VICTORY NICKEL INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

DATED APRIL 27, 2017

MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

René R. Galipeau
Vice-Chairman, CEO and Acting CFO
April 27, 2017

FLABBI & ASSOCIATES LLP
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF VICTORY NICKEL INC.

We have audited the accompanying consolidated financial statements of Victory Nickel Inc. which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2016 and December 31, 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Victory Nickel Inc. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that at year-end certain loans and borrowing were in default and significant liquidity issues the Company is facing. In addition, none of the Company's mining projects have commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, and the optioning and/or sale of resource or resource-related assets and/or the ability to generate sufficient cash flow from its other operating activities 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.

Flabbi & Associates LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
April 27, 2017

Consolidated Balance Sheets

(in thousands of United States dollars)	Notes		December 31, 2016		December 31, 2015
ASSETS					
Current assets					
Cash and cash equivalents	*6*	**$**	**197**	$	85
Restricted deposits	*6*		**-**		36
Receivables and prepaids	*7*		**78**		306
Marketable securities	*8*		**158**		216
Inventory	*9*		**2,223**		2,874
Total current assets			**2,656**		3,517
Non-current assets					
Property, plant and equipment	*11*		**3,567**		4,169
Mine property and development project	*12*		**34,974**		34,952
Exploration and evaluation projects	*13*		**8,718**		13,409
Total non-current assets			**47,259**		52,530
Total Assets		**$**	**49,915**	$	56,047
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Trade and other payables	*14*	**$**	**2,141**	$	3,335
Loans and borrowings	*15*		**6,073**		12,111
Total current liabilities			**8,214**		15,446
Non-current liabilities					
Loans and borrowings	*15*	.	**5,871**		-
Participating Interest	*16*		**933**		1,702
Lease obligations	*17*		**5**		135
Deferred tax liability	*18*		**3,809**		-
Total non-current liabilities			**10,618**		1,837
Total Liabilities			**18,832**		17,283
Shareholders' equity					
Share capital	*19*		**53,241**		52,570
Contributed surplus			**5,696**		5,696
Accumulated other comprehensive loss			**(3,855)**		(4,130)
Deficit			**(23,999)**		(15,372)
Total shareholders' equity			**31,083**		38,764
Total Liabilities and Shareholders' Equity		**$**	**49,915**	$	56,047

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board of Directors

(signed)
Cynthia P. Thomas
Director

(signed)
Roland Horst
Director

Consolidated Statements of Operations

Years ended December 31, (in thousands of United States dollars, except per share amounts)	Notes		2016		2015
Sales		**$**	**100**	$	2,996
Cost of goods sold	*9*		**(644)**		(3,919)
Gross margin			**(544)**		(923)
Operating expenses					
General and administrative			**(851)**		(1,240)
Share based payments:					
Options	*21*		**-**		(52)
Amortization of property, plant and equipment	*11*		**(611)**		(649)
Loss on sale of asset	*11*		**-**		(1,174)
(Writedown) Recovery of Exploration & Evaluation projects	*13*		**(4,700)**		185
Non-recurring plant costs	*24*		**-**		(661)
Operating loss			**(6,706)**		(4,514)
Finance income	*22*		**3,783**		2,212
Finance costs	*22*		**(1,891)**		(3,623)
Net finance income (costs)			**1,892**		(1,411)
Loss before income taxes			**(4,814)**		(5,925)
Income tax (expense) recovery	*23*		**(3,813)**		813
Net loss for the Year		**$**	**(8,627)**	$	(5,112)
Loss per share	*20*				
Basic and diluted loss per share		**$**	**(0.10)**	$	(0.09)

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

Consolidated Statements of Comprehensive Loss

Years ended December 31, (in thousands of United States dollars)	Notes		2016		2015
Net loss for the year		**$**	**(8,627)**	$	(5,112)
Other comprehensive income (loss) ("OCI")					
Net change in fair value of financial assets	*8*		**347**		(128)
Income tax gain	*23*		**4**		4
Foreign exchange (loss) gain	*2*		**(76)**		138
Other comprehensive income for the year			**275**		14
Total Comprehensive Loss for the year		**$**	**(8,352)**	$	(5,098)

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

Consolidated Statements of Shareholders' Equity

(in thousands of United States dollars)	*Notes*	**Share Capital**	**Contributed Surplus**	**Accumulated Other Comprehensive Income / (Loss)**	**Deficit**	**Total Equity**
Balances as at January 1, 2015		$ 52,570	$ 5,644	$ (4,144)	$ (10,260)	$ 43,810
Total comprehensive loss for the year						
Net loss for the year					(5,112)	(5,112)
Other comprehensive income (loss)						
Net change in fair value of financial assets	*8*			(128)		(128)
Income tax gain	*23*			4		4
Foreign exchange on change in functional currency	*2*			138		138
Total other comprehensive income				14		14
Total comprehensive loss for the year						(5,098)
Transactions with owners, recorded directly in equity						
Contributions by owners in the year						
Options vested	*21*		52			52
Total contributions by owners			52			52
Total transactions with owners			52			52
Balances as at December 31, 2015		$ 52,570	$ 5,696	$ (4,130)	$ (15,372)	$ 38,764
Total comprehensive loss for the year						
Net Loss for the year					(8,627)	(8,627)
Other comprehensive income (loss)						
Net change in fair value of financial assets	*8*			347		347
Income tax loss	*23*			4		4
Foreign exchange gain on change in functional currency	*2*			(76)		(76)
Total other comprehensive loss				275		275
Total comprehensive income for the year						(8,352)
Transactions with owners, recorded directly in equity						
Contributions in the year						
Issuance of shares on settlement of debt	*19*	671				671
Total contributions		671				671
Total transactions with owners		671				671
Balances as at December 31, 2016		**$ 53,241**	**$ 5,696**	**$ (3,855)**	**$ (23,999)**	**$ 31,083**

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

Consolidated Statements of Cash Flows

Years ended December 31, (in thousands of United States dollars)	***Notes***	**2016**	2015
Cash flows from operating activities			
Net loss for the period		**$ (8,627)**	$ (5,112)
Adjustments for:			
Share-based payments	*21*	**-**	52
Loss on sale of capital asset	*11*	**-**	1,174
Amortization of property, plant and equipment	*11*	**611**	649
Provision for inventory	*9*	**517**	-
Writedown (recovery) of exploration and evaluation project	*13*	**4,700**	(185)
Net finance (income) costs	*22*	**(1,931)**	570
Income tax loss (recovery)	*23*	**3,813**	(813)
Net change in working capital:			
Change in receivables and prepaids	*7*	**228**	3,061
Change in inventory	*9*	**134**	103
Change in accrued interest	*15*	**433**	1,019
Change in trade and other payables	*14*	**(189)**	303
Net cash (used in) from operating activities		**(311)**	821
Cash flows from investing activities			
Expenditures on mine property and development project	*12*	**(22)**	(59)
Expenditures on exploration and evaluation projects	*13*	**(9)**	(29)
Proceeds on sale of partnership	*22*	**283**	-
Sale of capital asset	*11*	**-**	250
Proceeds on sale of marketable securities	*8*	**404**	-
Expenditures on 7P Plant	*11*	**-**	(30)
Net cash generated by investing activities		**656**	132
Cash flows from financing activities			
Payments of interest	*15*	**(38)**	(802)
Payments under leases	*17*	**(146)**	(164)
Net repayment of loans	*15*	**-**	(850)
Deposits of restricted cash	*6*	**36**	236
Net cash used by financing activities		**(148)**	(1,580)
Net increase (decrease) in cash and cash equivalents		**197**	(627)
Foreign exchange effect on cash and cash equivalents	*2*	**(85)**	-
Cash and cash equivalents, beginning of the period		**85**	712
Cash and cash equivalents, end of the period		**$ 197**	$ 85

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of Operations

Victory Nickel Inc. ("Victory Nickel" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The consolidated financial statements as at and for the years ended December 31, 2016 and 2015 comprise of the Company and its subsidiaries Victory Silica Ltd. ("VSL" or "Victory Silica") and BG Solutions Ltd. ("BG") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel was primarily engaged in the acquisition, exploration and development of nickel properties and associated products in Canada until the second quarter of 2014 when the Company became a producer and supplier of premium frac sand from its frac sand plant (the "7P Plant"), having a nominal capacity of 500,000 tons per annum ("tpa"), located near the town of Seven Persons, approximately 18 kilometres southwest of Medicine Hat, Alberta. Frac sand is specialized sand that is used as a proppant to enhance recovery from oil and gas wells. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

As at December 31, 2015, the Company was listed on the Toronto Stock Exchange ("TSX") under the symbol NI. On February 22, 2016 the Company commenced trading its common shares on the Canadian Securities Exchange ("CSE") under the symbol NI.

All dollar amounts are quoted in United States dollars ("USD$" or "US dollars"), except for those denoted as Canadian dollars ("CAD$") or Australian dollars ("AU$").

Going Concern

These 2016 Audited Consolidated Financial Statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2016, the Company had a working capital deficiency of $5,558,000, calculated as current assets less current liabilities, down from a working capital deficiency of $11,929,000 as at December 31, 2015. At December 31, 2016, the debts of $6,073,000 were the largest factor in the Company's working capital deficiency. At December 31, 2016, the Company was in default on a portion of its promissory convertible notes, as described in Note 15, in the aggregate principal amounts of $4,408,000 and CAD$566,000.

The Company's main assets are its nickel projects. Minago, the most advanced of its projects is permitted and ready for development. However, development costs are in excess of $500,000,000 and given the current price of nickel, it is unlikely that financing for this project will be available in the near future.

On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improved; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014 and continued through the current year. Since March 2015, sales have been significantly below rates achieved during 2014 and continue well below the level required to generate positive cash flow. The 7P Plant continues to operate on an as-needed basis in order to fulfil customer needs, as the Company works to sell its existing inventory of frac sand. Early 2017 has shown some improvement in the slowdown in drilling activity due to the severe drop in the price of oil, but sales have yet to recover to levels that would generate positive cash flow.

The near-term outlook in the frac sand market remains unclear due to the continuing downward pressure on the oil price and the related impact on exploration and production and oilfield services companies. The strength of the US dollar is also impacting demand for high-quality Wisconsin sand in Canada as the price for domestic sand has dropped and service companies appear satisfied with using lower-quality domestic sand, because of the price differential. As the Company's inventory is Wisconsin frac sand, this will continue to stress the Company's liquidity until such time as the market demand recovers and operations can resume on a consistent basis.

Cash flows from frac sand sales were not sufficient to cover operating costs and the Company was not able to make a portion of its the interest payments due during 2015 and 2016.

In November 2015, the Company announced that it had entered into a binding term sheet to extend the SPA Amended Loan (as outlined in Note 15), which included terms of a debt restructuring package (the "Debt Restructuring Agreement") for the holders of the promissory convertible notes (the "Promissory Convertible Notes") and the Company's trade creditors. On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan per the terms of the Debt Restructuring Agreement. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018 (the "Senior Secured Debt").

Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt, until the Senior Secured Debt is repaid. Only a portion of the interest due under the Senior Secured Debt during 2016 was paid. The lender of the Senior Secured Debt (the "Secured Lender") provided a forbearance agreement for the balance of the accrued interest and made short term advances to cover non-discretionary costs, such as equipment lease payments. All advances were included in trade payables and were paid during 2016. Barring a significant improvement in the sales of frac sand, the Company is unlikely to be able to repay the Senior Secured Debt in full when it matures in January 2018. The Company's ability to make the required interest payments in 2017 is also in doubt and dependent upon frac sand sales. To date, the Company's Secured Lender has communicated its commitment to ensuring the protection of the Company's core assets, including the advances noted above and the forbearance agreement. Should the support of the Secured Lender change, the going concern assumption would be in doubt.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of a $3,000,000 Promissory Convertible Note (the "Outstanding Note"). On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due, which has resulted in the Company defaulting on the note.

On March 7, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed private placements with certain of its unsecured lenders, trade creditors and management in settlement of the Promissory Convertible Notes and debt owed, as per the terms of the Debt Restructuring Agreement, as described in Note 15. The Company has not paid interest payments due on a portion of its New Promissory Convertible Notes (as defined in Note 15), which has resulted in the Company defaulting on notes with aggregate principal amounts of $1,408,000 and CAD$566,000.

In March 2016, the Company entered into a general partnership agreement (the "Partnership") for the purpose of carrying on a trading and investment business. The Partnership entered into various forward foreign exchange contracts and in June 2016, the Company sold its interest in the Partnership for net proceeds of CAD$358,000. The net proceeds were used to fund working capital requirements.

In October 2016, the Company sold a portion of its marketable securities for net proceeds of AUD$515,000. To the extent required, the Company will continue to sell non-core assets to fund its working capital requirements.

The ability of the Company to continue as a going concern is heavily dependent on the frac sand market improving, both in demand and in price, and the Company's ability to resume operations at its 7P Plant. In addition to the liquidity and solvency uncertainties described above, the ability to resume full operations at the 7P Plant will require additional financing. In order to resume purchasing and shipping supplies of frac sand and full operations at the 7P Plant, the Company will require additional working capital. As noted, the Company's Secured Lender has been supportive to date. However, there are no assurances that the Company will be able to obtain the working capital to resume operations at the level sufficient to generate cash flows to repay its outstanding obligations.

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. In the current year, the Company, with the agreement of its Secured Lender, has sold non-core assets, including marketable securities and the Partnership, to provide operating funds. However, without an injection of capital and/or until the demand for frac sand returns to pre-2015 levels, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company's existing obligations add to the challenge of obtaining additional capital.

There can be no assurance that the Company will be able to restructure its debt further and/or recapitalize, and there is no certainty as to what further steps, if any, the secured and unsecured lenders may take. To date, the Secured Lender has been supportive and has provided limited working capital needed to protect the Company's core assets, and management and the board of directors have reduced and/or deferred salaries and director fees until business recovers, but there is no certainty that this will continue.

In addition to the above liquidity issues, the Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, a continued prolonged slowdown in the frac sand market which would limit the Company's ability to generate cash flow from the 7P Plant, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully fund its projects and operating expenses.

None of the Company's mining projects have commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, the optioning and/or sale of resource or resource-related assets or interests, exploration results which have the potential for the discovery of economically-recoverable reserves and resources, and/or the ability to generate sufficient cash flow from its other operating activities for its funding. Development of the Company's current nickel mining projects to the production stage will require significant financing. Given the current economic climate, including the low nickel price, and the Company's existing liquidity challenges, the ability to raise sufficient funds will be difficult.

Should the Company not be able to overcome the risks described in this section, the carrying value of the Company's assets would be subject to material adjustment and, in addition, other adjustments may be necessary to these Consolidated Financial Statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty that the Company will be able to generate sufficient cash to fund its activities including debt servicing, project expenditures and corporate costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ significantly from the going concern basis.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). The accounting policies, methods of computation and presentation applied in these consolidated financial statements are consistent with those of the previous fiscal year.

The management of the Company prepares the Consolidated Financial Statements, which are then reviewed by the Audit Committee and the Board of Directors. The Consolidated Financial Statements were authorized for issue by the Board of Directors on April 27, 2017 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

(b) Basis of Measurement

The Consolidated Financial Statements have been prepared on the historic cost basis except for derivative financial instruments, such as warrants and the Participating Interest, which are measured at fair value with changes through operations and financial assets, such as marketable securities, which are measured at fair value with changes through other comprehensive income or loss ("OCI").

(c) Functional and Presentation Currency

Under IFRS, an entity's functional currency should reflect the underlying transactions, events and conditions relevant to the entity. Revenues and significant expenses of the Company's operating entity are driven by prices in US Dollars, which influence managements' primary operating, capital and financing decisions.

These financial statements are presented in US dollars, which is the Company's functional currency. All financial information is expressed in US dollars unless otherwise stated; tabular amounts are stated in thousands of dollars.

(d) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

The accompanying Consolidated Financial Statements include all adjustments that are, in the opinion of management, necessary for fair presentation.

Significant estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information regarding significant areas of estimation uncertainty made in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following notes:

- Note 7 – valuation of receivables;
- Note 9 – valuation of inventory;
- Note 12 – measurement of the recoverable amount of mine property and development project;
- Note 13 – measurement of the recoverable amount of exploration and evaluation projects;
- Note 15 – measurement and valuation of the embedded derivatives in promissory convertible notes;
- Note 15 – measurement and the valuation of the fair value of debt issued in the restructuring;
- Note 16 – measurement and valuation of the Participating Interest; and
- Note 21 – measurement of share-based payments.

Significant judgements

Judgements are reviewed on an ongoing basis. Changes resulting from the effects of amended judgements are recognized in the period in which the circumstance giving rise to the change occurs and in any future periods presented. Information regarding significant areas of critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following notes:

- Note 1 – going concern assessment;
- Note 2 – determination of the functional currency for the Company and its subsidiaries;
- Note 7 – impairment of receivables;
- Note 9 – impairment of inventory;
- Note 12 – classification of expenditures as mine property and development project or operating expenses;
- Note 13 – classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 12 – impairment of mine property and development project;
- Note 13 – impairment of exploration and evaluation projects; and
- Note 18 – recoverability of deferred tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail below. Such policies have been applied consistently by all Victory Nickel entities and to all periods presented in these Consolidated Financial Statements.

(a) Basis of Consolidation

Subsidiary

A subsidiary is an entity controlled by Victory Nickel. Control exists when Victory Nickel has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by Victory Nickel. Significant Company entities are listed in Note 26.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of Victory Nickel's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign Currency
Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currency of Victory Nickel at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized through operations, except for differences arising on the retranslation of marketable securities, which are recognized directly in OCI. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial Instruments
IFRS 9 Financial Instruments
IFRS 9 Financial Instruments ("IFRS 9"), which impacts the classification and measurement of financial assets, has been adopted by the Company.

(i) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity securities, receivables, cash and cash equivalents, restricted deposits, trade and other payables, loans and borrowings.

Non-derivative financial instruments, with the exception of financial assets at fair value through OCI, are recognized initially at fair value plus, for instruments not at fair value through operations, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Restricted deposits are funds on deposit with a Canadian chartered bank to support letters of credit, if any, being used to facilitate business activity with certain vendors.

Loans, receivables and borrowings are financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. Such assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans, receivables and borrowings are measured at amortized cost using the effective interest method, less any impairment losses. Accounting for finance income and expenses is discussed in Note 3(n).

Financial assets at fair value through OCI
Victory Nickel's investments in equity securities are measured at fair value and changes therein, as well as foreign currency differences on those investments, are recognized directly in OCI.

Financial instruments at amortized cost
Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments
Victory Nickel may periodically hold warrants as part of its portfolio of marketable securities, which are financial assets at fair value through operations. Convertible promissory notes contain embedded derivatives which are separated from the financial instrument measured at amortized cost.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized through operations when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately through operations. The Participating Interest is a derivative that requires adjustment to the fair value at each reporting period (refer to Note 16).

(all tabular amounts in thousands of United States dollars, except common share and per share information)

(d) Inventory
Finished products and raw materials inventories are valued at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of processing and other costs incurred in bringing inventories to their present location and condition. Net realizable value for finished products and raw materials is generally considered to be the selling price of the finished product in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale. Inventory is reviewed to ensure the carrying value does not exceed net realizable value. A write-down is recognized when carrying cost exceeds net realizable value. The write-down may be reversed if the circumstances which caused it no longer exist.

(e) Property, Plant and Equipment
(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within *Loss on Sale of Asset* in the consolidated statement of operations.

(ii) Depreciation
Depreciation is calculated as a function of the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized through operations over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. Depreciation commences when an asset is placed into service. Operations at the 7P Plant began in 2014, at which time amortization of plant equipment commenced.

The depreciation rates and methods for the current and comparative periods are as follows:

Item	Method	2016	2015
Building	Declining-balance	**5%**	**5%**
Plant and Equipment at 7P Plant	Straight-line	**10% to 20%**	**10% to 20%**
Other Equipment and Furniture	Declining-balance	**20%**	**20%**
Vehicles and Mobile Equipment	Declining-balance	**30%**	**30%**

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Exploration and Evaluation Projects
(i) Exploration and Evaluation expenditures
Exploration and Evaluation ("E&E") expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs related to the following: acquisition of exploration rights, conducting geological studies, exploratory drilling and sampling, and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are capitalized as E&E assets on an "area of interest basis" which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises a single mine or deposit.

E&E assets are recognized if the rights to the project are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale; or
- activities on the project have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the project are continuing.

E&E expenditures are initially capitalized as intangible E&E assets. Such E&E expenditures may include costs of licence acquisition, technical services and studies, geophysical surveys, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable, permitted and development is approved by the Board, E&E assets attributable to that project are first tested for impairment and then reclassified to *Mine property and development projects* on the consolidated balance sheet.

(ii) Pre-E&E expenditures

Pre-E&E expenditures are incurred on activities that precede exploration for an evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area. Pre-E&E expenditures are expensed immediately as *Pre-exploration write-offs* through the consolidated statement of operations.

(iii) Impairment

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount and any impairment loss is recognized as *Writedown of Exploration and Evaluation projects* through the consolidated statement of operations. The following facts and circumstances, among other things, indicate that E&E assets must be tested for impairment:

- the term of exploration license for the project has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and the Company plans to discontinue activities in the specific area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full through such activity.

E&E assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to *Mine property and development projects* on the consolidated balance sheet.

(g) Mine Property and Development Project

(i) Pre-production development expenditures

The Company considers a project to be in the development phase when an identified mineral reserve is being prepared for production as approved by the Board, for example when there is construction of access to the mineral reserves upon determination that there is economic viability of the project under a successful feasibility study and is permitted for development. As such, project development activities are related to the construction of an asset to be used in production or preparation for extraction of a specific mineral resource.

The costs of mining properties, which include the costs of acquiring and developing mining properties and mineral rights, are capitalized in the same manner as property and equipment under *Mine property and development project* ("MP&D") assets on the consolidated balance sheet in the period in which they are incurred or transferred from E&E assets upon determination of economic viability. At that point, all further pre-production primary development expenditure other than land, buildings, plant and equipment, etc. is capitalized as part of the cost of the project until the project is capable of commercial production. This includes costs incurred in preparing the site for mining operations, including pre-stripping costs.

Presently, the Company's sole project classified as an *MP&D* asset on the consolidated balance sheet is the Minago project; it continues to be in the pre-production phase and costs continue to be capitalized without depreciation.

(ii) Impairment

If a property were to be abandoned, there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, the cumulative capitalized cost relating to the property is written off to its recoverable amount through operations.

(h) Borrowing Costs
The Company's policy is to capitalize project-related borrowing costs related to qualifying assets as incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company presently does not have any project-related borrowings on qualifying assets.

(i) Government Grants
Government grants that compensate Victory Nickel for expenses incurred are recognized through operations on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate Victory Nickel for the cost of an asset are recognized through operations on a systematic basis over the useful life of the asset. For assets which are not being amortized, such as E&E assets or MP&D assets, the government grant is deducted from the related asset.

(j) Investment Tax Credits
Investment tax credits may be claimed by the Company on qualifying expenditures. The Company accounts for these when such qualifying expenditures have been made by reducing the deferred tax liability and recording an income tax recovery through the consolidated statement of operations.

(k) Impairment
(i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized through operations.

(ii) Non-financial assets
The carrying amounts of Victory Nickel's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") (see definition below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates, or has the potential to generate, cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Generally, a CGU is analogous to an individual project. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized through operations. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Employee Benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Victory Nickel is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Victory Nickel has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if Victory Nickel has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(iii) Share-based payment transactions

The grant-date fair value of options granted to employees, directors and consultants is recognized as an employee expense, with a corresponding increase in equity, over the period that the individuals become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by Victory Nickel.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

In accordance with the Company’s environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when the land is contaminated and there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities.

(n) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including financial assets at fair value through operations), gains on the disposal of financial assets at fair value through operations, amortization of flow-through premiums and changes in the fair value of financial assets (warrants) at fair value through operations. Interest income is recognized as it accrues through operations, using the effective interest method. Gains on the disposal of financial assets are recognized on the settlement date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets and liabilities at fair value through operations and losses recognized on financial assets that are recognized through operations. All borrowing costs are recognized through operations using the effective interest method, except for those amounts capitalized as part of the cost of qualifying assets.

Foreign currency gains and losses are reported on a net basis.

(o) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized through operations except to the extent that it relates to items recognized either in OCI or directly in equity, in which case it is recognized in OCI or in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In 2009, pursuant to the receipt of a positive feasibility study for the Minago project, Victory Nickel determined that it was probable that it would be able to realize the benefit associated with its losses and costs prior to their expiry. Accordingly, the Company recognized the deferred tax assets (to the extent of the deferred tax liability) at that time. Victory Nickel continues to believe it is probable that the benefit of its losses and other costs will be realized prior to their expiry. The Company has not recognized any deferred tax assets relating to Victory Silica.

(p) Share Capital

(i) Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has financed a portion of its E&E 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. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("flow-through premium"). Flow-through shares may also be issued with a warrant feature. At the time of issue, the Company estimates the proportion of proceeds attributable to the flow-through premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The flow-through premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a liability in *Trade and other payables* on the consolidated balance sheet. The proceeds attributable to the warrants is also treated as equity and recorded in *Contributed surplus* on the consolidated balance sheet until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise.

The effect of renunciation of the tax benefits to holders of such shares is recognized pro rata with the associated expenditures being incurred by the Company. This could occur either before or after the formal renunciation of expenditures to the tax authorities have been made. When the eligible expenditures are incurred, the tax value of the renunciation is recorded as a deferred tax liability and charged against operations as a deferred tax provision.

Furthermore, as eligible expenditures are incurred, the Company recognizes a pro rata amount of the flow-through premium through *Finance income* in the consolidated statement of operations with a decrement to the liability in *Trade and other payables* on the consolidated balance sheet.

(ii) Share-based payment arrangements

Stock Option Plan

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 21. Awards to non-employees are measured at the fair value of the goods or services received. 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 the share-based payment. The share-based payment 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 19. The Company uses the fair value method of accounting for, and to recognize as compensation expense, its share-based payments for employees. Shares issued under the Share Incentive Plan are valued based on the quoted market price on the date of the award. This amount is expensed over the vesting period.

(q) Revenue Recognition

Revenues from frac sand sales are recognized when legal title passes to the customer, which may occur at the Company's production facility, rail origin or at the destination terminal or transload facility. At that point, delivery has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured.

(r) Earnings (Loss) per Share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise warrants and share options.

(s) New Standards and Interpretations Not Yet Adopted

The Company has not yet adopted the following new accounting pronouncements which are effective for fiscal periods of the Company beginning on or after January 1, 2017:

IAS 7, Statement of Cash Flows – Amendments

IAS 7 requires an entity to present a statement of cash flows as an integral part of its primary financial statements. The amendments require additional disclosures with respect to changes in liabilities arising from financing activities. It is effective for annual periods beginning on or after January 1, 2017.

The Company continues to include continuity schedule disclosures for the change in its *Loans and Borrowings* and has effectively early adopted the amendments to this standard.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

The Company has not evaluated the impact of adopting this standard.

IFRS 16, Leases

In 2016, the IASB issued its new leasing standard. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as previously required by IAS 17. Instead, it introduces a single lease accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and to depreciate the lease assets separately from interest on the lease liabilities on the income statement. IFRS 16 will be effective for the Company's fiscal year beginning January 1, 2019, with earlier adoption permitted if the entity also adopts IFRS15.

The Company has not evaluated the impact of adopting this standard.

IFRS 2, Share-Based Payments – Classification and Measurement – Amendments
In 2016, the IASB issued amendments to IFRS 2 clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective or early application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company has not evaluated the impact of adopting the amendments to this standard.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview
The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework
The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities including entry into new operations, such as the frac sand business. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined. The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

Credit Risk
Credit risk is the risk of an unexpected financial loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, restricted deposits, receivables and marketable securities.

Cash and cash equivalents and restricted deposits
The Company's cash and cash equivalents and restricted deposits 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.

Receivables
The Company has increased its exposure to credit risk upon commencement of sales of frac sand. The Company's other receivables consist primarily of amounts due from federal and provincial governments. Amounts due from other parties are settled on a regular basis.

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

Marketable securities
The Company limits its exposure to credit risk by investing only in securities which are listed on public stock exchanges. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

Guarantees
The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will enure to the Company. As at December 31, 2016 and 2015, the Company had no third-party guarantees outstanding.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation.

The Company's objective is to maintain 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. When possible, 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 do so again in the future.

As described in Note 1, the Company is experiencing liquidity issues and has refinanced a portion of its trade payables and loans, as outlined in Note 15.

Market Risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Company's income, the value of its E&E and MP&D properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The frac sand market is relatively new to the Company and is subject to market forces affecting oil and natural gas pricing and related demand for frac sand.

Currency risk
The Company is exposed to currency risk on purchases and other payables that are denominated in a currency other than the functional currency of the Company; the US dollar. The primary currency in which these transactions are denominated is the Canadian dollar. The Company does not actively hedge its foreign currency exposure.

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 variable short-term rates. The Company's debt bears interest at fixed rates (Note 15). Accordingly, the estimated effect of a 50bps change in interest rate would not have a material effect on the Company's results of operations. None of the Company's other financial instruments are interest-bearing. Consequently, the Company is not presently exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

Other market price risk

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

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, base and precious metals. Historically, such 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. The value of the Company's strategic investments is also related to the price of, and outlook for, base and precious metals and other minerals. The future prices of frac sand sales are also subject to similar risks.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations. The Company presently has two main sand suppliers and, in order to partly mitigate supply risk, has optioned the Bear Coulee property.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Company has a small but hands-on and experienced executive team which facilitates communication across the Company. This expertise is supplemented, when necessary, by the use of experienced consultants in legal, compliance and industry-related specialties. The Company also has standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the Occupational Health and Safety Act and related regulations and codes, and the Railway Safety Act and requirements of the Canadian Transportation Agency;
- documentation of controls and procedures, including quality control and plant maintenance;
- development of contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective and available.

Compliance with Company standards is supported by a code of conduct which is provided to salaried employees, officers and directors. The Company requires sign-off of compliance with the code of conduct.

Capital Management 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.

	December 31, 2016	December 31, 2015
Shareholders' equity	**$ 31,083**	$ 38,764
Loans and borrowings - long-term portion	**5,871**	-
Participating Interest	**933**	1,702
Lease obligations - long-term portion	**5**	135
	$ 37,892	$ 40,601

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 expects that it will be able to obtain equity, long-term debt, equipment-based, working capital 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.

Neither the Company, nor its subsidiaries, are subject to externally-imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value hierarchy
The different levels of valuation are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs).

(a) Participating Interest
The fair value of the Participating Interest is based on the estimates of expected future cash flows, as the expectations of payments of the Participating Interest change.

(b) Marketable Securities
The fair value of financial assets at fair value through operations or OCI is determined by reference to their quoted closing bid price at the reporting date.

(c) Receivables
The fair value of receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes only.

(d) Warrants and/or embedded derivatives
The fair values of warrants and/or embedded derivatives included in either financial assets or liabilities at fair value through operations or in equity are based upon the Black-Scholes option-pricing model. Measurement inputs include: share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly-available information), weighted average expected life of the instruments (based on historic experience and general option-holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

(e) Non-derivative Financial Liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(f) Share-based Payment Transactions
The fair value of share options is measured using the Black-Scholes option-pricing model. The measurement inputs are described above under Note 5(e). Any service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

6. CASH AND CASH EQUIVALENTS

	December 31, 2016	December 31, 2015
Bank balances	**$ 197**	$ 85
Cash and Cash Equivalents	**$ 197**	$ 85

As at December 31, 2015, the Company had placed $36,000 on deposit with a Canadian chartered bank to support a letter of credit being used to facilitate business activity and was presented as restricted cash on the consolidated balance sheet. The term deposit matured within one year. The Company held no similar deposits as at December 31, 2016.

7. RECEIVABLES AND PREPAIDS

	December 31, 2016	December 31, 2015
Trade accounts receivable	**$ 41**	$ 256
Less: Allowance for doubtful accounts	**(23)**	-
	18	256
Other receivables	**51**	-
Prepaid expenses and deposits	**9**	50
	$ 78	$ 306

The aging of trade accounts receivable is as follows:

	December 31, 2016	December 31, 2015
Trade accounts receivable		
Current	**$ 16**	$ 71
Past due 0-30 days	**2**	165
Past due 31-60 days	**-**	20
Past due 90 days	**23**	-
	$ 41	$ 256

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures. As at December 31, 2016, the Company determined that it had exposure to losses due to the quality of one of its customers, in which the Company has not been able to collect the balances outstanding with this customer.

As at December 31, 2016, two of the Company's customers accounted for 100% of the trade accounts receivable balance (2015 – four customers for 87%).

8. MARKETABLE SECURITIES

	December 31, 2016	December 31, 2015
Financial assets at fair value through OCI:		
Shares	**$ 158**	$ 216
	$ 158	$ 216

The Company records its portfolio of shares at available market prices with any difference in fair value compared with acquisition cost being recorded as gain or loss on financial assets at fair value through OCI.

In April 2015, the Company received 40,000,000 shares of Corazon Mining Limited ("Corazon") valued at $192,000 as part of the option agreement of Lynn Lake as described in Note 13. The Company's financial assets at fair value through OCI are listed on public stock exchanges, including the TSX, TSX-V and ASX.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

During 2016, the Company sold all of its holdings in Corazon for net proceeds of AU$515,000 and a small portion of its holdings in other marketable securities for net proceeds of CAD$9,000.

9. INVENTORY

	December 31, 2016	December 31, 2015
Raw material		
At transload facility	$ 188	$ 231
Stored at 7P Plant	568	669
	756	900
Finished goods & other inventory	1,467	1,974
	$ 2,223	$ 2,874

The Company determined that a write-down of inventory of $517,000, against finished goods, to net realizable value was required during the year and was included in cost of goods sold.

10. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. All amounts are held in Canada. The maximum exposure to credit risk at the reporting date was:

	Notes	December 31, 2016	December 31, 2015
Carrying amount			
Cash and cash equivalents	*6*	$ 197	$ 85
Restricted deposits	*6*	-	36
Receivables	*7*	78	306
Financial assets at fair value through OCI	*8*	158	216
		$ 433	$ 643

Liquidity Risk

The following table shows the contractual maturities of financial liabilities as at the reporting date.

	Non-derivative financial liabilities				
	Trade and other payables (1)	Short-term loans	Leases payable (1)	Long-term liabilities	Total
As at December 31, 2016					
Carrying amount	$ 2,141	$ 6,073	$ 5	$ 5,871	$ 14,090
Contractual cash flows	2,141	6,607	5	6,023	14,776
6 months or less	2,141	6,607	5	-	8,753
6 - 12 months	-	-	-	-	-
1 - 2 years	-	-	-	6,023	6,023
2 - 5 years	-	-	-	-	-
As at December 31, 2015					
Carrying amount	$ 3,194	$ 12,111	$ 275	$ 1,702	$ 17,282
Contractual cash flows	3,194	12,357	293	5,540	21,384
6 months or less	3,194	12,357	77	-	15,628
6 - 12 months	-	-	77	-	77
1 - 2 years	-	-	139	-	139
2 - 5 years	-	-	-	5,540	5,540

(1) Current leases payable are disclosed within *Trade and other payables* (Note 14) on the consolidated balance sheet.

Currency Risk
Exposure to currency risk

As at December 31, 2016 (in thousands of US dollars)	**US$**	**CAD$**
Cash and cash equivalents	**$ 12**	**$ 185**
Receivables and prepaids	**21**	**57**
Marketable securities	**-**	**158**
Trade and other payables	**(1,121)**	**(1,020)**
Loans and borrowings	**(11,278)**	**(666)**
Participating Interest	**-**	**(933)**
	$ (12,366)	**$ (2,219)**

As at December 31, 2015 (in thousands of US dollars)	**US$**	**CAD$**
Cash and cash equivalents	$ 69	$ 16
Restricted deposits	-	36
Receivables and prepaids	273	33
Marketable securities	-	216
Trade and other payables	(1,315)	(2,020)
Loans and borrowings	(11,898)	(213)
Participating Interest	-	(1,702)
	$ (12,871)	$ (3,634)

Sensitivity analysis
A 10% weakening of the United States dollar would have an approximate effect on the Company's equity of $222,000 on balances denominated in CAD$ as at December 31, 2016 (2015 - $363,000). The analysis assumes that all other variables, in particular interest rates, remain constant.

Fair Value
Fair values versus carrying amounts
The fair values of the Company's financial assets and liabilities equal their carrying amounts shown in the consolidated balance sheets. The Company has not made any reclassifications between assets recorded at cost or amortized cost and fair value.

The table below analyses financial instruments carried at fair value by valuation method:

	Level 1	**Level 3**	**Total**
As at December 31, 2016			
Financial assets at fair value through OCI	**$ 158**	**$ -**	**$ 158**
Financial liabilities at fair value	**$ -**	**$ (1,009)**	**$ (1,009)**
	$ 158	**$ (1,009)**	**$ (851)**

	Level 1	Level 3	Total
As at December 31, 2015			
Financial assets at fair value through OCI	$ 216	$ -	$ 216
Financial liabilities at fair value	$ -	$ (1,702)	$ (1,702)
	$ 216	$ (1,702)	$ (1,486)

There have been no transfers between Level 1, Level 2 and Level 3 during the current and prior reporting periods. All of the shares owned by the Company are valued using Level 1 methodologies.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

11. PROPERTY, PLANT AND EQUIPMENT

Balances as at January 1, 2015	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
Cost	83	4,774	708	1,641	7,206
Accumulated Amortization	(11)	(382)	(202)	(30)	(625)
Effect of Foreign Exchange (Note 2)	(8)	(187)	(47)	(160)	(402)
Carrying Amount	**$ 64**	**$ 4,205**	**$ 459**	**$ 1,451**	**$ 6,179**
Additions	-	30	-	3	33
Disposals - cost	-	-	-	(1,424)	(1,424)
Amortization	(1)	(518)	(125)	(5)	(649)
Balances as at December 31, 2015					
Cost	83	4,804	708	220	5,815
Accumulated Amortization	(12)	(900)	(327)	(35)	(1,274)
Effect of Foreign Exchange (Note 2)	(8)	(157)	(47)	(160)	(372)
Carrying Amount	**$ 63**	**$ 3,747**	**$ 334**	**$ 25**	**$ 4,169**
Amortization	(1)	(515)	(91)	(4)	(611)
Balances as at December 31, 2016					
Cost	83	4,804	708	220	5,815
Accumulated Amortization	(13)	(1,415)	(418)	(39)	(1,885)
Effect of Foreign Exchange (Note 2)	(8)	(145)	(41)	(169)	(363)
Carrying Amount	**$ 62**	**$ 3,244**	**$ 249**	**$ 12**	**$ 3,567**

During 2015, the Company sold the transformers and other equipment for cash proceeds of $250,000 and the purchaser assumed all outstanding storage costs of $61,000. As at December 31, 2016, Vehicles and Mobile Equipment includes $589,000 (2015 - $629,000) of equipment acquired under leases (Note 17).

12. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2016	Current Expenditures	**December 31, 2016**
Minago	$ 34,952	$ 22	**$ 34,974**
	$ 34,952	$ 22	**$ 34,974**

	January 1, 2015	Current Expenditures	December 31, 2015
Minago	$ 34,893	$ 59	$ 34,952
	$ 34,893	$ 59	$ 34,952

Minago

The 100%-owned Minago project covers approximately 19,799 ha, 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 and all the studies required to complete the Environmental Impact Study that was filed in May 2010. As a result, in August 2011, the Company received its Environmental Act Licence ("EAL"). In April 2014, the Company announced the filing of an amendment to the EAL to relocate the permitted Minago tailings facilities, such that it will not interfere with potential nickel resources and also reduce operating costs. Consultations with First Nations by the Government of Manitoba continue. On completion, the government is expected to issue the amendment to the existing EAL which continues to be valid. The results of the Minago Feasibility Study ("FS") were announced in December 2009 and improvements thereto announced in June 2010 and July 2011.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

Five mineral claims totalling 691 ha located at the north end of the Company's existing Minago property package are subject to a maximum 2% net smelter return royalty ("NSR") with a 50% back-in right; these claims represent approximately 2.4% of the total Minago project and are not contained in the FS pit footprint.

The Minago project is not in production. Accordingly, the Minago project is not being depreciated.

As at December 31, 2016, the Company tested the Minago project for impairment. The economic model in the FS was used as a base. The business model used in the FS and the intention of management is to develop and produce the nickel and frac sand co-product simultaneously. Under IFRS, for the purposes of assessing the impairment of Minago, frac sand is treated as a raw material for sale into the market and is not processed to a finished product. This required elimination from the FS economic model of the following: processing plant capital, processing operating costs, transportation costs and the finished goods margin. This does not reflect how management intends to develop Minago, nor, in management's opinion, does it reflect how any other organization would develop the project.

In addition, adjustments were made for prices derived from the forecasted average of $7.40 per pound for nickel and an exchange rate of USD$0.731:CAD$1.00. The forecasted average price and exchange rate were obtained from third-party reports. A discount rate of 11% was used in the analysis. These factors resulted in a recoverable amount in excess of the book value of Minago. Accordingly, no impairment exists on the Minago project.

The impairment model is sensitive to several of the model key input variables. The following table indicates the estimated impact on the recoverable amount:

Change in Model Key Input	Change in Recoverable Amount of Minago
Effect of:	
Increase discount rate by 1%	(18%)
Increase exchange rate by 0.05	(25%)
Increase nickel prices by 1%	4%
Increase operating costs by 5%	(9%)

13. EXPLORATION AND EVALUATION PROJECTS

Cumulative costs relating to the acquisition of mineral properties and E&E expenditures have been incurred on the following projects:

	January 1, 2016	Current Expenditures	Writedowns/ Recoveries	Excess Proceeds	December 31, 2016
Lac Rocher	**$ 6,617**	**$ 5**	**$ (4,700)**	**$ -**	**$ 1,922**
Mel	**6,792**	**4**	**-**	**-**	**6,796**
	$ 13,409	**$ 9**	**$ (4,700)**	**$ -**	**$ 8,718**

	January 1, 2015	Current Expenditures	Writedowns/ Recoveries	Excess Proceeds	December 31, 2015
Lac Rocher	$ 6,609	$ 8	$ -	$ -	$ 6,617
Mel	6,771	21	-	-	6,792
Lynn Lake	-	7	185	(192)	-
	$ 13,380	$ 36	$ 185	$ (192)	$ 13,409

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 CAD$0.50 per ton on any ores mined and milled from the property and a 2% NSR described below.

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.

As at December 31, 2016, the Company tested the Lac Rocher project for impairment. A discounted cash flow model was used as a base. Adjustments were made for prices derived from the forecasted average of $7.40 per pound for nickel and an exchange rate of USD$0.731:CAD$1.00. The forecasted average price and exchange rate were obtained from third-party reports. A discount rate of 15% was used in the analysis. These factors resulted in a recoverable amount below the book value of Lac Rocher. Accordingly, an impairment of $4,700,000 was recorded on the Lac Rocher project.

Mel

The Company purchased a 100% interest in the Mel properties located near Thomson, Manitoba from Vale. Vale is entitled to a 10% royalty on “distributable earnings” 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.

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.

Lynn Lake

The Company owns a 100% right, title and interest in the Lynn Lake nickel property (“Lynn Lake”), covering approximately 600 ha in northern Manitoba. In November 2014, the Company announced that it had optioned the Lynn Lake property to Corazon. Under the terms of the option agreement, subject to any required regulatory approvals, Corazon can acquire a 100% interest in Lynn Lake by issuing to Victory Nickel, 40,000,000 Corazon shares upon closing and incurring AU$3,500,000 in exploration expenditures or payments (in cash or Corazon shares at Corazon’s option) to Victory Nickel over five years. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from Lynn Lake and receive a payment of AU$1,000,000 (in cash or Corazon shares at Corazon’s option) within 30 days of ore processing activities. In April 2015, the Company received 40,000,000 shares of Corazon valued at $192,000 as part of the option agreement.

Bear Coulee

In October 2014, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in Trempeleau County Wisconsin, USA (the “Bear Coulee Property”). The option agreement provides for a cash payment on signing of the agreement, a second cash payment on delivery of permits and a third cash payment on exercise of the option. The option is valid for six months from receipt of permits with two equivalent extensions available under certain circumstances. Prior to production, the Company will be required to pay $40,000 per annum as advance royalties on the initial 20,000 tons of sand production. Once the Bear Coulee Property is in production, the Company will be required to pay a royalty of $2.00 per ton of frac sand sold that is mined from the property.

In February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed on the Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

14. TRADE AND OTHER PAYABLES

		December 31, 2016		December 31, 2015
Accounts payable				
Mine property and development project	**$**	**11**	$	16
Exploration and evaluation projects		**3**		-
Property and equipment		**-**		202
Other accounts payable		**1,775**		2,794
Accrued liabilities				
Other accrued liabilities		**227**		182
Lease obligations - current portion		**125**		141
	$	**2,141**	$	3,335

During 2016, the Company completed the restructuring of a portion of its trade payables, under the terms of the Debt Restructuring Agreement, in settlement of aggregate amounts of $106,000 and CAD$533,000 in trade payables and CAD$267,000 of indebtedness to directors and management.

As part of the SPA Amended Loan (defined in Note 15) with the Secured Lender, the Company agreed to not make any payments to settle past unsecured debt or balances outstanding with trade creditors who did not agree to the Debt Restructuring Agreement, prior to the repayment of the Senior Secured Debt, without the Secured Lender's approval. The balances outstanding with trade creditors who did not agree to the Debt Restructuring Agreement amounted to $1,554,000 as at December 31, 2016.

15. LOANS AND BORROWINGS

	Notes		**December 31, 2016**		December 31, 2015
Current loans and borrowings					
SPA Amending Loan	*(a)*	**$**	**-**	$	5,150
Short-term loan	*(b)*		**-**		-
Current portion of Promissory Convertible Notes	*(c)*		**3,000**		5,942
Current portion of New Promissory Convertible Notes	*(c)*		**1,298**		-
Accrued interest			**1,775**		1,019
Total current loans and borrowings			**6,073**		12,111
Long-term loans					
Senior Secured Debt	*(a)*	**$**	**5,468**	$	-
New Promissory Convertible Notes	*(c)*		**123**		-
Long term debt due to management & directors	*(c)*		**280**		-
Total long-term loans and borrowings			**5,871**		-
		$	**11,944**	$	12,111

During 2016, the Company made interest payments of $38,000 (2015 - $802,000), incurred interest expense of $1,422,000 (2015 - $1,869,000), amortized loan fees of $21,000 (2015 - $642,000) and amortized embedded derivatives of $340,000 (2015 - $1,112,000).

(all tabular amounts in thousands of United States dollars, except common share and per share information)

(a) Senior Secured Debt

	December 31, 2016	December 31, 2015
Carrying balance at beginning of the year	**$ 5,150**	$ 4,000
Advances in US$	**-**	1,150
Conversion from accrued interest	**350**	-
Add: fair value of warrants with a cashless exercise feature	**6**	-
Less: unamortized fair value of warrants	**(15)**	
Less: unamortized loan fees	**(23)**	-
Senior Secured Debt	**$ 5,468**	$ 5,150

In May 2014, the Company announced that it had executed the SPA Loan ("SPA Loan"), to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of $4,000,000.

In June 2015, the Company announced it had entered into an amending agreement (the "SPA Amended Loan") with respect to the SPA Loan. Under terms of the SPA Amended Loan, the SPA Loan was amended to permit the issuance of additional notes by the Company for an additional sum of $1,150,000, the proceeds of which were used for working capital purposes and to repay the $1,000,000 owed under the Promissory Convertible Notes, as outlined in Note 15 (b). The aggregate principal amount of $5,150,000 under the SPA Amended Loan was due July 30, 2015.

In July 2015, the Company announced that it was not able to make the quarterly interest payment due on June 30, 2015 under the SPA Amended Loan. On July 30, 2015, the Company announced it had not repaid the amounts due, including the principal amount, under the SPA Amended Loan, and that it was continuing discussions with the holder of the SPA Amended Loan and other potential financing sources to restructure the Company's debt and recapitalize the Company.

On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan per the terms of the Debt Restructuring Agreement. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018. The amount under the Senior Secured Debt was used to repay the principal of $5,150,000 and $350,000 of accrued interest.

The interest rate on the Senior Secured Debt remained unchanged at 14.8% with interest payable in arrears. The Senior Secured Debt will be due in full on the date of maturity, subject to a cash sweep of 75% of free cash flow ("Free Cash Flow") payable within 45 days following the end of each fiscal quarter and 90 days from each fiscal year end. Free Cash Flow will be calculated based on the Company's quarterly unaudited and annually audited consolidated statement of cash flows, as net cash from operating and investing activities, plus interest and lease payments from financing activities. Allowable investing activities must be approved in advance by the Secured Lender.

The Secured Lender received a fee in shares equal to 4% of outstanding shares of the Company, prior to the restructuring of the SPA Amended Loan. Accordingly, 2,305,404 shares were issued. In addition, the Company agreed to not make any payments to settle past unsecured debt prior to the repayment of the secured debt, without the Secured Lender's approval.

Warrants issued to the Secured Lender

Under the terms of the SPA Loan, the Company issued 2,000,000 common share purchase warrants. The number of warrants is subject to an increase from 500,000 to 1,000,000 warrants for each $1,000,000 note issued under the SPA Loan, if any of the notes are prepaid and the closing price of the Company's share price is CAD$2.00 or lower on the trading day preceding the date of such prepayment (the "Original Warrants"). Given that there are costs associated with the prepayment right, the Company has valued the prepayment right at $nil. Each original warrant entitled the holder to purchase one common share of the Company at an exercise price of CAD$1.00 for a period of 36 months from the initial closing date.

Pursuant to the terms under SPA Amended Loan, the Original Warrants were amended to reduce the exercise price to CAD$0.50 and to extend the expiry date to June 3, 2017. Additionally, as partial consideration for entering into the SPA Amended Loan, the Company issued an additional 575,000 common share purchase warrants on the same terms, including the amended pre-payment terms, as the Original Warrants (together with the Original Warrants, the "Warrants").

(all tabular amounts in thousands of United States dollars, except common share and per share information)

Under the terms of the Senior Secured Debt, the Warrants were amended to reduce the exercise price to CAD$0.25 and to extend the expiry date to January 31, 2018. Additionally, as partial consideration for entering into the Senior Secured Debt, the Company issued an additional 175,000 common share purchase warrants on the same terms, including the amended pre-payment terms, as the Warrants (together with the Warrants, the "New Warrants").

The New Warrants are subject to a cashless exercise provision and are considered a component of debt rather than equity; the fair value at inception of the Senior Secured Debt was calculated at $26,000 and was revalued at December 31, 2016 to $6,000, with the change in fair value of $20,000 being recorded in finance income (Note 22).

The values of the warrants with a cashless exercise provision have been calculated using the Black-Scholes option-pricing model using the following parameters:

	December 31, 2016	March 3, 2016 (at inception)	December 31, 2015
Fair values	**C$0.00**	C$0.01	C$0.00
Share prices at valuation dates	**C$0.02**	C$0.02	C$0.02
Assumptions			
Exercise price	**C$0.25**	C$0.25	C$0.50
Expected volatilities	**167%**	224%	176%
Expected remaining terms (years)	**1.08**	1.83	0.52
Risk-free interest rates	**0.73%**	0.51%	0.41%

(b) Short-term loan

On October 1, 2014, the Company completed the arrangement of short-term financing by way of a promissory note (the "Promissory Note") amounting to $2,000,000. The promissory note incurred interest at an annual rate of 28% and was originally due on December 1, 2014. The lender agreed to several monthly extensions upon payment of extension fees and penalties. During 2015, the Company repaid $1,000,000 of the Promissory Note and paid interest expense, extension fees and penalties aggregating $179,000. The outstanding balance of $1,000,000 was due on or before May 31, 2015. On June 3, 2015, the Company announced it had entered into the SPA Amended Loan as explained in Note 15 (a). The SPA Amended Loan allowed the issuance of additional notes by the Company for a sum of $1,150,000, the proceeds of which were used to repay the $1,000,000 owed under the Promissory Note.

(c) Promissory Convertible Notes

	December 31, 2016	December 31, 2015
Total Principal Outstanding at beginning of the year	**$ 5,942**	$ 5,979
Less: refinancing of Promissory Convertible Notes	**(1,475)**	-
Add: refinancing of debt owed to trade creditors, directors and management	**512**	-
Less: present value discount on debt	**(473)**	-
Add: fair value of warrants with a cashless exercise feature	**70**	-
Less: unamortized fair value of warrants	**(155)**	-
Less: effect of foreign exchange	**-**	(37)
Carrying balance at the end of the year	**4,421**	5,942
Less: current portion of Promissory Convertible Notes	**(4,298)**	(5,942)
New Promissory Convertible Notes - Long term portion	**$ 123**	$ -

In November 2013 and during 2014, the Company entered into several unsecured Promissory Convertible Notes for $6,750,000 and CAD$265,000 by way of private placements; $1,000,000 was converted into a portion of the SPA

Amended Loan as explained in Note 15 (b). The Promissory Convertible Notes incurred interest payable quarterly at 14.8% and were convertible at the option of the holder into the Company's common shares at CAD$1.00. All Promissory Convertible Notes had a two-year term.

During 2015, the Company was not able to make the interest payment due. In November 2015, the Company announced it had not repaid $2,000,000 in principal due under the Promissory Convertible Notes. As a result of nonpayment of amounts due, all of the Promissory Convertible Notes were in default at December 31, 2015 and accordingly were reported at their principle value.

On March 6, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed restructuring a portion of its debt through private placements of common shares and unsecured promissory convertible notes (the "New Promissory Convertible Notes") in settlement of current indebtedness to certain of its unsecured lenders and trade creditors (collectively the "Unsecured Debt Restructuring"). Completion of the Unsecured Debt Restructuring represented 50% of the value owed to the Promissory Convertible Note Holders and Trade Creditors. The Unsecured Debt Restructuring included issuing 27,698,443 common shares of the Company and issuing New Promissory Convertible Notes of USD$1,481,000 and CAD$933,000.

Promissory Convertible Note Holders
Debt of $2,750,000 and CAD$265,000 held by the Promissory Convertible Note holders was repaid under the following terms:

1) 50% of the value of the Promissory Convertible Notes issued between November 2013 and July 2014, with an interest rate of 14.8% per annum, was converted to 8,876,350 of common shares of the Company.
2) The remaining 50% of the value of the Promissory Convertible Notes were replaced with the New Promissory Convertible Notes, having the following terms:
   - A maturity date of July 31, 2018;
   - An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
   - Convertible at CAD$0.25 per share; and
   - Holders of the New Promissory Convertible Notes will also receive one common share purchase warrant for every four common shares acquired upon conversion of the New Promissory Convertible Notes, with an exercise price of CAD$0.50 per share, exercisable for a five year period from the date of conversion.

Outstanding interest amounting to USD$204,000 and CAD$20,000 on the Promissory Convertible Notes during 2015 was settled with the issuance of 4,732,028 of common shares of the Company.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of the $3,000,000 Outstanding Note. On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt until the Senior Secured Debt is repaid. As a result, the Company has not paid interest accrued on the Outstanding Note. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due. This has resulted in the Company defaulting on the Outstanding Note and recording it as current debt as at December 31, 2016.

Trade Creditors
Restructuring of debt owed to certain trade creditors, directors and management of $211,000 and CAD$1,600,000 and was repaid under the following terms:

1) 50% of debt owed to trade creditors, directors and management, was converted to 18,822,093 of common shares of the Company.
2) The remaining 50% of the debt owed to trade creditors was paid with the New Promissory Convertible Notes, having the same terms as outlined above in the section 'Promissory Convertible Note Holders'.
3) The remaining 50% of debt owed to directors and management will be deferred for payment no sooner than January 31, 2018.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

The market prices of the Company's common shares on the dates of issuance were lower than the calculated cost per common share upon conversion to the New Promissory Convertible Notes and settlement of outstanding interest, resulting in an increase in share capital of $637,000 and a non-cash gain on settlement of debt of $2,545,000.

The option to convert the New Promissory Convertible Notes to common shares of the Company, have been calculated using the Black-Scholes option-pricing model using the following parameters:

	December 31, 2016	June 7, 2016 (at inception)	March 31, 2016 (at inception)	March 7, 2016 (at inception)	December 31, 2015
Fair values	**C$0.00 to C$0.01**	C$0.03	C$0.04	C$0.02	C$0.00
Share prices at valuation dates	**C$0.02**	C$0.04	C$0.05	C$0.03	C$0.02
Assumptions					
Exercise price	**C$0.25**	C$0.25	C$0.25	C$0.25	C$1.00
Expected volatilities	**158% to 163%**	221%	213%	215%	176%
Expected remaining terms (years)	**1.58**	2.15	2.33	2.40	0.52
Expected dividends	**-**	-	-	-	-
Risk-free interest rates	**0.73%**	0.53%	0.54%	0.54%	0.41%

The common share purchase warrants that the holders of the New Promissory Convertible Notes will receive upon conversion of the New Promissory Convertible Notes to common shares of the Company, have been calculated using the Black-Scholes option-pricing model using the following parameters:

	December 31, 2016	June 7, 2016 (at inception)	March 31, 2016 (at inception)	March 7, 2016 (at inception)
Fair values	**C$0.02**	C$0.03	C$0.04	C$0.02
Share prices at valuation dates	**C$0.02**	C$0.04	C$0.05	C$0.03
Assumptions				
Exercise price	**C$0.50**	C$0.50	C$0.50	C$0.50
Expected volatilities	**168%**	163%	161%	161%
Expected remaining terms (years)	**5.00**	5.00	5.00	5.00
Expected dividends	**-**	-	-	-
Risk-free interest rates	**1.02%**	0.61%	0.61%	0.62%

The Company has not made interest payments due on a portion of its New Promissory Convertible Notes, which has resulted in the Company defaulting on these New Promissory Convertible Notes and recording $1,298,000 as current debt as at December 31, 2016.

16. PARTICIPATING INTEREST

	December 31, 2016	December 31 2015
Opening balance	**$ 1,702**	$ 3,548
Change in fair value	**(769)**	(1,846)
Participating Interest	**$ 933**	$ 1,702
Long-term portion	**933**	1,702
Participating Interest	**$ 933**	$ 1,702

Pursuant to a participating interest loan (the "Participating Interest") with Nuinsco Resources Limited ("Nuinsco" or the "Lender"), the Lender has the right to convert the outstanding balance into a limited participating interest (the "Conversion"), whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. The Lender's participation was capped at CAD$10,000,000, with a minimum of CAD$7,500,000, and was subject to adjustment under certain circumstances.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

The Participating Interest is classified as a financial liability carried at amortized cost. The estimated future cash flows discounted at 15% were determined using a probability-weighted estimation of future expected cash flow scenarios from the three-phased frac sand business based on current expectations of business results, capital costs and pre-operating expenditures. An assessment is made regarding the applicable ceiling for the cash flows which is dependent upon the phase attained by the Company when payments under the Participating Interest are anticipated. These cash flows were on the basis of completion of phase two; the Company expects to enter phase two before paying out the expected cash flows, despite announcing during February 2015, a deferral of phase two. During 2016, the Company also included probability weightings of 50%, 25% and 25% (2015 – 25%, 50% and 25%) as risk factors applied to varying levels of expected cash flows – being zero, 50% and 100% of the applicable ceiling maximum of CAD$7,667,000.

As described earlier, the percentage participation in net cash flows is 52.16% and the applicable ceiling for phase two is CAD$7,667,000 (phase one - CAD$10,222,000). As a result of the continued slowdown in demand for frac sand, the continued suspension of operations at the 7P Plant and the losses incurred during 2016 and 2015, the estimated fair value of the Participating Interest was reduced by $769,000 and resulted in a gain recorded through the statement of operations during 2016. This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will continue to review and revise its estimates of expected future cash flows, as the expectations of payments of the Participating Interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows paid**.**

17. LEASE OBLIGATIONS

		December 31, 2016		December 31, 2015
Vehicles and Mobile Equipment:				
Total present value of minimum lease payments	**$**	**516**	$	551
Principal payments		**(386)**		(275)
Total present value of minimum lease payments remaining		**130**		276
Lease obligations - current portion		**(125)**		(141)
Lease obligations - long-term	**$**	**5**	$	135

The Company has finance lease obligations for equipment in use at the 7P Plant. At the end of the lease obligations, ownership is transferred to the Company for all leases except two, whereby an election is to be made 60 days prior to the end of the lease term at the purchase option price of CAD$1.00 and CAD$10.00.

The future minimum lease payments (also reflected in the liquidity risk section in Note 10) are as follows:

		December 31, 2016		December 31, 2015
Less than 1 year	**$**	**130**	$	154
Between 1 and 5 years		**5**		139
Total minimum lease payments payable		**135**		293
Future finance charges on minimum lease payments		**5**		17
Present value of minimum lease payments	**$**	**130**	$	276

18. DEFERRED TAX LIABILITY

During 2016, the Partnership generated income for tax purposes significantly in excess of its accounting income and a significant capital tax loss on the sale of the Partnership. As a result, the Company utilized the majority of its non-capital tax losses carried forward from prior years and the deferred tax liability balance in 2016 was partly offset against the balance of deferred tax assets from non-capital tax losses carried forward.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

Deferred income tax assets and liabilities were recognized for temporary differences between the carrying value of the balance sheet items and their corresponding tax values. The differences as presented below:

Years ended December 31,	**2016**	**2015**
Temporary Differences		
Property, plant and equipment, net	**$ 113**	$ 69
Exploration, evaluation & development projects, net	**(5,752)**	(6,027)
Non-capital losses carried forward	**2,057**	6,115
Capital losses carried forward	**1,823**	164
Other	**64**	502
Deferred tax (liability) asset	**$ (1,695)**	$ 823
Unrecognized deferred tax asset	**(2,115)**	(823)
Deferred tax liability, net	**$ (3,809)**	$ -

Deferred income tax assets are recognized to the extent of the deferred tax liabilities, since the Company currently believes that it is probable 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.

Non-capital losses, on which a deferred tax asset was recognized, expire between 2026 to 2036. As at December 31, 2016, the Company had capital losses of $13,505,000 available to be carried forward (December 31, 2015 - $911,000).

19. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

Number of shares issued and outstanding

The issued and outstanding common shares for the following periods are as follows:

	Notes	**Number of Shares**	**Share Capital**
Balance as at January 1, 2016		**57,635,093**	**$ 52,570**
Issue of common shares - Unsecured Debt Restructuring	***(a)***	**34,735,875**	**$ 671**
Balance as at December 31, 2016		**92,370,968**	**$ 53,241**

	Number of Shares	Share Capital
Balance as at January 1, 2015	57,634,578	$ 52,570
Warrants exercised	515	-
Balance as at December 31, 2015	57,635,093	$ 52,570

(a) During 2016, the Company issued common shares as part of the Unsecured Debt Restructuring as outlined in Note 15.

Share Incentive Plan

The Company has a Share Incentive Plan which includes a Share Purchase Plan and a Share Bonus Plan. The purpose of the Share Incentive Plan is to encourage ownership of 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.

Share Purchase Plan

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 CSE 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.

Share Bonus Plan

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. At the Company's Annual and Special Meeting of Shareholders held on June 26, 2012, shareholders approved an increase in the maximum number of common shares issuable under the Share Bonus Plan to 1,000,000 (after giving retroactive effect to the Share Consolidation). No shares were issued under the plan during 2016 or 2015.

Shareholder Rights Plan

In March, 2009, the Board of Directors approved the adoption of a shareholder rights plan (the "Shareholder Rights Plan") which was subsequently confirmed by its shareholders at the Company's Annual and Special Meeting held on June 3, 2009. The Shareholder Rights Plan was subsequently extended by resolution at the Company's Annual and Special Meeting held on June 26, 2012 until the end of the Annual Meeting of Shareholders to be held during 2015. At the Annual and Special Meeting of Shareholders held on June 27, 2013, the shareholders approved a resolution authorizing the adoption of an advance notice by-law by the Company (the "Advance Notice By-Law"). The adoption of the Advance Notice By-Law effectively eliminated the need for the Shareholder Rights Plan, and as such the Shareholder Rights Plan was allowed to expire following the Annual Meeting of Shareholders held on June 26, 2015.

Accumulated Other Comprehensive Income or (Loss) ("AOCI")

AOCI is comprised of the following separate components of equity:

Net change of financial assets at fair value through OCI

This comprises the cumulative net change in the fair value of financial assets at fair value through OCI.

Income tax on other comprehensive income

This comprises the amount of income tax determined to be required on the cumulative net change in the fair value of financial assets at fair value through OCI.

Foreign exchange on change in functional currency

This comprises the effects of the translation of the financial statements of the Company's subsidiaries, presented in CAD$ and translated to USD$ (the Company's functional currency). Refer to Note 2.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

20. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the years ended December 31, 2016 and 2015 was based on the information in the table below.

		December 31, 2016		December 31, 2015
Balance as at beginning of the period		**57,635,093**		57,634,578
Effect of shares issued - Unsecured Debt Restructuring		**27,361,620**		-
Effect of warrants exercised		**-**		515
Weighted average number of common shares at end of year - Basic and Diluted		**84,996,713**		57,635,093
Number of options excluded		**2,235,000**		2,683,000
Number of warrants excluded		**2,750,000**		2,575,000
Number of shares from conversion of New Promissory Notes excluded		**10,614,584**		6,935,575
Net loss attributable to shareholders - Basic and Diluted	**$**	**(8,627)**	$	(5,112)
Weighted Average Basic and Diluted loss per share	**$**	**(0.10)**	$	(0.09)

The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses. The table above provides the weighted average number of shares on a diluted basis for periods where losses are incurred for information only. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on quoted market prices for the respective periods during which the options were outstanding.

21. SHARE-BASED PAYMENTS

Description of the Share-based Payment Arrangements

The Company's share-based payment arrangements are described below.

Stock Option Plan (equity-settled)

The Company has a Stock Option Plan to encourage ownership of its shares by key management personnel (directors and executive management), employees and consultants, and to provide compensation for certain services. The terms of the Stock Option 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. No compensation is recognized when options are exercised. 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.

As at December 31, 2016, the Company had 11,620,645 common shares available for the granting of future options (2015 – 5,962,264 common shares). Options are exercisable at the closing market price of the shares at the date prior to grant. The Company does not have any cash-settled transactions.

Share purchase warrants (equity-settled)

Pursuant to a rights offering which closed on July 30, 2013, the Company issued 10,000,000 warrants; 9,549,420 of these warrants expired unexercised on July 31, 2015. The Company also issued 1,250,000 warrants pursuant to a share private placement on September 19, 2013; these warrants expired unexercised on September 19, 2015. The 2,750,000 Warrants issued on March 3, 2016 pursuant to the Senior Secured Debt may be settled cashless and are, accordingly, classified as debt (Note 15) and expire January 31, 2018.

During 2016, all Warrants were cancelled and replaced with 2,750,000 New Warrants.

Share Bonus Plan

The terms of the Share Bonus Plan are set out in Note 19.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

Terms and Conditions of Share-based Payment Arrangements
The terms and conditions relating to the grants of the Stock Option Plan are as follows:

- Options issued during the year and granted to executive management, consultants and employees have a maximum term of five years and are equity-settled. Of the options granted, 50% vest immediately, while the remaining options are exercisable after one year.
- Options issued during the year and granted to directors have a maximum term of five years and are equity-settled. All options granted vest immediately.
- Certain options issued upon formation of the Company under a plan of arrangement had terms of up to 10 years.
- All options are to be settled by physical delivery of shares.

Disclosure of Share-based Payment Arrangements
Stock Option Plan
The number and weighted average exercise prices of options are as follows:

(amounts in Canadian dollars)	**Number of options**		**Weighted average exercise price**	
As at and for the years ended December 31,	**2016**	2015	**2016**	2015
Outstanding as at beginning of year	**2,683,000**	3,555,000	**$ 0.58**	$ 0.72
Expired or forfeit	**(448,000)**	(872,000)	**$ 1.05**	$ 1.17
Outstanding as at end of year	**2,235,000**	2,683,000	**$ 0.49**	$ 0.58
Exercisable as at end of year	**2,235,000**	2,683,000	**$ 0.49**	$ 0.58

	Number of options outstanding		**Weighted average remaining contractual life (years)**	
As at December 31,	**2016**	2015	**2016**	2015
Range of exercise prices (Canadian dollars)				
$0.30 and $0.50	**1,397,000**	1,472,000	**1.04**	2.02
$0.55	**213,000**	243,000	**2.09**	3.10
$0.70 to $1.10	**625,000**	968,000	**2.55**	2.41
	2,235,000	2,683,000	**1.60**	2.27

During 2015, the Company recorded $52,000 in share-based payments upon the vesting of options. All options outstanding vested during 2015.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

Share purchase warrants

The number and weighted average exercise prices of warrants are as follows:

(in Canadian dollars) As at and for the years ended	Date Issued / Cancelled	Life (mths)	Number of warrants 2016	Number of warrants 2015	Weighted average exercise price 2016	Weighted average exercise price 2015
Issued pursuant to rights offering						
Unit warrants	July 30, 2013	12 (a)		9,549,935		$ 0.35
Exercised				(515)		
Expired	July 30, 2015			(9,549,420)		
Issued and cancelled pursuant to private placements						
Unit warrants	Sept. 19, 2013	24		1,250,000		$ 0.35
Expired	Sept. 19, 2015			(1,250,000)		
Original Warrants (b)	May 15, 2014	36		2,000,000		$ 1.00
Original Warrants cancelled (b)	June 3, 2015			(2,000,000)		
Warrants (b)	June 3, 2015	24	**2,575,000**	2,575,000		$ 0.50
Warrants cancelled (b)	March 3, 2016		**(2,575,000)**			
New Warrants (b)	March 3, 2016	23	**2,750,000**		**$ 0.25**	
Outstanding as at end of the year			**2,750,000**	2,575,000	**$ 0.25**	$ 0.50

(a) The life of warrants is shown in number of months from issue date, except for those issued pursuant to a rights offering which became exercisable 12 months from issue. The warrants expired July 30, 2015 unexercised.

(b) These warrants may be settled without cash and are, accordingly, classified as debt rather than as a component of contributed surplus. Refer to Note 15 for more details on the issuance of warrants related to the Senior Secured Debt.

22. FINANCE INCOME AND FINANCE COSTS

Years ended December 31,	**2016**	2015
Change in value of options and warrants under Debt Restructuring Agreement	**$ 186**	$ 226
Gain on Debt Restructuring Agreement	**2,545**	-
Change on the value of Participating Interest	**769**	1,846
Gain on sale of Partnership	**283**	-
Net foreign exchange gain	**-**	140
Finance income	**3,783**	2,212
Interest expense on loans		
Accrued and/or cash settled	**1,422**	1,869
Amortization of loan fees	**21**	642
Amortization of embedded derivatives	**340**	1,112
Net foreign exchange loss	**43**	-
Interest due on vendor payables	**65**	-
Finance costs	**1,891**	3,623
Net Finance Income (Costs)	**$ 1,892**	$ (1,411)

(all tabular amounts in thousands of United States dollars, except common share and per share information)

23. INCOME TAXES

The combined Canadian tax rate reflects the federal and provincial tax rates for each applicable year. A reconciliation of the combined Canadian tax rate to the Company's effective rate of income tax is as follows:

Years ended December 31,	**2016**	2015
Income (loss) before taxes	**$ (4,818)**	$ (5,925)
Combined Canadian tax rate	**27%**	27%
Income tax expense (recovery) at combined rate	**$ (1,301)**	$ (1,601)
Non-deductible amounts	**117**	61
Non-taxable amounts	**(687)**	(250)
Taxable income from Partnership	**1,699**	-
Change in deferred tax assets unrecognized	**1,292**	271
Effect of change in tax rates and other	**2,693**	706
Income Tax Expense (Recovery)	**$ 3,813**	$ (813)

The income tax expense in 2016 is mainly a result of the significant taxable income generated on the sale of the Partnership. Certain components of finance income and finance costs are not taxable and their volatility has an apparent effect on the effective income tax rate.

24. OPERATING SEGMENT

Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products; since January 1, 2014, it also is a producer and supplier of premium frac sand from its 7P Plant. Accordingly, the Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment operates to support the Company's activities, including exploration and development projects and the frac sand business.

Senior management makes decisions with respect to Exploration and Development by considering exploration and development potential and results on a project basis. The exploration and development projects are all located in Canada. Any applicable amounts relating to such projects will continue to be capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel (refer also to Note 26). The segment is located in Canada although raw materials purchases are sourced from the United States.

The following tables provide information on the assets of the Company's segments:

	December 31, 2016	December 31, 2015
Canada		
Corporate	**$ 1,863**	$ 1,446
Exploration and Development	**43,692**	48,480
Frac Sand	**5,803**	7,256
Intersegment elimination	**(1,443)**	(1,135)
Total Assets	**$ 49,915**	$ 56,047

There have been no changes in the reportable segments or the treatment of segmented assets and revenues during the year.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

Year ended December 31, 2016	Corporate	Exploration and Development	Frac Sand	Total
Revenues	$ -	$ -	$ 100	$ 100
Cost of goods sold	-	-	(644)	(644)
Gross margin	-	-	(544)	(544)
Operating expenses				
General and administrative	(667)	(25)	(159)	(851)
Amortization of property, plant and equipment	(1)	(3)	(607)	(611)
Writedow n of exploration and evaluation projects	-	(4,700)	-	(4,700)
Operating loss	(668)	(4,728)	(1,310)	(6,706)
Finance income	3,783	-	-	3,783
Finance costs	(1,891)	-	-	(1,891)
Net finance income	1,892	-	-	1,892
Income (loss) before income taxes	1,224	(4,728)	(1,310)	(4,814)
Income tax expense	(3,813)	-	-	(3,813)
Net loss for the year	$ (2,589)	$ (4,728)	$ (1,310)	$ (8,627)

Year ended December 31, 2015	Corporate	Exploration and Development	Frac Sand	Intersegment Reclassification	Total
Revenues	$ -	$ -	$ 2,996	$ -	$ 2,996
Cost of goods sold	-	-	(3,919)	-	(3,919)
Gross margin	-	-	(923)	-	(923)
Operating expenses					
General and administrative	(1,021)	(25)	(194)	-	(1,240)
Share-based payments:					
Options	(52)	-	-	-	(52)
Loss on sale of asset	-	(1,174)	-		(1,174)
Amortization of property, plant and equipment	(3)	(3)	(643)	-	(649)
Recovery (writedown) of E and E projects	-	185	-	-	185
Pre-exploration costs	-	-	-	-	-
Net frac sand pre-operating costs	-	-	-	-	-
Non-recurring plant costs (1)	-	-	(661)	-	(661)
Operating loss	(1,076)	(1,017)	(2,421)	-	(4,514)
Finance income	2,230	-	2	(20)	2,212
Finance costs	(3,620)	-	(23)	20	(3,623)
Net finance costs	(1,390)	-	(21)	-	(1,411)
Loss before income taxes	(2,466)	(1,017)	(2,442)	-	(5,925)
Income tax recovery	813	-	-	-	813
Net loss for the Year	$ (1,653)	$ (1,017)	$ (2,442)	$ -	$ (5,112)

(1) Costs of $436,000 were incurred relating to 7P Plant being placed on care and maintenance as a result of reduced production from unexpected decline in sales during the first nine months of 2015. Another $118,000 was incurred relating to railcar storage costs and one-time preparation costs for railcars to be leased that was later cancelled. Furthermore, $107,000 was incurred relating to additional equipment rental and casual labour to move frozen sand as a result of the unexpected spring break-up.

(all tabular amounts in thousands of United States dollars, except common share and per share information)

25. RELATED PARTIES AND MANAGEMENT AGREEMENT

Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue options and shares as part of the Stock Option Plan and Share Bonus Plan (Notes 19 and 21).

Balances and transactions with related parties as at and for the years ended December 31, 2016 and 2015 are shown in the following tables:

	December 31, 2016	December 31, 2015
Balances Outstanding		
Payable to key management personnel	**$ 440**	$ 277

Key management personnel compensation is comprised of:

	December 31, 2016	December 31, 2015
Short-term employee benefits	**$ 249**	$ 385
	$ 249	$ 385

Balances and Transactions with Nuinsco

The Company shared management, administrative assistance and facilities with Nuinsco pursuant to a management agreement since February 2007 until cancelled in March 2015. However, Nuinsco's shareholding in the Company has fallen below 10% and is no longer considered a related party.

26. COMPANY ENTITY

Significant Subsidiary - Victory Silica

On June 19, 2012, the Company announced a new initiative through the creation of Victory Silica. The objective of the creation of Victory Silica is to establish the Company as a supplier of premium frac sand prior to commencing frac sand sales from the Minago project. Victory Silica's executives and employees manage the frac sand business on behalf of the Company.

	December 31, 2016	December 31, 2015
Victory Silica Ltd.		
Current Assets	**$ 20**	$ 22
Current Liabilities	**$ 33**	$ 176

27. SUBSEQUENT EVENT

Issuance of Options

As at December 31, 2016, the Company had 11,620,645 common shares available for the granting of future options. In February 2017, the Company issued 11,400,000 options to employees, management and directors of the Company at an exercise of CAD$0.05 per option. Refer to Note 21 for terms and conditions of the Company's Stock Option Plan.

Default on New Promissory Convertible Notes

Subsequent to December 31, 2016, the Company has not made interest payments due on its New Promissory Convertible Notes presented as non-current liabilities as at December 31, 2016. As such, the Company has defaulted on these notes with aggregate principal amounts of $73,000 and CAD$99,000.

VICTORY NICKEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

DATED APRIL 27, 2017

VICTORY NICKEL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Years Ended December 31, 2016 and 2015

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 April 27, 2017 consolidates management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2016 and 2015, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's audited consolidated financial statements for the years ended December 31, 2016 and 2015 (the "2016 Audited Consolidated Financial Statements") and the notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain information and discussion included in this management's discussion and analysis ("MD&A") constitutes forward-looking information. Readers are encouraged to refer to the cautionary notes contained in the section Forward-Looking Statements at the end of this MD&A.

The 2016 Audited Consolidated Financial Statements are available at www.sedar.com and at the Company's website www.victorynickel.ca. All amounts disclosed are in United States dollars ("US$" or "US dollars") unless otherwise stated as Canadian dollars ("CAD$") or Australian dollars ("AU$"). All tabular amounts are in thousands of US dollars.

Shares of the Company trade on the Canadian Securities Exchange ("CSE") under the symbol NI as of February 22, 2016. Prior to that date, shares of the Company traded on the Toronto Stock Exchange.

COMPANY OVERVIEW

The Company was formed on February 1, 2007 as an exploration and development mineral resource company and was primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada. Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (under option with Corazon Mining Ltd. ("Corazon"), an Australian public company (ASX: CZN)) and Mel projects in Manitoba, and the Lac Rocher project in Québec. The Minago project is the Company's most advanced nickel project. A feasibility study on the Minago Project ("Minago FS") was completed and the results were announced in December 2009, the Environmental Impact Study ("EIS") was filed in May 2010 and receipt of the Environmental Act Licence ("EAL") was announced in August 2011. Subsequent improvements to the project were announced in June 2010 and July 2011. In April 2014, the Company announced the filing of an amendment to the EAL to relocate the permitted Minago tailings facilities such that it will not interfere with potential nickel resources and also reduce operating costs. Consultations with First Nations by the Government of Manitoba are ongoing. On completion, it is expected that the Government will issue the requested amendment to the existing EAL.

Victory Nickel is also a producer and supplier of premium Wisconsin frac sand from its frac sand plant (the "7P Plant") located near Seven Persons, Alberta, approximately 18 kilometres southwest of Medicine Hat, Alberta. High-quality Northern White frac sand is sourced from Wisconsin, USA, through the Company's wholly-owned subsidiary Victory Silica Ltd. ("VSL" or "Victory Silica"). Northern White occurs predominantly in the US Mid-West and generally exceeds American Petroleum Institute ("API") specifications for frac sand. For this reason, it is a highly-desirable and preferred frac sand. Frac sand is used as a proppant to enhance the recovery from oil and gas wells. The 7P Plant comprises a wet plant with a nominal capacity of approximately 120,000 tons per annum ("tpa") and a fully-operational dry plant with a nominal capacity of 500,000 tpa. The Company established itself as a frac sand producer by acquiring concentrated sand in Wisconsin, USA, washing it prior to shipping the concentrate to the Company's 7P Plant for processing into four main categories of finished frac sand products.

Crucial to the success of its frac sand operations is the Company's ability to build a solid customer base within an economic distance of its production facilities. The Company was able to establish itself as a preferred supplier in the areas around Medicine Hat, Alberta through spot-market sales and short-term contracts. The Company's 7P Plant is located in close proximity to oil and gas producing plays in Alberta, BC, Saskatchewan and North Dakota, allowing customers to purchase sand FOB the 7P Plant and use their own trucks to deliver to the wellhead or, alternatively, to have the Company deliver frac sand directly to the wellhead. A small portion of finished sand is delivered by rail.

The Company's decision to enter the frac sand business was initially based on the need to generate cash flow and the desire to highlight the value of the frac sand as a co-product at its Minago nickel project in Manitoba. Based on the Minago FS, approximately 11 million tonnes of frac sand exist within the Minago pit footprint. The pit footprint represents only a small portion of the Minago property. The frac sand is a significant contributor to the economics of the Minago project.

To ensure long-term supply of concentrated sand, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in south western Wisconsin, USA (the "Bear Coulee Property"). The option is valid for six months from receipt of permits with two equivalent extensions available under certain circumstances. Prior to production the Company will be required to pay $40,000 per annum as an advance royalty on the initial 20,000 tons of sand production. Once the Bear Coulee Property is in production, the Company will be required to pay a royalty of $2.00 per ton of frac sand sold from the property. The Bear Coulee frac sand property is located in Trempeleau County, Wisconsin. In February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed by Summit Envirosolutions Inc. on the Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

The Company's board of directors approved the construction of a wet plant in Wisconsin or Minnesota and has considered building a second 1,000,000 tpa dry plant in or near Winnipeg, Manitoba. Market conditions necessitate the deferral of any such construction until more certainty returns to the oil and gas sector.

Due to the sudden drop in the price of oil during late 2014, drilling activity by oil and gas exploration and production ("E&P") companies decreased significantly, and sustained relatively low oil and gas prices continued to negatively affect frac sand demand through 2016 and into 2017. The drop in sales required a temporary suspension in production in April 2015. The 7P Plant operates on an as-needed basis only (see Going Concern below). In March 2017, the Company announced that due to the current increasing market demand for frac sand, it has restarted the dry plant at its 7P Plant.

Going Concern

The 2016 Audited Consolidated Financial Statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2016, the Company had a working capital deficiency of $5,558,000, calculated as current assets less current liabilities, down from a working capital deficiency of $11,929,000 as at December 31, 2015. At December 31, 2016, the debts of $6,073,000 were the largest factor in the Company's working capital deficiency. At December 31, 2016, the Company was in default on a portion of its promissory convertible notes, as described in Note 15 of the 2016 Audited Consolidated Financial Statements, in the aggregate principal amounts of $4,408,000 and CAD$566,000.

The Company's main assets are its nickel projects. Minago, the most advanced of its projects is permitted and ready for development. However, development costs are in excess of $500,000,000 and given the current price of nickel, it is unlikely that financing for this project will be available in the near future.

On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improved; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014 and continued through the current year. Since March 2015, sales have been significantly below rates achieved during 2014 and continue well below the level required to generate positive cash flow. The 7P Plant continues to operate on an as-needed basis in order to fulfil customer needs, as the Company works to sell its existing inventory of frac sand. Early 2017 has shown some improvement in the slowdown in drilling activity due to the severe drop in the price of oil, but sales have yet to recover to levels that would generate positive cash flow.

The near-term outlook in the frac sand market remains unclear due to the continuing downward pressure on the oil price and the related impact on exploration and production and oilfield services companies. The strength of the US dollar is also impacting demand for high-quality Wisconsin sand in Canada as the price for domestic sand has dropped and service companies appear satisfied with using lower-quality domestic sand, because of the price differential. As the Company's inventory is Wisconsin frac sand, this will continue to stress the Company's liquidity until such time as the market demand recovers and operations can resume on a consistent basis.

Cash flows from frac sand sales were not sufficient to cover operating costs and the Company was not able to make a portion of its the interest payments due during 2015 and 2016.

In November 2015, the Company announced that it had entered into a binding term sheet to extend the SPA Amended Loan (as outlined in Note 15 of the 2016 Audited Consolidated Financial Statements), which included terms of a debt restructuring package (the “Debt Restructuring Agreement”) for the holders of the promissory convertible notes (the “Promissory Convertible Notes”) and the Company’s trade creditors. On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan per the terms of the Debt Restructuring Agreement. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018 (the “Senior Secured Debt”).

Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt, until the Senior Secured Debt is repaid. Only a portion of the interest due under the Senior Secured Debt during 2016 was paid. The lender of the Senior Secured Debt (the “Secured Lender”) provided a forbearance agreement for the balance of the accrued interest and made short term advances to cover non-discretionary costs, such as equipment lease payments. All advances were included in trade payables and were paid during 2016. Barring a significant improvement in the sales of frac sand, the Company is unlikely to be able to repay the Senior Secured Debt in full when it matures in January 2018. The Company’s ability to make the required interest payments in 2017 is also in doubt and dependent upon frac sand sales. To date, the Company’s Secured Lender has communicated its commitment to ensuring the protection of the Company’s core assets, including the advances noted above and the forbearance agreement. Should the support of the Secured Lender change, the going concern assumption would be in doubt.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of a $3,000,000 Promissory Convertible Note (the “Outstanding Note”). On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company’s debt. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due, which has resulted in the Company defaulting on the note.

On March 7, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed private placements with certain of its unsecured lenders, trade creditors and management in settlement of the Promissory Convertible Notes and debt owed, as per the terms of the Debt Restructuring Agreement, as described in Note 15 of the 2016 Audited Consolidated Financial Statements. The Company has not paid interest payments due on a portion of its New Promissory Convertible Notes (as defined below), which has resulted in the Company defaulting on notes with aggregate principal amounts of $1,408,000 and CAD$566,000.

In June 2016, the Company sold its non-core partnership interest (the “Partnership”) for net proceeds of CAD$358,000. The net proceeds were used to fund working capital requirements. In October 2016, the Company sold a portion of its marketable securities for net proceeds of AU$515,000. To the extent required, the Company will continue to sell non-core assets to fund its working capital requirements.

The ability of the Company to continue as a going concern is heavily dependent on the frac sand market improving, both in demand and in price, and the Company’s ability to resume operations at its 7P Plant. In addition to the liquidity and solvency uncertainties described above, the ability to resume full operations at the 7P Plant will require additional financing. In order to resume purchasing and shipping supplies of frac sand and full operations at the 7P Plant, the Company will require additional working capital. As noted, the Company’s Secured Lender has been supportive to date. However, there are no assurances that the Company will be able to obtain the working capital to resume operations at the level sufficient to generate cash flows to repay its outstanding obligations.

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. In the current year, the Company, with the agreement of its Secured Lender, has sold non-core assets, including marketable securities and the Partnership, to provide operating funds. However, without an injection of capital and/or until the demand for frac sand returns to pre-2015 levels, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company’s existing obligations add to the challenge of obtaining additional capital.

There can be no assurance that the Company will be able to restructure its debt further and/or recapitalize, and there is no certainty as to what further steps, if any, the secured and unsecured lenders may take. The date, the Secured Lender has been supportive and has provided limited working capital needed to protect the Company’s core assets, and management and the board of directors have reduced and/or deferred salaries and director fees until business recovers, but there is no certainty that this will continue.

In addition to the above liquidity issues, the Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, a continued prolonged slowdown in the frac sand market which would limit the Company's ability to generate cash flow from the 7P Plant, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully fund its projects and operating expenses.

None of the Company's mining projects have commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, the optioning and/or sale of resource or resource-related assets or interests, exploration results which have the potential for the discovery of economically-recoverable reserves and resources, and/or the ability to generate sufficient cash flow from its other operating activities for its funding. Development of the Company's current nickel mining projects to the production stage will require significant financing. Given the current economic climate, including the low nickel price, and the Company's existing liquidity challenges, the ability to raise sufficient funds will be difficult.

Should the Company not be able to overcome the risks described in this section, the carrying value of the Company's assets would be subject to material adjustment and, in addition, other adjustments may be necessary to the 2016 Audited Consolidated Financial Statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty that the Company will be able to generate sufficient cash to fund its activities including debt servicing, project expenditures and corporate costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ significantly from the going concern basis.

OUTLOOK

As a typical junior resource company with little access to financial and capital markets necessary to move mineral projects forward, the Company had to find an alternative to generate cash flow. Waiting for the resource markets, more specifically the nickel markets, to turn around was not considered to be an acceptable option.

Frac Sand

In 2012, the Company announced its intention to enter the frac sand business with a plan that was certainly considered very aggressive and a vision at best. That vision became a reality in 2014 when the Company completed construction and commissioning of its Seven Persons frac sand plant in Alberta.

Choosing to enter the frac sand business was not without reason. The strong market fundamentals for frac sand suggested continuing growth of the industry and new public information and strong peer group valuations indicated the availability of near-term cash flow. With an entry fee of approximately $6,000,000 to build a frac sand processing facility, the risk was considered acceptable based on expected cash flows. Soon after commissioning, toward the end of 2014 and apparently to everyone's surprise, the bottom fell out of the oil industry and the price of oil crashed from in excess of $100 per barrel to below $30 per barrel of oil. Except for a few short signs of recovery, the price of oil has remained around the $40 to $50 level. Whether this is an indication of bottoming out with a gradual recovery is uncertain. The price decrease is similar for natural gas.

As a result, drill rig utilization decreased substantially from the first quarter of 2015 to the first quarter of 2016. However, over the last several months, there have been signs of improvement in drill rig utilization. As a direct response to the declining utilization, E&P companies reduced, cancelled or deferred capital programs. All of this led to an unprecedented decline in the pricing of drilling and well completions and the resulting pressure on the price of frac sand. Since January 2016, North American rig count has increased by 24%. This combined with an increase in the quantity of sand used per well, indicated that the price of frac sand is also increasing.

The frac sand pricing index prepared by New York based investment bank Cowen and Company shows sequential growth in the US land rig count of 24% in the first quarter of 2017, following on a 24% increase during the fourth quarter of 2016. The price of oil necessary to create a resurgence of demand and a return to drilling activity is yet to be understood. This period of declining activity and price decreases has necessitated that the industry step back and evaluate ways of reducing costs. Such cost reduction measures include lengthening of both lateral and horizontal drilling, increasing the number of stages per foot and using more sand per stage. All of these changes has increased sand intensity, using more sand per well, to increase the oil flow and thereby improve the economics. This trend bodes well for frac sand consumption even in a quiet drilling environment.

After two-plus years of low or declining commodity prices and low rig counts, the frac sand market has begun to recover, initially in the US. The demand for US proppant is projected to rebound to 50 million tons in 2017, from approximately 30 million tons in 2016.

Higher frac sand demand drove US frac sand pricing up by 20%-25% in the fourth quarter of 2016. A further 5%-10% improvement is expected during 2017, due to forecast of higher oil prices, OPEC's agreement late in 2016 to reduce output, increased high-intensity fracking that uses very large volumes of sand in a well completion, E&P companies completing wells that were drilled and capped during the oil industry downturn and the US presidential election result that favours the oil and gas industry.

The downturn in oil pricing led to declines in rig counts, frac sand demand and the availability of capital. As a result, company valuations have evaporated and loan amounts remain outstanding, leading to restructurings and bankruptcy filings throughout the frac sand sector. This has created opportunities to acquire frac sand production assets at a fraction of their capital cost.

Major suppliers of frac sand have said that the long-term fundamental trends for sand demand remain favourable and that the price discounts are not sustainable in the long term. Indications are that uncompleted wells could represent a significant pent up demand for frac sand. With all of the cut backs in capital spending and development of projects, a case can be made for a potential and very sudden and significant increase in demand for sand while the industry catches up to increase supply. The exact timing of this is difficult to predict but this has been seen in the past as industry overreacts on the downside and gets into a catch-up situation when business improves.

The sudden negative turn of events could not have come at a more crucial time in Victory Nickel's development and entry into the frac sand industry. Production was ramping up and could not keep up with demand but the sudden slowdown in demand required that the Company temporarily suspend production at its 7P Plant. As demand returns, the Company has inventory of sand at various stages of completion to enable it to immediately respond to customer needs. In March 2017, the Company announced that due to the current increasing market demand for frac sand, it has restarted the dry plant of its 7P Plant.

Having completed phase one of the Company's three-phase business plan, the Board of Directors approved moving forward to phase two in November 2014. With the overall decline in demand caused by the drop in the price of oil, phase two will be difficult to finance in the current market. However, phase two is a desirable next step which would not only make the Company more competitive but also provide significant flexibility to target certain markets which often require different grades of sand.

Phase two is to build a wash plant on a Wisconsin sand resource. Frac sand production is a two-stage process: the wet stage and the dry stage. The Company has historically contracted out the wet stage in Wisconsin prior to shipping the wet sand to its plant in Alberta. The wet stage removes the fines and clays, allowing transport of only the coarser fractions. The dry stage, where the sand is dried and separated into several products of different sizes, is completed at the Company's 7P Plant a 500,000 tpa dry processing facility. The Company having its own wash plant is of great advantage in maintaining the high quality of the sand.

Phase three of the business plan is to build a second dry processing facility in or around Winnipeg, Manitoba capable of producing 1,000,000 tpa. The Company is targeting a site which is serviced by multiple rail carriers. This gives the Company more flexibility in accessing only the highest quality sand from the Wisconsin/Minnesota region. The ultimate plan is to provide customers with a variety of qualities which would include domestic sand, possibly from the Company's Minago project in Manitoba, which has been permitted and is ready for development when the price of nickel recovers. The Minago project is a nickel project overlain by overburden, which includes sand meeting the tier two frac sand specs. The Winnipeg formation sand located at Minago is the highest-quality domestic sand and would be a welcome addition to the Company's mix of products. Not all of the Company's customers' applications require Wisconsin sand.

Nickel

The Minago FS completed in 2009 indicated that the frac sand component of the Minago open pit contributed approximately $2.90 per pound of nickel; a very significant co-product. The sand resource at Minago is not restricted to the footprint of the open pit but extends beyond the pit limit such that it is not unreasonable to expect that there is sufficient sand to last in excess of 100 years at the million ton per year rate of extraction; this would be a new industry for Manitoba.

The Minago FS was based on an open pit mining project with a nickel reserve of approximately 30 million tonnes to be mined over about eight years. Beneath the proposed pit exists another potential 30 million tonnes for potential future mining. Immediately to the north of the pit, the Company has identified an additional potential 30 million tonnes. The Minago project was permitted in 2011 and is shovel-ready. With the frac sand co-product credit, the C1 cost to produce a pound of nickel is projected to be $2.20 per pound. The price of nickel has dropped significantly since the preparation of the Minago FS reaching the $3.40 level in 2015 and recently recovering to the $5.32 per pound level in 2016. The price has since drifted back to the $4.17 per pound level. A third party long-term forecasted price is $7.40 per pound of nickel. Using this price at an exchange rate of US$0.731:CAD$1.00 and other metal prices at forecasted prices, the Minago project IRR of return based on the Minago FS is 19.03%. Based on metal prices and the exchange rate as of the date of this MD&A, the IRR is 6.91%, compared to the 22.9% reflected in the Minago FS.

Debt Restructuring
We cannot change the market. All we can do is work with it and within it. The restructuring was designed to strengthen the balance sheet and defer cash requirements until operations can resume generating cash flow to repay the debt. The successful restructuring of debt has resulted in the improvement of the working capital deficiency of $5,558,000 at December 31, 2016, down from a working capital deficiency of $11,929,000 at December 31, 2015. Management would like to thank the Company's creditors for their participation in their participation in the restructuring plan.

Management is now developing plans to implement strategies based on what we have learned since getting into the frac sand business and having dealt with the downturn in the oil and gas industry. In addition, we remain confident that sulphide nickel demand will improve such that not only the Minago nickel project can be developed but that the Company's other nickel projects, Mel and Lac Rocher, can be advanced as potential producers.

The Company plans to participate in the turnaround in not only the oil and gas industry but also the nickel industry and we thank our shareholders, lenders and suppliers for their continued patience and support.

RESULTS OF OPERATIONS

Year ended December 31, 2016	Corporate	Exploration and Development	Frac Sand	Total
Revenues	$ -	$ -	$ 100	$ 100
Cost of goods sold	-	-	(644)	(644)
Gross margin	-	-	(544)	(544)
Operating expenses				
General and administrative	(667)	(25)	(159)	(851)
Amortization of property, plant and equipment	(1)	(3)	(607)	(611)
Writedown of exploration and evaluation projects	-	(4,700)	-	(4,700)
Operating loss	(668)	(4,728)	(1,310)	(6,706)
Finance income	3,783	-	-	3,783
Finance costs	(1,891)	-	-	(1,891)
Net finance income	1,892	-	-	1,892
Income (loss) before income taxes	1,224	(4,728)	(1,310)	(4,814)
Income tax expense	(3,813)	-	-	(3,813)
Net loss for the year	$ (2,589)	$ (4,728)	$ (1,310)	$ (8,627)

Year ended December 31, 2015	Corporate	Exploration and Development	Frac Sand	Total
Revenues	$ -	$ -	$ 2,996	$ 2,996
Cost of goods sold	-	-	(3,919)	(3,919)
Gross margin	-	-	(923)	(923)
Operating expenses				
General and administrative	(1,021)	(25)	(194)	(1,240)
Share-based payments:				
Options	(52)	-	-	(52)
Loss on sale of asset	-	(1,174)	-	(1,174)
Amortization of property, plant and equipment	(3)	(3)	(643)	(649)
Recovery (writedown) of E and E projects	-	185	-	185
Non-recurring plant costs (1)	-	-	(661)	(661)
Operating loss	(1,076)	(1,017)	(2,421)	(4,514)
Finance income	2,230	-	2	2,212
Finance costs	(3,620)	-	(23)	(3,623)
Net finance costs	(1,390)	-	(21)	(1,411)
Loss before income taxes	(2,466)	(1,017)	(2,442)	(5,925)
Income tax recovery	813	-	-	813
Net loss for the Year	$ (1,653)	$ (1,017)	$ (2,442)	$ (5,112)

Overall

For the year ended December 31, 2016, the Company had a net loss of $8,627,000 or a loss of $0.10 per share (December 31, 2015 - $5,112,000 or a loss of $0.09 per share). The following narrative discussed the relevant operations of the Frac Sand and Exploration and Development segments first, and then addresses the more general and corporate activities.

Frac Sand Segment

Due to the decline in the price of oil beginning in 2014, demand for frac sand in the Company's target markets was under pressure throughout 2015 and into 2016. The Company accumulated inventory of in excess of 39,000 tons at the end of 2016 at various stages of the process and made sales of 1,238 tons of various grades of frac sand during 2016 (2015 – 22,488 tons) by drawing down inventories, generating a negative gross margin of $544,000 (2015 – negative gross margin of $923,000).

Revenues

The Company recognized revenue on frac sand sales during 2016 aggregating $100,000 or $80 per ton, on sales of 1,238 tons (December 31, 2015 - $2,996,000, or $133 per ton, on sales of 22,488 tons). Revenue includes periodic freight for sales delivered to customers. The sudden and material drop in the price of oil beginning late in 2014 and sustained during all of 2015 caused such uncertainty in the market that E&P companies effectively stopped activities in the Company's market area.

Cost of goods sold

The cost of goods sold includes the cost of concentrated sand purchased in Wisconsin, the cost of delivery to the 7P Plant including handling and trans-loading costs and the operating cost to dry and screen the concentrated sand into four main dry products. These costs are capitalized as a component of inventory on a normalized basis and are charged to cost of goods sold when title to the product passes to the customer. Cost of goods sold also includes the write-down of inventory values to the lower of cost or net realizable value.

The cost of goods sold was $644,000 during 2016 (2015 - $3,919,000), including an inventory write-down of $517,000 (2015 - $674,000), as the Company wrote down inventory to net realizable value and recorded finished inventory at the lower of cost or net realizable value. The 7P Plant continues to operate on an as needed basis, resulting in higher operating costs per ton of product produced than what is expected on a continuous operating basis. The Company has reduced manpower to a skeleton crew sufficient to start production as demand returns on a consistent basis. During 2015, costs of $661,000 were incurred for the temporary suspension of the 7P Plant and was included in *Non-recurring plant costs* and do not form part of the cost of sales or inventory.

Costs per ton are per dry ton, unless otherwise stated.

Concentrated wet sand is purchased through long-term supply agreements with third parties at specified prices per ton. For the year ended December 31, 2016, the cost of washed concentrated sand delivered to rail and included as a component of inventory was $31.86 per ton (2015 - $33.80 per ton). Transportation costs including freight charges and fuel surcharges when transporting sand from Wisconsin to the 7P Plant, transload costs at the source and at the 7P Plant, as well as railcar lease payments were $64.73 per ton for the year ended December 31, 2016 (2015 - $59.90 per ton). Other elements of cost of goods sold were $27.09 per ton during the year ended December 31, 2016 and were primarily operating expenditures at the plant and mobile equipment lease payments (2015 - $33.69 per ton). This adds to a finished goods inventory cost of $123.68 per ton at December 31, 2016 (2015 - $127.39 per ton). Finished goods inventory was written-down to the net realizable value of $75.48 per ton (2015 - $102.43 per ton) to reflect current market conditions. Finished goods inventory does not include freight for sales sold delivered to the customer.

Gross margin

The 7P Plant generated a negative gross margin of $544,000 for the year ended December 31, 2016 (2015 – negative gross margin of $923,000). The negative gross margin was affected by a combination of price reductions and cost increases due to the low production level during the respective years and adjustments to inventory values. The sustained drop in the price of oil is putting pressure on the price of frac sand as producers discount excess inventory.

General and administrative and other costs

General and administrative ("G&A") costs for the frac segment amounted to $159,000 for the year ended December 31, 2016 (2015 - $194,000). These costs include Victory Silica administration, marketing and logistics management. The Company has now reduced manpower to a skeleton crew and overhead sufficient to operate the 7P Plant as demand requires.

Amortization of property, plant and equipment of $607,000 was recorded for the year (2015 - $643,000), for items in use at the 7P Plant including owned and leased equipment.

Net loss

All of the above items combined to produce a net loss for the frac sand segment of $1,310,000 for the year ended December 31, 2016 (2015 – $2,442,000).

Exploration and Development Segment

At December 31, 2016, the Company recorded an impairment of $4,700,000 on its Lac Rocher property. There were no write-downs necessary for impairment of projects for the year ended December 31, 2015. During 2016 and 2015, there were no pre-exploration expenditures.

In 2015, the Company incurred a loss of $1,174,000 on the sale of assets. The Company sold transformers and electrical equipment for cash proceeds of $250,000. The purchaser assumed all the outstanding storage costs of $61,000.

On November 4, 2014, the Company announced it had optioned the Lynn Lake project to Corazon. As part of that transaction, the Company received 40,000,000 shares of Corazon on April 6, 2015. A recovery of $186,000 was recorded during 2015, representing the value of Corazon shares received, less minor expenditures on the properties. The shares were sold in 2016 for net proceeds of AU$515,000.

Corporate Segment

The corporate component of net loss for the year ended December 31, 2016 was $2,589,000 (2015 - $1,653,000), including operating expenses of $668,000 (2015 - $1,076,000), net finance income of $1,892,000 (2015 – net finance costs of $1,390,000) and an income tax expense of $3,813,000 (2015 – income tax recovery of $813,000).

G&A expenses were $667,000 as the Company has reduced its overhead due to the slowdown in the market for frac sands, as compared with $1,021,000 in 2015. These costs include statutory costs incurred as a public company, general investor relations expenses, consulting, travel, health benefits and director costs. G&A expenses also include costs charged by Nuinsco Resources Limited ("Nuinsco") for administrative services ("Management Agreement") as described under Transactions with Related Parties and Management Agreement with Nuinsco below. Effective March 2015, the Management Agreement was terminated by Victory Nickel but the Company continues to share resources and costs with Nuinsco under a cost sharing arrangement.

Net finance income (costs)

For the year ended December 31, 2016, net finance income was $1,892,000 (2015 – net finance cost of $1,390,000). The Company considers financing activities, other than those related to equipment leased in the frac sand segment, to be part of the Corporate segment.

The finance income in 2016 was $3,783,000 (2015 - $2,212,000) and was due primary to the gain on the Debt Restructuring Agreement of $2,545,000 (2015 - $nil), the change in the fair value of the estimated cash flows from Nuinsco's Participating Interest (as defined further below) of $769,000 (2015 - $1,846,000) and change in the value of the embedded derivatives and warrants under the Debt Restructuring Agreement of $186,000 (2015 - $226,000).

The recent slowdown in demand and the losses incurred during 2016 and 2015 necessitated deferral for payment of the Participating Interest and resulted in a gain. The Company applied probability weightings of 50%, 25% and 25% as risk factors to varying levels of expected cash flows. The percentage participation in net cash flows under the Participating Interest is 52.16%.

As at December 31, 2016, the carrying value of the Participating Interest was revalued to $933,000 to take into account future expected cash flows based on current market information. This compares with $1,702,000 at December 31, 2015. The change in value of $769,000 in the year ended December 31, 2016 has been recorded through *Finance Income* in the statement of operations.

Finance costs were $1,891,000 for the year ended December 31, 2016 (2015 - $3,623,000). Cash and accrued interest expense was $1,422,000 for the year ended December 31, 2016 (2015 - $1,869,000). The decrease in interest expense during 2016 was primarily attributable Debt Restructuring Agreement that reduced the interest rate of 14.8% per annum on the Promissory Convertible Notes to 7% per annum on the New Promissory Convertible Notes. In addition, the Promissory Convertible Notes were reduced by $1,375,000 and CAD$133,000 through the issuance of shares, but partly offset by the issuance of New Promissory Convertible Notes to trade creditors. During 2016, the Company settled interest payments due on certain Promissory Convertible Notes amounting to $204,000 and CAD$20,000 through the issuance of shares.

During 2016, the Company issued several tranches of New Promissory Convertible Notes. There are several elements of finance costs associated with these notes: accrued and cash-settled interest expense, non-cash amortization of loan fees, non-cash amortization of the embedded derivatives related to the value of the convertibility feature at inception and the non-cash amortization of the present value discount on the New Promissory Convertible Notes. All amortizable elements are calculated using the effective interest rate method. As at December 31, 2016, the amortization of the embedded derivatives on the New Promissory Convertible Notes amounts to $340,000.

During 2015, aggregate interest settled in cash or accrued for the year amounted to $1,869,000. On July 1, 2015, the Company announced that it was not able to make the quarterly interest payment due June 30, 2015 on the SPA Amended Loan and the approximately $6,000,000 of Promissory Convertible Notes. On July 30, 2015 the Company announced that it had not repaid the amounts due, including the principal amount, on July 30, 2015, under the SPA Amended Loan. The Company was also unable to make the quarterly interest payments due September 30, 2015 and December 31, 2015. As a result of the default in the loans, all unamortized loan fees and embedded derivatives were amortized at December 31, 2015. Amortization of cash-settled loan fees in the year ended December 31, 2015 amounted to $642,000 with an additional $1,112,000 for amortization of a portion of the embedded derivatives related to the Promissory Convertible Notes.

The embedded derivatives are calculated using the Black-Scholes option-pricing methodology and are a function of share price, the conversion price, risk-free interest rate, length of time to expiry and share price volatility as well as the US dollar exchange rate for loans denominated in US dollars, but convertible using a Canadian dollar price. All other things being equal, one would expect the value of the option to decline as time approaches the expiry date. However, because of the volatility of exchange rates and the Company's share price, this may not always be the case. The Secured Senior Debt does not contain an embedded derivative feature; however, the warrants which were issued therewith may be exercised on a cashless basis. The value of the warrants is considered to be debt rather than equity and changes in the fair value of the warrants is also recorded through net finance income.

Income tax expense (recovery)

The Company does not allocate income taxes between segments. In the year ended December 31, 2016, the Company recorded a tax expense of $3,813,000 (2015 – income tax recovery of $813,000), mainly as a result of the significant taxable income generated on the sale of the partnership. Certain components of finance income and finance costs are not taxable and their volatility has an apparent effect on the effective income tax rate.

Other comprehensive income

Other comprehensive income ("OCI") for the year ended December 31, 2016 relates to an increase of $347,000 in the market value of the Company's financial assets at fair value through OCI (2015 – a decrease of $128,000), along with an income tax recovery recorded through OCI of $4,000 (2015 –$4,000). These changes are a result of the sales and net market value changes in the Company's marketable securities. During 2016, the Company sold all of its holdings in Corazon for net proceeds of AU$515,000 and a small portion of its holdings in other marketable securities for net proceeds of CAD$9,000. There were no sales of marketable securities during 2015. Furthermore, foreign exchange loss in OCI of $76,000 was incurred in 2016, compared with a gain of $138,000 in the comparative period of 2015, due to the translation of the Company's subsidiaries' functional currency of in CAD$ to the Company's functional currency of US$.

Deferred tax liability

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying value of the balance sheet items and their corresponding tax values, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are considered probable to be realized. The deferred tax amount reflects a rate of 27% (2015 – 27%).

During 2016, the partnership generated income for tax purposes significantly in excess of its accounting income and a significant capital tax loss on the sale of the partnership. As a result, the Company utilized the majority of its non-capital tax losses carried forward from prior years and the deferred tax liability balance in 2016 was partly offset against the balance of deferred tax assets from non-capital tax losses carried forward, resulting in a net deferred tax liability of $3,809,000 as at December 31, 2016. During 2015, the net deferred tax asset balance of $823,000 was unrecognized.

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eight quarters ended December 31, 2016 is as follows:

Fiscal year 2016	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
Revenue	$	31	$	-	$	4	$	65
Gross margin	$	(640)	$	-	$	116	$	(20)
Net finance (costs) income	$	(1,067)	$	(560)	$	1,920	$	1,599
Net loss	$	(7,647)	$	(924)	$	(1,117)	$	1,061
Total comprehensive (loss) income	$	(7,598)	$	(853)	$	(1,047)	$	1,146
Loss (earnings) per share - basic and diluted	$	(0.10)	$	(0.01)	$	(0.01)	$	0.02

Fiscal year 2015	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
Revenue	$	518	$	325	$	631	$	1,522
Gross margin	$	(189)	$	(563)	$	76	$	(247)
Net finance (costs) income	$	(760)	$	(570)	$	(794)	$	713
Net loss	$	(2,336)	$	(1,599)	$	(906)	$	(271)
Total comprehensive loss	$	(2,296)	$	(1,679)	$	(945)	$	(178)
Loss per share - basic and diluted	$	(0.04)	$	(0.03)	$	(0.02)	$	(0.00)

Revenues from the sales of frac sand declined during 2015 and 2016, as mentioned earlier. The gross margin includes cost of goods sold, which contain operating costs for a full period despite production being at less-than-full capacity. In addition, the decrease in the market value of frac sand required a writedown of inventory values to the lower of cost or net realizable value. Net finance income and costs have fluctuated period over period, due to the change in the fair value of the embedded derivatives and warrants related to the Debt Restructuring Agreement, change in the fair value of the Participating Interest, gains on the Debt Restructuring Agreement during 2016 and amortization of embedded derivatives, loan fees and present value discount on the New Promissory Convertible Notes (as defined below).

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had a working capital deficiency of $5,558,000, compared with a working capital deficiency of $11,929,000 as at December 31, 2015. The decrease in the working capital deficiency resulted primarily from the restructuring of the Senior Secured Debt and the New Promissory Convertible Notes (as defined below) that are due at various times in 2018, as part of the Debt Restructuring Agreement.

Participating Interest

Pursuant to a participating interest loan (the "Participating Interest") with Nuinsco (or the "Lender"), the Lender has the right to convert the outstanding balance into a limited participating interest (the "Conversion"), whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. On April 22, 2014, the Lender exercised the Conversion. The Conversion constituted payment of the loan in full. This obligation will be settled through a 52.16% participation in net operating cash flows from the frac sand business after recoupment of capital costs for phase one and pre-operating expenses. The participation is capped at CAD$7,667,124 provided the Company proceeds with phase two, otherwise the cap is approximately CAD$10,222,831. Distributions under the Participating Interest terms are calculated based on operating cash flow after recovery of capital and pre-operating costs and take into account working capital. The continuing uncertainty surrounding the oil and gas industry and the related use of frac sand has made the determination of the timing of the first payment under the Participating Interest highly unlikely to occur in the next couple of years. As a result, at December 31, 2016, the carrying value of the Participating Interest was reduced to $933,000, compared with $1,702,000 at December 31, 2015. The change in value has been recorded through Finance Income in the statement of operations. The Company will continue to reassess the carrying value of the Participating Interest as circumstances warrant.

Senior Secured Debt

In May 2014, the Company announced that it had executed the SPA Loan ("SPA Loan"), to issue and sell to the purchaser senior secured 14.8% notes in the aggregate principal amount of $4,000,000.

In June 2015, the Company announced it had entered into an amending agreement (the "SPA Amended Loan") with respect to the SPA Loan. Under terms of the SPA Amended Loan, the SPA Loan was amended to permit the issuance of additional notes by the Company for an additional sum of $1,150,000, the proceeds of which were used for working capital purposes and to repay the $1,000,000 owed under the Promissory Convertible Notes. The aggregate principal amount of $5,150,000 under the SPA Amended Loan was due July 30, 2015.

In July 2015, the Company announced that it was not able to make the quarterly interest payment due on June 30, 2015 under the SPA Amended Loan. On July 30, 2015, the Company announced it had not repaid the amounts due, including the principal amount, under the SPA Amended Loan, and that it was continuing discussions with the holder of the SPA Amended Loan and other potential financing sources to restructure the Company's debt and recapitalize the Company.

On March 3, 2016 the Company announced that it had completed the restructuring of the SPA Amended Loan per the terms of the Debt Restructuring Agreement. The SPA Amended Loan was increased to $5,500,000 and the maturity date extended by 30 months to January 31, 2018. The amount under the Senior Secured Debt was used to repay the principal of $5,150,000 and $350,000 of accrued interest.

The interest rate on the Senior Secured Debt remained unchanged at 14.8% with interest payable in arrears. The Senior Secured Debt will be due in full on the date of maturity, subject to a cash sweep of 75% of free cash flow ("Free Cash Flow") payable within 45 days following the end of each fiscal quarter and 90 days from each fiscal year end. Free Cash Flow will be calculated based on the Company's quarterly unaudited and annually audited consolidated statement of cash flows, as net cash from operating and investing activities, plus interest and lease payments from financing activities. Allowable investing activities must be approved in advance by the Secured Lender.

The Secured Lender received a fee in shares equal to 4% of outstanding shares of the Company, prior to the restructuring of the SPA Amended Loan. Accordingly, 2,305,404 shares were issued. In addition, the Company agreed to not make any payments to settle past unsecured debt prior to the repayment of the secured debt, without the Secured Lender's approval.

Warrants issued to the Secured Lender

Under the terms of the SPA Loan, the Company issued 2,000,000 common share purchase warrants. The number of warrants is subject to an increase from 500,000 to 1,000,000 warrants for each $1,000,000 note issued under the SPA Loan, if any of the notes are prepaid and the closing price of the Company's share price is CAD$2.00 or lower on the trading day preceding the date of such prepayment (the "Original Warrants"). Given that there are costs associated with the prepayment right, the Company has valued the prepayment right at $nil. Each original warrant entitled the holder to purchase one common share of the Company at an exercise price of CAD$1.00 for a period of 36 months from the initial closing date.

Pursuant to the terms under SPA Amended Loan, the Original Warrants were amended to reduce the exercise price to CAD$0.50 and to extend the expiry date to June 3, 2017. Additionally, as partial consideration for entering into the SPA Amended Loan, the Company issued an additional 575,000 common share purchase warrants on the same terms, including the amended pre-payment terms, as the Original Warrants (together with the Original Warrants, the "Warrants").

Under the terms of the Senior Secured Debt, the Warrants were amended to reduce the exercise price to CAD$0.25 and to extend the expiry date to January 31, 2018. Additionally, as partial consideration for entering into the Senior Secured Debt, the Company issued an additional 175,000 common share purchase warrants on the same terms, including the amended pre-payment terms, as the Warrants (together with the Warrants, the "New Warrants").

The New Warrants are subject to a cashless exercise provision and are considered a component of debt rather than equity; the fair value at inception of the Senior Secured Debt was calculated at $26,000 and was revalued at December 31, 2016 to $6,000, with the change in fair value of $20,000 being recorded in finance income.

Short-term loan

On October 1, 2014, the Company completed the arrangement of short-term financing by way of a promissory note (the "Promissory Note") amounting to $2,000,000. The promissory note incurred interest at an annual rate of 28% and was originally due on December 1, 2014. The lender agreed to several monthly extensions upon payment of extension fees and penalties. During 2015, the Company repaid $1,000,000 of the Promissory Note and paid interest expense, extension fees and penalties aggregating $179,000. The outstanding balance of $1,000,000 was due on or before May 31, 2015. On June 3, 2015, the Company announced it had entered into the SPA Amended Loan as explained in Note 15 (a) of the 2016 Audited Consolidated Financial Statements. The SPA Amended Loan allowed the issuance of additional notes by the Company for a sum of $1,150,000, the proceeds of which were used to repay the $1,000,000 owed under the Promissory Note.

Promissory Convertible Notes

In November 2013 and during 2014, the Company entered into several unsecured Promissory Convertible Notes for $6,750,000 and CAD$265,000 by way of private placements; $1,000,000 was converted into a portion of the SPA Amended Loan. The Promissory Convertible Notes incurred interest payable quarterly at 14.8% and were convertible at the option of the holder into the Company's common shares at CAD$1.00. All Promissory Convertible Notes had a two-year term.

During 2015, the Company was not able to make the interest payment due. In November 2015, the Company announced it had not repaid $2,000,000 in principal due under the Promissory Convertible Notes. As a result of nonpayment of amounts due, all of the Promissory Convertible Notes were in default at December 31, 2015 and accordingly were reported at their principal value.

On March 6, 2016, March 31, 2016 and June 7, 2016, the Company announced that it had completed restructuring a portion of its debt through private placements of common shares and unsecured promissory convertible notes (the "New Promissory Convertible Notes") in settlement of current indebtedness to certain of its unsecured lenders and trade creditors (collectively the "Unsecured Debt Restructuring"). Completion of the Unsecured Debt Restructuring represented 50% of the value owed to the Promissory Convertible Note Holders and Trade Creditors. The Unsecured Debt Restructuring included issuing 27,698,443 common shares of the Company and issuing New Promissory Convertible Notes of $1,481,000 and CAD$933,000.

Promissory Convertible Note Holders

Debt of $2,750,000 and CAD$265,000 held by the Promissory Convertible Note holders was repaid under the following terms:

1) 50% of the value of the Promissory Convertible Notes issued between November 2013 and July 2014, with an interest rate of 14.8% per annum, was converted to 8,876,350 of common shares of the Company.
2) The remaining 50% of the value of the Promissory Convertible Notes were replaced with the New Promissory Convertible Notes, having the following terms:
   - A maturity date of July 31, 2018;
   - An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
   - Convertible at CAD$0.25 per share; and
   - Holders of the New Promissory Convertible Notes will also receive one common share purchase warrant for every four common shares acquired upon conversion of the New Promissory Convertible Notes, with an exercise price of CAD$0.50 per share, exercisable for a five year period from the date of conversion.

Outstanding interest amounting to $204,000 and CAD$20,000 on the Promissory Convertible Notes during 2015 was settled with the issuance of 4,732,028 of common shares of the Company.

All of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of the $3,000,000 Outstanding Note. On March 27, 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. Pursuant to the terms of the Senior Secured Debt, the Company is prevented from making payments under outstanding unsecured debt until the Senior Secured Debt is repaid. As a result, the Company has not paid interest accrued on the Outstanding Note. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due. This has resulted in the Company defaulting on the Outstanding Note and recording it as current debt as at December 31, 2016.

Trade Creditors

Restructuring of debt owed to certain trade creditors, directors and management of $211,000 and CAD$1,600,000 and was repaid under the following terms:

1) 50% of debt owed to trade creditors, directors and management, was converted to 18,822,093 of common shares of the Company.
2) The remaining 50% of the debt owed to trade creditors was paid with the New Promissory Convertible Notes, having the same terms as outlined above in the section 'Promissory Convertible Note Holders'.
3) The remaining 50% of debt owed to directors and management will be deferred for payment no sooner than January 31, 2018.

The market prices of the Company's common shares on the dates of issuance were lower than the calculated cost per common share upon conversion to the New Promissory Convertible Notes and settlement of outstanding interest, resulting in an increase in share capital of $637,000 and a non-cash gain on settlement of debt of $2,545,000.

The Company has not made interest payments due on a portion of its New Promissory Convertible Notes, which has resulted in the Company defaulting on these New Promissory Convertible Notes and recording $1,298,000 as current debt as at December 31, 2016.

Cash flows in the year

Cash and cash equivalents as at December 31, 2016 were held with major Canadian banks. The Company has a 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.

For the year ended December 31, 2016, the Company used cash in operating activities of $311,000, compared with cash generated of $821,000 during 2015. Receivables outstanding at December 31, 2015 were all collected during 2016, with the exception of $23,000 that was recorded in bad debts, providing an increase in cash of $228,000. Non-payment of interest on debt improved cash by $433,000, while payments of trade payables used cash of $189,000. There continues to be limited revenues due to the slowdown in operating activity during the year as mentioned earlier.

Operating activity was minimal during 2016 due to the continued low price environment in the oil and gas sector and the protracted period of minimal drilling activity in the company's market area. Receivables for frac sand sales were $18,000 at December 31, 2016, after taking the bad debt allowance mentioned above.

During the year ended December 31, 2016, net cash generated by investing activities was $656,000, compared to $132,000 in 2015. During 2016, the Company received cash proceeds of $283,000 on the sale of the partnership and $404,000 on the sale of various marketable securities as mentioned earlier. In 2015, the Company sold transformers and electrical equipment for cash proceeds of $250,000. Other amounts used in investing activities include costs incurred to advance the Company's exploration, evaluation and development projects.

The Company used $148,000 in financing activities during 2016, compared with $1,580,000 in 2015. During 2016, financing activities were mainly related to payments of interest and lease obligations. In 2015, interest on the Promissory Note of $850,000 was paid. The Company also received $236,000 of restricted cash during 2015 on cancellation of letters of credit.

The Company's activities during the year ended December 31, 2016 generated cash and cash equivalents of $197,000, partly offset by the foreign exchange effect of $85,000.

Table of Contractual Commitments

	Due Date	**Currency**	**December 31, 2016**	December 31, 2015
Promissory Convertible Note	July 7, 2016	US Dollar	**$ 3,000**	$ 3,000
Leased mobile equipment	Within one year	Canadian Dollar	**$ 142**	$ 195
	One to five years	Canadian Dollar	**$ 5**	$ 187
Senior Secured Debt (1)	January 31, 2018	US Dollar	**$ 5,500**	$ 5,150
New Promissory Convertible Notes (2)	July 31, 2018	US Dollar	**$ 1,375**	$ 2,750
New Promissory Convertible Notes (2)	July 31, 2018	Canadian Dollar	**$ 133**	$ 265
New Promissory Convertible Notes (2)	July 31, 2018	Canadian Dollar	**$ 800**	$ -
New Promissory Convertible Notes (2)	July 31, 2018	US Dollar	**$ 106**	$ -

(1) In June 2015, the Company entered into an agreement whereby the Promissory Note and the SPA Loan were combined (the SPA Amended Loan). On March 3, 2016, the SPA Amended Loan was restructured and extended to January 31, 2018 (the Senior Secured Debt). The Senior Secured debt was used to repay the principal of $5,150,000 and $350,000 of accrued interest.

(2) New Promissory Convertible Notes part of the Debt Restructuring Agreements closing on March 7, March 31 and June 7, 2016.

Other potential sources of cash flow

The aggregate market value of the Company's marketable securities held in public company shares is approximately $283,000 as at the date of this MD&A.

As at April 27, 2017, the Company had options and warrants outstanding that could bring in additional funds. All of those instruments are not "in-the-money", with the exception of 8,200,000 exercisable options with an aggregate value of CAD$410,000. However, and the receipt of such funds cannot be relied upon.

The Company's title to its projects is in good-standing and will continue to maintain the projects in good-standing.

The Company has approximately 39,000 tons of sand in inventory at December 31, 2016. The Company has eliminated all discretionary costs that should not have a negative impact on its ability to resume production. Staffing, salaries and director fees have been reduced or deferred where possible.

BUSINESS UPDATE

Reporting Segment

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company also produces frac sand for the oil and gas industry in Canada and the northern US. Accordingly, the Company commenced reporting on a segmented basis in 2014. The Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand.

The Corporate segment supports all of the Company's activities.

Senior management makes decisions with respect to Exploration and Development by considering exploration and development potential and results on a project basis. The exploration and development projects are all located in Canada.

The Frac Sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel. The segment is located in Canada although sand as raw material is imported from the United States.

The following table provides additional information on the Company's total segment assets:

		December 31, 2016		December 31, 2015
Canada				
Corporate	**$**	**1,863**	$	1,446
Exploration and Development		**43,692**		48,480
Frac Sand		**5,803**		7,256
Intersegment elimination		**(1,443)**		(1,135)
Total Assets	**$**	**49,915**	$	56,047

EXPLORATION AND DEVELOPMENT ACTIVITIES

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

MINE PROPERTY AND DEVELOPMENT ACTIVITIES

Minago Project

During the year ended December 31, 2016, $22,000 was incurred on the Minago project (2015 - $59,000).

The Company's 100%-owned Minago project is a permitted project ready for development. It is located on the unexposed southern part of the Thompson Nickel Belt in Manitoba, and is one of Canada's largest undeveloped sulphide nickel deposits. 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 the sand is marketable as frac sand. The frac sand forms part of the overburden that must be removed prior to mining the nickel ore. According to the Minago FS, production of frac sand could begin 20 months after the start of mine development.

The analytical data and geological interpretations obtained from a work program in 2010 were incorporated into an updated geological model and resource estimate. The updated resource incorporates a 24% increase (over the previous resource estimate) in the NI 43-101 compliant measured and indicated and pit-constrained sulphide nickel resource used in the Minago FS. The Minago FS is available at www.sedar.com. Note that all resources are contained in the Nose Deposit and the update below does not include the results of the 2011 drilling program.

	April 2011 Pit-Constrained Resource[1]			March 2010 In-Pit Resource[2]			Increase (Decrease) in Contained Metal	
	Tonnes	**Grade**	**Ni Content**	Tonnes	Grade	Ni Content	**Ni Content**	**Change**
Category	**Millions**	**%NiS[3]**	**M Lb**	Millions	%NiS[3]	M Lb	**M Lb**	**%**
Measured	**8.2**	**0.473**	**85.0**	6.6	0.488	71.4	**13.7**	**19.2**
Indicated	**22.8**	**0.432**	**217.2**	19.1	0.410	172.6	**44.6**	**25.9**
M&I	**31.0**	**0.443**	**302.2**	25.7	0.430	243.9	**58.3**	**23.9**
Inferred	**0.2**	**0.380**	**1.4**	1.4	0.402	12.2	**(10.8)**	**(88.4)**

[1] Lerch-Grossman pit optimization shell [2] Whittle pit optimization shell [3] Nickel in sulphide form

A winter work program was conducted at Minago in 2011 and comprised 8,793m of diamond drilling in 20 drill holes with associated ground and borehole electromagnetic geophysics. A total of 15 holes were collared to intersect the "North Limb", a domain of nickel-bearing ultramafic rock extending at least 1.5km north from the Nose Deposit.

A 3,500m winter work program was conducted in early 2012 to test a number of targets around the property that have been identified in previous work programs as well as areas that are scheduled for Minago mine infrastructure development. In part, the drilling evaluated the nickel-bearing Ospwagan Group/Pipe Formation rocks in the vicinity of the Minago Nose Deposit.

Importantly, two holes of the 2012 program tested known nickel-bearing serpentinite that underlies mining lease ML-003 approximately 5km south of the Nose Deposit. Thirteen historic drill holes are known to have been drilled by previous operators in the area between 1968 and 1971. Ten of the thirteen holes intersected serpentinized ultramafic rock, while seven of these holes obtained significant intersections of nickel-mineralized serpentinite from within a body interpreted to be >2 km long. The most extensive intersection, in MXB-70-60, was 605m grading 0.3% Ni from 154m down hole. DDHs V-12-07 and V-12-09 completed in the winter of 2012 both intersected significant widths of serpentinite and obtained analytical results consistent with historic results.

No fieldwork has been conducted on the project subsequent to the winter 2012 work program; current work is related to reporting and evaluation of existing results as well as gathering additional geochemical information from existing drill core. An application to renew the Minago mining leases ML-002 and ML-003 was successful and both leases have been renewed for a 21-year term.

On August 23, 2011, the Manitoba Government issued Victory Nickel's final EAL for the Minago project. The licence was to expire on August 22, 2014 unless the Company completes a certain amount of work to move the project forward. During 2014, the Company complied with the conditions of the EAL and, in December 2014, filed an Environmental Act Proposal ("EAP") to amend the EAL to relocate the proposed tailings and waste rock management facility. The construction of drainage ditches installed to lower down the water table within the pit shell limits, the installation of Flow Gauging and Telemetry systems and the implementation of a comprehensive environmental monitoring program are considered part of the site development necessary to maintain the EAL. Consultations with First Nations by the government of Manitoba continue. On completion, the government is expected to issue the amendment to the existing EAL, which continues to be valid.

Minago Frac Sand

An indicated resource of 15 million tonnes of sandstone has been estimated to occur within the current Minago pit shell. The frac sand component of this resource of approximately 11 million tonnes 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 for a ten-year period. Considerable potential exists to expand the resource beyond the limits of the current pit.

EXPLORATION AND EVALUATION ACTIVITIES

For the year ended December 31, 2016, the Company incurred exploration expenditures on its E&E projects of $9,000 for (2015 – $36,000) and recorded an impairment of $4,700,000 (2015 - $nil) on its Lac Rocher property. Expenditures have been minimal due to the tight equity markets and management's focus on Victory Silica and the frac sand business.

Frac Sand

Bear Coulee Property

In October 2014, the Company entered into an option to acquire a 100% interest in a frac sand land package totaling over 300 acres in Trempeleau County Wisconsin, USA (the “Bear Coulee Property”). The option agreement provides for a cash payment of $10,000 on signing of the agreement (and paid in 2014), a second cash payment on delivery of permits (which has not yet been completed) and a third cash payment on exercise of the option. The option is valid for six months following receipt of permits with two equivalent extensions available under certain circumstances. Prior to production, the Company will be required to pay $40,000 per annum as advance royalties on the initial 20,000 tons of sand production. Once the Bear Coulee Property is in production, the Company will be required to pay a royalty of $2.00 per ton of frac sand sold from the property.

In February 2015, the Company announced the completion of a National Instrument 43-101 technical report describing a resource estimate of approximately 11 million tons of frac sand on the Bear Coulee Property.

Nickel

Lac Rocher

Lac Rocher, with year round access, 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 per pound in the Lac Rocher PEA was US$9.74 with copper at US$3.65 with an exchange of CAD$0.95 / US$1.00.

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. No work has been conducted on site since December 2009.

As at December 31, 2016, the Company recorded an impairment of $4,700,000 (2015 - $nil) on its Lac Rocher property (refer to IMPAIRMENT ANALYSIS UPDATE section below).

Mel Project

The 100% owned 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 re-evaluation of the Mel dataset has been completed for both the drill hole data on the Mel deposit and the considerable drilling (111 drill holes) conducted of the claims portion of the property. The study has included reinterpretation of the geological context in order to evaluate new or under-tested target areas for future work and that can be incorporated into further, more refined, modelling of the Mel resource. No fieldwork was conducted since 2011. An application to renew Mel mining lease ML-007 was successful and the lease has been renewed for a 21-year term.

Under the terms of the Mel option agreement with Vale, 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 not to exercise its back-in right. 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.

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. The property is the former Sherritt Gordon Mines Limited ("Sherritt") mine site known as the Lynn Lake A Mine and Farley Mine, comprised of 13 mining claims, 14 mining claim leases and 2 mineral leases covering an area of 2,170.26 hectares. The property was operated by Sherritt from 1953 to 1976 with reported production of 22.2 million tons at an average grade of 1.023% nickel and 0.535% copper.

On November 4, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area. Under the terms of the agreement, Corazon can acquire a 100% interest in Lynn Lake by issuing 40,000,000 Corazon shares to the Company upon closing and incurring AU$3,500,000 in exploration expenditures or in payments (in cash or Corazon shares at Corazon's option) to Victory Nickel over five years. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from the Lynn Lake nickel project, and receive a payment of AU$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of the commencement of ore processing activities at the Lynn Lake nickel project.

On April 6, 2015 Corazon issued 40,000,000 Corazon shares to Victory Nickel as part of the terms of the option agreement between the two companies. In October 2016, the shares were sold for net proceeds of AU$515,000.

FRAC SAND SEGMENT

As explained above, the Frac Sand segment is managed and operated by Victory Silica's executives and employees, although the business and operating assets are part of Victory Nickel. The segment is located in Canada although sand as raw material is currently imported from the United States. The plan is to eventually produce both domestic and imported sand.

The Company completed phase one of its three phase business plan. Phase one provided for the refurbishment and upgrading of the 7P Plant to a capacity of 500,000 tpa of high-quality frac sand. The 7P Plant was completed in March 2014 followed by commissioning until early August.

Successful completion of phase one was expected to lead to phase two which provides for the building of a wash plant in Wisconsin, USA, followed by phase three which provides for the construction of a second dry processing facility in Manitoba with a capacity of approximately 1,000,000 tpa. With the completion of phase one, the Board of Directors approved proceeding with phase two provided non-dilutive financing could be arranged. However, in February 2015, the Company announced that phase two had been deferred due to the uncertainty caused by the drop in the price of oil.

Sales decreased monthly from January to March 2015 and, as a result of commodity market uncertainty and longer than expected spring break-up conditions, the Company temporarily suspended the frac sand operations on April 14, 2015. In May 2015, spot sales of frac sand from the 7P Plant resumed and the 7P Plant continues to operate on an as-needed basis only. Frac sand sales typically slow down during spring break-up due to road restrictions in Alberta. During 2015, the spring break-up slowdown was more pronounced than in prior years as the majority of E&P companies to conserve capital by postponing drilling activity to less costly periods after spring break-up. Since that time, due to continued uncertainty in the oil price E&P, companies are reducing capital expenditure programs and, as a result, drilling activity has slowed. The market uncertainty is placing pressure on Victory Nickel's oilfield service company customers to reduce E&P company drilling costs.

These companies, in turn, look to their suppliers, including frac sand producers, to help lower their costs. Accordingly, frac sand prices in Canada have decreased to levels that do not appear to be sustainable over the long term. The weakness of the Canadian dollar has made domestic sand more competitive over this period and is taking some of the market previously available for imported sand.

During the first quarter of 2017, the Company sold most of its finished goods inventory requiring the start-up of the 7P Plant to replenish finished goods, in anticipation of a continued improvement in sales.

IMPAIRMENT ANALYSIS UPDATE

There has been no marked recovery in the metals markets and more general economic indicators except for a strengthening US dollar, a small change in the nickel price and a reduction in the oil and gas prices. The Company performed a detailed impairment analysis on each of its E&E projects and the MP&D project as at December 31, 2016.

The Company does not believe that there have been any material changes to date which would adversely affect this analysis, with the exception of its assessment on the Lac Rocher project. Furthermore, there has been no change in management's plans for the projects which would cause a reassessment.

The challenge facing all junior resource companies remains to find financing for development of projects. This difficulty is not a reflection of the quality of the Company's projects, but is indicative of a continued general malaise affecting the junior resources sector in general. The Company performed a detailed impairment analysis at the project level.

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 2016, the Company's market capitalization was below its net book value. Many resource companies continue to experience similar circumstances in present markets despite having good projects. An analysis was performed on each of the Company's E&E projects and the MP&D project.

The impairment analysis reviewed historic expenditures recorded on each project along with any purchase price allocations from acquisitions, reflected the existence of previous writedowns or reversals of impairment 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 Lynn Lake 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 Minago FS base case, long-term annual forecast nickel prices averaging $11.19 and an exchange rate of US$0.9116 : CAD$1.00 were used. Since the Minago FS was performed, metals prices and exchange rates have changed. The Company continues to work on updating the Minago FS for improved economics and announced updated resource estimates in 2011 as a result of the drilling performed in 2010.

For the purposes of impairment testing, the economic model in the Minago FS was used as a base. The business model used in the Minago FS and the intention of management is to develop and produce the nickel and frac sand co-product simultaneously. For the purposes of assessing the impairment of Minago, frac sand is treated as a raw material for sale into the market and is not processed to a finished product. This required elimination from the Minago FS economic model of the following: processing plant capital, processing operating costs, transportation costs and the finished goods margin. This does not reflect how management intends to develop Minago, nor, in management's opinion, does it reflect how any other organization would develop the project.

In addition, adjustments were made for prices derived from the forecasted average of $7.40 per pound for nickel and an exchange rate of US$0.731:CAD$1.00. A discount rate of 11% was used in the analysis and includes estimates for income taxes.

Capital and operating cost estimates generally were reduced from those used in historic studies if documentary evidence supporting such reductions had recently been obtained as part of the review work which had been undertaken for the Minago FS. Used equipment prices cannot be typically reflected in a Minago 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. We have continued to see evidence of engineering firms broadly announcing price freezes. Experience with equipment strategies at the 7P Plant has proved that good quality used equipment can be sourced and equipment financing is available. This represents an additional cost-saving opportunity which has not been quantified in the impairment analysis. These factors resulted in a recoverable amount in excess of the book value of Minago. Accordingly, no impairment exists on the Minago project.

The impairment model is sensitive to several of the model key input variables. The following table indicates the estimated impact on the recoverable amount:

Change in Model Key Input	Change in Recoverable Amount of Minago
Effect of:	
Increase discount rate by 1%	(18%)
Increase exchange rate by 0.05	(25%)
Increase nickel prices by 1%	4%
Increase operating costs by 5%	(9%)

Furthermore, management's intentions with respect to future expenditures and plans for the projects were considered. With the exception of some small projects, all projects have had recent expenditures and are considered to be active.

As at December 31, 2016, the Company tested the Lac Rocher project for impairment. A discounted cash flow model was used as a base. Adjustments were made for prices derived from the forecasted average of $7.40 per pound for nickel and an exchange rate of US$0.731:CAD$1.00. The forecasted average price and exchange rate were obtained from third-party reports. A discount rate of 15% was used in the analysis. These factors resulted in a recoverable amount below the book value of Lac Rocher. Accordingly, an impairment of $4,700,000 was recorded on the Lac Rocher project.

All of the Company's projects were tested for impairment as at December 31, 2016 and an impairment of $4,700,000 was recorded on the Lac Rocher project. Management concluded that no impairment existed on the Company's other projects as at December 31, 2016 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 AND JUDGEMENTS

Critical accounting estimates and judgements used in the preparation of the consolidated financial statements include determining the carrying value of investments, MP&D and E&E projects, assessing the impairment and classification of long-lived assets, determining the recoverability of deferred income tax assets, the valuation of the convertibility feature of the New Promissory Convertible Notes, the valuation of share-based payments and the disclosure of contingencies and going concern matters. These estimates involve considerable judgement 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, judgments and measurement uncertainty, reference should be made to Note 3 to the Company's 2016 Audited Consolidated Financial Statements. The Company's 2016 Audited Consolidated Financial Statements have been prepared using the going concern assumption; reference should be made to Note 1 to the Company's 2016 Audited Consolidated Financial Statements.

The recorded value of the Company's E&E projects and the MP&D project 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 value of the Participating Interest is a significant estimate which uses a model of estimated cash flows and applies probability-weighted estimates to the model. Assumptions are made about the phase at which the frac sand business will be when payments are being made as well as production costs and volumes and sales prices and volumes.

The fair value of the stock options and warrants, as well as the embedded derivatives in the New Promissory Convertible Notes, is calculated using the Black-Scholes option-pricing model that takes into account the exercise price, expected life, expected volatility of the underlying shares, expected dividend yield and the risk -free interest rate for the term of the option, warrant or embedded derivative.

The Company has determined that it is probable that Victory Nickel will generate returns sufficient to utilize its taxable losses prior to their expiry. This is a significant judgement that, dependent upon future events, may turn out to be incorrect. Presently, since Victory Silica is not generating profit, a full valuation allowance has been recorded against losses incurred in that subsidiary. The Company will monitor any changes in circumstances which could require a reversal of the valuation allowance.

NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Issued But Not Yet Applied

The Company has not yet adopted the following new accounting pronouncements which are effective for fiscal periods of the Company beginning on or after January 1, 2017:

IAS 7, Statement of Cash Flows – Amendments

IAS 7 requires an entity to present a statement of cash flows as an integral part of its primary financial statements. The amendments require additional disclosures with respect to changes in liabilities arising from financing activities. It is effective for annual periods beginning on or after January 1, 2017.

The Company continues to include continuity schedule disclosures for the change in its *Loans and Borrowings* and has effectively early adopted the amendments to this standard.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

The Company has not evaluated the impact of adopting this standard.

IFRS 16, Leases

In 2016, the IASB issued its new leasing standard. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as previously required by IAS 17. Instead, it introduces a single lease accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and to depreciate the lease assets separately from interest on the lease liabilities on the income statement. IFRS 16 will be effective for the Company's fiscal year beginning January 1, 2019, with earlier adoption permitted if the entity also adopts IFRS15.

The Company has not evaluated the impact of adopting this standard.

IFRS 2, Share-Based Payments – Classification and Measurement – Amendments

In 2016, the IASB issued amendments to IFRS 2 clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective or early application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company has not evaluated the impact of adopting the amendments to this standard.

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 2016 Audited Consolidated Financial Statements to satisfy itself that management is properly discharging its responsibilities to the directors who approve the financial statements. The Board of Directors has also appointed compensation, corporate governance, nominating committees and health and safety composed of non-executive directors.

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer (the "Certifying Officer"), is 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. The Company periodically commissions an evaluation under the supervision of the Certifying Officer 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, such an evaluation was performed for the year ended December 31, 2014.

The Certifying Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2016. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

Evaluation of Internal Control over Financial Reporting

The Company's Certifying Officer is 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 consolidated financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO (1992) control framework and is in the process of updating its methodology to incorporate the COSO (2013) framework into its analyses for the future. The COSO Board has made the COSO (1992) framework available for use until an unspecified date at which point it is expected to be considered superseded. The Company periodically commissions an evaluation under the supervision of the Certifying Officer 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, such an evaluation was performed for the year ended December 31, 2014.

The Certifying Officer concluded that the design and operation of the Company's internal controls over financial reporting and procedures were effective as at December 31, 2016.

The management of the Company was required to apply its judgement 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.

TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENT WITH NUINSCO RESOURCES LIMITED

Related Party Balances and Transactions for Services

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. In addition to short-term employee benefits, the Company may also issue options and shares as part of the stock option plan and share bonus plan. Payables to key management personnel generally relate to directors' fees, consulting fees and expense reimbursements.

Balances and transactions with related parties as at December 31, 2016 and 2015 are shown in the following tables:

	December 31, 2016	December 31, 2015
Balances Outstanding		
Payable to key management personnel	**$ 440**	$ 277

Key management personnel compensation is comprised of:

		December 31, 2016		December 31, 2015
Short-term employee benefits	$	249	$	385
	$	249	$	385

Balances and Transactions with Nuinsco under the Management Agreement
Until March 15, 2015, the Company shared management, administrative assistance and facilities with Nuinsco pursuant to a Management Agreement; management operates under the supervision of the respective Board of Directors of each respective company; there is only one common director. The costs charged by Nuinsco are recorded at the cost to Nuinsco of such services plus 10 per cent. The Management Agreement commenced February 1, 2007 and was terminable by the Company upon 180 days' notice and by Nuinsco upon 90 days' notice. The Company served notice of termination on September 5, 2014; accordingly, the Management Agreement ceased in March 2015.

Balances and Transactions with Nuinsco under the Participating Interest
The terms of the Participating Interest are described in the Liquidity and Capital Resources section of this MD&A.

OUTSTANDING SHARE DATA

As at April 27, 2017, the Company had 92,370,968 common shares issued and outstanding. In addition, there were 13,635,000 stock options and 2,575,000 warrants outstanding. Of the outstanding options, 11,400,000 options were "in-the-money" and only 8,200,000 are exercisable at CAD$0.05 per share. All warrants outstanding are exercisable, but none are "in-the-money".

SUBSEQUENT EVENT

Issuance of Options
In February 2017, the Company issued 11,400,000 options to employees, management and directors of the Company at an exercise of CAD$0.05 per option.

Default on New Promissory Convertible Notes
To date, the Company has not made interest payments due on its New Promissory Convertible Notes presented as non-current liabilities as at December 31, 2016. As such, the Company has defaulted on these notes with aggregate principal amounts of $73,000 and CAD$99,000.

RISKS AND UNCERTAINTIES

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. Additionally, there are specific risks related to the Company's presence in the frac sand market. The risk factors which should be taken into account in assessing Victory Nickel's activities and an investment in its securities include, but are not necessarily limited to, those set out in detail 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.

Financial and Investment Risks

Going Concern
Readers are encouraged to read and consider the going concern note specifically described at the beginning of the MD&A and contained in the 2016 Audited Consolidated Financial Statements.

Substantial Capital Requirements
Victory Nickel will have to make substantial capital expenditures for the development of, and to achieve production

from, its nickel projects. Production will only be reached a number of years following the start of development. Until that time, the Company is reliant on cash flows generated by its frac sand business, on the equity markets and asset sales to generate cash for ongoing operations and programs. There can be no assurance that any debt or equity financing or cash generated by operations or asset sales 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.

The 7P Plant has been substantially completed, however additional capital will be required. Future phases of the business plan as outlined earlier in this MD&A will require additional capital; these phases are independent of the 7P Plant. This capital requirement may be in excess of the net funds generated by the business. The frac sand operations have ongoing requirements for working capital financing. There is a risk that sufficient working capital financing may not be available at suitable prices.

The Company recognizes the requirement to repay outstanding principal and interest on existing debt and is actively working on restructuring its obligations. To date, the Company has entered into the Debt Restructuring Agreement under which its secured and certain of its unsecured creditors have participated. There can be no assurance that the Company will be able to restructure its debt with any or all of the remaining unsecured creditors per the terms of the Debt Restructuring Agreement and/or recapitalize and there is no certainty as to what steps the unsecured lenders may take as a result.

Market Perception

Market perception of junior exploration, development and mining companies and frac sand companies may continue to shift such that companies in these sectors continue to be viewed unfavourably by investors. This could impact the value of investors' holdings and Victory Nickel's ability to raise further funds by issue of additional securities or debt.

Metal and Frac Sand 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 and demand for commodities and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The prices of nickel and by-products have 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 has historically been in the exploration and development stage, the above factors have had no material impact on present operations but must be considered in evaluating the impairment of long-lived assets. These factors are of significant importance for the Minago FS and decisions related thereto as well as being important to the developing frac sand business.

The business case developed to support the Company's entry into the frac sand business made significant assumptions on pricing of frac sand as well as for important cost elements of production and transportation. The price of frac sand is subject to market forces beyond the Company's control. Over the past 18 months or more, the impact of such market forces has negatively impacted demand and pricing for frac sand and there can be no assurance that these impacts will not continue in the future.

Areas of Investment Risk

The Company's common shares are listed on the CSE. 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 the Company'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 the Company and others of which are extraneous. On any disposal of their common shares, investors may realize less than the original amount invested.

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 and 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 to the Minago FS, 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.

Evaluation and Development Projects

In general, evaluation and development projects have no operating history upon which to base estimates of future cash operating costs. For evaluation and 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 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 Minago FS for Minago differed from the Preliminary Economic Assessment and may differ again upon actual development.

Frac Sand Industry

Frac sand processing is a new business for Victory Nickel. The industry is closely linked to the oil and gas industry and is therefore affected by economic factors impacting that industry, including the effect of future cycles based on historic experience. Demand for frac sand is influenced by many factors, including: global and regional economic and political events and conditions, fluctuations in pricing and availability of oil and gas and other energy sources, demand for oil and gas products, demand for cars and other vehicles, technological innovation impacting alternative energy sources, changes in the regulatory framework for mining and processing frac sand and the hydraulic fracturing industry. The oil and gas industry can be prone to sudden, unexpected production slowdowns which may impact exploration, development, production and well completion activities. These factors, such continuing low price of oil, cannot readily be predicted or controlled. Negative developments could cause the demand for frac sand products to decline which could have and have had adverse effects on business, financial condition, results of operations, cash flows and prospects.

With respect to the frac sand industry itself, risks include: changes in transportation availability and pricing, inclement or hazardous weather conditions from flooding or climate change, environmental hazards, industrial accidents, changes in the regulatory framework impacting mining, processing and the fracking industries in both Canada and the US, inability to procure sand in the required quantities or qualities, inability to obtain replacement parts or equipment on a timely basis, reduction in the availability of water for processing, inability to hire, train and retain qualified staff at acceptable rates; and other technical difficulties or failures. Any prolonged downtime could impact deliveries and reputation.

The fracking industry has been hailed as significantly contributing to North America's energy self-sufficiency. A combination of techniques is used, any changes impacting the use of frac sand as a proppant through regulation or technological innovation may negatively impact the frac sand industry. In addition, heightened political, regulatory and public scrutiny of hydraulic fracturing practices could potentially expose the Company or its customers to increased legal and regulatory proceedings, and any such proceedings could be time-consuming, costly or result in substantial legal liability or significant reputational harm.

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 or in securing customers, sand supplies or other resources such as transportation.

Victory Nickel also faces competition in the frac sand market with respect to its frac sand business and there is no assurance that Victory Nickel will compete successfully in processing and selling frac sand in such market. Frac sand is a proppant used in the completion and re-completion of oil and natural gas wells to stimulate and maintain oil and natural gas production through the process of hydraulic fracturing. Frac sand is the most commonly used proppant and is less expensive than other proppants, such as resin-coated sand and manufactured ceramics. A significant shift in demand from frac sand to other proppants; from the Company's Northern White frac sand sourced in the United States which is generally of higher quality than, and sells at higher prices than, Canadian domestically-sourced frac sand; or the development of new processes to replace hydraulic fracturing altogether, could cause a decline in the demand for the frac sand the Company processes and result in a material adverse effect on the Company's financial condition and results of operations. If significant new reserves of raw frac sand are discovered and developed, and those frac sands have similar characteristics to the raw frac sand processed by the Company, the Company's ability to maintain or acquire contracts may be negatively impacted which could have a material adverse effect on the Company's results of operations and cash flows over the long term. Additionally, quality sand supply is a limited resource and the presently-identified sources are a significant distance away from the 7P Plant which provides logistical challenges in securing timely railcar and other transportation at acceptable prices.

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 may 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 at Victory Nickel's existing nickel projects. There is no assurance that Victory Nickel will be able to raise the required funds to continue these activities.

Frac sand processing represents a relatively new initiative for Victory Nickel. While the Company attempted to mitigate the risks of entering the frac sand market through the hiring of experienced personnel, initial business projections have not yet been achieved primarily due to circumstances outside of the Company's control, as discussed above. While the 7P Plant continues to operate on an as-needed basis, there can be no assurance when or if full-time operations will resume.

Frac Sand Processing Operations

The 7P Plant is the Company's only frac sand processing facility. Any adverse development at the 7P Plant or in the end markets the 7P Plant serves, including adverse developments due to catastrophic events or weather, decreased demand for commercial silica products, a decrease in the availability of transportation services or adverse developments affecting the Company's customers, as has occurred, could, and have, had a material adverse effect on the Company's financial condition and results of operations. The availability of suitably-qualified staff at acceptable prices also represents a risk.

The procurement, production and delivery of frac sand can be logistically complex – transportation costs represent a significant portion of frac sand costs. Unavailability of appropriate transportation and rail cars or lines on a timely basis may impact turnaround and cause delays in deliveries. Changes in respective transportation costs or decreases in dependability may, and have, impaired the Company's ability to receive and/or deliver product with adverse effects on costs, revenues and reputation. Further, changes to logistics to reflect changed demand may not be able to occur on a timely basis, resulting in adverse effects on the cost profile.

Processing frac sand includes substantial costs for energy – electricity and gas – as well as water. Problems in securing sufficient energy supply at appropriate prices would have impact on operating costs and the ability to recover those increased costs may be impaired.

The specifications for frac sand are detailed; maintaining a robust quality control process is key to producing a high-quality product. Failure to do so could cause lost revenues and lost reputation.

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. In particular, while the Company is confident it has complied with the conditions of the EAL and has filed, with the government of Manitoba, an EAP to amend its EAL providing for the relocation of the Minago project tailings impoundment to an area much more suitable than previously proposed in the Minago FS, there is no guarantee that the EAP will be approved or that an amendment to the EAL will be granted.

The Company's frac sand business has since its inception been reliant upon third parties to supply northern white feedstock for its 7P Plant. Any difficulties on the part of these suppliers with respect to securing, maintaining or extending permits for its properties and operations, including appropriate water rights, may have adverse effects on the supply of sand.

Resources and Reserves

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.

The Company's frac sand business in its present phase is reliant upon a handful of suppliers for its product. The Company has no resources or reserves of its own that can presently be exploited; although it has announced resources on the Bear Coulee option in Wisconsin. Permitting this property for production is expected to take several years. The frac sand resource at Minago is not contemplated to be developed until either phase three of the frac sand initiative or as part of the Minago FS which requires significant financing to be developed.

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.

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.

Similarly, the frac sand processing plant faces many hazards and risks arising from the transportation and processing of frac sand materials, any of which could result in the matters described above. Again, not all such risks are insurable.

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 stringent and 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. In particular, the fracking industry is often at the forefront of public attention whether or not deserved. Nonetheless, this provokes attention and scrutiny.

Other Risks

Environmental and Health Risks

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

The frac sand operation involves processing silica sand. In addition to environmental regulation, the Company is subject to laws and regulations relating to human exposure to crystalline silica under the Occupational Health and Safety Act. Workplace exposure to crystalline silica is monitored; the occupational exposure limits in Alberta for respirable crystalline silica are among the lowest in Canada and the US.

Key Personnel

Victory Nickel relies on a limited number of key consultants and senior management 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 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 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 or assignee'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 and frac sand producers. 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 nickel resource interest may take years to complete and the resulting income, if any, from the sale of any nickel or by- or co-products 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.

The Company has attempted to mitigate some of the risks associated with securing financing for the maintenance and advancement of its nickel properties through its entry into the frac sand processing business, however the frac sand business also has its own set of risks as indicated earlier, and of which investors should be aware.

FORWARD-LOOKING STATEMENTS

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, the Company's development plans and objectives and the ability of the Company to restructure its debt with the relevant lenders and the ability of the Company to pay future interest and other payments in connection with such debts) constitute forward-looking information

The forward-looking information contained in this MD&A 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 current expectations, including, but not limited to, an unwillingness of the Company's lenders to refinance the Company's debts on terms favourable to the Company or at all and the ability of the Company to continue selling frac sand. Additionally, if the Company is unable to restructure its debts, obtain additional financing and/or continue generating revenue through the sale of frac sand, the Company may be required to curtail activities and/or liquidate its assets or the Company's creditors may seek to seize its assets.

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 in exploration and development and the frac sand processing business; 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.

April 27, 2017