted under the Share Bonus Plan in 2008.

12. INCOME TAXES

The income tax recovery differs from the amount computed by applying statutory federal and provincial income tax rates of 33.5% for the year ended December 31, 2008 and the period from inception to December 31, 2007 (36.0%), to the loss before income taxes.

The differences are summarized as follows:

	Year Ended December 31, 2008	Period from Inception, February 1, 2007, to December 31, 2007
Current income taxes		
Expected income tax recovery based on		
statutory income tax rate in 2008 of 33.5% (2007 - 36.0%)	\$ (1,378)	\$ (883)
Non-deductible items, net	151	534
Non-deductible portion of unrealized loss on securities	342	-
Effect of change in expected future income tax rates	(134)	(156)
Valuation allowance	(525)	280
Future income tax recovery	\$ (1,544)	\$ (225)

The future income tax recovery in 2008 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; the recovery in 2007 solely represents the impact of tax rate reductions enacted in December, 2007 on the future income tax liability recognized on formation (see Note 6).

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

As at December 31,	2008	2007
Future income tax assets		
Non-capital losses carried forward	\$ 1,906	\$ 325
Capital losses carried forward	275	-
Share issue costs and other costs	552	358
Valuation allowance	(649)	(683)
Total future income tax assets	2,084	-
Future tax liabilities		
Exploration and development properties	2,084	1,689
	2,084	1,689
Net future income tax liability	\$ -	\$ 1,689

Non-capital losses expire as follows:

	Amount
2009	\$ 24
2014	195
2015	307
2026	580
2027	1,092
2028	2,372
2029	2,488
	\$ 7,058

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive (loss) income ("OCI") was comprised of unrealized gains on marketable securities that are classified as available for sale (see Note 7). Changes in the components of OCI are summarized as follows:

	Year Ended December 31, 2008
Accumulated OCI at beginning of year	\$ -
OCI for the year representing the change in the fair value of financial assets available for sale, net of related future income taxes of \$nil	(2,040)
Determination of change in the fair value as "other than temporary" and reclassification through operations	2,040
Accumulated OCI at end of year	\$ -

Refer to Note 7 for details of the assessment of the change in market value being other than temporary.

14. CHANGES IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital balances related to operations, for the year ended December 31, 2008 and the period from inception, February 1, 2007, to December 31, 2007, are as follows:

	Year Ended December 31, 2008	Period from Inception, February 1, 2007 to December 31, 2007
Accounts receivable, prepaid expenses and deposits	\$ 95	\$ (483)
Due from/to Nuinsco Resources Limited	(140)	158
Accounts payable and accrued liabilities	(249)	192
	\$ (294)	\$ (133)

15. RELATED PARTY TRANSACTIONS

Related party transactions not described elsewhere in these consolidated financial statements include the following:

- a. The Company shares management, administrative assistance and facilities with Nuinsco (which, by virtue of its approximate 15% ownership interest has the ability to exercise significant influence over the Company) pursuant to a management agreement. The costs payable by the Company under the arrangement are recorded at the exchange amount which is equal to the cost to Nuinsco of such services plus 10 per cent. The management agreement has an initial term of 24 months commencing February 1, 2007 and is terminable thereafter by Nuinsco upon 90 days notice and by the Company upon 180 days notice. Costs charged to the Company in the year ended December 31, 2008 amounted to \$649,618 (\$808,759 for 2007) and have been included in general and administrative expenses. In addition, project-related costs aggregating \$65,580 have been charged to the Company by Nuinsco during 2008 (\$463,491 for 2007) and are included in exploration and development costs on the consolidated balance sheet. The Company charged Nuinsco \$52,920 for the year ended December 31, 2008 for project-related costs incurred by it on behalf of Nuinsco.
- b. Amounts due to Nuinsco are unsecured, non-interest bearing and due on demand.
- c. Included in accounts payable and accrued liabilities at December 31, 2008 are amounts due to officers and directors of the Company in the amount of \$114,111 (December 31, 2007 - \$64,267). These amounts relate primarily to directors' fees payable.
- d. The Company's Lac Rocher property is subject to a discovery incentive plan (the "DIP") to reward certain directors and former officers of the Company with a 2% NSR for mines that were discovered on certain properties prior to the expiry of the DIP. The NSR is payable only on revenues earned after recovery of all development costs for any mine on the property. The terms of the DIP provide the Company with a right of first refusal on any proposed disposition of the NSR. In addition, the DIP contains put/call provisions under which the Company may be required to purchase, or may exercise an option to purchase, the NSR at the value of its discounted cash flows, as defined therein. The Lac Rocher property is the only property subject to the DIP. As the Lac Rocher property is not yet in production, no royalties are currently payable.

16. SUBSEQUENT EVENTS

Shareholder Rights Plan:

In March 2009, the Board of Directors approved the adoption of a shareholder rights plan ("the Plan") which will require subsequent shareholder approval at the Company's Annual Meeting.

In order to implement the adoption of the Plan, the Board of Directors authorized the issuance of one right (a "Right") in respect of each common share outstanding at the close of business on March 27, 2009. In addition, the

Board authorized the issuance of one Right in respect of each additional common share issued after the Record Time. Rights trade with and are represented by common share certificates, including certificates issued prior to the Record Time. Until such time as the Rights separate from the common shares and become exercisable, Rights certificates will not be distributed to shareholders.

If a person, or a group acting in concert, acquires (other than pursuant to an exemption available under the Plan) beneficial ownership of 20% or more of the common shares, Rights (other than those held by such acquiring person which will become void) will separate from the common shares and permit the holder therefore to purchase common shares at a 50% discount to their market price. A person, or a group acting in concert, who is the beneficial owner of 20% or more of the outstanding common shares as of the Record Time is exempt from the dilutive effects of the Plan provided such person (or persons) does not increase its beneficial ownership by more than 1% (other than in accordance with the terms of the Plan). At any time prior to the Rights becoming exercisable, the Board may waive the operation of the Plan with respect to certain events before they occur.

The issuance of the Rights is not dilutive until the Rights separate from the underlying common shares and become exercisable or until the exercise of the Rights. The issuance of the Rights will not change the manner in which shareholders currently trade their common shares.

Stock Options Issuance

On January 28, 2009, the Board of Directors granted 5,965,000 stock options at \$0.05 per share to directors, officers, employees and consultants. Of the options granted, 4,632,500 vest immediately and 1,332,500 vest over one year.