VICTORY NICKEL INC.

(A Development Stage Entity)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

DATED MARCH 11, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All of the information in the annual report and accompanying financial statements of Victory Nickel Inc. is the responsibility of management. The 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 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 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 financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the financial statements.

A firm of independent Chartered Accountants, appointed by the shareholders, audits the 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
Vice-Chairman and CEO
March 11, 2011

Alison J. Sutcliffe
Vice-President, Finance & CFO
March 11, 2011

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF VICTORY NICKEL INC.

We have audited the accompanying financial statements of Victory Nickel Inc., which comprise the balance sheets as at December 31, 2010 and December 31, 2009, and the statements of operations, comprehensive income, cash flows and shareholder's equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Victory Nickel Inc. as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the company has not commenced commercial production and accordingly the company is dependent upon debt or equity financing and the optioning and/or sale of resource or resource-related assets for its funding. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

Toronto, Canada	(signed) "BDO Canada LLP"
March 11, 2011	Chartered Accountants
	Licensed Public Accountants

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

As at December 31, (in thousands of Canadian dollars)		**2010**		**2009** (restated - Note 2)
ASSETS				
Current				
Cash and cash equivalents	$	**170**	$	4,078
Marketable securities (Note 5)		**10,556**		1,254
Accounts receivable		**82**		294
Prepaid expenses and deposits		**14**		35
Total Current Assets		**10,822**		5,661
Exploration and Development Projects (Note 6)		**37,381**		33,597
Property and Equipment (Note 7)		**715**		88
	$	**48,918**	$	39,346
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities (Note 12)	$	**571**	$	1,367
Due to Nuinsco Resources Limited (Note 12)		**21**		33
Total Current Liabilities		**592**		1,400
Future Income Tax Liability (Notes 2 and 9)		**781**		682
		1,373		2,082
Shareholders' Equity (Note 8)				
Share capital		**45,098**		38,937
Contributed surplus		**3,797**		2,980
Deficit (Note 2)		**(5,272)**		(5,651)
Accumulated other comprehensive income (Note 10)		**3,922**		998
		47,545		37,264
	$	**48,918**	$	39,346

NATURE OF OPERATIONS (Note 1)

Approved by the Board of Directors

(signed)	(signed)
Cynthia P. Thomas	**Roland Horst**
Director	Director

The accompanying notes are an integral part of these financial statements

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

Years ended December 31, (in thousands of Canadian dollars, except per share amounts)		**2010**		**2009** **(restated - Note 2)**
Revenue				
Interest income	$	**10**	$	62
Gain on sale of marketable securities		**228**		232
		238		294
Costs and Expenses				
General and administrative (Note 12)		**1,393**		1,326
Stock option compensation (Note 8)		**657**		250
Other stock-based compensation (Note 8)		**165**		-
Fee to Nuinsco Resources Limited (Note 8)		**33**		-
Amortization of property and equipment		**10**		28
(Recovery) writedown of exploration and development projects (Note 6)		**(990)**		1
		1,268		1,605
Loss before the Undernoted		**(1,030)**		(1,311)
Gain on Securities Held for Trading (Note 5)		**1,281**		-
Income (Loss) before Income Taxes		**251**		(1,311)
Future Income Tax Recovery (Notes 2 and 9)		**128**		431
Net Income (Loss) for the Year	$	**379**	$	(880)
Income (Loss) per Share				
Basic	$	**0.00**	$	(0.00)
Diluted	$	**0.00**	$	(0.00)
Weighted Average Common Shares Outstanding				
Basic		**359,701,000**		286,498,000
Diluted		**362,822,000**		288,609,000

The accompanying notes are an integral part of these financial statements

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

Years ended December 31, (in thousands of Canadian dollars)		**2010**		**2009** **(restated - Note 2)**
Net income (loss) for the year	$	**379**	$	(880)
Other comprehensive income (Note 10)		**2,924**		998
Comprehensive Income for the Year	$	**3,303**	$	118

The accompanying notes are an integral part of these financial statements

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

Years ended December 31,		2010		2009
(in thousands of Canadian dollars)				(restated - Note 2)
Cash from (used by)				
Operating Activities				
Net income (loss) for the year	**$**	**379**	$	(880)
Items not affecting cash:				
Stock option compensation (Note 8)		**657**		250
Other stock-based compensation (Note 8)		**165**		-
Amortization		**10**		28
Gain on securities held for trading (Note 5)		**(1,281)**		-
Gain on sale of marketable securities		**(228)**		(232)
(Recovery) writedown of exploration and development projects (Note 6)		**(990)**		1
Future income tax recovery (Notes 2 and 9)		**(128)**		(431)
Change in non-cash working capital (Note 11)		**(55)**		491
Cash used by operating activities		**(1,471)**		(773)
Financing Activity				
Issue of common shares and warrants		**6,106**		3,650
Cash from financing activity		**6,106**		3,650
Investing Activities				
Exploration and development projects		**(5,721)**		(3,943)
Deposits on equipment (Note 7)		**(608)**		-
Proceeds from sale of marketable securities		**1,212**		426
Proceeds from option of Lynn Lake (Note 6)		**1,100**		300
Purchase of marketable securities		**(4,526)**		-
Cash used by investing activities		**(8,543)**		(3,217)
Net Decrease in Cash During the Year		**(3,908)**		(340)
Cash and Cash Equivalents, Beginning of the Year		**4,078**		4,418
Cash and Cash Equivalents, End of the Year	**$**	**170**	$	4,078

The accompanying notes are an integral part of these financial statements

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

(restated - Note 2) (in thousands of Canadian dollars)	Share Capital Number of Shares	Share Capital Amount	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2008	**261,709,809**	**$ 38,264**	**$ 1,857**	**$ (4,771)**	**$ -**	**$ 35,350**
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 (Note 2)	-	-	-	(880)	-	(880)
Other comprehensive income	-	-	-	-	998	998
Balance as at December 31, 2009	**328,149,761**	**38,937**	**2,980**	**(5,651)**	**998**	**37,264**
Options granted and vesting	-	-	657	-	-	657
Shares issued under private placements	10,000,000	1,676	264	-	-	1,940
Shares issued pursuant to reciprocal placement	36,615,385	3,797	-	-	-	3,797
Shares issued under Share Bonus Plan	1,571,100	165	-	-	-	165
Warrants exercised	3,339,282	493	(92)	-	-	401
Options exercised	350,000	30	(12)	-	-	18
Net income for the year	-	-	-	379	-	379
Other comprehensive income	-	-	-	-	2,924	2,924
Balance as at December 31, 2010	**380,025,528**	**$ 45,098**	**$ 3,797**	**$ (5,272)**	**$ 3,922**	**$ 47,545**

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

(A Development Stage Entity)

December 31, 2010 and 2009

(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 may participate 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 December 31, 2010, the Company has working capital of $10,230,000 (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 announced the results of its feasibility study ("FS") on its Minago project in late 2009.

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 exploration results which have the potential for 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 financial statements have been prepared by management in accordance with Canadian GAAP.

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 December 31, 2010 was $37,381,000 (2009 - $33,597,000). Management's review of these carrying values indicated that at December 31, 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. In recent years 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", which involves making estimates on the fair value of its warrants which are derivative instruments.

Restatement of 2009 Figures
With the optioning of the Lynn Lake project, certain of the Company's tax pools acquired pursuant to the acquisition of Independent Nickel Corp. ("Independent") no longer meet the test of being more-likely-than-not to be utilized. Accordingly, the Company should have recorded a valuation allowance in future income taxes against such pools of $295,000 in the fourth quarter of 2009. Therefore, as at and for the year ended December 31, 2009, the Company has increased the future income tax liability from $387,000 to $682,000, increased the deficit from $5,356,000 to $5,651,000, decreased the future income tax recovery from $726,000 to $431,000 and increased the loss for the year from $585,000 to $880,000. There was no effect on loss per share for the year ended December 31, 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments
The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, warrants (included in marketable securities), accounts payable and accrued liabilities, and amounts due from or to Nuinsco Resources Limited ("Nuinsco"). Each financial asset and financial liability instrument, other than an asset or liability in a related party transaction, 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 and financial liabilities 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 are measured at fair value. Changes in the fair value of financial instruments designated as held for trading and recognized derivative financial instruments such as warrants are charged or credited to the 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 sold. 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 balance sheet at fair value. Accounts receivable have been designated as loans and receivables and carried at amortized cost. Accounts payable and accrued liabilities and amounts due to Nuinsco are carried at amortized cost and are classified as other financial liabilities.

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. As at December 31, 2010, the cash and cash equivalent balance included a guaranteed investment certificate of $158,000 (2009 – $4,122,000).

Marketable Securities
The Company's portfolio of marketable securities comprises mainly public investments traded in active markets. The fair value is based on the quoted bid prices at the reporting date, accordingly the Company's primary investments are categorized as "Level One". When information or events indicate other than a temporary decline in value, the impairment loss is recognized through operations 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. 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.

In addition, the Company owns warrants issued by those public companies which are classified as "Level Two". 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.

Transactions in marketable securities are accounted for on the settlement date.

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. When recoveries from option payments exceed the amounts previously capitalized, the excess is recorded in the statement of operations as recovery of exploration and development projects. Exploration 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 writedown to fair 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 a writedown of exploration and development projects in the statement of operations.

Government Assistance and Investment Tax Credits
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 or investment tax credits relating to the exploration and development properties are recorded as a reduction of those related expenditures.

Asset Retirement Obligations
The fair value of liabilities for asset retirement obligations ("ARO") will be recognized in the period in which they are incurred and the fair value can be reasonably estimated. Currently there are no AROs recognized. However, as the development of any project progresses, the Company will assess whether an 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 8. 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 12-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 8. 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 statement of operations.

Revenue Recognition
Revenue is principally composed of interest income and gain on marketable securities. Gains on sales of marketable securities are recognized on the settlement date. Other income, including interest income, is recognized on an accrual basis using the effective interest rate method.

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). Furthermore, temporary differences include the benefit of tax losses available to be carried forward to future years. 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.

Income or Loss per Share
The Company uses the treasury stock method in determining the diluted income or loss per share. The diluted income or loss per share data assumes the exercise of all outstanding warrants and options except when the assumed exercise is anti-dilutive. Income or 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, 2010 which could dilute future income should they be fully exercised is 60,057,942 (2009 – 56,966,474).

New Accounting Policies
There have been no new accounting policies adopted in these 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
International Financial Reporting Standards
The CICA plans to transition Canadian GAAP for public companies to IFRS. The effective changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is working on the transition to IFRS and is developing and refining disclosures for the Company's financial statements under IFRS. The effects on the Company's transition date balance sheet (as at January 1,

2010) and as at December 31, 2010 will be outlined in the Company's first set of unaudited interim financial statements for the quarter ended March 31, 2011.

2009 Figures
Certain of the 2009 figures have been reclassified to conform to the 2010 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 counterparty 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 and marketable securities. 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, 2010, the Company had working capital of $10,230,000 (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 $781,000 (2009 - $682,000). All contractually obligated cash flows are payable within the next fiscal 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 other than the purchase commitment described in Note 7.

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 1% at December 31, 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.

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 and other commodities or other factors affecting the value of the investments.

From time-to-time, the Company makes investments in other junior resource companies as approved by the Board. The Company's marketable securities are comprised of investments in two (2009 – one) junior resource companies. Accordingly, there is concentration of market risks associated with these 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 and there have been no changes in the Company's capital management in the year.

5. MARKETABLE SECURITIES

As at December 31,		2010		2009
Level One Securities - Common Shares	**$**	**10,167**	$	1,254
Level Two Securities - Warrants		**389**		-
	$	**10,556**	$	1,254

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 in the gain or loss on securities held for trading of $1,281,000.

As at December 31, 2010, the warrants were valued, using the Black-Scholes option-pricing model, at $0.601 and $0.643, using the following assumptions:

Warrant Assumptions	
Dividend yield	-
Expected volatility	**42% and 149%**
Risk free interest rate	**1.67%**
Expected remaining term - years	**0.1 and 1.25**

In February, 2011, the Company exercised a portion of the warrants in Prophecy; 285,135 warrants were exercised for cash of $114,000 and that amount plus the fair value of warrants of $171,000 was transferred to Level One securities.

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	Current Expenditures	Recoveries	Excess Proceeds / Writedowns	Balance as at December 31, 2010
Lac Rocher	$ 4,505	$ 64	$ -	$ -	$ 4,569
Mel	2,473	197	-	-	2,670
Minago [(1)]	25,576	4,876	(310)	-	30,142
Lynn Lake [(2)]	1,043	32	(2,068)	993	-
Other	-	3	-	(3)	-
	$ 33,597	$ 5,172	$ (2,378)	$ 990	$ 37,381

	Balance as at December 31, 2008	Current Expenditures	Recoveries [(3)]	Excess Proceeds / Writedowns	Balance as at December 31, 2009
Lac Rocher [(4)]	$ 3,580	$ 982	$ (57)	$ -	$ 4,505
Mel	2,462	53	(42)	-	2,473
Minago	23,905	2,278	(607)	-	25,576
Lynn Lake [(2)]	1,483	173	(613)	-	1,043
Other	-	1	-	(1)	-
	$ 31,430	$ 3,487	$ (1,319)	$ (1)	$ 33,597

(1) The Minago project is shown net of recoveries of $310,000 representing the effects of tax credits on expenditures claimed for investment tax credit (“ITC”) purposes.
(2) The expenditures are shown net of the $300,000 payment by Prophecy in 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.
(3) Recoveries amounting to $991,000 represent the effects of tax credits on expenditures claimed for ITC purposes in 2009.
(4) The expenditures on the Lac Rocher project in the year ended December 31, 2009 are shown net of Québec mining duties receivable of $28,000. The claim reflected in 2008 was reduced and adjusted against current expenditures in 2009.

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 the 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.

The Lac Rocher property is subject to a discovery incentive plan (the “DIP”) to reward certain individuals involved in the discovery of Lac Rocher with a 2% NSR for mines that were discovered on certain properties prior to the expiry of the DIP. The NSR is payable only on revenues earned after recovery of all development costs for any mine on the property. The terms of the DIP provide the Company with a right of first refusal on any proposed disposition of the NSR. In addition, the DIP contains put/call provisions under which the Company may be required to purchase, or may exercise an option to purchase, the NSR at the value of its discounted cash flows, as

defined therein. The Lac Rocher property is the only property subject to the DIP. As the Lac Rocher property is not yet in production, no royalties are currently payable.

Mel

Effective August 27, 1999, Nuinsco (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. In accordance with the terms of the Agreement with Vale, they now are entitled to a 10% royalty on "distributable earnings" as defined in the Agreement. Distributable earnings is defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

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

Subsequent to the year end, the Company has commenced a 3,500 metre drilling program at Mel.

Minago

The 100%-owned Minago project covered 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 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"), located in northern Manitoba. Lynn Lake consists of approximately 600 hectares.

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 million 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 was due by March 1, 2011. The Company received this payment on February 28, 2011.

The Company received 2,419,548 shares of Prophecy on January 6, 2010, at which date the bid price of the shares was $0.40.

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 December 31, 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 December 31, 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 December 31,		**2010**				
		Cost		**Accumulated Amortization**		**Net Book Value**
Land	**$**	**43**	**$**	**-**	**$**	**43**
Building		**40**		**4**		**36**
Equipment		**637**		**30**		**607**
Vehicle		**32**		**3**		**29**
	$	**752**	**$**	**37**	**$**	**715**

As at December 31,		**2009**				
		Cost		**Accumulated Amortization**		**Net Book Value**
Land	$	43	$	-	$	43
Building		40		3		37
Equipment		29		28		1
Vehicle		11		4		7
	$	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 which have been received, with 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
Balance as at December 31, 2008	**261,709,809**	**$**	**38,264**
Flow-through share renunciation [(a)]	-		(2,192)
Issued through exercise of options [(b)]	950,000		82
Issued through rights offering [(c)]	65,489,952		2,783
Balance as at December 31, 2009	**328,149,761**		**38,937**
Shares issued pursuant to private placement [(d)]	3,429,139		544
Shares issued pursuant to private placement [(e)]	6,570,861		1,132
Shares issued pursuant to reciprocal placement [(f)]	36,615,385		3,797
Shares issued under Share Bonus Plan [(g)]	1,571,100		165
Warrants exercised [(h)]	3,339,282		493
Options exercised [(i)]	350,000		30
Balance as at December 31, 2010	**380,025,528**	**$**	**45,098**

(a) In February, 2009, the Company renounced $8,121,000 in Canadian Exploration Expenditures with a tax value of $2,192,000 which has been recorded as a future income tax liability and charged against share capital.

(b) During the year ended December 31, 2009, 950,000 common shares were issued upon the exercise of options for proceeds of $48,000. The amount of proceeds received in 2009 plus the amount of stock based compensation previously recorded through contributed surplus has been reflected as an increase in share capital.

(c) On August 17, 2009, the Company issued 65,489,952 shares and 32,744,976 share purchase warrants in connection with a rights offering. Aggregate proceeds before issue costs were $3,929,000 (excluding any potential proceeds from the exercise of the warrants); issue costs were $327,000 before associated income tax effects of $88,000. An apportionment of proceeds to warrants amounted to $907,000.

(d) 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.

(e) On April 9, 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. 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.

(f) 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).

(g) On May 28, 2010, the Company issued 1,571,100 common shares with a fair value of $165,000 to employees and consultants as discretionary bonuses pursuant to the Company's Share Bonus Plan.

(h) 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.

(i) On October 12, 2010, 350,000 options were exercised at an exercise price of $0.05 per share for aggregate consideration of approximately $18,000; that amount plus the aggregate amount previously recorded through contributed surplus of approximately $12,000 is reflected as an increase in 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 5 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, 2010, the Company had 31,601,581 common shares available for granting of future options.

A summary of options outstanding is as follows:

	Number of Options Outstanding		Average Exercise Price
As at December 31, 2008	**20,753,998**	**$**	**0.36**
Options granted	6,065,000	$	0.05
Options exercised	(950,000)	$	0.05
Options expired	(1,647,500)	$	0.30
As at December 31, 2009	**24,221,498**	**$**	**0.30**
Options granted	5,540,000	$	0.16
Options forfeit	(200,000)	$	0.05
Options expired	(3,809,250)	$	0.14
Options exercised	(350,000)	$	0.05
As at December 31, 2010	**25,402,248**	**$**	**0.30**

In total, 5,540,000 options were granted during 2010 at a weighted average exercise price of $0.16 per share; most options were issued in the first quarter. The weighted average grant date fair value of options granted during the year was $0.12 (2009 - $0.04). Accordingly, compensation expense of $657,000 was recorded during 2010 (2009 - $250,000).

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

Option Assumptions	2010	2009
Dividend yield	**-**	-
Expected volatility	**108% and 110%**	99% to 115%
Risk free interest rate	**2.06% and 2.50%**	2.00% to 2.08%
Expected option term - years	**4**	2.75 to 5
Fair value per share of options granted	**$0.066 and $0.119**	$0.023 to $0.063

Of the 25,402,248 options outstanding at December 31, 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 $3,000.

The following table summarizes information about the stock options outstanding at December 31, 2010:

Range of Exercise Prices	Options Exercisable	Options Outstanding	Years to Expiry [1]		Exercise Price [1]
$0.03 - $0.05	4,565,000	4,565,000	3.08	$	0.05
$0.06 - $0.14	1,225,000	1,250,000	2.27	$	0.13
$0.15 - $0.16	4,245,000	5,490,000	4.01	$	0.16
$0.17 - $0.25	3,204,262	3,204,262	1.82	$	0.20
$0.26 - $0.32	3,445,750	3,445,750	2.09	$	0.29
$0.33 - $0.50	2,336,500	2,336,500	2.02	$	0.45
$0.51 - $0.64	2,850,000	2,850,000	1.19	$	0.64
$0.65 - $0.82	2,260,736	2,260,736	1.20	$	0.82
	24,132,248	25,402,248	2.47	$	0.30

[1]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 year			(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
Balance as at December 31, 2010			**34,655,694**	**$**	**0.141**

The warrants issued pursuant to the rights offering entitle the holder to purchase one common share at a price of $0.12 during the 12-month period commencing August 18, 2010.

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

Warrant Assumptions	
Dividend yield	**-**
Expected volatility	**115% to 116%**
Risk free interest rate	**1.10%**
Expected term - years	**1 year**

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.

Share Incentive Plan
The Company has a Share Incentive Plan which includes both a Share Purchase Plan and a 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. 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 1,571,100 common shares were granted under the Share Bonus Plan in May 2010 with immediate vesting. The fair value of the 1,571,100 common shares granted under the Share Bonus Plan was determined based on the quoted market price of the shares on the date of grant ($0.105 per share) for an aggregate fair value of $165,000 and was charged to income.

There were no other entitlements to common shares granted under the Share Bonus Plan in 2010 or 2009.

Shareholder Rights Plan:

In March, 2009, the Board of Directors approved the adoption of a shareholder rights plan ("the Plan"). The Plan was approved by shareholders at the Company's Annual Meeting held on June 3, 2009.

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 April 17, 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 thereof 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.

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 year ended December 31, 2010 (2009 – 33.0%), to the income (loss) before income taxes.

The differences are summarized as follows:

Years ended December 31,		2010		2009 (restated - Note 2)
Current income taxes				
Expected income tax provision (recovery) based on statutory income tax rate of 31.0% (2009 - 33.0%)	$	**78**	$	(433)
Non-deductible items, net		**263**		90
Non-taxable portion of gain on securities		**(369)**		(38)
Effect of change in expected future income tax rates		**(14)**		60
Valuation allowance		**(86)**		(110)
Future income tax recovery	$	**(128)**	$	(431)

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.

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,		2010		2009 (restated - Note 2)
Future income tax assets				
Non-capital losses carried forward	$	**2,927**	$	2,401
Capital losses carried forward		**87**		109
Share issue and other costs		**399**		497
Valuation allowance		**-**		(109)
Total future income tax assets		**3,413**		2,898
Future tax liabilities				
Exploration and development properties		**3,538**		3,580
Capital gains - unrealized		**656**		-
		4,194		3,580
Net future income tax liability	$	**781**	$	682

Non-capital losses, which have been recognized as future income tax assets, expire as follows:

		Amount
2014	**$**	**195**
2015		**367**
2026		**636**
2027		**1,092**
2028		**2,312**
2029		**2,492**
2030		**1,799**
2031		**1,985**
	$	**10,878**

The Company also has capital losses available for carry forward of $648,000. The benefit of capital losses has been recognized to the extent that there are unrealized capital gains.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Years ended December 31,		2010		2009
Accumulated OCI at beginning of year	**$**	**998**	$	-
OCI for the year representing the change in the fair value of financial assets available for sale, net of related future income taxes of $587 (2009 - $nil)		**3,152**		1,230
Reclassification through operations upon sale of marketable securities		**(228)**		(232)
Accumulated OCI at end of year	**$**	**3,922**	$	998

11. CHANGES IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital balances related to operations, for the years ended December 31, 2010 and 2009, are as follows:

Years ended December 31,		2010		2009
Accounts receivable, prepaid expenses and deposits	**$**	**223**	$	503
Due to/from Nuinsco Resources Limited		**(12)**		15
Accounts payable and accrued liabilities		**(266)**		(27)
	$	**(55)**	$	491

12. TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT

Included in accounts payable and accrued liabilities at December 31, 2010 are amounts due to officers and directors of the Company in the amount of $34,000 (December 31, 2009 - $265,000). These amounts relate primarily to directors’ fees payable.

The Company shares management, administrative assistance and facilities with Nuinsco 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 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 year ended December 31, 2010 amounted to $719,000 (2009 - $612,000) and have been included in general and administrative expenses. In addition, project-related costs aggregating $38,000 have been charged to the Company by Nuinsco during 2010 (2009 - $59,000) and are included in exploration and development costs on the balance sheet. The Company charged Nuinsco $26,000 for the year ended December 31, 2010 for project-related costs incurred by it on behalf of Nuinsco (2009 - $19,000).

Amounts due to or from Nuinsco are unsecured, non-interest bearing and due on demand. Amounts due to or from Nuinsco are settled on a regular basis.

13. SUBSEQUENT EVENTS

Subsequent events not otherwise disclosed in these financial statements are as follows:

Private Placement Financing
On January 10, 2011, the Company completed a private placement financing of 5,000,000 units of securities at a price of $0.10 per unit generating gross proceeds of $500,000. 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 $0.14 for a period of 12 months from closing.

Warrants Exercised
Since December 31, 2010, 979,687 of the Company’s warrants issued with respect to the rights offering have been exercised for gross proceeds of approximately $118,000.

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

DATED MARCH 11, 2011

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years ended December 31, 2010 and 2009

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of March 11, 2011 consolidates management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2010 and 2009, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's audited financial statements for the years ended December 31, 2010 and 2009 ("2010 Audited Financial Statements") and the notes thereto. Readers are encouraged to consult the 2010 Audited Financial Statements which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are available at www.sedar.com and at the Company's website www.victorynickel.ca. All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

COMPANY OVERVIEW

Victory Nickel is a Canadian exploration and development-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 below) 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") initially announced in November 2008 is ongoing to better reflect current cost realities and permitting efforts will continue in preparation to advance to mining as metal prices are recovering. The Company expects to collar the portal in April/May 2011. At the Mel project, Vale announced its decision not to exercise its back-in right, allowing the Company to determine its own strategy to advance the Mel project – drilling is underway at Mel.

Option of Lynn Lake Property

On October 21, 2009, the Company announced that it had optioned its Lynn Lake property ("Lynn Lake") to Prophecy. The terms of the agreement wherein Prophecy can acquire a 100% interest in Lynn Lake are outlined in Note 6 to the 2010 Audited Consolidated Financial Statements.

In accordance with the agreement, the Company received 2,419,548 shares of Prophecy and $300,000 on January 6, 2010, at which date the bid price of the shares was $0.40. In order to maintain its 10% interest, the Company subscribed for an additional 570,270 shares at $0.30 on January 21, 2010 for $171,000. Further, $400,000 in cash was received on April 13, 2010.

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 was due by March 1, 2011 (cash was received on February 28, 2011). Effective March 11, 2011, two payments of $1,000,000 due by March 1 of each of 2012 and 2013 remain outstanding.

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

HIGHLIGHTS

During and subsequent to the year ended December 31, 2010, the Company:

Minago

- Completed construction, on time and on budget, of a 4.3km exploration road at the site providing direct access from paved Hwy 6 to a limestone outcrop and the property in general.
- Hosted an analyst site visit at the project.

- Began and completed a 10,000m diamond drilling program 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 North Limb.
- Announced positive results from the 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 dense media separation technology, to enhance production and lower costs.
- Continued to evaluate financing structures for both nickel and frac sand in an effort to ensure that mine development will proceed on a timely basis.
- 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.
- Began the winter exploration program, incorporating 11,000m of diamond drilling and surface geophysics.

Mel

- 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 3,000m of diamond drilling at Mel to explore for extensions of the known resource.

Lac Rocher

- Began a comprehensive re-evaluation of the Lac Rocher project in light of current metal price levels.

Corporate

- Completed reciprocal private placements with Prophecy.
- Completed a non-brokered private placement financing on a flow-through basis for aggregate gross proceeds of $2,066,000.
- Completed a non-brokered private placement financing for aggregate gross proceeds of $500,000.

OUTLOOK

Nickel recently increased to over US$13 per pound for the first time since mid-2008 and is now trading in what appears to be a solid range of US$11 to US$13 per pound. Victory Nickel considers this an attractive price and would welcome it as a long-term average. 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. It is too early to tell what, if any, impact the recent unfortunate events in Japan will have on the long-term metal outlook.

The base metals markets continue to show strength, led by copper. On Valentine's Day, February 14, 2011, copper reached another all-time high of US$4.65 per pound. Before the financial melt-down nickel, in particular, saw some historically-high pricing, above US$24 per pound in April 2007, dropping quickly to below US$5 per pound in September 2008. 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 other metals but we are now seeing the start of what could be the recovery we have been waiting for. London Metal Exchange inventories have been decreasing since January which could be a sign of restocking by consumers in advance of a further price increase. We believe that consumers, especially in the United States, have been destocking to conserve cash and have depleted their inventories.

All this bodes well both for the price of nickel and for Victory Nickel. The timing could be opportune for financing the Minago project to production. Recent improvements in the FS economics make the Minago project even more attractive. Drill results indicate that reserves will increase and, as a result, waste will decrease for a net positive impact on projected operating costs. We are working on a revised resource estimate which should soon be available. Once completed, this will be incorporated in the FS, along with

other enhancements, to revise the overall project 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. The Company is pleased that Vale decided not to participate, as it will allow us to advance this project at the Company's pace which is significantly more aggressive than Vale's given its relative importance to a company of our size at this stage of Mel's development. With 100% ownership of Mel, the Company immediately embarked on a 3,500m drill program which is advancing well at this time.

With the price of nickel at higher levels, the Company plans to collar the portal at Lac Rocher in the second quarter of 2011 with a view to advancing the bulk sample and hopefully full production in the near term.

The equity markets have been good to the major mining companies as they recovered from the lows of 2008. As expected, this recovery has begun to filter down to the juniors such as Victory Nickel as the majors become fully priced and investor attention shifts to the junior level.

Victory Nickel's objective remains 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 $1,000,000,000, 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 shell will improve the economics of Minago even further. 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 was a major achievement and is 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. We have recently been advised that the Company has met all its requirements and that approval is pending subject only to the Manitoba Government completing the First Nations consultation process which is expected to be finished in the very near future.

Once the Minago project is permitted, the Company will then be in a position to move forward with its financing plans.

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.

SELECTED FINANCIAL INFORMATION

(in thousands of Canadian dollars, except per share amounts)	2010	2009	2008
Summary Operating Results Data		(restated - see below)	
Revenue	**$ 238**	$ 294	$ 241
General and administrative expenses	**1,393**	1,326	1,997
Stock option compensation	**657**	250	311
(Recovery) writedown of exploration and development projects	**(990)**	1	-
Writedown of available-for-sale investment	**-**	-	2,040
Gain on securities held for trading	**1,281**	-	-
Future income tax recovery	**128**	431	1,544
Net income (loss)	**379**	(880)	(2,543)
Comprehensive income (loss)	**3,303**	118	(2,543)
Income (loss) per share	**0.00**	(0.00)	(0.01)
Summary Balance Sheet Data			
Cash and cash equivalents	**$ 170**	$ 4,078	$ 4,418
Marketable securities	**10,556**	1,254	450
Other current assets	**96**	329	853
Exploration and development projects	**37,381**	33,597	31,430
Total assets	**48,918**	39,346	37,267
Current liabilities	**592**	1,400	1,917
Future income tax liability	**781**	682	-
Total shareholders' equity	**$ 47,545**	$ 37,264	$ 35,350

Restatement of 2009 Figures

With the optioning of the Lynn Lake project, certain of the Company's tax pools acquired pursuant to the acquisition of Independent Nickel Corp. ("Independent") no longer meet the test of being more-likely-than-not to be utilized. Accordingly, the Company should have recorded a valuation allowance in future income taxes against such pools of $295,000 in the fourth quarter of 2009. Therefore, as at and for the year ended December 31, 2009, the Company has increased the future income tax liability from $387,000 to $682,000, increased the deficit from $5,356,000 to $5,651,000, decreased the future income tax recovery from $726,000 to $431,000 and increased the loss for the year from $585,000 to $880,000. There was no effect on loss per share for the year ended December 31, 2009.

RESULTS OF OPERATIONS

Year Ended December 31, 2010 Compared With Year Ended December 31, 2009

For the year ended December 31, 2010, the Company had net income of $379,000 or $0.00 per share (2009 - net loss of $880,000 or $0.00 per share).

The net income resulted primarily from gains on sales of marketable securities of $228,000 (2009 - $232,000), general and administrative expenses of $1,393,000 (2009 - $1,326,000), stock option compensation of $657,000 (2009 - $250,000), other stock-based compensation of $165,000 (2009 - $nil), loan fee to Nuinsco Resources Limited ("Nuinsco") of $33,000 (2009 - $nil) and, in 2010, included a net recovery of $990,000 primarily with respect to the Lynn Lake property as a result of option amounts received in excess of the recorded value of the property of $993,000 (2009 - $nil). Results in 2010 also include a gain on securities held for trading of $1,281,000 related to the Company's interest in Prophecy shares and warrants (2009 - $nil) and reflect a future income tax recovery of $128,000 (2009 - recovery of $431,000).

The gain on sales of marketable securities of $228,000 arose from sales of Prophecy and Wallbridge Mining Company Limited ("Wallbridge") which were sold for liquidity purposes. Wallbridge shares were written down through operations in 2008. Largely as a result of that writedown, the gain in 2010 was $226,000 with respect to Wallbridge shares combined with a net gain on sale of Prophecy shares of $2,000. The sales generated aggregate gross proceeds of $1,212,000 in 2010. 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 increased by approximately $67,000, to $1,393,000 in 2010, from $1,326,000 in 2009. Discretionary expenditures continue to be closely monitored. Expenses that decreased from 2009 to 2010 included audit fees, consulting fees, directors' fees and rent; these expenses were partially offset by increased investor and public relations fees and costs charged by Nuinsco as described under Transactions with Related Parties 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.

General and administrative expenses include $719,000 in costs charged by Nuinsco as described under Transactions with Related Parties and Management Agreement below (2009 - $612,000). 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 extra staff member in July 2010 to support additional compliance requirements. This arrangement allows the Company to have access to disciplines which would otherwise be cost-prohibitive to a junior company.

The costs of public company compliance for Victory Nickel in 2010 are approximately $698,000, compared with $639,000 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 2010 reflects the grant and vesting of 5,540,000 options at a weighted average exercise price of $0.16. The expense in 2009 reflected the grant and vesting of 6,065,000 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 2010 Audited 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 $165,000 in 2010 reflects the issuance of 1,571,100 shares with a fair value of $0.105 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 year. Metals prices and other market factors continue to improve. This conclusion is discussed further under Impairment Analysis below. The Company received a favourable feasibility study on its Minago project and is presently reviewing alternative financing opportunities to move development of the project ahead as well as opportunities to optimize the feasibility study itself. In 2010, the all-season road at Minago was completed and drilling to upgrade and increase resources was substantially complete.

In 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 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 reduced to $600,000 – and was received on February 28, 2011.

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 January, 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. These warrants contained an acceleration clause which was invoked by Prophecy in early 2011. Accordingly, the Company exercised all of these warrants in February 2011, thereby acquiring 285,135 Prophecy shares at a cash cost of approximately $114,000, or $0.40 per share. At the time of exercise of the warrants, the related shares had a market value of $1.00 per share which coincided with the cash cost plus carrying value of the warrants.

In April, 2010, the Company subscribed for 675,500 units in Prophecy at $0.59 per unit pursuant to a 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 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 at the end of May, 2010, 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 in 2010 is a gain on securities held for trading of $1,281,000; $388,000 is as a result of the recognition of the initial fair value of warrants adjusted for cumulative fair value changes to December 31, 2010 and $893,000 is from the fair value of shares acquired 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 other comprehensive income (“OCI”) and changes in the value of warrants until their exercise or expiry will be reflected through operations. Given the high level of volatility being experienced by Prophecy shares in the marketplace, such changes could be significant.

The Company believes that it is more-likely-than-not 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 9 to the Company’s 2010 Audited Financial Statements. Accordingly, the Company has recorded a future income tax recovery of $128,000 in 2010 (2009 – recovery of $431,000). Approximately 95% of the non-capital losses do not expire until at least 2026. As described above, the Company restated the 2009 future income tax recovery to reflect a change in the assessment of recoverability of certain tax pools associated with the acquisition of Independent which required an increase in the valuation allowance of $295,000 which increased the future tax liability associated with the exploration and development properties.

Other comprehensive income in 2010 of $2,924,000 relates to an increase in the market value of the Company’s available-for-sale investments of $3,152,000 (net of income taxes of $587,000) and the reclassification of $228,000 through operations upon the sale of marketable securities. The most significant change is in the fair value of Prophecy shares which had a market price of $1.00 per share as at December 31, 2010. In 2009, the amount related wholly to Wallbridge shares.

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

Marketable securities as at December 31, 2010 consist of the Company’s available-for-sale investments and securities held for trading. The balance increased by $9,302,000. The largest component of the 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 (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, for gross proceeds of approximately $3,808,000, and Prophecy subscribed for 36,615,385 common shares of the Company at $0.104 per share, also approximately $3,808,000 before issue costs. As at December 31, 2010, the Company owned 9,165,318 Prophecy shares which represented an approximate 5.0% interest as at that date, as well as warrants in Prophecy – see Liquidity and Capital Resources below.

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 which have been received, with the full remaining balance due prior to shipping.

Accounts payable and accrued liabilities consist primarily of project-related expenditures. The balance decreased by $796,000 when compared with December 31, 2009, at which point, balances included significant amounts due for road construction at the Minago project.

The future income tax liability balance amounts to $781,000 as at December 31, 2010. The change in balance in the year is related to the tax-effect of the gains in marketable securities recorded through OCI of $587,000 offset by the recognition of future income tax recoveries on operating losses incurred during the year of $128,000 as well as $50,000 recorded through capital stock related to share issue expenses and $310,000 offset against exploration and development properties for the tax effect of claiming investment tax credits.

Share capital has increased by $6,161,000 over December 31, 2009 primarily 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 income reflects the significant improvement in the market values of available-for-sale securities, partly offset by related future income taxes.

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

For the year ended December 31, 2009 as restated for the future income tax recovery as described earlier, the Company had a net loss of $880,000 or $0.00 per share (2008 - net loss of $2,543,000, or $0.01 per share).

The loss resulted from general and administrative expenses of $1,326,000 (2008 - $1,997,000), stock option compensation of $250,000 (2008 - $311,000) and, in 2008, included the $2,040,000 writedown of the Company's investment in Wallbridge due to the other-than-temporary decline in the market value of the shares. Wallbridge, like all other junior exploration companies in 2008, was impacted by the general deterioration of the capital markets - its value recovered significantly in 2009 and 2010. Results are net of income of $294,000 (2008 - $241,000) and are shown net of a recovery of future income taxes of $431,000, as restated, (2008 - $1,544,000).

Interest income declined significantly from $241,000 in 2008 to $62,000 in 2009 as a result of lower cash balances available for investment in 2009 but more significantly because of much lower interest rates. GICs earning approximately 3% in 2008 were replaced in 2009 with ones earning approximately 0.70%. The reduction in interest income was offset by gains on the sale of marketable securities in 2009 of $232,000. The gains occurred on the sale of Wallbridge shares undertaken for liquidity purposes during the earlier part of the year.

General and administrative expenses include $612,000 in costs charged by Nuinsco as described below (2008 - $650,000). Costs allocated from Nuinsco pursuant to the management agreement between the Company and Nuinsco are activity related. In 2009, costs included time spent on the Minago FS; in 2008, costs included time spent on the acquisition of Independent.

Costs were reduced in 2009 by approximately $671,000, from $1,997,000 to $1,326,000. As disclosed previously, discretionary expenditures have been cut and other cost controls were in effect which have reduced expenditures generally. The most significant reduction was achieved in personnel-related costs; 2008 included severance costs for a former employee and reflected a higher finance staff complement for the majority of the year. Furthermore, higher directors' fees were incurred in 2008 as a result of activity with respect to the acquisition of Independent. Generally, discretionary expenditures were very carefully monitored in 2009 and savings were attained through elimination of travel and other costs such as couriers.

In addition, cost reductions were pursued with suppliers and opportunities to recoup costs through the use of consultants were undertaken where cost-effective. Otherwise, costs include those associated with maintaining a public company which are generally non-discretionary. Further note that costs in the fourth

quarter of 2008 included approximately $241,000 related to the then-separately-operated Independent which was wound up into Victory Nickel during 2009. This would have included some public company compliance costs which are not included in the discussion on compliance costs below.

The Company reduced the costs of public company compliance for Victory Nickel to approximately $639,000 in 2009 from $725,000 estimated for 2008. Certain non-discretionary consultants have been challenged to revisit costs and reductions have been attained in 2009 which related to the cost of services accrued in 2008. 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. Note that these public company compliance costs do not include expenses associated with issuances of shares which are offset against the related financings through equity.

Stock option compensation expense relates to stock options granted to officers, directors and employees, some of which vest in future periods. The expense in 2009 reflects the grant of 6,065,000 options at a weighted average exercise price of $0.05 combined with expense of $20,000 related to the modification of 750,000 options previously granted to retiring directors and which would otherwise have expired after 90 days. The expense in 2008 reflected the grant of 875,000 options at a weighted average exercise price of $0.40. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 8 to the Company's 2010 Audited Financial Statements.

Management of the Company determined that no significant impairment had been experienced in its exploration and development projects during 2009. Metals prices and other market factors improved over 2008 where no impairment was determined to be necessary despite declining metals prices and other market factors.

In 2008 the Company determined that, in accordance with GAAP, an other-than-temporary loss had occurred with respect to its investment in Wallbridge. This conclusion required the Company to record the reduction in market value of $2,040,000 through the statement of operations rather than through OCI. The subsequent recovery in the market value of Wallbridge shares has been reflected through OCI if unrealized, or through operations upon sale. In 2009, $232,000 was recorded as a gain on sale of Wallbridge shares through operations and $998,000 was recorded through OCI for unrealized increases in market value for a net change of $998,000.

The Company believes that it is more-likely-than-not that the benefit associated with certain of the losses and costs creating future income tax assets will be realized prior to their expiry; however, the Company has recorded a valuation allowance of $295,000 against certain tax pools associated with the acquisition of Independent. The expiry of non-capital losses is detailed in Note 9 to the Company's 2010 Audited Financial Statements. Accordingly, the Company has recorded a future income tax recovery of $431,000 in 2009, after restatement, (2008 - $1,544,000). The Company has two projects at the pre-feasibility and feasibility stages, however, the Lynn Lake property is subject to option and, accordingly, the Company has recorded a valuation allowance against certain tax pools. Over 80% of the non-capital losses do not expire until at least 2027.

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

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

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

The future income tax liability balance, as restated, amounts to $682,000 as at December 31, 2009. This is related to the tax-effect of the renunciation of flow-through expenditures in 2009 of $2,192,000 offset by the recognition of future income tax recoveries on operating losses incurred during the year of $352,000 as well as the net reversal of prior valuation allowances for non-capital losses of $79,000 and $88,000 recorded through capital stock related to share issue expenses and $991,000 offset against exploration and development properties for the tax effect of claiming investment tax credits. The future income tax balance

was eliminated at the end of 2008, primarily because of the recognition of future income tax assets sufficient to bring the future income tax balance to zero.

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

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eight quarters ended December 31, 2010 is as follows:

Fiscal year 2010	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Revenue and other income	$ 70	$ 17	$ 145	$ 6
Net income (loss)	$ 31	$ (310)	$ 990 [2]	$ (332) [4]
Comprehensive income (loss)	$ 4,564 [1]	$ (259)	$ (2,173) [3]	$ 1,171 [5]
Income (loss) per share - basic and diluted	$ 0.00	$ (0.00)	$ 0.00	$ (0.00)

Fiscal year 2009	4th Quarter *(restated)* [6]	3rd Quarter	2nd Quarter	1st Quarter
Revenue and other income	$ 8	$ 220 [9]	$ 39	$ 27
Net (loss) income	$ (524) [7]	$ 35	$ (343)	$ (48)
Comprehensive income (loss)	$ 64 [8]	$ 145 [10]	$ (471)	$ 380
(Loss) income per share - basic and diluted	$ (0.00)	$ 0.00	$ (0.00)	$ (0.00)

(1) Comprehensive income for the period includes $5,188,000 OCI related to the increase in market value of the Company's available-for-sale investments, offset by income taxes of $587,000 and transfer to operations of $68,000.
(2) 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.
(3) Comprehensive loss for the period includes $3,163,000 OCI primarily related to the decline in market values of the Company's available-for-sale investments.
(4) 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.
(5) Comprehensive income for the period includes $1,503,000 OCI related to the improvement in market values of the Company's available-for-sale investments net of income taxes.
(6) Restated to reflect a valuation allowance against certain tax pools associated with the acquisition of Independent.
(7) Net loss was increased by $295,000 as a result of the restatement described above.
(8) 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.
(9) Revenue for the period includes $211,000 gain on sale of marketable securities.
(10) Comprehensive income for the period reflects the partial recovery of the market value of available-for-sale investments.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010, the Company had working capital, including cash and cash equivalents and marketable securities, totalling $10,230,000 (December 31, 2009 - $4,261,000). Cash equivalents include a bank-guaranteed investment certificate. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. Marketable securities are available for sale for liquidity purposes, as the Company requires, to fund its operations and exploration and development activities.

In 2010, the Company used cash from operating activities of $1,471,000 (2009 - $773,000), comprising cash used by operations before changes in non-cash working capital of $1,416,000 (2009 - $1,264,000). In 2010, non-cash working capital balances used funds of $55,000 (2009 - a source of $491,000 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 received in early 2009.

As the Company is in the development stage, there are no revenues to recover expenses and the operating activities represent the corporate and administrative costs incurred mostly to maintain a public company.

The Company estimates that such costs in 2009 amounted to $639,000. In 2010, such costs are estimated at $698,000. 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 in 2010 generated net proceeds of $6,106,000 (2009 - $3,650,000) after issue costs of approximately $186,000 (2009 - $327,000). 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 $68,000. 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 common shares and 32,744,976 common share purchase warrants. Whole warrants are exercisable at $0.12 during the 12-month period commencing August 18, 2010. During the year ended December 31, 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). As at December 31, 2010, proceeds from the remaining warrants under the rights issue, if fully exercised, would amount to $3,529,000. Proceeds from other warrants outstanding as at December 31, 2010 would generate an additional aggregate of $1,343,000 in funds.

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.

Subsequent to December 31, 2010 and to March 11, 2011, the Company settled an additional private placement on a non-flow-through basis ("hard" dollars). The Company issued 5,000,000 units at a price of $0.10; 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 $0.14 for a period of 12 months from closing. In addition, the Company received approximately $118,000 on account of the exercise of warrants.

During the year ended December 31, 2010, investing activities used $8,543,000, compared with $3,217,000 in 2009. An aggregate of $5,721,000 was used to advance exploration and development projects (2009 - $3,943,000). 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 $1,212,000, generating a gain on sale of $228,000 due primarily 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 a reduced balance of $600,000 was due by that date. The balance of $600,000 was received on February 28, 2011.

The Company participated in financings by Prophecy and acquired additional Prophecy securities for $4,351,000 in the year. Other shares were purchased in the second quarter for $175,000. There were no purchases of marketable securities in 2009. The hold periods on all shares have now expired and all shares are freely available for sale by the Company to fund its activities.

These activities required cash and cash equivalents of $3,908,000 during 2010, compared with $340,000 during 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 monetization of assets. Opportunities available to Victory Nickel for financing would normally be through private placements in the equity markets. Despite experiencing some improvements during 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 participation in the upside in the subject property. Further, the Company expects to receive additional amounts of $1,000,000 by March 1 of each of 2012 and 2013 in accordance with the Lynn Lake option agreement.

As at March 11, 2011, the Company owns 8,706,453 shares in Prophecy with a market value as at March 11, 2011 of $0.93 per share as well as 337,750 Prophecy warrants exercisable at $0.80. The Company sold 744,000 shares in 2011 to date for gross proceeds of $796,000 and exercised 285,135 Prophecy warrants for $114,000. As outlined earlier, such sales occur for liquidity purposes. The Company also owns 4,174,500 shares and 350,000 warrants of Wallbridge 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.

As at March 11, 2011, the aggregate market value of the Company's marketable securities held in public company shares is approximately $9,099,000. The market value of such shares may go up or down.

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 December 31, 2010, the major items requiring financing was HST/GST receivable of $64,000, which was received in February 2011. The HST/GST receivable is a function of project activity and averaged approximately $87,000 in 2010; the average balance in 2011 is likely to be higher due to a full year of HST. Monthly average administrative costs for 2011 are estimated at $146,000, most of which are incurred to meet statutory requirements. As at December 31, 2010, the Company had fulfilled its commitment to incur exploration expenditures in relation to flow-through share financings in February and April 2010. The Company continues to have amounts owing to fulfil the electrical equipment purchases initiated during 2010.

In addition to current cash resources and expected inflows as described, the Company has non-core liquid 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 further sales of marketable securities

becomes advisable. The Company continues to monitor operating costs although outstanding salary deferrals from 2009 were paid in 2010 and unpaid directors' fees for 2008 and 2009 were settled in early 2010.

Access road construction at Minago was completed in early 2010. Results from the 2010 drilling program are being added to the resource and reserve models to determine whether resources and reserves can be upgraded at the Minago project. Results from the FS continue to be optimized with respect to capital cost reductions and other improvements and further potential improvements are being evaluated on an ongoing basis.

The Company has commenced a drilling program in 2011 which takes advantage of the exploration access road. The program is discussed further in Exploration and Development Activities below.

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

At December 31, 2010, the Company incurred exploration costs on its nickel properties of $5,172,000 (2009 - $3,487,000). This includes $4,876,000 on the Minago project, $197,000 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 $64,000 at the Lac Rocher project (2009 - $2,278,000; $53,000; $173,000 and $982,000 (before Québec Mining Duties receivable of $28,000), respectively). The expenditures are shown before the effect of investment tax credits of $310,000 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 l00%-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 and reserve model that reports only the nickel that is present in sulphide minerals (denoted Ni(S)). This was considered necessary to develop a reliable grade recovery curve thereby allowing economic evaluation of the deposit. 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
Total Nickel Basis - Minago resource	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%					
Sulphide Nickel Basis Ni(S)	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%					
Proven & Probable Reserves Ni(S)	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***

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:

Minago Sulphide Nickel Project: Economic Summary Comparison June 21, 2010 - December 14, 2009			
	Updated Base Case June 21, 2010 (1) ($ million, except %)	Base Case December 14, 2009 (1) ($ 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 mineralized serpentinite 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. Improved geological interpretation, aided by the additional drilling in 2010, will likely also have an effect on the resource. All analytical results from the drilling program were received by the end of September 2010; 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 expected to be delivered during the first quarter of 2011.

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 had earned a 100% ownership of Mel 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 would exercise its back-in right. During the third quarter of 2010, the Company announced that Vale had determined that it would not exercise its back-in right. Title to the property dispositions is currently being transferred to the Company. A 3,500m diamond drill program, the first managed by the Company, is currently underway.

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. Furthermore, in accordance with the terms of the agreement with Vale, they now are entitled to a 10% royalty on "distributable earnings" as defined in the agreement. Distributable earnings is defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

Accordingly, the Company is in a position to determine future programs at Mel in its sole discretion.

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.

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

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 which is planned to start in the second quarter of 2011. 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.

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 2010 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 2010 Audited 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

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, 2010; the analysis also considered factors pertinent to the upcoming change in accounting to International Financial Reporting Standards ("IFRS"). 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 December 31, 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.

While the metals markets and other general economic factors have improved over the prior year, the Company performed an impairment analysis. An initial indicator of impairment considers the market capitalization of a company compared with its net book value. At and around the end of December 31, 2010, the Company's market capitalization was below its net book value – being approximately 81% of net book value. A 100% ratio would require a share price of approximately $0.124 which has been achieved in 2011. An analysis was performed on each of the Company's exploration and development projects.

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

Forecast metals prices were estimated from third-party sources such as analyst consensus reports and other available documentation which were considered to be reasonable by management. In particular, for the FS base case, a three-year historic average nickel price of US$11.19 and an exchange rate of US$0.9116 : C$1.00 were used. An alternative model was also run using the then current nickel price of US$7.35 and an exchange rate of US$0.9520 : C$1.00. Since the FS was performed, metals prices have continued to improve. The Company continues to work on updating the FS for improved economics and is presently updating the resource estimates as a result of the drilling performed in 2010. Accordingly, no impairment exists on the Minago project.

Capital and operating cost estimates generally were reduced from those used in historic studies if documentary evidence had recently been obtained as part of the review work which had been undertaken for the Minago FS. In particular, the transformer purchase has been made at a much-reduced cost than was used in the FS. Used equipment prices cannot be typically reflected in a FS, as the market is unpredictable, except where firm pricing has been negotiated. Often cost estimates used in previous studies had been derived when such were universally recognized to be at historic highs.

Furthermore, management's intentions with respect to future expenditures and plans for the projects were considered. With the exception of some small projects acquired as part of the Independent acquisition in 2008 and which were valued at $nil as part of the purchase accounting, all projects have had recent expenditures and are considered to be active. In 2005, management recorded a writedown of $3,906,000 on the Mel project as an agreement had not been received before the time that financial statements for that year had to be issued. In accordance with Canadian GAAP, such writedown could not be reversed upon receipt of the agreement. Accordingly, the amount recorded for Mel under Canadian GAAP of $2,670,000 does not reflect the total expenditures made on that project. Similarly, Lac Rocher has historic writedowns of $2,428,000 which may be reversed under IFRS.

Management concluded that no impairment existed in each of its projects effective December 31, 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 2010 Audited 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 2010 Audited Financial Statements.

The recorded value of the Company's 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 IFRS issued by the International Accounting Standards Board ("IASB") discussed in more detail below. These are the last financial statements that the Company will issue in accordance with what is generally termed "predecessor Canadian GAAP".

There have been no new accounting policies adopted in the 2010 Audited Financial Statements.

FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards

Overview

The Company is reaching completion of its IFRS Project although it is a continual process as emerging practices and the accounting industry develops its consensus approach. Senior financial management has continued to expand its knowledge through attendance at training courses on IFRS designed to be industry-specific. 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. 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 high-level project plan described in the 2009 Annual MD&A and as updated in the interim financial reports prepared throughout 2010 has been followed and Phase 2: Detailed Planning and Implementation is drawing to a close. The Company chose to involve its auditors in the process in order to mitigate the risks involved in such a significant accounting implementation and the Audit Committee has been advised of the Company's progress throughout the year. The project plan included three main phases, which were expected to overlap.

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

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

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

Status of Project

The Company has completed Phase 1 as outlined above and has completed most of Phase 2 of its IFRS transition. The project was carried out primarily on a "business as usual" basis which has proved to be an

effective approach. Any new processes or worksheets developed during the year have been made or updated with IFRS transition in mind in order to manage differential accounting treatments until full conversion is achieved.

As mentioned above, the IFRS Project is a continual process. In particular, final guidance may not have been issued – for example, that relating to joint ventures and jointly-controlled operations is still pending, although the Company does not believe that final guidance will have a significant impact on the Company – and the accounting industry still has not developed a consensus approach with respect to accounting for flow-through financing. That said, the Company has developed a number of accounting adjustments which will be used to create a preliminary transition date balance sheet effective January 1, 2010 ("Preliminary Transition Balance Sheet"). The adjustments and descriptions detailed below reflect the Company's best effort to produce meaningful information under IFRS excluding any required adjustments for pending accounting determinations or interpretations.

We understand that a number of firms in the accounting industry are in the process of developing a joint industry paper on accounting for the mining industry under IFRS (the "Joint Mining Paper"). Because of this and the reasons outlined above, we believe that it would be premature to report a Preliminary Transition Balance Sheet at this time.

Recognizing that Canadian public companies are the first entities to initially adopt IFRS for financial statements at an interim reporting date, the IASB has provided an accommodation with respect to accounting for any accounting policy changes made during the conversion process. This facilitates changes to initially-selected accounting policies which are subsequently determined not to be suitable or appropriate. In addition, the securities regulators have provided an extension period for filing a company's first set of interim financial statements under IFRS – for the Company this extends the filing from May 16, 2011 to June 14, 2011. Absent unexpected circumstances, the Company does not presently expect to take full advantage of the extension period allowed for the filing of the March 31, 2011 interim financial statements.

Anticipated Adjustments for the Preliminary Transition Balance Sheet

In preparing its Preliminary Transition Balance Sheet (the opening IFRS balance sheet), the Company will adjust amounts reported previously in financial statements prepared in accordance with predecessor Canadian GAAP in effect for the Company prior to the transition date. The narrative which follows explains the anticipated adjustments developed to date and outlines the transition elections which the Company expects to make. The Company has not presently identified any material errors in its application of predecessor Canadian GAAP in effect prior to transition date.

a) IFRS 3 Business combinations ("IFRS 3")
The Company has elected under IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"), not to apply IFRS 3 retrospectively to business combinations that occurred prior to January 1, 2010 (the date of transition to IFRS). Accordingly, the Company has continued with the same accounting treatment of the business combinations under predecessor Canadian GAAP.

b) Property and equipment
In accordance with IFRS 1, the Company has elected to continue to account for its property and equipment using the cost model. The Company reviewed its property and equipment for impairment as at the transition date and determined that no impairment existed.

c) Exploration and development projects
In accordance with IFRS 6, the Company will consider whether it is appropriate to reclassify its exploration and development projects into "exploration and evaluation projects" and "mine property and development project" on the balance sheets. Essentially, the Minago project could be classified as mine property and development project since it has a study performed at a feasibility-level and an economically-recoverable reserve has been determined. However, it is expected that the Joint Mining Paper will include an interpretation that may require financing to be in place and/or construction to be underway for such a reclassification to mine property and development projects.

The Company has elected to continue to capitalize exploration costs; furthermore, the Company believes that the value of exploration and development costs does not contain any material costs which were incurred prior to securing the legal right to explore the properties.

d) Impairment of exploration and development projects

Under predecessor Canadian GAAP in effect prior to transition date, the Company evaluated its exploration and development projects for impairment using information including projected cash flows. Such cash flows were not discounted. Under IFRS, impairment evaluations are performed using discounted cash flows. At the date of transition, the Company assessed its exploration and development projects using discounted cash flows at a rate of 8% where such cash flows were available and determined that no adjustment was required to writedown the value of its projects.

The Company was created under a plan of arrangement. Accordingly, assets and liabilities were recorded at the then-carrying values on Nuinsco's accounting records; Nuinsco was the predecessor entity. At December 31, 2005, Nuinsco recorded a writedown of $3,906,000 against its Mel property due to non-receipt of an agreement confirming its tenure by the Company by the date the financial statements for that year had to be released. The agreements were subsequently received. Predecessor Canadian GAAP did not permit a reversal of any previous writedown despite the fact that the writedown was technical and was not caused by any change in recoverable value. Furthermore, Nuinsco had recorded aggregate writedowns of $2,428,000 against its Lac Rocher property.

Under IFRS, reversals of writedowns are permitted and required where the recoverable value of the project is supported. The Company has determined that, at the time of the plan of arrangement, Victory Nickel constituted a "business" as defined under IFRS. Accordingly, following continuity of interest accounting, the Company expects to increase the value of the Mel and Lac Rocher projects which are included in exploration and evaluation projects by the amount of the previous writedowns.

The expected impact arising from the reversal of the writedown is summarized as follows:

Balance Sheet		**January 1, 2010**
Increase in exploration and evaluation projects - Mel	$	3,906
Increase in exploration and evaluation projects - Lac Rocher		2,428
Related tax effect		(1,710)
Decrease in deficit	$	4,624

e) Flow-through share financing

Under predecessor Canadian GAAP, the Company accounted for the tax effects of renouncing expenditures in favour of its investors upon formal renunciation to the Canada Revenue Agency ("CRA") on or before its deadline of February 28 in each year. The Company expects that there may be several changes in respect of accounting for flow-through shares under IFRS. The Joint Mining Paper is expected to include recommendations on this uniquely-Canadian form of financing.

f) Options and warrants

The Company has elected under IFRS 1 not to adopt retroactive application of fair value accounting on options (or predecessor options under the plan of arrangement or acquisition of Independent).

Accordingly, there are no differences arising from the transition to IFRS.

g) Borrowing costs

Under predecessor Canadian GAAP, the Company's policy was to expense borrowing costs as incurred. At the date of transition and to date, the Company has no debt. However, it expects to elect to capitalize any future project-development-related borrowing costs in respect of qualifying assets upon the assumption of any future debt.

Accordingly, there are no differences arising from the transition to IFRS.

h) Deferred tax liability

The combined effects of the adjustments outlined above on the deferred tax liability are expected to be as follows:

Balance Sheet		January 1, 2010
Effect of reversal of writedown of exploration and development properties	$	1,710
Increase in deferred tax liability	$	1,710

i) Deficit

The impact arising from the matters discussed above, are expected to have the following effects on the Company's deficit:

Balance Sheet		January 1, 2010
Effect of accounting for business combinations	$	-
Effect of impairment of property and equipment		-
Effect of reversal of writedown of exploration and development properties		6,334
Effect of borrowing cost		-
Related tax effects		(1,710)
Decrease in deficit	$	4,624

Future considerations

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

Accounting practice is always evolving, the Company will monitor accounting treatment of flow-through financings as consensus forms within the accounting industry as well as the recommendations within the Joint Mining Paper, when issued, on such matters as classification of exploration and development properties.

The Company expects to early-adopt the provisions of IFRS 9, whereby it will make a determination for each of its marketable securities as to whether it will be accounted for through operations or through OCI. This will not be a retroactive adjustment but will be treated as if in force from January 1, 2010. Once a choice is made, all gains or losses arising on that marketable security will be recorded either through operations or through OCI; the concepts of realized and unrealized gains being treated differently will no longer exist, nor will the concept of permanent impairment. The Company expects that changes in value of its portfolio of shares will be accounted for through OCI and changes in value of its warrants will be accounted for through operations.

Should the Company raise debt financing in the future for any of its specific projects, under IFRS interest must be capitalized to that project.

Involvement by advisers

The Company engaged its auditors, BDO Canada LLP, to conduct a special engagement with respect to its IFRS transition project. While the engagement was neither an audit nor a review, as such terms are formally defined and therefore cannot and should not be relied upon, it was undertaken to assist the Company in ensuring that its IFRS adjustments were complete and appropriate and that its proforma interim financial statements for the quarter ended March 31, 2011 contain materially complete and appropriate disclosures. The IFRS engagement is continuing.

Conclusion

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

AUDITORS' REPORT

Effective December 31, 2010, the CICA, has amended the form of the auditors' report. In particular, it emphasises the nature of responsibilities among management and auditors and introduces the concept of an additional paragraph to the report. The additional paragraph is referred to as an "emphasis of matter" paragraph and is not to be used by the auditor to avoid a qualified opinion where that would be necessary. The prime use of the emphasis of matter is to highlight certain information contained in the financial statements to the reader. Such a paragraph has been utilized in other auditing jurisdictions for many years.

For Victory Nickel, the emphasis of matter refers the reader to Note 1 to the 2010 Audited Financial Statements wherein the Company highlights the fact that the statements have been prepared following the going concern concept. The emphasis of matter should not be considered to be, nor is it, a qualification of the auditors' opinion.

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 2010 Audited Financial Statements to satisfy itself that management is properly discharging its responsibilities to the directors who approve the Audited Financial Statements. The Board of Directors has also appointed compensation and corporate governance and nominating committees composed of non-executive directors.

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal year ended December 31, 2010, an evaluation was commissioned by the Company under the supervision of the Certifying Officers and with the participation of management of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 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 the year ended December 31, 2010 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

Evaluation of Internal Control over Financial Reporting

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO control framework. For the fiscal year ended December 31, 2010, an evaluation was commissioned by the Company under the supervision of the Certifying Officers and with the participation of management of the effectiveness of the Company's internal control over financial reporting. Based on this evaluation, the Certifying Officers have concluded that the design and operation of the Company's internal controls over financial reporting and procedures were effective as at December 31, 2010. During the evaluation process, the Company made improvements to the internal controls over financial reporting. Furthermore, segregation of duties has been improved during the year with the hiring of a controller.

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

There were no changes to the Company's internal controls over financial reporting that occurred during the year ended December 31, 2010 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT

Included in accounts payable and accrued liabilities at December 31, 2010 are amounts due to officers and directors of the Company in the amount of $34,000 (December 31, 2009 - $265,000). These amounts relate primarily to directors' fees payable. As has been noted above, the Company had deferred payment of such fees in 2009 – such deferrals were paid in 2010.

The Company shares management, administrative assistance and facilities with Nuinsco 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 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 year ended December 31, 2010 amounted to $719,000 (2009 - $612,000) and have been included in general and administrative expenses. In addition, project-related costs aggregating $38,000 have been charged to the Company by Nuinsco during 2010 (2009 - $59,000) and are included in exploration and development costs on the balance sheet. The Company charged Nuinsco $26,000 for the year ended December 31, 2010 for project-related costs incurred by it on behalf of Nuinsco (2009 - $19,000).

Amounts due to Nuinsco are unsecured, non-interest bearing and due on demand. Amounts due to or from Nuinsco are settled on a regular basis.

OUTSTANDING SHARE DATA

At March 11, 2011, the Company had 386,005,215 common shares issued and outstanding, including the financing completed in January 2011 and exercises of warrants and options to that date. In addition, there were 25,272,986 stock options and 36,176,007 warrants outstanding on March 11, 2011, which if exercised and issued would bring the fully diluted issued common shares to a total of 447,454,208, and would generate cash of approximately $12,726,000.

RECENT DEVELOPMENTS

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

Private Placement Financing

On January 10, 2011, the Company completed a private placement financing of 5,000,000 units of securities at a price of $0.10 per unit generating gross proceeds of $500,000. 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 $0.14 for a period of 12 months from closing.

Warrants Exercised

Since December 31, 2010, 979,687 of the Company's warrants issued with respect to the rights offering have been exercised for gross proceeds of approximately $118,000.

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 below.

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

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

Industry Risks

Speculative Nature of Mineral Exploration

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

Development Projects

In general, development projects have no operating history upon which to base estimates of future cash operating costs. For development projects such as the mineral resource properties owned by Victory Nickel, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital cost, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. In addition, there remains to be undertaken certain feasibility and/or development preparation work on the projects that could adversely impact estimates of capital and operating costs required for the development of the projects. Costs necessary to develop the projects could be significant and will have a direct impact on the economic evaluation of the projects. As a result, it is possible that the actual capital cost, cash operating costs and economic returns of the projects may differ from those currently estimated. The costs estimated under the 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. Victory Nickel's ability to acquire exploration and development rights in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on other suitable properties. There is no assurance that Victory Nickel will compete successfully in acquiring exploration and development rights on such other properties.

Operational Risks

Limited History of Operations

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

Development Targets, Permitting and Operational Delays

There can be no assurance that Victory Nickel will be able to complete the planned development of its projects on time or on budget due to, among other things, delays in receiving required consents, permits and registrations, the delivery and installation of plant and equipment and cost overruns, or that the current

personnel, systems, procedures and controls will be adequate to support Victory Nickel's operations. Any failure to meet development targets or other operational delays or inadequacies could have a material adverse effect.

Resources, Reserves and Production

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

Title Risks

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

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

Insurance Risk

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

Financial and Investment Risks

Substantial Capital Requirements

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

Market Perception

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

Metal Prices

There is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Nickel and by-product prices fluctuate on a daily basis and are affected by numerous factors beyond Victory Nickel's control – including factors which are influenced by worldwide circumstances. The level of interest rates, the rate of inflation, world supply of nickel and by-products and stability of exchange rates can all cause significant fluctuations in nickel and by-product prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of nickel and by-products has historically fluctuated widely and future price declines could cause commercial production to be

uneconomical and such fluctuations could have a material adverse effect on Victory Nickel's business, financial condition and prospects. As Victory Nickel is in the exploration stage, the above factors have had no material impact on present operations but are considered in evaluating the impairment of long-lived assets. However, these factors are of significant importance for the 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. Environmental laws are becoming more actively enforced. Environmental and social impact studies may be required for some operations and significant fines and clean up responsibilities may be assessed for companies causing damage to the environment in the course of their activities.

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

Other Risks

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

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

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

Investments and Other Agreements with Resource Companies

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

Summary

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

FORWARD-LOOKING STATEMENTS

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

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

March 11, 2011