



## **NUINSCO RESOURCES LIMITED**

# **UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**

**DATED NOVEMBER 8, 2013**

### **Management's Comments on Unaudited Condensed Consolidated Financial Statements**

The accompanying unaudited condensed consolidated financial statements of Nuinsco Resources Limited for the three and nine months ended September 30, 2013 and 2012 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

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

## Condensed Consolidated Balance Sheets

| As at<br>(in thousands of Canadian dollars)       | <i>Notes</i> | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|---|--------------|--------------------------------------|----------------------|
| <b>ASSETS</b>                                     |              |                                      |                      |
| <b>Current assets</b>                             |              |                                      |                      |
| Cash and cash equivalents                         | 6            | \$ 368                               | \$ 2,275             |
| Receivables                                       | 7            | 144                                  | 110                  |
| Marketable securities                             | 8            | 2,643                                | 828                  |
| <b>Total current assets</b>                       |              | <b>3,155</b>                         | <b>3,213</b>         |
| <b>Non-current assets</b>                         |              |                                      |                      |
| Property and equipment                            | 9            | 1,040                                | 1,077                |
| Exploration and evaluation projects               | 10           | 19,896                               | 18,333               |
| Loan receivable                                   | 11           | 801                                  | 1,009                |
| Other assets                                      | 14           | -                                    | 210                  |
| <b>Total non-current assets</b>                   |              | <b>21,737</b>                        | <b>20,629</b>        |
| <b>Total Assets</b>                               |              | <b>\$ 24,892</b>                     | <b>\$ 23,842</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |              |                                      |                      |
| <b>Current liabilities</b>                        |              |                                      |                      |
| Trade and other payables                          | 13           | \$ 746                               | \$ 1,016             |
| Loan payable                                      | 14           | 1,888                                | -                    |
| <b>Total current liabilities</b>                  |              | <b>2,634</b>                         | <b>1,016</b>         |
| <b>Non-current liability</b>                      |              |                                      |                      |
| Long-term liability                               | 14           | 232                                  | 213                  |
| <b>Total Liabilities</b>                          |              | <b>2,866</b>                         | <b>1,229</b>         |
| <b>Shareholders' equity</b>                       |              |                                      |                      |
| Share capital                                     | 16           | 98,169                               | 98,169               |
| Contributed surplus                               |              | 5,513                                | 5,436                |
| Accumulated other comprehensive loss              |              | (2,360)                              | (1,753)              |
| Deficit   |              | (79,296)                             | (79,239)             |
| <b>Total shareholders' equity</b>                 |              | <b>22,026</b>                        | <b>22,613</b>        |
| <b>Total Liabilities and Shareholders' Equity</b> |              | <b>\$ 24,892</b>                     | <b>\$ 23,842</b>     |

### NATURE OF OPERATIONS (Note 1)

### CONTINGENCY (Note 25)

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

## Condensed Consolidated Statements of Operations

| (in thousands of Canadian dollars, except per share amounts) | Notes | Three months ended September 30, |                     | Nine months ended September 30, |                     |
|--|-------|----------------------------------|---------------------|---------------------------------|---------------------|
|  |       | 2013<br>(unaudited)              | 2012<br>(unaudited) | 2013<br>(unaudited)             | 2012<br>(unaudited) |
| <b>Other income</b>  |       | \$ -                             | \$ 1                | \$ -                            | \$ 119              |
| <b>Other expenses</b>  |       |                                  |                     |                                 |                     |
| General and administrative                                   |       | (248)                            | (289)               | (988)                           | (1,092)             |
| Share-based payments:  | 18    |                                  |                     |                                 |                     |
| Options  |       | (5)                              | (21)                | (77)                            | (343)               |
| Amortization of property and equipment                       | 9     | (5)                              | (3)                 | (15)                            | (8)                 |
| Pre-exploration write-offs                                   | 10    | (22)                             | (7)                 | (60)                            | (10)                |
| Writedown of exploration and evaluation projects             | 10    | -                                | -                   | -                               | (79)                |
| <b>Operating loss</b>  |       | <b>(280)</b>                     | <b>(319)</b>        | <b>(1,140)</b>                  | <b>(1,413)</b>      |
| Finance income   | 19    | 1,002                            | 19                  | 1,318                           | 161                 |
| Finance costs  | 19    | (100)                            | (5)                 | (235)                           | (17)                |
| <b>Net finance income</b>                                    |       | <b>902</b>                       | <b>14</b>           | <b>1,083</b>                    | <b>144</b>          |
| Gain on sale of royalty interest                             | 12    | -                                | 1,992               | -                               | 1,992               |
| Recovery of provision for Chibougamau                        | 10    | -                                | 30                  | -                               | 30                  |
| <b>Income (loss) before income taxes</b>                     |       | <b>622</b>                       | <b>1,717</b>        | <b>(57)</b>                     | <b>753</b>          |
| Income tax expense   |       | -                                | -                   | -                               | -                   |
| <b>Net Income (Loss) for the Period</b>                      |       | <b>\$ 622</b>                    | <b>\$ 1,717</b>     | <b>\$ (57)</b>                  | <b>\$ 753</b>       |
| <b>Earnings (loss) per share</b>                             | 17    |                                  |                     |                                 |                     |
| Basic loss per share   |       | \$ 0.00                          | \$ 0.01             | \$ (0.00)                       | \$ 0.00             |
| Diluted loss per share                                       |       | \$ 0.00                          | \$ 0.01             | \$ (0.00)                       | \$ 0.00             |

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

## Condensed Consolidated Statements of Comprehensive Loss

| (in thousands of Canadian dollars)                      | Note | Three months ended September 30, |                     | Nine months ended September 30, |                     |
|---|------|----------------------------------|---------------------|---------------------------------|---------------------|
|   |      | 2013<br>(unaudited)              | 2012<br>(unaudited) | 2013<br>(unaudited)             | 2012<br>(unaudited) |
| <b>Net Income (Loss) for the Period</b>                 |      | <b>\$ 622</b>                    | <b>\$ 1,717</b>     | <b>\$ (57)</b>                  | <b>\$ 753</b>       |
| <b>Other comprehensive (loss) income</b>                |      |                                  |                     |                                 |                     |
| Net change in fair value of financial assets            | 8    | (52)                             | 337                 | (607)                           | (372)               |
| <b>Other comprehensive (loss) income for the period</b> |      | <b>(52)</b>                      | <b>337</b>          | <b>(607)</b>                    | <b>(372)</b>        |
| <b>Total Comprehensive Income (Loss) for the Period</b> |      | <b>\$ 570</b>                    | <b>\$ 2,054</b>     | <b>\$ (664)</b>                 | <b>\$ 381</b>       |

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

## Condensed Consolidated Statements of Shareholders' Equity

| (unaudited)<br>(in thousands of Canadian dollars)            |              | Share<br>Capital | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Deficit     | Total<br>Equity |
|--|--------------|------------------|------------------------|--|-------------|-----------------|
| <b>Balances as at January 1, 2012</b>                        | <i>Notes</i> | \$ 97,195        | \$ 4,985               | \$ (1,155)   | \$ (79,766) | \$ 21,259       |
| <b>Total comprehensive income (loss) for the period</b>      |              |                  |                        |  |             |                 |
| Net income for the period                                    |              |                  |                        |  | 753         | 753             |
| <b>Other comprehensive loss</b>                              |              |                  |                        |  |             |                 |
| Net change in fair value of financial assets                 |              |                  |                        | (372)  |             | (372)           |
| <b>Total other comprehensive loss</b>                        |              |                  |                        | (372)  |             | (372)           |
| <b>Total comprehensive income for the period</b>             |              |                  |                        |  |             | 381             |
| <b>Transactions with owners, recorded directly in equity</b> |              |                  |                        |  |             |                 |
| <b>Contributions by owners in the period</b>                 |              |                  |                        |  |             |                 |
| Issue of flow-through common shares and warrants             |              | 503              | 86                     | -  | -           | 589             |
| Shares issued for property, net                              |              | 321              | -                      | -  | -           | 321             |
| Options granted and vesting                                  |              | -                | 343                    | -  | -           | 343             |
| <b>Total contributions by owners</b>                         |              | 824              | 429                    | -  | -           | 1,253           |
| <b>Total transactions with owners</b>                        |              | 824              | 429                    | -  | -           | 1,253           |
| <b>Balances as at September 30, 2012</b>                     |              | \$ 98,019        | \$ 5,414               | \$ (1,527)   | \$ (79,013) | \$ 22,893       |
| <b>Balances as at January 1, 2013</b>                        |              | \$ 98,169        | \$ 5,436               | \$ (1,753)   | \$ (79,239) | \$ 22,613       |
| <b>Total comprehensive loss for the period</b>               |              |                  |                        |  |             |                 |
| Net loss for the period                                      |              |                  |                        |  | (57)        | (57)            |
| <b>Other comprehensive loss</b>                              |              |                  |                        |  |             |                 |
| Net change in fair value of financial assets                 | 8            |                  |                        | (607)  |             | (607)           |
| <b>Total other comprehensive loss</b>                        |              |                  |                        | (607)  |             | (607)           |
| <b>Total comprehensive loss for the period</b>               |              |                  |                        |  |             | (664)           |
| <b>Transactions with owners, recorded directly in equity</b> |              |                  |                        |  |             |                 |
| <b>Contributions by owners in the period</b>                 |              |                  |                        |  |             |                 |
| Options vesting  | 18           | -                | 77                     | -  | -           | 77              |
| <b>Total contributions by owners</b>                         |              | -                | 77                     | -  | -           | 77              |
| <b>Total transactions with owners</b>                        |              | -                | 77                     | -  | -           | 77              |
| <b>Balances as at September 30, 2013</b>                     |              | \$ 98,169        | \$ 5,513               | \$ (2,360)   | \$ (79,296) | \$ 22,026       |

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

## Condensed Consolidated Statements of Cash Flows

| (in thousands of Canadian dollars)                          | Notes | Nine months ended September 30, |                     |
|---|-------|---------------------------------|---------------------|
|   |       | 2013<br>(unaudited)             | 2012<br>(unaudited) |
| <b>Cash flows from operating activities</b>                 |       |                                 |                     |
| Net (loss) income for the period                            |       | \$ (57)                         | \$ 753              |
| Adjustments for:  |       |                                 |                     |
| Gain on sale of royalty                                     | 12    | -                               | (1,992)             |
| Share-based payments  | 18    | 77                              | 343                 |
| Amortization of property and equipment                      | 9     | 15                              | 8                   |
| Writedown of exploration and evaluation projects            | 10    | -                               | 79                  |
| Recovery of provision for Chibougamau                       | 10    | -                               | (30)                |
| Net finance income  | 19    | (1,073)                         | (144)               |
| Net change in non-cash working capital:                     |       |                                 |                     |
| Change in receivables                                       |       | (34)                            | (4)                 |
| Change in trade and other payables                          |       | (36)                            | (25)                |
| <b>Net cash used by operating activities</b>                |       | <b>(1,108)</b>                  | <b>(1,012)</b>      |
| <b>Cash flows from investing activities</b>                 |       |                                 |                     |
| Expenditures on exploration and evaluation projects         | 10    | (1,467)                         | (1,730)             |
| Advance under Amended Loan                                  | 8,11  | (1,207)                         | -                   |
| Purchase of marketable securities                           | 8     | (84)                            | 136                 |
| Proceeds on sale of Cameron Lake royalty                    | 12    | -                               | 5,003               |
| Proceeds on sale of other royalty                           | 11    | -                               | 450                 |
| Net (purchase) sale of equipment                            | 9     | (34)                            | 392                 |
| Loan interest received accrued in prior year                | 11    | 9                               | -                   |
| <b>Net cash (used by) from investing activities</b>         |       | <b>(2,783)</b>                  | <b>4,251</b>        |
| <b>Cash flows from financing activities</b>                 |       |                                 |                     |
| Issue of common shares and warrants                         |       | -                               | 898                 |
| Net proceeds of loan  | 14    | 1,984                           | -                   |
| <b>Net cash from financing activities</b>                   |       | <b>1,984</b>                    | <b>898</b>          |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b> |       | <b>(1,907)</b>                  | <b>4,137</b>        |
| Unrealized foreign exchange gain on cash                    |       | -                               | 11                  |
| <b>Cash and Cash Equivalents, Beginning of the Period</b>   |       | <b>2,275</b>                    | <b>516</b>          |
| <b>Cash and Cash Equivalents, End of the Period</b>         |       | <b>\$ 368</b>                   | <b>\$ 4,664</b>     |

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

# Notes to the Condensed Consolidated Financial Statements

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

## 1. REPORTING ENTITY

### Nature of Operations

Nuinsco Resources Limited (“Nuinsco” 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 condensed consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2013 and 2012 comprise the Company and its subsidiaries (together referred to as “Nuinsco” and individually as “Nuinsco entities”) and Nuinsco’s interest in jointly-controlled entities. Nuinsco is primarily engaged in the acquisition, exploration and evaluation of properties for the mining of precious and base metals (Note 20). The Company conducts its activities on its own or participates with others on a joint operations basis. The Company also makes strategic investments through equity or loan financing to companies engaged in the exploration and development of resource properties. Refer to Notes 10 and 11 to these condensed consolidated financial statements.

The Company is listed on the Toronto Stock Exchange (“TSX”) under the symbol NWI.

### Going Concern

These condensed 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 September 30, 2013, the Company had working capital of \$521,000 (December 31, 2012 – working capital of \$2,197,000). Working capital is defined as current assets including assets held for sale less current liabilities, excluding restricted cash, if any. Marketable securities comprise investments in other resource companies the markets for which are not always liquid. The loan payable is due in June 2014 and is classified as a current liability although it can be extended for a six-month period as described in Note 14 and, as at September 30, 2013, additional funds of \$500,000 are available to the Company.

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, dependence on key individuals, realization on its marketable securities as required and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company’s projects through exploration and development to the production stage will require significant financing. Given the current economic climate, the ability to raise funds may prove difficult.

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

In an effort to generate cash from the Company’s available assets, the Company has entered into a secured loan agreement with Victory Nickel Inc. (“Victory Nickel”) (Note 11) which has a conversion feature which, pursuant to contractual terms, could generate cash flows as described in Note 11. The loan has provided the initial funding required by Victory Nickel to implement a three-phase business plan to enter the frac sand business beginning in 2013 with first sales expected in early 2014.

The Company continues to examine a number of strategies to maximize the realization of previously written-down amounts due from Campbell Resources Inc. (“Campbell”) presently recorded under *Property and equipment* and *Exploration and evaluation projects* on the condensed consolidated balance sheets and held through CBay Minerals Inc. (“CBay”) a joint operation with Ocean Partners Investments Limited (“Ocean Partners”). Refer to Notes 9 and 10 to these financial statements. Furthermore, the Company has received reassessments from the Canada Revenue Agency (“CRA”) refer to Note 25.

Should the Company not be able to continue to achieve favourable exploration results, obtain the necessary financing, achieve future profitable production or sale of properties or realize timely cash flows from the conversion of the loan with Victory Nickel, the carrying value of the Company’s assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company’s ability to continue as a going concern as contemplated under GAAP.

# Notes to the Condensed Consolidated Financial Statements

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

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

The condensed 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”) and in accordance with IAS 34, Interim Financial Reporting (“IAS 34”). This is GAAP for a Canadian public company.

These unaudited condensed consolidated financial statements reflect the accounting policies described in Note 3 to the Company’s Audited Consolidated Financial Statements for the years ended December 31, 2012 and 2011 (“2012 Audited Consolidated Financial Statements”) (with the exception of any changes set out in Note 3 below) and accordingly, should be read in conjunction with those financial statements and the notes thereto.

The management of Nuinsco prepares the unaudited condensed consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2013. Shortly thereafter, the financial statements are made available to shareholders and others through filing on SEDAR.

### (b) Basis of Measurement

The financial statements have been prepared on the historic cost basis except for derivative financial instruments such as warrants 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 recorded through other comprehensive income or loss (“OCI”).

### (c) Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Company’s functional currency. All financial information is expressed in Canadian 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 unaudited condensed consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The results of operations and cash flows for the current periods as presented are not necessarily indicative of the results to be expected for the full year.

### ***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 financial statements is included in the following notes:

- Note 8 valuation of financial assets at fair value through OCI;
- Note 8 valuation of financial assets at fair value through operations;
- Note 10 measurement of the recoverable amounts of exploration and evaluation projects;
- Note 11 valuation of the convertibility feature of the loan; and
- Note 18 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.

# Notes to the Condensed Consolidated Financial Statements

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

Information regarding significant areas of critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 1 going concern assessment;
- Note 10 classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 10 impairment of exploration and evaluation projects
- Note 11 recognition of the convertibility feature of the loan; and
- Note 25 disclosure of contingencies.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail in Note 3 to the 2012 Audited Consolidated Financial Statements. Such policies have been applied consistently to all periods presented in these condensed consolidated financial statements and have been applied consistently by Nuinsco entities.

### (a) New Accounting Policies

There have been no new accounting policies adopted by the Company. The joint operation in CBay continues to be accounted for on a proportionate consolidation basis which is in accordance with IFRS 11 which came into effect on January 1, 2013.

### (b) New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2012 Audited Consolidated Financial Statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company.

## 4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

### Overview

The Company has exposure to credit risk, liquidity risk, market risk and operational risk from its use of financial instruments. A complete description of the Company's financial risk management and capital management is included in Note 4 to the 2012 Audited Consolidated Financial Statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these consolidated financial statements.

### Credit Risk

#### *Loan receivable*

The loan receivable bears interest at a fixed rate and is secured on assets of the borrower through registered security agreements. Failure of the borrower to meet contractual obligations will result in seizure of the borrower's assets.

### Liquidity Risk

The Company's only significant long-term liabilities are the ones disclosed in Note 14. All other contractually-obligated cash flows are payable within the next fiscal year with the exception of the Company's lease commitment described in Note 15 and the Diabase Peninsula option payments described in Note 10.

### Market Risk

#### *Interest rate risk*

The Company's loan receivable (Note 11) and debt (Note 14) bear interest at fixed rates. 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 exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

#### *Other market price risk*

The Company's marketable securities are subject to equity price risk. The values of these investments will fluctuate as a result of changes in market prices. The Company's exposure to this risk increased significantly in the third quarter of 2013 as a result of the participation in Victory Nickel's rights offering (Notes 8 and 11).



# Notes to the Condensed Consolidated Financial Statements

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

## Capital Management Disclosures

|                                | Notes | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------------|-------|-----------------------|----------------------|
| Shareholders' equity           |       | \$ 22,026             | \$ 22,613            |
| Long-term liabilities          | 14    | 232                   | 213                  |
|                                |       | 22,258                | 22,826               |
| Loan payable                   | 14    | -                     | -                    |
| Available loans and borrowings | 14    | 500                   | 2,500                |
|                                |       | \$ 22,758             | \$ 25,326            |

Neither the Company, nor any of its subsidiaries, are subject to externally-imposed capital requirements. There were no changes in the Company's approach to financial risk management or capital management during the period.

### 5. DETERMINATION OF FAIR VALUES

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 5 to the Company's 2012 Audited Consolidated Financial Statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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.

#### (a) Royalty Interest

The fair value of a royalty interest upon initial recognition is based on the discounted cash flows expected to be derived from the use of or eventual sale of the assets.

#### (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.

#### 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).

#### (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

The fair value of investments in warrants is 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.

## Notes to the Condensed Consolidated Financial Statements

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

### (f) Share-based Payment Transactions

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

### 6. CASH AND CASH EQUIVALENTS

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Bank balances   | \$ 368                | \$ 2,275             |
| <b>Cash and Cash Equivalents in the Statement of<br/>Cash Flows</b> | <b>\$ 368</b>         | <b>\$ 2,275</b>      |

### 7. RECEIVABLES

|                                      | <i>Notes</i> | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------------------|--------------|-----------------------|----------------------|
| Receivables from Victory Nickel Inc. |              |                       |                      |
| Due under management agreement       | 22           | \$ 76                 | \$ -                 |
| Commitment fees receivable           | 11           | 9                     | -                    |
| Other receivables                    |              | 15                    | 74                   |
| Prepaid expenses and deposits        |              | 44                    | 36                   |
|                                      |              | <b>\$ 144</b>         | <b>\$ 110</b>        |

### 8. MARKETABLE SECURITIES

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Financial assets at fair value through OCI        |                       |                      |
| Victory Nickel Inc. - shares                      | \$ 1,713              | \$ 165               |
| Coventry Resources Limited                        | 117                   | 660                  |
| Other   | 6                     | 3                    |
|   | <b>1,836</b>          | <b>828</b>           |
| Financial assets at fair value through operations |                       |                      |
| Victory Nickel Inc. - warrants                    | 807                   | -                    |
|   | <b>\$ 2,643</b>       | <b>\$ 828</b>        |

All of the Company's marketable securities are in companies which are publicly-listed; financial assets at fair value through OCI are valued using Level 1 methodologies, financial assets at fair value through operations are valued using Level 2 methodologies as described below.

On July 30, 2013, Nuinsco significantly increased its shareholding in Victory Nickel through its agreement to backstop an equity issue under the loan agreement described in Note 11. Under the agreement, Nuinsco subscribed for 50,316,018 Units for cash of \$1,207,584 or \$0.024 per Unit. Each Unit comprises one common share and one common share purchase warrant. Nuinsco also exercised its basic rights under its prior shareholding of Victory Nickel which amounted to 3,483,882 additional Units for \$83,613.

Nuinsco has valued the shares and warrants acquired under its participation in the rights offering at an aggregate amount of \$1,937,000 at closing using the closing price of Victory Nickel shares of \$0.025 along with an estimated fair value of \$0.011 per warrant valued as described in the table below. Accordingly, the excess fair value over the cash paid of \$0.012 per unit of \$646,000 has been recorded in *Finance income* as *Gain on derivative*. The increase in fair value of the warrants from recognition of \$0.004 per warrant or \$215,000 has also been recorded in *Finance income* as *Net change in fair value of financial assets at fair value through operations*.

Additional shares were received in consideration for the top-up advance with a value of \$20,758.

## Notes to the Condensed Consolidated Financial Statements

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

The subscription under the rights offering brings Nuinsco's interest in Victory Nickel's shares to approximately 12.24% at July 30, 2013 on a non-diluted basis and, accordingly, Nuinsco became a related party of Victory Nickel at that time. The Company continues to account for its investment in Victory Nickel as marketable securities and any changes in the value of shares will be accounted for through OCI with changes in the value of warrants being accounted for through *Finance income* or *Finance costs* in the consolidated statement of operations.

The fair value of warrants is based upon the Black-Scholes option-pricing model with assumptions described in the table below:

|                                 | July 30,<br>2013   | September 30,<br>2013 | December 31,<br>2012 |
|---------------------------------|--------------------|-----------------------|----------------------|
|                                 | (recognition date) |                       |                      |
| Fair value                      | \$ 0.011           | \$ 0.015              | n/a                  |
| Share price at valuation date   | \$ 0.030           | \$ 0.030              | n/a                  |
| <b>Assumptions</b>              |                    |                       |                      |
| Exercise price                  | \$ 0.035           | \$ 0.035              | n/a                  |
| Expected volatility             | 101%               | 107%                  | n/a                  |
| Expected remaining term (years) | 2.0                | 1.83                  | n/a                  |
| Expected dividends              | -                  | -                     | n/a                  |
| Risk-free interest rate         | 1.15%              | 1.00%                 | n/a                  |

### 9. PROPERTY AND EQUIPMENT

| Equipment                               | Cost            | Accumulated<br>Depreciation | Carrying<br>Amount |
|---|-----------------|-----------------------------|--------------------|
| <b>Balance as at January 1, 2012</b>    | \$ 1,742        | \$ 299                      | \$ 1,443           |
| Additions                               | 57              | -                           | 57                 |
| Disposals                               | (412)           | -                           | (412)              |
| Amortization                            | -               | 11                          | (11)               |
| <b>Balance as at December 31, 2012</b>  | <b>1,387</b>    | <b>310</b>                  | <b>1,077</b>       |
| Additions                               | 11              | -                           | 11                 |
| Disposals                               | (33)            | -                           | (33)               |
| Amortization                            | -               | 15                          | (15)               |
| <b>Balance as at September 30, 2013</b> | <b>\$ 1,365</b> | <b>\$ 325</b>               | <b>\$ 1,040</b>    |

Effective October 25, 2011, the Company, through CBay, owns a 50% proportionate interest in the mill and related equipment at the Chibougamau camp; during the periods, CBay sold various equipment, the disposals represent 50% of the effect of those transactions.

### 10. 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,<br>2013 | Current<br>Expenditures | Effect of<br>Recoveries | Writedown of<br>E&E Projects | September 30,<br>2013 |
|--------------------------------|--------------------|-------------------------|-------------------------|------------------------------|-----------------------|
| <b>URANIUM AND RARE METALS</b> |                    |                         |                         |                              |                       |
| Diabase Peninsula              | \$ 9,046           | \$ 215                  | \$ -                    | \$ -                         | \$ 9,261              |
| Prairie Lake                   | 3,372              | 221                     | -                       | -                            | 3,593                 |
|                                | 12,418             | 436                     | -                       | -                            | 12,854                |
| <b>GOLD AND COPPER</b>         |                    |                         |                         |                              |                       |
| Chibougamau camp               | 4,713              | 1,114                   | -                       | -                            | 5,827                 |
| Berta                          | 1,202              | 13                      | -                       | -                            | 1,215                 |
|                                | 5,915              | 1,127                   | -                       | -                            | 7,042                 |
|                                | \$ 18,333          | \$ 1,563                | \$ -                    | \$ -                         | \$ 19,896             |

## Notes to the Condensed Consolidated Financial Statements

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

|                                | January 1,<br>2012 | Current<br>Expenditures | Effect of<br>Recoveries | Writedown of<br>E&E Projects | September 30,<br>2012 |
|--------------------------------|--------------------|-------------------------|-------------------------|------------------------------|-----------------------|
| <b>URANIUM AND RARE METALS</b> |                    |                         |                         |                              |                       |
|                                |                    |                         | (see below)             |                              |                       |
| Diabase Peninsula              | \$ 8,041           | \$ 963                  | \$ -                    | \$ -                         | \$ 9,004              |
| Prairie Lake                   | 2,886              | 467                     | -                       | -                            | 3,353                 |
|                                | 10,927             | 1,430                   | -                       | -                            | 12,357                |
| <b>GOLD AND COPPER</b>         |                    |                         |                         |                              |                       |
| Chibougamau camp               | 3,820              | 761                     | (450)                   | -                            | 4,131                 |
| Berta                          | 1,197              | 1                       | -                       | -                            | 1,198                 |
| Bukari                         | -                  | 23                      | -                       | (23)                         | -                     |
| J. Tobrar                      | -                  | 40                      | -                       | (40)                         | -                     |
|                                | 5,017              | 825                     | (450)                   | (63)                         | 5,329                 |
|                                | \$ 15,944          | \$ 2,255                | \$ (450)                | \$ (63)                      | \$ 17,686             |

### Uranium and Rare Metals

#### **Diabase Peninsula**

In December, 2004, Nuinsco entered into an agreement with Trend Mining Company ("Trend") to acquire a 50% interest in the Diabase Peninsula property in the Athabasca Basin of northern Saskatchewan upon the expenditure of \$1,000,000. As at March 31, 2012, cumulative expenditures increased this ownership interest to greater than 90% as Trend did not contribute its share of expenditures. Under the agreement, should a participant's interest drop below 10%, that participant will relinquish its entire participating interest and will have the right to receive a royalty equal to 3% of the net value of all mineral products produced from the property (as defined). Accordingly, Trend's interest was converted to a royalty and Nuinsco owns the project in its entirety. Effective December 19, 2012, the Company acquired that royalty through a one-time cash payment of \$15,000. Accordingly, Trend has no remaining interest whatsoever in the Diabase Peninsula property.

The property consists of ten contiguous claims encompassing 21,949 hectares ("ha"). Three claims were optioned while seven were staked by Nuinsco. Exploration for uranium has been undertaken at Diabase Peninsula since March, 2005, with the most recent drill program being completed in the winter of 2011 to 2012. During the winter of 2013 a modest program of geochemical sampling was initiated which included a survey consisting of sampling for detection of radon gas which is an indicator of uranium mineralization.

In order to maintain the option on one of the claims, the Company was required to make an option payment of approximately \$935,000 by September 2, 2012; in May 2012, the Company was successful in extending the option terms for a year, with additional extensions being possible, for four quarterly cash payments of \$9,350 and \$37,600 of the Company's shares. This deferred the option payment of \$935,000 by at least one year. The shares were issued in the third quarter of 2012 and all quarterly cash payments have been made.

In September, 2013, the Company negotiated a further extension whereby it is required to make payments totalling \$1,028,500 as follows: an aggregate sum of \$400,000 payable in quarterly installments of \$25,000 up to and including June 2, 2017 and a lump sum of \$628,500 on or before September 2, 2017. The Company made the first quarterly instalment of \$25,000 on September 2, 2013.

The claims are subject to a 3% gross production royalty payable to the vendor of the original Diabase Peninsula claim; the royalty is defined as actual metal/mineral sales with no deduction for refining or transportation expenses.

#### **Prairie Lake**

The Prairie Lake property consists of nine claims comprising 38 claim units, encompassing 608 ha. Given the presence of an historic uranium resource, as well as strongly-anomalous tantalum, niobium and phosphorus, along with widespread rare metals mineralization, diamond drilling, surface sampling and mapping programs were conducted in 2007, 2008 and 2010. A review and analysis of past results took place during 2009 as did metallurgical testing and the completion of an Estimated Tonnage Mineralized Inventory which was announced in early 2010 and updated by the Company in October 2011. The property was subject to a 2% NSR payable on any production. Up to a maximum of one-half of the royalty could be purchased for \$1,000,000 in either cash or common shares of the Company. On January 23, 2012, the Company announced that it had acquired the entire 2% NSR through issuing 3,157,894 shares with a market value of \$300,000. The property is now royalty-free.

## Notes to the Condensed Consolidated Financial Statements

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

### Gold & Copper

#### **Chibougamau Camp**

CBay's Chibougamau assets represent a very substantial presence in a mining camp which has produced 1.6 billion pounds of copper and 3.2 million ounces of gold from 18 past-producing mines located on the Lac Doré Complex. Nuinsco and Ocean Partners own:

- eight past-producers on the Lac Doré fault and the significant potential to add to the known mineralization at these projects;
- three partially-developed copper projects - Corner Bay, Devlin and the Perch River option;
- a permitted 2,722 tonnes per day mill and tailings facility (included in *Property and equipment* on the consolidated balance sheet – Note 9); and,
- in excess of 38,000 ha of highly-prospective exploration property.

In the third quarter of 2012, CBay sold a royalty on a property no longer owned and received a return of funds from the receiver; the Company's share of funds amounted to \$450,000 net of expenses and is shown as a recovery against the property.

In 2012, the Company entered into an option agreement with CBay to make expenditures on its Portage and Corner Bay properties in exchange for an undivided interest in each property as follows: \$300,000 incurred on Portage up to December 31, 2012 earns a 30% undivided interest with the option to incur up to an additional \$500,000 in \$100,000 increments each earning a 5% additional undivided interest; \$1,000,000 in expenditures incurred on Corner Bay in \$250,000 increments each earning a 5% undivided interest in the property. Aggregate expenditures incurred pursuant to that agreement on the Chibougamau camp amount to \$953,000 (\$440,000 were expended in 2012). In the second quarter of 2013, the option agreement was amended to allow the Company to more freely determine on which properties the expenditure commitments may be made.

During the third quarter of 2012, the Company recovered approximately \$30,000 on its investment in Campbell shares; this is recorded as a *Recovery of provision for Chibougamau* through operations.

During the first quarter of 2013, CBay entered into an agreement to option the Perch River copper project for a total cost of \$200,000 payable over four years. CBay paid \$30,000 in the first quarter of 2013. In early May 2013, CBay announced the acquisition of the Devlin copper project for \$363,000. Both transactions provide for 2% NSRs to be retained by the vendors and are intended to provide near-term feed for the Copper Rand mill.

#### **Berta**

In October, 2003, the Company entered into the Berta Joint Venture Agreement with Falconbridge Limited, now Xstrata Copper Canada ("Xstrata"). The Berta property is located approximately 50 km south of the Black Sea coast in north-eastern Turkey. Pursuant to the agreement, the Company was required to spend US\$350,000 to earn a 50% interest in the project.

As a result of the work programs conducted by Nuinsco during 2005, the Company became vested with 50% of the project. Xstrata participates pro rata in funding exploration expenditures. Discussions with Xstrata have been ongoing, including discussions to buy Xstrata's share of the joint venture. As a result, Nuinsco has allowed itself to be diluted to approximately 36%; the effect of dilution was a \$616,000 reduction in the value of Berta during 2011. In 2006 and 2007, the Company completed airborne geophysics followed by diamond drilling. Drilling intersected a significant, continuous domain of strong sulphide mineralization with copper, gold, silver and zinc values. Three drill holes were completed in 2008 demonstrating further evidence of widespread copper mineralization. The Berta property is subject to a 2% NSR.

In 2012, Xstrata commenced a 7,500 metre drilling program with budgeted expenditures of US\$2,672,000 to the end of December 2012 of which US\$1,491,000 was spent by Xstrata. Full results and accounting for the work program have now been received. Nuinsco has not agreed to participate in the funding of the recent program. The Company is discussing the possible implications of this non-participation on its interest in Berta with Xstrata. Subsequent to the end of the 2012 drilling program, Xstrata informed Nuinsco that it would resign as operator of the project. Nuinsco is examining the options with regard to additional exploration/diamond drilling on the property taking into account the existing challenges and protracted timing presently associated with permitting in Turkey.



## Notes to the Condensed Consolidated Financial Statements

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

### Writedown of exploration and evaluation projects

The Company made a decision on various of its foreign properties in early 2012. Aggregate expenditures of \$63,000 were incurred prior to the decisions being made and were written off, along with a project-related receivable of \$16,000 to *Writedown of exploration and evaluation projects* in 2012.

### Pre-exploration write-offs

Pre-exploration expenditures are written off at the end of each reporting period to *Pre-exploration write-offs* through operations. Exploration costs in the amount of \$22,000 and \$60,000 were written off during the three and nine months ended September 30, 2013 (September 30, 2012 - \$7,000 and \$10,000).

## 11. LOAN RECEIVABLE

|   | <i>Notes</i> | September 30,<br>2013 | December 31,<br>2012 |
|---|--------------|-----------------------|----------------------|
| Advance for working capital                       |              | \$ 1,000              | \$ 1,000             |
| Advance under Amended Loan for standby commitment | 8            | 1,207                 | -                    |
| Aggregate advances                                |              | 2,207                 | 1,000                |
| Accrued interest receivable                       |              | -                     | 9                    |
|   |              | 2,207                 | 1,009                |
| Less: settled in Units of Victory Nickel          | 8            | (1,207)               | -                    |
| Less: unamortized loan fees                       |              | (199)                 | -                    |
|   |              | \$ 801                | \$ 1,009             |

The Company entered into a loan agreement in November 2012 with Victory Nickel that provided an advance for \$1,000,000. The Loan bears interest at 12% per annum and matures on January 31, 2015; it is secured by equipment and a general security agreement over the borrower's assets.

On March 26, 2013, the Company announced that it had amended and restated the loan agreement to increase the secured loan facility to up to \$3,000,000 under certain circumstances (the "Amended Loan"). As with the original loan, the Amended Loan bears interest at 12% per annum, payable quarterly in arrears, and matures on January 31, 2015. Upon the earlier of June 1, 2014 or notification that the frac sand plant is at commercial production, the Company has the right to convert the outstanding balance of the Amended Loan into a participating interest (the "Conversion") whereby the Company is entitled to receive a share of cash flows earned from the sale of frac sand from the borrower's subsidiary, Victory Silica. The Company's participation is based on a range of a maximum of \$10,000,000, with a minimum of \$7,500,000, and is subject to adjustment under certain circumstances which could increase or decrease this range. On Conversion, the Amended Loan would be considered paid in full. The Company had also agreed to backstop an equity issue with cash or by converting a portion of the Amended Loan into shares, at the Company's option to an amount up to \$1,500,000 under certain circumstances. The borrower announced a rights offering on June 14, 2013.

Under the terms of the Amended Loan, Nuinsco agreed to provide a standby commitment for any equity offering initiated by Victory Nickel. This commitment was triggered for the rights offering of Victory Nickel which closed on July 30, 2013. Under the agreement, Nuinsco subscribed for 50,316,018 units for cash of \$1,207,584 (Note 8). Each Unit comprises one common share and one common share purchase warrant. This brings cumulative advances under the Amended Loan to Victory Nickel to \$2,207,584 and caps the Amended Loan amount at \$2,707,584 (from a maximum possible \$3,000,000) with \$500,000 remaining for draw down and to be used to develop Victory Nickel's frac sand business. The subscription under the standby commitment, among other things, is included in the calculation of Nuinsco's potential participation under the Conversion of the Amended Loan.

The borrower was to pay, with shares, an arrangement fee of up to \$300,000 plus a commitment fee of 1.5% per annum on unutilized balances. Aggregate arrangement fees of \$270,758 in shares (included in marketable securities) have been received based on advances of \$2,207,584 and are being amortized into interest income using the effective interest method over the life of the loan; this satisfies the arrangement fee in full. Amortization of \$30,000 and \$60,000 was recorded in the three and nine months ended September 30, 2013 and interest income has been received in cash of \$30,000 and \$99,000 in the three and nine months ended September 30, 2013 (\$9,000 of which related to 2012). Commitment fees amount to \$3,000 and \$9,000 in the three and nine months ended September 30, 2013 and will be paid in shares upon the final advance under the Amended Loan.

## Notes to the Condensed Consolidated Financial Statements

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

### 12. ROYALTY INTEREST

On April 20, 2010, pursuant to the sale of Cameron Lake to Coventry, the Company retained a royalty interest in the Cameron Lake property. The royalty interest was accounted for using the cost basis and recorded at \$3,000,000.

Effective the first quarter of 2012, the Company decided to sell its royalty interest in the Cameron Lake property which is held by Coventry and a marketing strategy was implemented. In September 2012, the Company sold the royalty interest for \$5,003,000, being US\$5,100,000, and recorded a net gain on sale of \$1,992,000 after expenses.

### 13. TRADE AND OTHER PAYABLES

|                                | <i>Note</i> | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------------|-------------|-----------------------|----------------------|
| Trade payables                 |             |                       |                      |
| E&E projects                   |             | \$ 170                | \$ 93                |
| Non-project related            |             | 51                    | 104                  |
| Flow-through premium liability |             | -                     | 265                  |
| Other payables                 |             | 7                     | 9                    |
| Due to Victory Nickel Inc.     | 21          | 10                    | 43                   |
| Accrued liabilities            |             |                       |                      |
| E&E projects                   |             | 110                   | 91                   |
| Non-project related            |             | 398                   | 411                  |
|                                |             | <b>\$ 746</b>         | <b>\$ 1,016</b>      |

The following table shows the continuity of the flow-through premium liability:

| <b>As at and for the periods ended</b>      | <i>Note</i> | September 30,<br>2013 | December 31,<br>2012 |
|---|-------------|-----------------------|----------------------|
| <b>Balance as at beginning of period</b>    |             | <b>\$ 265</b>         | <b>\$ 171</b>        |
| July and August, 2011 financing:            |             |                       |                      |
| Flow-through premium through finance income |             | -                     | (126)                |
| December, 2011 financing:                   |             |                       |                      |
| Flow-through premium through finance income |             | -                     | (45)                 |
| February and March, 2012 financing:         |             |                       |                      |
| Flow-through premium                        | 19          | -                     | 321                  |
| Flow-through premium through finance income | 19          | (265)                 | (56)                 |
| <b>Balance as at end of period</b>          |             | <b>\$ -</b>           | <b>\$ 265</b>        |

### 14. LONG-TERM LIABILITIES

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Long-term loan facility (see table below) | \$ -                  | \$ -                 |
| Payable from acquisition of Campbell debt | 232                   | 213                  |
|   | <b>\$ 232</b>         | <b>\$ 213</b>        |

## Notes to the Condensed Consolidated Financial Statements

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

### Long-term Loan Facility

|                                       | September 30,<br>2013 | December 31,<br>2012 |
|---------------------------------------|-----------------------|----------------------|
| Advances                              | \$ 2,000              | \$ -                 |
| Unamortized loan fees                 | (112)                 | (210)                |
|                                       | 1,888                 | (210)                |
| Reclassification to current liability | (1,888)               | -                    |
|                                       | \$ -                  | \$ (210)             |

On December 18, 2012, the Company entered into a loan agreement with a third party for a \$2,500,000 loan facility (the "Facility"). The Facility can be drawn down in minimum amounts of \$500,000, with \$1,500,000 immediately available and the balance available six months from closing. The Facility matures on June 18, 2014 with the availability of a one-time extension period of six months upon issuance of 3% of the principal amount extended payable in CBay shares owned by Nuinsco; this represents 112,538 shares at an agreed value of \$0.666 per share which represents approximately 0.375% of the outstanding shares of CBay. A facility fee of \$50,000 was paid in cash at closing along with a 5% equity bonus in the form of 3,634,777 of the Company's shares; interest of 11.5% per annum is payable quarterly in arrears. The Facility is secured by a first ranking pledge upon Nuinsco's CBay shares.

The Facility was drawn down by \$1,000,000 on February 1, 2013 with two additional draws of \$500,000 being received on May 1, 2013 and August 1, 2013. On October 21, 2013, the Company drew down the remaining \$500,000 available under the Facility. The aggregate fees and expenses related to the Facility of \$217,000 (December 31, 2012 - \$210,000 included as *Other assets* on the consolidated balance sheet) are amortized through operations as interest expense using the effective interest rate method over the life of the loan; amortization of \$40,000 and \$105,000 was charged during the three and nine months ended September 30, 2013. Interest of \$54,000 and \$111,000 was paid in cash in the three and nine months ended September 30, 2013.

### Payable from Acquisition of Campbell Debt

The Company, through CBay, has an obligation under a long-term arrangement with respect to the acquisition of debt of Campbell. The Company is required to pay \$300,000 on the basis of \$0.25 per ton of ore processed through the CBay mill with any remaining balance due three years after implementation of a mine plan. The mill requires refurbishment, processing is not presently possible and a mine plan has not been completed. Therefore, the Company has used a time horizon of three years from the end of 2012; the time horizon will be reassessed on a frequent basis. The fair value of the amount, using a discount rate of 11.5%, is \$232,000 as at September 30, 2013 (December 31, 2012 - \$213,000). A net adjustment was made to accretion and the long-term obligation in 2012 of \$53,000 to reflect these assumptions and Nuinsco will accrete the future value of the obligation by interest charges through operations. Accordingly, in the three and nine months ended September 30, 2013, aggregate accretion of \$6,000 and \$19,000 (September 30, 2012 - \$6,000 and \$17,000) was added to the long-term obligation and recorded as interest expense.

### 15. OPERATING LEASE

In June, 2011, the Company amended and extended its main lease for premises at 80 Richmond Street West, Toronto. The extension term is for five years terminating on September 30, 2016 and includes basic rent commitments as follows:

|   | September 30,<br>2013 |
|---|-----------------------|
| <b>Office rental</b>                        |                       |
| Less than 1 year                            | \$ 98                 |
| Between 1 and 5 years                       | 219                   |
| <b>Total Minimum Lease Payments Payable</b> | <b>\$ 317</b>         |

It is not expected that the cash flows reflected in the maturity analysis would occur significantly earlier, or at significantly different amounts. During the three and nine months ended September 30, 2013, \$60,000 and \$159,000 was recognized as rent expense through operations in respect of operating leases including operating costs (September 30, 2012 - \$48,000 and \$143,000).



## Notes to the Condensed Consolidated Financial Statements

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

### 16. CAPITAL AND OTHER COMPONENTS OF EQUITY

#### Share Capital

##### Authorized

The Company is authorized to issue an unlimited number of common shares. The Company is also authorized to issue an unlimited number of Class A special shares, issuable in series, an unlimited number of Class B special shares, issuable in series, an unlimited number of Class C special shares, issuable in series, an unlimited number of Class D special shares, issuable in series, and an unlimited number of Class E special shares, issuable in series.

##### Number of shares issued and outstanding

There are no special shares outstanding; all shares are fully paid. There were no common shares issued during the three and nine months ended September 30, 2013.

#### Share Incentive Plan

The Company has a Share Incentive Plan which includes both a Share Purchase Plan and a Share Bonus Plan. Both are described fully in the Company's 2012 Audited Consolidated Financial Statements.

#### 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 until the financial assets are derecognized.

##### Income tax on OCI

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.

### 17. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted EPS for the three and nine months ended September 30, 2013 and 2012 was based on the information in the table below.

|   | Three months ended September 30, |                    | Nine months ended September 30, |                    |
|---|----------------------------------|--------------------|---------------------------------|--------------------|
|   | 2013                             | 2012               | 2013                            | 2012               |
| Balance as at beginning of period                         | 295,526,000                      | 290,513,000        | 295,526,000                     | 280,212,000        |
| Effect of shares issued pursuant to private placements    | -                                | -                  | -                               | 5,240,000          |
| Effect of shares issued for property                      | -                                | 632,000            | -                               | 3,220,000          |
| <b>Weighted average number of common shares - basic</b>   | <b>295,526,000</b>               | <b>291,145,000</b> | <b>295,526,000</b>              | <b>288,672,000</b> |
| Effect of options granted and outstanding                 | 2,000                            | 33,000             | 14,000                          | 1,240,000          |
| Effect of warrants issued and outstanding                 | -                                | -                  | -                               | -                  |
| <b>Weighted average number of common shares - diluted</b> | <b>295,528,000</b>               | <b>291,178,000</b> | <b>295,540,000</b>              | <b>289,912,000</b> |
| Number of options excluded                                | 26,073,000                       | 25,482,000         | 26,061,000                      | 24,275,000         |
| Number of warrants excluded                               | -                                | 14,892,718         | -                               | 14,892,718         |
| <b>Net income (loss) attributable to shareholders</b>     | <b>\$ 622</b>                    | <b>\$ 1,717</b>    | <b>\$ (57)</b>                  | <b>\$ 753</b>      |
| <b>Basic earnings (loss) per share</b>                    | <b>\$ 0.00</b>                   | <b>\$ 0.01</b>     | <b>\$ (0.00)</b>                | <b>\$ 0.00</b>     |
| <b>Diluted earnings (loss) per share</b>                  | <b>\$ 0.00</b>                   | <b>\$ 0.01</b>     | <b>\$ (0.00)</b>                | <b>\$ 0.00</b>     |

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 dilutive basis for periods when 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.

There have been no significant capital transactions from the reporting date to the date of this filing which have had a material impact on earnings per share.

# Notes to the Condensed Consolidated Financial Statements

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

## 18. SHARE-BASED PAYMENTS

### Description of the Share-based Payment Arrangements

The Company's share-based payment arrangements are described in Note 21 to the Company's 2012 Audited Consolidated Financial Statements.

#### Stock option plan (equity-settled)

As at September 30, 2013, the Company had 18,254,000 (December 31, 2012 – 20,099,000) common shares available for the granting of future options. Options are exercisable at the market price of the shares on the date preceding the date of grant. The Company does not have any cash-settled transactions.

#### Share purchase warrants (equity-settled)

The Company had no outstanding warrants as at September 30, 2013. The Company does not have any cash-settled transactions.

#### Share Bonus Plan

The terms of the Company's Share Bonus Plan are set out in Note 19 to the Company's 2012 Audited Consolidated Financial Statements.

### Terms and Conditions of Share-based Payment Arrangements

The terms of the Company's share-based payment arrangements are set out in Note 21 to the Company's 2012 Audited Consolidated Financial Statements.

### Disclosure of Share-based Payment Arrangements

#### Stock Option Plan

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

| As at and for the periods ending       | Number of options  |                   | Weighted average exercise price |                   |
|--|--------------------|-------------------|---------------------------------|-------------------|
|  | September 30, 2013 | December 31, 2012 | September 30, 2013              | December 31, 2012 |
| Outstanding as at beginning of period  | 24,230,000         | 20,515,000        | \$ 0.11                         | \$ 0.14           |
| Granted                                | 3,595,000          | 5,550,000         | \$ 0.03                         | \$ 0.06           |
| Expired                                | (1,750,000)        | (1,835,000)       | \$ 0.16                         | \$ 0.29           |
| <b>Outstanding as at end of period</b> | <b>26,075,000</b>  | <b>24,230,000</b> | <b>\$ 0.09</b>                  | <b>\$ 0.11</b>    |
| <b>Exercisable as at end of period</b> | <b>24,877,500</b>  | <b>22,505,000</b> | <b>\$ 0.10</b>                  | <b>\$ 0.11</b>    |

| As at                           | Number of options outstanding |                   | Weighted average remaining contractual life (years) |                   |
|---------------------------------|-------------------------------|-------------------|---|-------------------|
|                                 | September 30, 2013            | December 31, 2012 | September 30, 2013                                  | December 31, 2012 |
| <b>Range of exercise prices</b> |                               |                   |   |                   |
| \$0.020 to \$0.025              | 120,000                       | -                 | 4.61  | -                 |
| \$0.030 to \$0.050              | 8,075,000                     | 4,600,000         | 1.93  | 1.19              |
| \$0.055 to \$0.055              | 1,100,000                     | 1,100,000         | 1.86  | 2.61              |
| \$0.060 to \$0.075              | 5,430,000                     | 5,680,000         | 3.05  | 4.25              |
| \$0.080 to \$0.100              | 4,350,000                     | 4,350,000         | 1.26  | 2.01              |
| \$0.110 to \$0.150              | -                             | 1,000,000         | -   | 0.01              |
| \$0.160 to \$0.170              | 4,650,000                     | 4,750,000         | 2.45  | 3.20              |
| \$0.180 to \$0.260              | 2,350,000                     | 2,400,000         | 0.52  | 1.26              |
| \$0.270 to \$0.350              | -                             | 350,000           | -   | 0.48              |
|                                 | <b>26,075,000</b>             | <b>24,230,000</b> | <b>2.20</b>   | <b>2.49</b>       |

## Notes to the Condensed Consolidated Financial Statements

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

Additional disclosures relating to the Company's options are as follows:

|  | Three months ended September 30, |           | Nine months ended September 30, |           |
|--|----------------------------------|-----------|---------------------------------|-----------|
|  | 2013                             | 2012      | 2013                            | 2012      |
| Number of options granted during the period                  | -                                | -         | 3,595,000                       | 5,550,000 |
| Weighted average fair value of options granted at grant date | n/a                              | n/a       | \$ 0.019                        | \$ 0.048  |
| Number of options subject to vesting as at end of period     | 1,197,500                        | 1,790,000 | 1,197,500                       | 1,790,000 |
| Share-based payment expense - vesting options                | \$ 5                             | \$ 21     | \$ 77                           | \$ 255    |
| Share-based payment expense - extended options               | \$ -                             | \$ -      | \$ -                            | \$ 48     |
| Share-based payment expense - vesting options in CBay        | \$ -                             | \$ -      | \$ -                            | \$ 40     |
| Unvested options not yet charged to operations               | \$ 12                            | \$ 65     | \$ 12                           | \$ 65     |

### Share purchase warrants

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

| As at and for the periods ended              | Date Issued                                     | Life <sup>(1)</sup> | Number of warrants |                   | Weighted average exercise price |                   |
|--|---|---------------------|--------------------|-------------------|---------------------------------|-------------------|
|  |   |                     | September 30, 2013 | December 31, 2012 | September 30, 2013              | December 31, 2012 |
| <b>Issued pursuant to private placements</b> |   |                     |                    |                   |                                 |                   |
|  | October 4, 2010                                 | 24                  |                    | 5,600,000         |                                 | \$ 0.10           |
|  | <i>Expired</i>                                  |                     |                    | (5,600,000)       |                                 |                   |
|  | January 10, 2011                                | 12                  |                    | 1,562,500         |                                 | \$ 0.22           |
|  | <i>Expired</i>                                  |                     |                    | (1,562,500)       |                                 |                   |
|  | July 29, 2011                                   | 24                  | 1,833,315          | 1,833,315         | \$ 0.20                         | \$ 0.20           |
|  | August 3, 2011                                  | 24                  | 2,151,533          | 2,151,533         | \$ 0.20                         | \$ 0.20           |
|  | August 29, 2011                                 | 24                  | 333,334            | 333,334           | \$ 0.20                         | \$ 0.20           |
|  | August 30, 2011                                 | 24                  | 970,984            | 970,984           | \$ 0.20                         | \$ 0.20           |
|  | December 30, 2011                               | 18                  | 22,833             | 22,833            | \$ 0.09                         | \$ 0.09           |
|  | <i>Expired Quarter ended June 30, 2013</i>      |                     | (22,833)           |                   |                                 |                   |
|  | February 24, 2012                               | 18                  | 3,410,750          | 3,410,750         | \$ 0.20                         | \$ 0.20           |
|  | February 24, 2012                               | 18                  | 409,290            | 409,290           | \$ 0.14                         | \$ 0.14           |
|  | March 12, 2012                                  | 18                  | 138,250            | 138,250           | \$ 0.20                         | \$ 0.20           |
|  | March 13, 2012                                  | 18                  | 22,429             | 22,429            | \$ 0.20                         | \$ 0.20           |
|  | <i>Expired Quarter ended September 30, 2013</i> |                     | (9,269,885)        |                   |                                 |                   |
| <b>Outstanding as at end of period</b>       |   |                     | -                  | 9,292,718         | \$ 0.26                         | \$ 0.26           |

(1) The life of warrants is stated in months from issue date.

### Inputs for Measurement of Grant-Date Fair Values

The grant-date fair value of share-based payments, including any modifications, was measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility.

## Notes to the Condensed Consolidated Financial Statements

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

The inputs used in the measurement of the fair values at grant date of the share-based payments granted, modified or issued during the periods are as follows:

| Periods ended                           | Options               |                      | Warrants              |                      |
|---|-----------------------|----------------------|-----------------------|----------------------|
|   | September 30,<br>2013 | December 31,<br>2012 | September 30,<br>2013 | December 31,<br>2012 |
| Fair values at grant/modification date  | \$0.013 and \$0.019   | \$0.001 to \$0.048   | n/a                   | \$0.018 to \$0.031   |
| Share prices at grant/modification date | \$0.02 and \$0.03     | \$0.055 to \$0.065   | n/a                   | \$0.09 and \$0.095   |
| <b>Assumptions</b>                      |                       |                      |                       |                      |
| Exercise prices                         | \$0.02 and \$0.03     | \$0.05 to \$0.065    | n/a                   | \$0.14 and \$0.20    |
| Expected volatilities                   | 87% and 86%           | 82% to 110%          | n/a                   | 87% and 93%          |
| Life (years)                            | 4                     | 0.58 to 4.83         | n/a                   | 1.5                  |
| Expected dividends                      | -                     | -                    | n/a                   | -                    |
| Risk-free interest rates                | 1.19% and 1.25%       | 0.99% to 1.53%       | n/a                   | 1.12% to 1.20%       |

There were no options or warrants issued during the three months ended March 31, 2013 or the three months ended September 30, 2013. On April 4, 2013, 3,475,000 options were issued to employees, consultants and directors at an exercise price of \$0.03. Of these options, 2,337,500 vest immediately and 1,137,500 vest in one year. On May 10, 2013, 120,000 options were granted to an employee at an exercise price of \$0.02; half vest immediately and half vest in one year.

### 19. FINANCE INCOME AND FINANCE COSTS

| Notes   | Three months ended<br>September 30, |              | Nine months ended<br>September 30, |               |
|---|-------------------------------------|--------------|------------------------------------|---------------|
|   | 2013                                | 2012         | 2013                               | 2012          |
| Interest income on bank deposits  | \$ 2                                | \$ -         | \$ 13                              | \$ 2          |
| Interest income on loan receivable  | 11 66                               | -            | 162                                | -             |
| Commitment fee  | 11 3                                | -            | 9                                  | -             |
| Flow-through premium  | 13 65                               | 10           | 265                                | 150           |
| Net foreign exchange gain   | 5                                   | 9            | 8                                  | 9             |
| Gain on derivative  | 8 646                               | -            | 646                                | -             |
| Net change in fair value of financial assets at fair value through operations | 8 215                               | -            | 215                                | -             |
| <b>Finance income</b>   | <b>1,002</b>                        | <b>19</b>    | <b>1,318</b>                       | <b>161</b>    |
| Interest expense on loan payable  | 14 94                               | -            | 216                                | -             |
| Interest expense on financial liabilities measured at amortized cost          | 14 6                                | 5            | 19                                 | 17            |
| <b>Finance costs</b>  | <b>100</b>                          | <b>5</b>     | <b>235</b>                         | <b>17</b>     |
| <b>Net Finance Income</b>   | <b>\$ 902</b>                       | <b>\$ 14</b> | <b>\$ 1,083</b>                    | <b>\$ 144</b> |

### 20. OPERATING SEGMENT

#### Reporting Segment

The Company is engaged in the exploration and evaluation of properties for the mining of precious and base metals. The Company does not have formal operating segments and does not have operating revenues, products or customers. The corporate office operates to support the Company's projects as well as providing administrative support to Victory Nickel and CBay (Note 21). The projects are currently located in Canada and Turkey. Senior management makes decisions by considering exploration potential and results on a project basis. Any applicable amounts relating to projects are capitalized to the relevant project as *Exploration and evaluation projects* on the consolidated balance sheets.

# Notes to the Condensed Consolidated Financial Statements

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

## Geographic Information

|                     | Notes | September 30,<br>2013 | December 31,<br>2012 |
|---------------------|-------|-----------------------|----------------------|
| <b>Canada</b>       |       |                       |                      |
| Corporate           |       | \$ 4,033              | \$ 4,535             |
| Chibougamau camp    | 9, 10 | 6,790                 | 5,687                |
| Diabase Peninsula   | 10    | 9,261                 | 9,046                |
| Prairie Lake        | 10    | 3,593                 | 3,372                |
|                     |       | <b>23,677</b>         | <b>22,640</b>        |
| <b>Turkey</b>       |       |                       |                      |
| Berta               | 10    | 1,215                 | 1,202                |
|                     |       | <b>1,215</b>          | <b>1,202</b>         |
| <b>Total Assets</b> |       | <b>\$ 24,892</b>      | <b>\$ 23,842</b>     |

Revenues in each period are generally attributable to the corporate office in Canada; revenue in 2012 relates to CBay and the Chibougamau camp. There have been no changes in the reportable segments or the treatment of segmented assets and revenues year over year.

## 21. RELATED PARTIES AND MANAGEMENT AGREEMENTS WITH VICTORY NICKEL AND CBAV

### Related Party Balances and Transactions for Services

Short-term employee benefits provided by the Company to key management personnel include salaries, consulting fees, 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 shares as part of the Share Bonus Plan and the Stock Option Plan (Notes 16 and 18).

Balances and transactions with related parties for services as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

|                                     | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------------|-----------------------|----------------------|
| <b>Balances Outstanding</b>         |                       |                      |
| Payable to key management personnel | \$ 57                 | \$ 57                |

Key management personnel compensation comprised:

|                                | Three months ended<br>September 30, |               | Nine months ended<br>September 30, |               |
|--------------------------------|-------------------------------------|---------------|------------------------------------|---------------|
|                                | 2013                                | 2012          | 2013                               | 2012          |
| Short-term employee benefits   | \$ 151                              | \$ 168        | \$ 517                             | \$ 512        |
| Share-based payments - options | -                                   | -             | 44                                 | 209           |
|                                | <b>\$ 151</b>                       | <b>\$ 168</b> | <b>\$ 561</b>                      | <b>\$ 721</b> |

### Balances and Transactions with Victory Nickel and CBAV under the Management Agreements

The Company shares management, administrative assistance and facilities with Victory Nickel and CBAV pursuant to separate management agreements; management operates under the supervision of the respective board of directors of each respective company; there is only one common director being Mr René Galipeau. As described in Note 8, Victory Nickel became a related party of the Company effective July 30, 2013. The costs recovered from Victory Nickel and CBAV are recorded at the cost to the Company of such services plus 10 per cent. The management agreement for Victory Nickel commenced February 1, 2007 and is terminable by the Company upon 90 days' notice and by Victory Nickel upon 180 days' notice. The management agreement for CBAV commenced February 14, 2012 and is terminable by the Company upon 90 days' notice and by CBAV upon 60 days' notice.

## Notes to the Condensed Consolidated Financial Statements

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

Balances and transactions with Victory Nickel and CBay under the management agreements as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| <b>Balances Outstanding under Management Agreements</b> |                       |                      |
| Receivable from Victory Nickel Inc.                     | \$ 76                 | \$ -                 |
| Payable to Victory Nickel Inc.                          | \$ 10                 | \$ 43                |

|   | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|---|-------------------------------------|--------|------------------------------------|--------|
|   | 2013                                | 2012   | 2013                               | 2012   |
| <b>Transaction Values under Management Agreements</b> |                                     |        |                                    |        |
| Overhead charges to Victory Nickel Inc.               | \$ 204                              | \$ 130 | \$ 517                             | \$ 501 |
| Overhead charges from Victory Nickel Inc.             | \$ 2                                | \$ 6   | \$ 17                              | \$ 21  |
| Project costs charged by Victory Nickel Inc.          | \$ 8                                | \$ 2   | \$ 30                              | \$ 18  |
| Project recoveries charged to Victory Nickel Inc.     | \$ 11                               | \$ 11  | \$ 14                              | \$ 30  |
| Overhead charges to CBay Minerals Inc.                | \$ 62                               | \$ 66  | \$ 213                             | \$ 180 |
| Project recoveries charged to CBay Minerals Inc.      | \$ -                                | \$ 12  | \$ -                               | \$ 18  |

Amounts due to or from Victory Nickel and CBay under the management agreements are unsecured, non-interest bearing and due on demand. Amounts due to or from Victory Nickel and CBay are settled on a regular basis. Payables to key management personnel generally relate to directors' fees, consulting fees and expense reimbursements.

### Balances and Transactions with Victory Nickel under the Amended Loan

The terms of the Amended Loan with Victory Nickel and the balances and transactions related thereto are described in Note 11.

## 22. COMPANY ENTITIES

### Significant Subsidiaries and Jointly-controlled Entities

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| <b>Ownership Interest</b>                                   |                       |                      |
| Lakeport Gold Corporation                                   | 100%                  | 100%                 |
| CBay Minerals Inc.  | 50%                   | 50%                  |
| Nuinsco Madencilik Sanaye Ticaret                           | 100%                  | 100%                 |
| Nuinsco Exploration Inc.                                    | 50%                   | 50%                  |
| Z-Gold Resources Limited (through Nuinsco Exploration Inc.) | 50%                   | 50%                  |
| NuMENA Minerals Corp.                                       | 100%                  | 100%                 |

None of the companies included in the table above is a public company. Lakeport Gold Corporation is inactive; CBay Minerals Inc. is a jointly-controlled entity with Ocean Partners and owns assets in the Chibougamau mining camp; Nuinsco Madencilik Sanaye Ticaret is a wholly-owned subsidiary and was incorporated to hold the Company's Turkish licenses; Nuinsco Exploration Inc. is a jointly-controlled entity with QCC and was pursuing the rights, through Z-Gold Resources Limited to the gold concessions in Egypt; NuMENA Minerals Corp. is presently inactive and was incorporated as a potential vehicle to spin off certain of the Company's assets in the Middle East North Africa ("MENA") region. This initiative has been put on hold. NuMENA will be inactive until circumstances warrant otherwise.

## Notes to the Condensed Consolidated Financial Statements

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

### 23. JOINTLY-CONTROLLED ENTITIES

The Company has interests in two joint operations that are jointly-controlled being CBay Minerals Inc. and Nuinsco Exploration Inc. which is not a significant venture given the cessation of activity in Egypt. Both joint operations are proportionately consolidated. Included in the Company's consolidated financial statements are the following items that represent the Company's interest in the significant assets and liabilities, revenues and expenses of CBay:

| As at and for the periods ended    | Notes | September 30,<br>2013 | December 31,<br>2012 |
|------------------------------------|-------|-----------------------|----------------------|
| <b>CBay Minerals Inc.</b>          |       |                       |                      |
| Current assets                     |       | \$ 22                 | \$ 79                |
| Property and equipment             | 9     | \$ 941                | \$ 974               |
| Exploration and evaluation project | 10    | \$ 4,875              | \$ 4,273             |
| Current liabilities                |       | \$ 260                | \$ 283               |
| Long-term liability                | 14    | \$ 232                | \$ 213               |
| Other income                       |       | \$ -                  | \$ 120               |
| Operating expenses                 |       | \$ 273                | \$ 352               |

### 24. COMMITMENT

#### Flow-through Commitments

As at September 30, 2013, the Company has fulfilled its remaining flow-through commitment outstanding for flow-through share financings (December 31, 2012 – \$792,000).

### 25. CONTINGENCY

#### CRA Reassessment

In March, 2011, the Company received notices of reassessment in the aggregate amount of approximately \$4,400,000 from the CRA related to transactions completed in 2006. The Company filed notices of objection on May 19, 2011 and also, on July 22, 2011, filed a request for adjustment to correspondingly adjust its tax pools and losses, in the unlikely event that the Company's appeal is unsuccessful. The appeal process could be lengthy and the Company believes that its position is correct and believes it will prevail. Accordingly, the Company has not recorded any liability with respect to this matter.



**NUINSCO RESOURCES LIMITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2013**

**DATED NOVEMBER 8, 2013**



# **NUINSCO RESOURCES LIMITED**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Three and Nine Months ended September 30, 2013**

The following discussion of the results of operations and financial condition of Nuinsco Resources Limited ("Nuinsco" or "the Company") prepared as of November 8, 2013 consolidates management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2013, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited condensed consolidated financial statements as at and for the three and nine months ended September 30, 2013 and 2012 ("Unaudited Condensed Consolidated Financial Statements") and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Certain information and discussion included in this Management's Discussion & 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.

Readers are also encouraged to consult the audited consolidated financial statements for the years ended December 31, 2012 and 2011 ("2012 Audited Consolidated Financial Statements"). The Unaudited Condensed Consolidated Financial Statements and the 2012 Audited Consolidated Financial Statements are available at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.nuinsco.ca](http://www.nuinsco.ca). All amounts disclosed are in Canadian dollars unless otherwise stated. All tabular amounts are in thousands of Canadian dollars.

### **NATURE OF OPERATIONS**

Nuinsco is focused on identifying and exploiting mineral investment opportunities worldwide using its exploration programs and operating and financial expertise. The Company currently has interests in gold, copper, phosphate, rare metals, niobium and uranium assets in world-class mineralized belts in Canada's provinces of Saskatchewan, Ontario and Québec and in Turkey. In addition to its property holdings, Nuinsco owns a 50% interest in CBay Minerals Inc. ("CBay"), a private company that has a dominant position in Québec's Chibougamau mining camp with assets including a permitted mill, tailings facility, eight past-producing copper/gold mines, three partially-developed copper projects (Corner Bay, Devlin and the Perch River option) and a 38,000 hectare ("ha") (96,000 acre) land position. Shares of Nuinsco trade on the Toronto Stock Exchange ("TSX") under the symbol NWI.

The Company continues to achieve positive results from its Diabase Peninsula and Prairie Lake projects and continues to jointly manage CBay and its assets in the prolific Chibougamau mining camp in northern Québec along with Ocean Partners Investments Limited ("Ocean Partners"). As funding permits, exploration programs continue at the Diabase Peninsula uranium project in Saskatchewan and the Prairie Lake project in Ontario where additional testing has been performed which has established that a marketable phosphate concentrate can be produced. An exploration program at Chibougamau commenced in 2012 and is continuing in 2013.

In addition to its property holdings, Nuinsco owns common shares of Victory Nickel Inc. ("Victory Nickel") TSX:NI and common shares of Coventry Resources Limited ("Coventry") listed on the Toronto Venture Exchange ("TSX-V") and Australian Stock Exchange ("ASX") both under the symbol CYY. These assets are available to be monetized to finance the Company's exploration programs and operating costs while helping to minimize equity dilution to shareholders. On September 27, 2012, the Company sold its royalty interest in Coventry's Cameron Gold project for US\$5,100,000.

On July 30, 2013, Nuinsco increased its shareholding in Victory Nickel to 12.24% through its agreement to backstop an equity issue under the loan agreement described below in the Significant Events section, thereby becoming a related party of Victory Nickel.

### **Going Concern**

The Company's Unaudited Condensed Consolidated Financial Statements have been prepared using the going concern assumption which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at September 30, 2013, the Company had working capital of \$521,000 (December 31, 2012 – working capital of \$2,197,000). Working capital is defined as current assets including assets held for sale less current liabilities, excluding restricted cash, if any. Marketable securities comprise investments in other resource companies the markets for which are not always liquid. The loan payable with a third party is due in June 2014 and is classified as a current liability although it can be extended for a six-month period as described in the Liquidity and Capital Resources section of this MD&A and, as at September 30, 2013, additional funds of \$500,000 are available to the Company.

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, dependence on key individuals, realization on its marketable securities

as required and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company's projects through exploration and development to the production stage will require significant financing. Furthermore, the Company has received reassessments from the Canada Revenue Agency ("CRA") as described in Note 25 to the Unaudited Condensed Consolidated Financial Statements. Given the current economic climate, the ability to raise funds may prove difficult. Refer to the Risks and Uncertainties and Liquidity and Capital Resources sections for additional information.

None of the Company's projects has commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which have the potential for the discovery of economically recoverable reserves and resources, the Company's ability to finance exploitation of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding.

In an effort to generate cash from the Company's available assets, the Company has entered into a secured loan agreement with Victory Nickel (the "Amended Loan") which has a conversion feature which, pursuant to contractual terms, could generate cash flows as described in Note 11 to the Unaudited Condensed Consolidated Financial Statements. The loan has provided the initial funding required by Victory Nickel to implement a three-phase business plan to enter the frac sand business beginning in 2013 with first sales expected in early 2014.

On December 18, 2012, the Company entered into a loan agreement with a third party for a \$2,500,000 loan facility (the "Facility"). The terms of the Facility are described in the Liquidity and Capital Resources section. As at September 30, 2013, the Facility was drawn down by \$2,000,000; refer to Note 14 to the Unaudited Condensed Consolidated Financial Statements. The loan is disclosed as a current liability since it is due June 18, 2014; the loan can be extended for an additional six months as described in Note 14 to the Unaudited Condensed Consolidated Financial Statements.

Should the Company not be able to continue to achieve favourable exploration results, obtain the necessary financing, achieve future profitable production or sale of properties or realize timely cash flows from the conversion of the loan with Victory Nickel, the carrying value of the Company's assets could be subject to material adjustment and, in addition, other adjustments may be necessary to these financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP.

## **SIGNIFICANT EVENTS**

During and subsequent to the nine months ended September 30, 2013, the Company:

### ***Corporate***

- Entered into the Amended Loan with Victory Nickel to advance up to \$3,000,000 to provide financing for the development of a frac sand production and marketing business. The Amended Loan is secured by Victory Nickel's assets and the bulk of the funds are to be used to finance capital expenditures on Victory Nickel's frac sand plant in Medicine Hat, Alberta. The loan bears interest at 12% per annum and is convertible at Nuinsco's option into a limited participating interest in cash flow from Victory Nickel's frac sand business.
- Participated in the rights offering of Victory Nickel for cash to an aggregate of \$1,291,198 under the terms of the Amended Loan combined with the exercise of its pre-existing rights under the offering. This increased Nuinsco's ownership in Victory Nickel to 12.24% on a non-diluted basis at that time.
- Announced the passing of director, George Archibald, a director of Nuinsco or its direct predecessors since 1970 and co-founder of the predecessor New Insko Mines in 1970.
- Announced management and board changes. René Galipeau retired as Chief Executive Officer succeeding Bob Wardell as non-executive Chairman of the Board of Directors; Bob Wardell continues as a director of the Company. Paul Jones was named CEO and Sean Stokes became Executive Vice-President of Nuinsco. Paul Jones was also appointed as a director to the Board.

### ***Gold***

- Announced positive drill results grading up to 93.20g/t over 0.25m, from a newly-identified geophysical target, on CBay's Chibougamau gold properties.
- Followed up the very encouraging drill results noted above with ground geophysics on CBay's Portage Island properties.
- Completed a second program of a minimum of 1,500m of diamond drilling consisting of 15 holes on several of CBay's Chibougamau gold properties. Results are pending.

## **Copper**

- Announced drill results with intercepts up to 12.65m grading 1.59% copper that further indicate the large scale of copper mineralization at the Berta property in Turkey.
- Announced the option of the advanced-stage Perch River copper project in the Chibougamau mining camp in Northern Québec through CBay. Perch River is a shallow, flat-lying, ramp-accessible copper deposit with the potential to be a feed source for CBay's Copper Rand mill.
- Announced the acquisition by CBay of the Devlin copper project. Also located in the Chibougamau mining camp, near CBay's Corner Bay copper project, Devlin also has the potential to be a feed source for CBay's Copper Rand mill.
- Four diamond drill holes aggregating 288m were completed at the Devlin project for infill and grade confirmation purposes during the fall of 2013. Results have been received, are being interpreted and are expected to be released shortly.

## **Uranium, Phosphorus and Rare Metals**

- Announced the production (on a test basis) of additional phosphorus concentrate from Prairie Lake for evaluation of agricultural and industrial applications of Prairie Lake mineralization.
- Commenced a lake sediment and water sampling radon gas survey on the Diabase Peninsula property to follow up on drill results showing widespread anomalous uranium mineralization, peaking at 707 parts per million ("ppm"). Radon surveys were instrumental in the recent discovery of high-grade uranium mineralization on a third party's Patterson Lake South JV in the south-western part of the Athabasca Basin.
- Announced the identification of a simplified metallurgical extraction process resulting in a concentrate with improved phosphorus recoveries and very low levels of impurities from mineralization at Prairie Lake.
- Provided a 30 tonne bulk sample to a processor for metallurgical evaluation to assess the potential for recovery of a suite of high-value minerals.

## **OUTLOOK**

Current market conditions can only be described as appalling for the mining sector. This situation is exacerbated for junior explorers by a lack of both revenue and access to non-dilutive financing due to extremely depressed share prices. In this very challenging environment, Nuinsco is differentiating itself from its peers by investing in order to generate revenue in the near term that can finance exploration and development of its excellent project portfolio. At the same time, management is closely watching its finances to ensure the Company will benefit from the inevitable market upsurge to come and robust potential for success that will accompany it.

Nuinsco remains committed to a focus on mineral exploration and development. This has been its core business for decades and one in which it has had considerable success and perceives outstanding future opportunity. Earlier this year, Nuinsco identified an opportunity to participate in the booming oilfield services market through an investment in Victory Nickel and its subsidiary Victory Silica Ltd. ("Victory Silica"). Victory Silica is developing a business that will produce and sell frac sand, a product used extensively in the oil and gas industry, which it expects will begin generating cash flow early in 2014. The projected returns from this investment would allow Nuinsco to finance exploration and development on its existing projects to a large extent without having to rely on the equity markets, and position the Company to take advantage of new exploration opportunities and potential acquisitions that become available from other companies as a result of the current trying times.

## **Prairie Lake**

The Prairie Lake phosphorus/rare-earths/niobium project is outstanding for many reasons. Its current size and potential for expansion cannot be overemphasized - with between 515 million and 630 million tonnes of mineralization identified on only a small proportion of the intrusion, Prairie Lake is one of the world's largest carbonatite-hosted deposits of apatite-based phosphate and rare earth element ("REE") mineralization. The concentration of light rare earth elements ("LREE"s), and particularly of neodymium, in the mineral apatite at Prairie Lake is amongst the highest in the world.

Not only does Prairie Lake have tremendous existing scale with ample room for expansion, its proximity to existing infrastructure and transportation networks, the relative ease with which it could be exploited from surface using quarry methods and its favourable mineralogy and metallurgy all point to Prairie Lake being a very valuable asset within Nuinsco's property portfolio.

While Prairie Lake still provides exploration potential, Nuinsco sees economic possibilities for the extraction of minerals that are in demand in a number of industries. Current initiatives are focusing on the deposit's metallurgy and to this end the Company has provided a 30 tonne sample of mineralization for processing by a leading US-based mineral technology company that has developed a proprietary process to cost-effectively recover certain high-value minerals including those contained at Prairie Lake.

## **Diabase Peninsula**

Widespread anomalous uranium mineralization, peaking at 707ppm uranium (U), has been measured in drill holes over kilometres of strike length on the Diabase Peninsula property in northern Saskatchewan. Of the 42 diamond drill holes completed on the project, a remarkable 33% have returned samples with U content exceeding 50ppm U and 67% have returned values greater than 10ppm U. Anything over about 10ppm U is considered anomalous in the Athabasca Basin, so the results obtained to date denote a very strong and widespread anomalous domain and provide indication of the pervasive and substantial uranium-mineralizing event that has affected the rocks underlying the property. In fact, some of the results obtained to date are comparable to those observed in the altered uranium-mineralized haloes found adjacent to uranium deposits elsewhere in the Athabasca Basin – Nuinsco could be that close to discovery.

In continuing to evaluate Diabase in 2013, a radon geochemical survey was completed over widely-separated parts of the property in order to demonstrate that the technique is effective and to allow its future use on those areas of the property yet to be evaluated. We continue to anticipate outstanding results, building on the solid base of strongly-positive indicators obtained from our work programs to date. The Company is confident that, in Diabase Peninsula, it holds one of the premier exploration projects in the Athabasca Basin with outstanding potential for discovery. As such, management has solidified its ownership position, and is also actively seeking joint venture partners with the financial resources to undertake a large-scale drill program.

## **Chibougamau**

Through its 50% ownership of CBay and that company's dominant position in Québec's Chibougamau mining camp, Nuinsco further demonstrates a level of project quality and scale not commonly observed amongst junior explorers.

The Chibougamau mining camp's Lac Doré Complex has produced 1.6 billion pounds of copper and 3.2 million ounces of gold over 60 years from 18 past-producing mines. CBay currently owns eight past-producers in its 38,000ha land package covering much of the core of the camp; combined they comprise 75% of total copper and gold production from the Lac Doré Complex. Also owned are three partially-developed copper deposits: Corner Bay, Devlin and Perch River. Further, CBay owns a 2,700tpd mill and concentrator and nearby tailings impoundment that is permitted for production. These production assets alone provide an enormous advantage to the Company as the cost to develop them from scratch would run to tens of millions of dollars or more and take years to permit and build.

A program to digitally acquire and catalogue data from the Chibougamau camp has led to a better understanding of aspects of the mineralization there – in particular, where associated with past-producing mines such as Cedar Bay and Jaculet. Based on the work to date, the potential for further discovery of significant copper-gold mineralization at depth is clear and, when added to the known NI-43-101-compliant resource at Corner Bay and known mineralization at Devlin and Perch River, provides for upside potential for enhanced resources.

In addition to the known mineralization associated with the past producers and the new, partially-developed deposits, Chibougamau presents a great opportunity for new grassroots discoveries. Much is known about controls on mineralization in the camp but a dearth of exploration work over the past two or three decades means that a wealth of untested and incompletely-explored targets not directly associated with a past-producing asset exists on CBay's land position. Nuinsco has been conducting surface exploration on a number of targets, both copper and gold, around the camp for the past year. Results have been encouraging to date, although this has not been reflected in our share price, with more results to come in the near future – they provide confirmation of the potential of the camp.

In addition to exploration activities, CBay sees the potential to revitalize these new and past-producing mines. CBay's management has created a plan to put three mines back into production by 2017 and is actively seeking a partner with the financial and technical resources to make this happen.

## **Turkey**

Nuinsco is currently involved in a joint project at Berta with Xstrata. It is a large porphyry-copper occurrence in north-eastern Turkey and is reputed to be the largest copper anomaly of its kind in the Turkish Pontides. Work conducted on the project over the past several years bears this out, where intervals of hundreds of metres of very anomalous copper mineralization have been observed in drill core. Although the project is deserving of more work, Nuinsco continues to examine options, particularly given the numerous challenges that are being experienced generally by companies working in Turkey.

## **Global**

Given the current status of the equity markets, at least in relation to mining, minerals and in particular junior exploration, caution must be the watch-word. To that end, management will balance use of the Company's treasury against the opportunities presented and conduct judicious work programs that are necessary to advance our projects. Management will continue to closely monitor progress by Victory Nickel and Victory Silica toward their goal of generating cash flow as a frac sand producer and marketer early in 2014. The projected cash returns upon Conversion from this investment are expected to create a significant point of difference and allow Nuinsco to create value for shareholders from both its existing stable of exceptional projects and new opportunities as they present themselves in a changing market.



## RESULTS OF OPERATIONS

### ***Three Months Ended September 30, 2013 Compared with Three Months Ended September 30, 2012***

In the three months ended September 30, 2013, the Company had net income of \$622,000, or \$0.00 per share, compared with a net income of \$1,717,000, or \$0.00 per share, in the three months ended September 30, 2012. The principal reason for the decrease is due to the gain on sale of royalty interest on Coventry's Cameron Gold Project of \$1,992,000 during the three months ended September 30, 2012. The decrease is partly offset by a gain on derivative of \$646,000 generated from the excess of fair value over cash paid for the shares and warrants acquired through the participation in the Victory Nickel rights offering combined with the increase in the fair value of the warrants of \$215,000, both of which are recorded in *Net finance income* during the three months ended September 30, 2013.

*General and administrative* expenses ("G&A") in the three months ended September 30, 2013 decreased to \$248,000 from \$289,000 in the three months ended September 30, 2012. The decrease is due to a higher proportion of recoveries under the management agreement from Victory Nickel for this quarter compared to the same quarter in the prior year as a result of increases in activity at Victory Nickel. The decrease is partly offset by an increase in rent expense due to adjustments relating to operating costs and realty taxes advised and charged by the landlord during the three months ended September 30, 2013. Nuinsco's proportionate share of CBay's G&A expenses amounted to \$73,000 for the current quarter; in the comparative period of 2012 these were \$86,000. The overall decrease in CBay's costs is due to lower salaries and travel costs partly offset by higher insurance costs.

As mentioned above, G&A expenses are shown net of recoveries under management agreements; Nuinsco entered into a management agreement with CBay in 2012 and the Victory Nickel management agreement continues. As a result of the CBay agreement, fixed costs are now spread across an additional party and, due to proportionate consolidation of CBay, 50% of these costs are borne by Ocean Partners.

Overhead recoveries through charges to Victory Nickel and CBay for services under the management agreements and deducted from operating expenses amounted to \$312,000 and \$62,000 respectively in the three months ended September 30, 2013, compared with \$130,000 and \$66,000 for the same periods in 2012. Costs allocated to Victory Nickel and CBay pursuant to the respective management agreements are activity related. Such amounts are recorded at the cost to the Company of such services plus 10%. The costs allocated to Victory Nickel have increased significantly from the prior period due to the increase in activity required to support Victory Nickel's frac sand subsidiary. The costs allocated to CBay remain consistent with the prior period.

It is estimated that approximately \$151,000 of G&A expenditures were incurred in supporting the Company's public company status in the three months ended September 30, 2013 (September 30, 2012 - \$146,000 on a comparable basis). The low increase is mainly due to slightly higher investor and public relations expenditures for the current quarter.

Share-based payments related to options decreased to \$5,000 in the three months ended September 30, 2013, from \$21,000 in the comparative period. The decrease is due to vesting of options granted with a lower fair value in 2013 compared to the fair value of options granted in 2012.

The Company separates its pre-exploration write-offs from its writedowns of exploration and evaluation projects in the condensed consolidated statement of operations. In the three months ended September 30, 2013, pre-exploration expenditures amounted to \$22,000, compared with \$7,000 in the comparative period. There have been no impairment adjustments in 2013 to date.

*Net finance income* increased to \$902,000 in the three months ended September 30, 2013 from \$14,000 in the comparative period. *Finance income* of \$1,002,000 was earned in the period, compared with \$19,000 in the same period of 2012. The increase is primarily due to the gain on derivative of \$646,000 relating to the excess of fair value over cash paid for the shares and warrants acquired through participation in the Victory Nickel rights offering as well as the change in the market value of those warrants to September 30, 2013 of \$215,000. The Company completed its expenditure commitment under flow-through financing therefore \$65,000 was amortized into finance income during the three months ended September 30, 2013, compared with only \$10,000 in the third quarter of 2012. The Company entered into loan agreements in late 2012 and early 2013 which resulted in interest income of \$66,000 on the Amended Loan with Victory Nickel and interest expense of \$94,000 on the loan payable in the three months ended September 30, 2013. Both amounts include non-cash amortization of loan fees using the effective interest method as described in the Unaudited Condensed Consolidated Financial Statements.

As at September 30, 2013, the Company had no remaining flow-through premium liability to be amortized through finance income from the flow-through financing that was completed in 2012 since all flow-through expenditures have been made. Note 13 to the Unaudited Condensed Consolidated Financial Statements includes an analysis of the flow-through premium liability which is \$nil as at the end of September 30, 2013.

Other comprehensive loss ("OCI") in the three months ended September 30, 2013 of \$52,000 (September 30, 2012 – other comprehensive gain of \$337,000) relates to changes in the market value of the Company's financial assets at fair value through OCI. The main changes in market values during the quarter were increases in the value of Coventry shares by \$15,000, offset by an overall decrease in Victory Nickel shares of \$71,000. The gain in 2012, relates to an increase in market value of \$387,000 in Coventry shares offset by decreases in market value of \$42,000 and \$8,000 in Victory Nickel and Mag Copper shares, respectively.

The Company has capital loss pools available to it of approximately \$6,536,000 (Note 15 to the 2012 Audited Consolidated Financial Statements). Since the Company has an unrecognized deferred tax asset for such capital losses, any future income taxes with respect to marketable securities and recorded through OCI has an equal and opposite amount recorded through operations. In 2012 and to date in 2013, the pool of marketable securities has been below cost so no income taxes have been recorded.

A discussion of the more significant changes not addressed in other sections of this MD&A is as follows:

*Cash and cash equivalents* as at September 30, 2013 were \$368,000 compared with \$2,275,000 as at December 31, 2012. Refer to the Liquidity and Capital Resources section for discussion of periodic cash flows in more detail.

*Marketable securities* as at September 30, 2013 consist of the Company's financial assets at fair value through OCI as well as financial assets recorded at fair value through operations. Any volatility in the market value of shares will be recorded through OCI whether generated from sales or unrealized market changes; any changes in the value of warrants will be recorded through operations. The value of marketable securities as at September 30, 2013 increased to \$2,643,000 from \$828,000 as at December 31, 2012 mainly due to acquiring an additional 53,799,900 Victory Nickel shares with an aggregate value of \$1,345,000 as well as 53,799,900 warrants with a value of \$807,000 as a result of participation in the Victory Nickel rights offering (each share and warrant constituting a "Unit"). Also, contributing to the increase is the receipt of Victory Nickel shares as consideration for fees on the Amended Loan that was entered into in March 2013. This is partly offset by overall declines in the market value of financial assets for the period.

The *Loan receivable* of \$801,000 as at September 30, 2013 (December 31, 2012 - \$1,009,000) relates to advances paid by the Company to Victory Nickel net of amounts satisfied through the issuance of Units under the Victory Nickel rights offering and is due on January 31, 2015. The loan was amended and extended in March 2013 to increase the amount available up to \$3,000,000 under certain circumstances as described in Liquidity and Capital Resources below. The Amended Loan is disclosed net of unamortized loan fees which are being accounted for on the effective interest rate method. The Amended Loan is subject to a conversion right into a limited participating interest in cash flow based on operating cash flows of Victory Nickel's frac sand business. Presently, the frac sand business is not in operation and cash is not being generated; Nuinsco has not exercised its conversion right. Therefore, the Company has not recognized the conversion right. Nuinsco will re-evaluate the probability of conversion and will reassess the value of that right as circumstances warrant.

*Other assets* as at December 31, 2012 are loan fees paid with respect to the Facility entered into in the fourth quarter of 2012 and were netted against the advances under the Facility as at September 30, 2013 and included in *Loan payable*.

*Trade and other payables* decreased by \$270,000 to \$746,000 as at September 30, 2013; the main reason for the change is the amortization of the flow-through premium through the statement of operations as flow-through expenditures have been incurred; the flow-through commitment was fulfilled by the end of September 2013.

*Loan payable* was drawn down by \$2,000,000 as at September 30, 2013 and is shown net of unamortized loan fees; the loan was in place as at December 31, 2012 but had not been drawn upon.

#### ***Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012***

In the nine months ended September 30, 2013, the Company had a net loss of \$57,000, or \$0.00 per share, compared with net income of \$753,000 or \$0.00 per share in the nine months ended September 30, 2012. The principal reason for the decrease is due to the gain on sale of the Cameron Lake royalty interest of \$1,992,000 during the third quarter of 2012, compared with the combined gains in *Finance income* of \$861,000 from the excess of fair value over cash paid for the shares and warrants acquired through the participation in the Victory Nickel rights offering combined with changes in the fair value of the warrants to September 30, 2013. Furthermore, there was a decrease of \$266,000 in share-based payments and a decrease of \$104,000 in G&A expenses in the current period.

*Other income* in the nine months ended September 30, 2012 of \$119,000 was primarily related to the Company's proportionate share of CBay's gold sales from a clean-up of the Copper Rand mill. There was no revenue in the current period.

*General and administrative* expenses in the nine months ended September 30, 2013 decreased to \$988,000 from \$1,092,000 in the nine months ended September 30, 2012. The decrease is because of higher audit fees in 2012 due to additional work being required on the valuation of CBay assets acquired during the year; further, the Company cancelled certain discretionary work effective the first quarter of 2012. In addition, expenditures on technology, conventions and legal fees were lower in 2013 compared with 2012. Also, the Company entered into the management agreement with CBay in 2012 which has enabled a further sharing of fixed costs across an additional party through the joint ownership of CBay. Nuinsco's portion of fixed costs was further decreased this quarter due to higher overhead allocation to Victory Nickel due to increase in activity on that company's frac sand business. Nuinsco did not implement an across-the-board salary increase for 2012 or 2013; executive salaries for the Company remained at 2011 levels.

Overhead recoveries through charges to Victory Nickel and CBay for services under the management agreement and deducted from operating expenses amounted to \$517,000 and \$213,000, respectively, in the nine months ended September 30, 2013, compared with \$501,000 and \$180,000 in the same period of 2012; Victory Nickel charged the Company \$17,000 (September 30, 2012 - \$21,000). Costs allocated to Victory Nickel and CBay pursuant to the management agreements among the Company and Victory Nickel and CBay are activity related. Such amounts are recorded at the cost to the Company of such services plus 10%. The increase in costs allocated to Victory Nickel is primarily a function of an increased proportion of fixed costs being allocated to Victory Nickel due to an increase in activity during the third quarter of 2013. The management agreement with CBay commenced on February 14, 2012 (halfway through a quarter), which explains why costs allocated to CBay increased in 2013.

It is estimated that approximately \$590,000 of G&A expenditures were incurred in supporting the Company's public status in the nine months ended September 30, 2013 (September 30, 2012 - \$657,000 on a comparable basis). Such costs are largely non-discretionary and are weighted to the beginning of a financial year because of audit and other compliance requirements. The decrease is mainly due to decreases in audit fees, legal fees and convention costs.

Share-based payments related to options decreased to \$77,000 in the nine months ended September 30, 2013, from \$343,000 in the nine months ended September 30, 2012. The decrease is mainly due to a lower number of options granted during this period of 3,595,000 (September 30, 2012 - 5,550,000) combined with a lower fair value of options granted in 2013 of \$0.019 compared with \$0.048 in 2012. The value assigned to the stock options was calculated using the Black-Scholes option-pricing model as explained in Note 18 to the Unaudited Condensed Consolidated Financial Statements.

Routine write-offs of pre-exploration expenditures in the nine months ended September 30, 2013 aggregated \$60,000; there were minimal write-offs of \$10,000 in the comparative period.

In the nine months ended September 30, 2012, the Company recorded an aggregate writedown of exploration and evaluation projects of \$79,000. This includes \$39,000 in respect of Egyptian properties and \$40,000 with respect to the J. Tobrar project in Sudan. The writedown for Egypt includes a \$16,000 provision for impairment against amounts due from the Company's Egyptian partner, being the partner's share of expenditures financed by Nuinsco. These amounts relate to expenditures that were incurred in 2012 prior to the decision to write off the respective properties. There were no writedowns during the nine months ended September 30, 2013.

*Net finance income* increased to \$1,083,000 in the nine months ended September 30, 2013 from *Net finance income* of \$144,000 in the nine months ended September 30, 2012. *Finance income* of \$1,318,000 was earned in the nine months ended September 30, 2013 compared with \$161,000 in the same period of 2012. This is primarily due to the aggregate gain of \$861,000 relating to the shares and warrants acquired through the participation in the Victory Nickel rights offering. The increase is also due to the amortization of the flow-through premium of \$265,000 in the nine months ended September 30, 2013, compared with \$150,000 in 2012. The Company entered into loan agreements in late 2012 and early 2013 which resulted in interest income of \$162,000 and interest expense of \$216,000 in the nine months ended September 30, 2013. Both include non-cash amortization of loan fees using the effective interest rate method as described in the Unaudited Condensed Consolidated Financial Statements.

Other comprehensive loss in the nine months ended September 30, 2013 of \$607,000 (September 30, 2012 - \$372,000) relates to a decrease in the market value of the Company's financial assets at fair value through OCI.

## SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eleven quarters ended September 30, 2013 is as follows:

| <u>Fiscal year 2013</u>                       |                               | <u>3<sup>rd</sup> Quarter</u> | <u>2<sup>nd</sup> Quarter</u> | <u>1<sup>st</sup> Quarter</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Net finance income                            |                               | \$ 902 <sup>(1)</sup>         | \$ 98                         | \$ 83                         |
| Net income (loss)                             |                               | \$ 622                        | \$ (334)                      | \$ (345)                      |
| Total comprehensive income (loss)             |                               | \$ 570 <sup>(2)</sup>         | \$ (676)                      | \$ (558)                      |
| Earnings (loss) per share - basic and diluted |                               | \$ 0.00                       | \$ (0.00)                     | \$ (0.00)                     |
| <u>Fiscal year 2012</u>                       | <u>4<sup>th</sup> Quarter</u> | <u>3<sup>rd</sup> Quarter</u> | <u>2<sup>nd</sup> Quarter</u> | <u>1<sup>st</sup> Quarter</u> |
| Net finance income                            | \$ 216 <sup>(3)</sup>         | \$ 14                         | \$ 34                         | \$ 96                         |
| Net (loss) income                             | \$ (226)                      | \$ 1,717 <sup>(4)</sup>       | \$ (492)                      | \$ (472)                      |
| Total comprehensive (loss) income             | \$ (452)                      | \$ 2,054 <sup>(5)</sup>       | \$ (1,219) <sup>(6)</sup>     | \$ (454)                      |
| (Loss) earnings per share - basic and diluted | \$ (0.00)                     | \$ 0.01                       | \$ (0.00)                     | \$ (0.00)                     |
| <u>Fiscal year 2011</u>                       | <u>4<sup>th</sup> Quarter</u> | <u>3<sup>rd</sup> Quarter</u> | <u>2<sup>nd</sup> Quarter</u> | <u>1<sup>st</sup> Quarter</u> |
| Net finance income (costs)                    | \$ 7                          | \$ (13)                       | \$ (68)                       | \$ 51                         |
| Net loss                                      | \$ (2,115) <sup>(7)</sup>     | \$ (463)                      | \$ (817) <sup>(9)</sup>       | \$ (1,008) <sup>(11)</sup>    |
| Total comprehensive loss                      | \$ (2,597) <sup>(8)</sup>     | \$ (574)                      | \$ (1,908) <sup>(10)</sup>    | \$ (1,075)                    |
| Loss per share - basic and diluted            | \$ (0.01)                     | \$ (0.00)                     | \$ (0.00)                     | \$ (0.00)                     |

(1) Net finance income includes \$646,000 of gain on derivative plus \$215,000 change in fair value of warrants to September 30, 2013.

(2) Total comprehensive income includes items referred to in (1) as well as a decrease in value of marketable securities of \$52,000

(3) Net finance income includes the effect of a \$75,000 remeasurement of a financial liability and \$77,000 amortization of flow-through premium related to expenditures in the fourth quarter of 2012.

(4) Net income includes the gain on sale of royalty interest of \$1,992,000.

(5) Total comprehensive income includes the gain in (4) as well as a net increase in the value of marketable securities of \$337,000.

(6) Total comprehensive loss includes a decrease of \$727,000 in the value of marketable securities.

(7) Net loss includes writedown of Sudan of \$719,000, writedown of Egypt of \$803,000 and writedown of Elmalaan of \$1,100,000 offset by a recovery of provision for Chibougamau of \$870,000.

(8) Total comprehensive loss includes items referred to in (7) as well as decrease in value of marketable securities of \$482,000.

(9) Net loss includes \$122,000 of pre-exploration write-offs.

(10) Total comprehensive loss includes a decrease of \$1,171,000 in the value of marketable securities.

(11) Net loss includes \$489,000 of share-based payments.

Variations in the quarterly results of operations are largely a function of the timing of property and other writedowns, gains on sales of properties, income tax recoveries, the recording of amortization of flow-through premiums and the recognition of gains on derivatives or other fair value changes recognized through operations. Variations in comprehensive income are primarily a function of the changes in the fair values of the Company's marketable securities.

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2013, the Company had working capital of \$521,000 (December 31, 2012 – working capital of \$2,197,000); being defined as current assets less current liabilities. The loan payable of \$1,888,000 is included as a current liability as at September 30, 2013; note that the loan can be extended for a six-month period upon issuance of 3% of the principal amount extended payable in CBay shares owned by Nuinsco; this represents 112,538 shares at an agreed value of \$0.666 per share which represents approximately 0.375% of the outstanding shares of CBay as described in Note 14 to the Unaudited Condensed Consolidated Financial Statements.

The Company used cash and cash equivalents of \$1,907,000 during the nine months ended September 30, 2013, compared with cash generated of \$4,137,000 during the nine months ended September 30, 2012.

In the nine months ended September 30, 2013, the Company used cash of \$1,108,000 in operating activities, compared with \$1,012,000 in 2012. There was a significant difference in net results for each period – in the nine months ended September 30, 2013, the Company incurred a net loss of \$57,000 compared with net income of \$753,000 in 2012. Further, there were significant adjustments for non-cash items in both periods. In 2013, adjustments for non-cash items include those in *Net finance income* totalling \$1,073,000 (2012 - \$144,000) which include gain on derivative of \$646,000 and change in the value of warrants of \$215,000, both as described earlier, and amortization through income of flow-through premium of \$265,000 as well as amortization of non-cash loan fees on loans receivable and payable. In the comparative period, the Company recorded a gain on sale of royalty of \$1,992,000.



Investing activities in the nine months ended September 30, 2013 used funds of \$2,783,000, compared with funds generated of \$4,251,000 in 2012. The primary cash outflows for 2013 relate to expenditures on exploration and evaluation projects of \$1,467,000 compared with \$1,730,000 in 2012. In 2013, the Company advanced \$1,207,000 under the Amended Loan which was then settled in Units of the Victory Nickel rights offering that closed on July 30, 2013. Cash generated in 2012 includes the significant proceeds generated from the sale of the Cameron Lake royalty of \$5,003,000 as well as a share of CBay's proceeds on sale of a royalty and sales of equipment. Refer to the Exploration and Evaluation Activities section for additional discussion of project spending.

Cash generated from financing activities was \$1,984,000 in the nine months ended September 30, 2013, compared with \$898,000 in the same period of 2012. The nature of the financing in each period indicates the challenges being experienced in securing equity financing in the difficult markets. On January 23, 2012, the Company issued 7,142,858 flow-through units at a subscription price of \$0.14 per unit generating net proceeds of \$910,000. Each unit comprised one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.20 for a period of 18 months from closing; the market for flow-through financing deteriorated significantly over the period. These warrants expired unexercised in July 2013.

In the first quarter of 2012, the Company also issued 3,157,894 shares to acquire the royalty on the Prairie Lake property and incurred \$12,000 in share issue costs on this transaction. Issuing shares for property and other services is a means to conserve cash in cash-constrained times.

As described earlier and in Note 17 to the 2012 Audited Consolidated Financial Statements, Nuinsco entered into the Facility in December of 2012. On February 1, 2013, the Company drew down \$1,000,000 on the Facility and paid loan-related legal fees of \$16,000. An additional amount of \$500,000 was drawn down on May 1; a further \$1,000,000 became available on June 18, 2013 of which \$500,000 was drawn on August 1, 2013 bringing aggregate cash draws to \$2,000,000. The Facility has a term of 18 months with the availability of one six-month extension period upon issuance of 3% of the amount payable in CBay shares owned by Nuinsco. This non-cash payment represents 112,528 shares of CBay at an agreed value of \$0.666 per share and represents approximately 0.375% of the outstanding shares of CBay. A facility fee of \$50,000 was paid in cash at closing in 2012 along with a 5% equity bonus in the form of 3,634,777 of the Company's shares; interest of 11.5% per annum is payable in cash quarterly in arrears. The Facility is secured by a first ranking pledge upon Nuinsco's CBay shares. The \$500,000 remaining under the Facility was drawn down on October 21, 2013.

The transactions described above resulted in a decrease in cash of \$1,907,000 and a balance of cash and cash equivalents of \$368,000 which, along with other current assets and other resources, is available to fund future activities.

The table below summarizes Nuinsco's contractual commitments as at September 30, 2013 and December 31, 2012.

#### Table of Contractual Commitments

|   | Due Date   | September 30, 2013                     | December 31, 2012 |
|---|--|--|-------------------|
| Flowthrough expenditures outstanding                    | December 31, 2013  | \$ -                                   | \$ 792            |
| Diabase extended option payment - initial agreement     | Within one year  | paid<br>n/a - see subsequent agreement | \$ 28             |
| Diabase balloon payment <sup>(1)</sup>                  | September 2, 2013  |  | \$ 935            |
| Diabase extended option payment - subsequent agreement  | Within one year  | \$ 100                                 | n/a               |
|   | One to two years   | \$ 100                                 | n/a               |
|   | Two to three years   | \$ 100                                 | n/a               |
|   | Three to four years  | \$ 75                                  | n/a               |
|   | September 2, 2017  | \$ 629                                 | n/a               |
| Perch River aggregate option payments - Nuinsco's share | To July 14, 2017   | \$ 85                                  | \$ -              |
| Long-term liability                                     | Refer to Note 17 in the 2012 Audited Consolidated Financial Statements | \$ 300                                 | \$ 300            |
| Long-term loan <sup>(2)</sup>                           | June 18, 2014  | \$ 2,000                               | \$ -              |
| Operating lease - premises                              | Refer to Note 18 in the 2012 Audited Consolidated Financial Statements |  |                   |

(1) Additional extension is provided for in the extension agreement

(2) Additional extension of six months is provided for in the agreement; a further \$500,000 was drawn on October 21, 2013

As described above, management is continuing to actively pursue additional ways to realize on the potential of its assets or secure financing in order to continue to provide funds for operations in light of the current difficult economic circumstances. Flow-through financings do not provide the funding necessary to meet corporate or foreign expenditures which do not qualify for flow-through eligibility. The significant cost to maintain and comply with regulatory requirements for the Company's public listing cannot be financed with flow-through shares. Cash received from the Company's warrants and options as well as from sales of marketable securities are "hard" dollars and can be utilized without restriction; however, most of the options are not "in-the-money" and the warrants have all expired as at September 30, 2013. Furthermore, the Company's marketable securities are those of other resource companies for which markets are not always liquid.

The Facility of \$2,500,000 has provided the Company with additional financial and strategic flexibility. The Company does not enter debt arrangements without careful consideration of alternatives and ramifications. That the Company can find and support such debt arrangements speaks to the quality of the Company's assets. Whilst securing funds has been important, the Company and management continue to be mindful of reducing present and future outflows.

In order to maintain the option on one of the Diabase Peninsula claims, the Company was originally obliged to make an option payment of approximately \$935,000. In May 2012, the Company announced an initial agreement to extend that option for one year in exchange for four quarterly cash payments of \$9,350 plus one payment of \$37,600 in the fair value of the Company's shares. This deferred the option payment of approximately \$935,000 originally due by September 2, 2012 to September 2, 2013. The terms included an option to extend this agreement and payment further. The shares were issued in July, 2012 and all four quarterly payments were made in accordance with the extension terms.

In the third quarter of 2013, the Diabase Option Agreement was amended further and the Company shall pay quarterly instalments of \$25,000 over the next four years to a total of \$400,000 beginning September 2, 2013 with a balloon payment of \$628,500 to be paid on or before September 2, 2017. The first instalment of \$25,000 under this subsequent agreement was made in September 2013.

Managing in challenging times takes as much, if not more, senior management effort. However, senior management and directors of Nuinsco have historically agreed to accept salary and directors' fee deferrals and may be asked to do so again.

The Company has a corporate policy of investing its available cash in cash equivalents comprising Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise approved by the Board. The portfolio of marketable securities is available to fund the Company's activities.

The total market value of the Company's marketable securities as at September 30, 2013, is approximately \$2,643,000; as at November 8, 2013 the approximate value is \$1,913,000 which takes into account the shares and warrants of Victory Nickel acquired under the rights offering - primarily under the standby and top-up arrangements pursuant to the Amended Loan. These are available to fund the Company's ongoing operations. The market value can go down as well as up. Trading volumes continue to be suppressed and it is generally acknowledged that equities are being undervalued.

As described above, exploration companies such as Nuinsco have historically been heavily reliant upon the equity markets to fund their activities as they typically have no short-term sources of revenue other than through monetization of assets. Opportunities available to Nuinsco for financing would normally be through private placements in the equity markets. However, today's equity markets continue to make this alternative difficult if not impossible without incurring significant dilution to existing shareholders.

Despite experiencing some improvements during 2011, circumstances toughened during 2012 and today's equity markets continue to make this alternative difficult if not impossible without incurring significant dilution to existing shareholders. For this reason, on September 27, 2012, the Company sold its royalty interest in Coventry's Cameron Gold Project for US\$5,100,000. The Company periodically liquidates portions of its securities holdings rather than raise equity financing. However, the results of, and the availability of such sales when required are also dependent upon market conditions which are outside the control of the Company. The Company will continue to balance its financing choices as a function of availability and market activity.

The Company closed flow-through financings in 2012 of \$1,000,000, a portion of which is to provide funds for exploration at the Chibougamau camp. While flow-through financings appear to continue to be available for exploration in certain provinces, the current share price makes such financing prohibitively dilutive. However, despite the funds generated from the royalty sale in 2012, additional financings will be required to properly exploit the Company's Canadian and foreign assets. This requirement has been reduced significantly with the withdrawal from Egypt and Sudan as well as Elmalaan, Turkey. The Company will consider all alternatives to protect and further improve liquidity as described above given

appropriate pricing and other market conditions. Such alternatives could include earn-in options with third parties, other partnership arrangements, corporate transactions and further sales of marketable securities or project assets including royalty arrangements.

While waiting for the financing markets to return, the Company is preparing for the shift in the historic model of project exploration and development financing by evaluating revenue-generating opportunities. When the financing markets return, Nuinsco will be ready. Maintaining a healthy evaluation and development junior mining sector continues to be important to the Canadian economy and Nuinsco plans to be around to be part of that industry for years to come.

The proceeds from the royalty sale have helped to fund ongoing operations and commitments. Furthermore, the Facility has improved the Company's flexibility and ability to participate in potential cash-generating activities. To this end, the Company loaned \$2,500,000 and up to \$3,000,000, under certain circumstances, to Victory Nickel for use in developing its frac sand business (the Amended Loan). The Amended Loan is secured and contains a convertibility option which would, at Nuinsco's option, convert the loan to a limited participating interest in net cash flows of an operating business. This is intended to provide Nuinsco with a cash flow stream which would be available to fund operations or exploration programs in the future.

Under the terms of the Amended Loan, Nuinsco provided a standby commitment for an equity offering, this applied to the rights offering of Victory Nickel which closed on July 30, 2013. Under the circumstances of the offering, Nuinsco subscribed for \$1,207,584 or 50,316,018 Units, each Unit comprising a common share and a share purchase warrant. This brings cumulative advances to Victory Nickel of \$2,207,584 and caps the Amended Loan funds at \$2,707,584 (from a maximum possible \$3,000,000) with \$500,000 remaining available under its terms for capital items to develop the frac sand business. Nuinsco also exercised its basic rights under its prior shareholding of Victory Nickel which amounted to 3,483,882 additional Units for \$83,613.

Nuinsco has valued the shares and warrants at an aggregate amount of approximately \$1,937,000 at closing (\$2,285,000 including its original holdings) using the closing price of Victory Nickel shares of \$0.025 along with an estimated value of \$0.011 per warrant valued using the Black-Scholes option-pricing model. Additional shares were received in consideration for the top-up advance with a value of \$20,758. As mentioned earlier, all of these shares are available to be monetized when necessary although the Company recognizes that the market for resource company securities continues to be tough.

The subscription under the rights offering brings Nuinsco's interest in Victory Nickel's shares to approximately 12.24% at July 30, 2013 on a non-diluted basis. Nuinsco has continued to account for its investment in Victory Nickel as marketable securities and any changes in the value of shares will continue to be accounted for through OCI with changes in the value of warrants being accounted for through *Finance income* or *Finance costs* in the consolidated statement of operations.

The Company is actively involved in advancing the Chibougamau camp in which Nuinsco has a 50% interest through CBay. Given current market conditions there is no guarantee that a going-public transaction or other structure will be completed in the near term. The Company, along with its partner, Ocean Partners, continues to be active in discussions with potential financiers or partners.

The Company's average monthly expenditures on a cash basis, net of recoveries from Victory Nickel and the net proportion from CBay for ongoing administrative support in 2012, were approximately \$123,000; budgeted net monthly commitments for expenses average \$158,000 for the whole of 2013; including salaries capitalized to projects, increases the monthly budgeted commitment to \$179,000 or approximately \$2,150,000 on an annual basis. In the nine months ended September 30, 2013, average monthly expenditures on a cash basis, including salaries capitalized to projects were \$154,000 compared with budget for the same period of \$185,000. Expenditures are higher than average at the beginning of a year due to compliance requirements such as audit.

These figures assume that the management agreements remain in place; no notification of any intention to cancel the arrangements has been received or made. Note that these figures exclude the effect of both interest expense on the Facility which is payable on a quarterly basis and interest income on the loan receivable from Victory Nickel.

As described above, the salary deferral mechanism has been used when required to reduce the pressure on cash; other controls on discretionary expenditures are in place and non-essential services have been cancelled. The Company estimates that approximately \$590,000 was incurred in 2013 (2012 - \$657,000 on a comparable basis) in non-discretionary costs on an ongoing basis to support the Company as a public entity – such costs are generally biased towards the first half of a year. Such expenditures are not eligible for flow-through funding (even when available) and must be financed through other means. The 2012 budgeted program cost on Berta was approximately US\$2,672,000 of which Nuinsco's proportionate interest would be US\$953,000. The Company chose to not fund its proportionate share. Subsequent to the end of the 2012 drilling program, Xstrata informed Nuinsco that it would resign as operator of the

project. Nuinsco is examining the options with regard to additional exploration/diamond drilling on the property taking into account the existing challenges and protracted timing presently associated with permitting in Turkey.

Partners are also being sought for certain of the Company's projects where significant funding is required for proper exploration programming and fulfilment of option terms.

Overall, given the working capital of \$521,000, the available extension of the loan payable under the Facility of \$1,888,000 for a further six months, the remaining funds under the Facility received in October and the expected monetization of the investment in Victory Nickel, the Company expects to be able to fulfil its operating requirements for 2013. We recognize that the markets are continuing to be difficult and that monetizing the Company's marketable securities may be challenging. The convertibility feature of the Amended Loan and upside potential on Victory Nickel equity is expected to provide cash flow once the frac sand business is operational.

## **EXPLORATION AND EVALUATION ACTIVITIES**

In the nine months ended September 30, 2013, the Company incurred E&E expenditures of \$1,563,000 on its mineral interests compared with \$2,255,000 in the nine months ended September 30, 2012. The most significant expenditures in the period were on the Chibougamau Camp in the amount of \$1,114,000 (September 30, 2012 - \$761,000). Costs on other programs in 2013 included: Diabase Peninsula \$215,000 and Prairie Lake \$221,000 (September 30, 2012: \$963,000 and \$467,000).

In the first quarter of 2012, the Company determined that it would cease its activity in Egypt, Sudan and Elmalaan, Turkey. Accordingly, effective December 31, 2011, the projects were written down to \$nil. Expenditures incurred on those projects in 2012 prior to the decision being made were also written off in the quarter ended March 31, 2012. Such amounts were: Bukari, Egypt \$23,000 expended and written off; J. Tobrar in Sudan \$40,000 expended and written off.

**Paul Jones, President (CEO and director of the Company effective September 30, 2013), is a "qualified person" as defined under NI-43-101, and he has supervised the preparation, and has approved, the information relating to the material mineral projects of the Company described herein.**

A synopsis of the Company's properties follows; complete details of the mineral properties are available on the Company's website at [www.nuinsco.ca](http://www.nuinsco.ca).

## **URANIUM AND RARE METALS**

### **Diabase Peninsula Property, Saskatchewan**

Nuinsco's Diabase Peninsula uranium project is located 150km northwest of La Ronge, Saskatchewan within the south-central Athabasca Basin - the region that hosts the world's richest uranium mines. The 21,900ha Diabase Peninsula property extends from the southern limit of the basin 35km north-easterly, atop a graphite-bearing conductive "basement" horizon beneath the basin sandstones, intertwined with the sub-parallel terrane-bounding major deformation structure the Cable Bay Shear Zone – considered to be an important potential host structure for uranium mineralization in this part of the Athabasca Basin.

The Diabase Peninsula project was initially a joint venture with Trend. During the first quarter of 2012, cumulative expenditures increased Nuinsco's ownership interest to greater than 90% as Trend did not contribute its proportionate share of expenditures. Under the joint venture agreement, should a participant's interest drop below 10% that participant will relinquish its entire participating interest and will have the right to receive a royalty equal to 3% of the net value of all mineral products produced from the property. Accordingly, Trend's interest was converted to a royalty and Nuinsco owns the project in its entirety. Effective December 19, 2012, the Company acquired that royalty through a one-time cash payment of \$15,000. Accordingly, Trend has no interest in the Diabase Peninsula property.

In May, 2012, the Company announced an extension with the option holder on one of the claims, to extend that option for one year in exchange for four quarterly cash payments for an aggregate amount of \$37,000 and \$38,000 in the Company's shares; as at June 30, 2013, the shares have been issued and all of the cash payments have been made. The shares were issued in July, 2012. Accordingly, the option payment of approximately \$935,000 originally due by September 2, 2012 had been deferred to September 2, 2013.

In the third quarter of 2013, the Company negotiated a further extension whereby it is required to make payments totalling \$1,028,500 as follows: an aggregate sum of \$400,000 payable in quarterly instalments of \$25,000 up to and including June 2, 2017 and a lump sum of \$628,500 on or before September 2, 2017. The Company made the first quarterly instalment of \$25,000 in September 2013.

That same claim is subject to a 3% gross production royalty defined as actual metal/mineral sales with no deduction for refining or transportation expenses.



A 2012 winter drill program followed from the past exploration programs that have identified all the elements indicative of a uranium-mineralizing event. Four holes were collared during the program although only three were completed (the fourth one, ND1202A, was abandoned in overburden at 30m). The total program consisted of 1,598m of drilling, with results peaking at 55.94ppm U over 6.9m in hole ND1203 including individual intervals grading 134ppm and 181ppm U (analysis by total digestion method). Unseasonably warm weather forced the demobilization of equipment before drilling could be conducted on one of the most prospective uranium anomalies on the project – the Mackenzie Bay area to the north-west of previous hole ND801, in the central part of the property which is an area of overlapping geophysical, surface and drill hole geochemical anomalies and has favourable geology. The drill testing of this target will be deferred to a later program. Due to the small size of uranium orebodies relative to most other types of economic mineral deposits, tight drill-hole spacing is necessary in order to adequately evaluate prospective targets.

During the winter of 2013, a modest program of lake sediment and lake-bottom water sampling was completed over several parts of the Diabase Peninsula property. The survey samples were tested for the presence and concentration of radon gas (an indicator of uranium mineralization) over four widely-separated areas, at reconnaissance level sample spacing, overlying the Cable Bay shear structure and areas with known anomalous U results from previous drilling. Results to date appear to further validate geophysical and geological interpretations concerning the highest potential target areas for mineralization. As well it was found that radon concentrations in water sampled 1-2m above the lake-bottom accurately reflect the concentrations within sediments collected immediately below, such that distribution patterns within the water samples mimic patterns revealed by the testing of sediments. This implies that a water sample survey alone may be sufficient to prioritize the property's geophysical targets for drill testing, and that further radon surveying may be conducted for half the price or less per sample station, in comparison with the 2013 "orientation" survey.

Since radon, or its parental uranium carried in solution within circulating groundwater within the sandstone sequence, must migrate to near surface from depths ranging from 300m to 500m within the four areas surveyed, the highest concentrations of radon are expected to be encountered in the immediate vicinity of, and directly above, near vertical fault zones present at depth within the Athabasca sandstones. Such fault zones are common hosts to uranium deposits within the region, and most are considered to have originated due to reactivation of faults and shear zones present in the older basement lithologies beneath the sandstone such as the Cable Bay shear. The March 2013 survey successfully detected anomalous concentrations of radon over the northernmost geophysical-geochemical targets at the project, and has partly mapped the "surface expression" of strike-parallel faults indicated by geophysics to occur sporadically along the length of the Cable Bay Shear Zone.

Given the successful outcome of the March 2013 work, undertaken in part to test the survey method in areas of thick sandstone cover above the unconformity and the additional encouragement the radon concentrations detected have provided regarding the validity of interpreted geophysical and geological-geochemical anomalies, it is advisable to conduct further surveying of this nature over select areas in order to best direct future drilling efforts at the project toward areas with the best potential.

### **Prairie Lake Property, Ontario**

Prairie Lake, located near Marathon, Ontario, is a multi-commodity deposit containing phosphorus (P), niobium (Nb) tantalum (Ta), uranium, and REEs. The Prairie Lake property is owned 100% by the Company and is royalty-free.

On October 26, 2011, the Company announced the results of an updated NI-43-101-compliant Exploration Target Mineralization Inventory ("ETMI") that demonstrated the presence of between 515 million tonnes and 630 million tonnes averaging 3.0% to 4.0% P<sub>2</sub>O<sub>5</sub>, 0.09% to 0.11% Nb<sub>2</sub>O<sub>5</sub>, and 0.137% to 0.166% REEs. The surface area used for the ETMI covered just 30% of the total project surface area. The update represented an overall tonnage increase of 56%-75% over the earlier estimate of 330 million tonnes – 360 million tonnes announced in January 2010.

Since the announcement of the ETMI the Company has been focusing its efforts on metallurgical studies in order to demonstrate that the Prairie Lake rock is amenable to processing and concentration.

Metallurgical testing at Corem in Quebec City, which started in 2009 and has continued to date, has confirmed the potential to produce a marketable fertilizer product by meeting and exceeding published specifications for phosphate concentrate and most importantly demonstrating that a concentrate grading greater than 30% P<sub>2</sub>O<sub>5</sub> is attainable with appropriate thresholds. Current work is continuing to assess the viability of phosphorus concentration and to optimize a processing flowsheet. Additional work has commenced to evaluate the potential to concentrate niobium and to develop an optimized flowsheet for such. The opportunity of exploiting other elements such as rare earths and iron are also being actively considered and investigated.

Selected results from the tests completed in 2012 (see press release dated June 18, 2012) are tabulated below and are compared to published specifications of the Bureau of Indian Standards for phosphate concentrate (Type I and II). Test 35 from the program produced the best overall concentrate results to date with a P<sub>2</sub>O<sub>5</sub> content of 30.6%; other parameters tested are SiO<sub>2</sub> content of 1.37%, F content of 0.62%, MgO content of 0.7%, Cl content of 0.012% and Al<sub>2</sub>O<sub>3</sub>+Fe<sub>2</sub>O<sub>3</sub> of 0.65%. Selected size ranges from Test 35 produced even higher P<sub>2</sub>O<sub>5</sub> concentrations with <150 micrometres (“µm”) to >106µm and <106µm to >75µm attaining 38% and 38.1% P<sub>2</sub>O<sub>5</sub> content respectively (and with the other tabulated criteria) while Test 27 attained 34.4% P<sub>2</sub>O<sub>5</sub> with the use of an HCl acid leach to remove carbonate.

| <b>Bureau of Indian Standards (BIS) - IS: 11224-1985, reaffirmed 2003</b>                                     | Type I  | Type II | Test 35 Con. | Test 35 Con. | Test 35 Con. | Test 27 Con. after Leach |
|---|---------|---------|--------------|--------------|--------------|--------------------------|
|   |         |         |              | -150+106µm   | -106+75µm    |                          |
| Total phosphate (P <sub>2</sub> O <sub>5</sub> ) % by mass  | ≥ 30    | ≥ 32    | 30.6         | 38           | 38.1         | 34.4                     |
| Silica (SiO <sub>2</sub> ) % by mass  | ≤ 10    | ≤ 5     | 1.37         | 1.12         | 1.2          | 5                        |
| Fluoride (F) % by mass  | ≤ 2     | ≤ 4     | 0.62         | 0.72         | 0.83         | **                       |
| Mixed aluminium and iron oxide (Al <sub>2</sub> O <sub>3</sub> and Fe <sub>2</sub> O <sub>3</sub> ) % by mass | ≤ 3     | ≤ 3.5   | 0.65         | 0.44         | 0.48         | 2.99                     |
| Magnesium oxide (MgO) % by mass   | ≤ 0.5   | ≤ 0.5   | 0.7          | 0.32         | 0.39         | 2.26                     |
| Chloride (Cl) % by mass   | ≤ 0.015 | ≤ 0.05  | 0.012        | 0.033        | 0.009        | 0.043                    |

\*\* Insufficient samples

The most recent test work at Corem (see press release dated October 24, 2013) indicates that an apatite concentrate grading in excess of 29% phosphorus (P<sub>2</sub>O<sub>5</sub>) can be produced at a 71% P<sub>2</sub>O<sub>5</sub> recovery. This is a very significant result as it is a substantial improvement over recoveries achieved in previous testing (e.g.: Test 35 described above, see March 26, 2013 press release). The most recent test work has also led to the development of a vastly simplified process flowsheet compared to that used in previous tests.

Ongoing work at Corem will continue to test the processing and concentration of apatite and the niobium-bearing pyrochlore mineral from Prairie Lake rock. Additional metallurgical testing will also be undertaken by a private company in the US using alternative proprietary technology to determine what suite of minerals can be produced from the Prairie Lake apatite-bearing carbonatite rock in an economically viable manner. In early October, 2013, an approximately 30 tonne sample of rock was collected from three small pits at the Prairie Lake site and has since been delivered to the private company for testing.

## **GOLD AND COPPER Chibougamau Camp, Québec**

With the acquisition of substantially all of the remaining secured debt of Campbell by Nuinsco and Ocean Partners, the Company and Ocean Partners, through a jointly-owned company, CBay, made a proposal to the courts to realize on its security and gain ownership of the former Campbell assets in the Chibougamau mining camp. The Québec Superior Court approved the proposal and, effective October 25, 2011, ownership of the assets was transferred to CBay. On February 15, 2012, Nuinsco and Ocean Partners announced the appointment of Roland Horst as the Chief Executive Officer of CBay.

The Chibougamau assets represent a very substantial presence in a mining camp which has produced 1.6 billion pounds of copper and 3.2 million ounces of gold from 18 past-producing mines on the Lac Doré complex alone. Nuinsco and Ocean Partners now own eight past-producers on the Lac Doré complex and the significant potential to add to the known mineralization at these projects, three partially-developed copper projects (Corner Bay, Devlin and the Perch River option), a permitted 2,722 tonnes per day mill and tailings facility and in excess of 96,000 acres (38,000ha) of highly-prospective exploration property.

The Company has developed an initial exploration program to begin to capitalize on the huge potential which the Chibougamau copper-gold camp offers. The program commenced in September 2012 with an initial site visit and field examination. Subsequently, grid control was established and ground geophysics conducted on the north-eastern Portage Island part of the land package with the aim of assessing near-surface gold-copper zones that have not been examined in at least 20 years. The last period of work in this area was a 1991-92 mapping and diamond drilling program by Westminer Canada, undertaken when the gold price ranged from approximately US\$200 to US\$300 per ounce.

The Portage Island area consists of mining concessions where both surface and mining rights are now owned 100% by CBay; and, as was the case during prior operator tenure dating back to the early 1900's, no performance or reporting of

exploration activities for assessment purposes has been required in order to maintain property ownership. Consequently much of the work completed in this area, including bedrock trenching and drilling which has occurred intermittently from the 1930's to the early 1990's by a variety of operators, was ever reported to the Québec government. The confidential records concerning the work and results obtained consist of paper files archived at the Copper Rand mine. Following a comprehensive inventorying of the paper record era data during 2012, substantial progress has been made in the conversion of files to digital electronic formats, many relating to long-overlooked occurrences and prospects with significant gold tenor but insufficient copper content to have been high exploration priorities during the operational life of the many mines situated nearby.

Diamond drilling began in November on targets developed from the geophysical surveys and from the largely confidential records of historic work. This program has continued during 2013, financed entirely with flow-through funds previously committed to the project.

In 2012, the Company entered into an option agreement with CBay to make expenditures on its Portage and Corner Bay properties in exchange for an undivided interest in each property as follows: \$300,000 incurred on Portage up to December 31, 2012 earns a 30% undivided interest with the option to incur up to an additional \$500,000 in \$100,000 increments each earning a 5% additional undivided interest; \$1,000,000 in expenditures incurred on Corner Bay in \$250,000 increments each earning a 5% undivided interest in the property. Expenditures on the Chibougamau camp amount to \$953,000 (2012 - \$440,000) incurred pursuant to that agreement. Substantially all of the expenditures are on the Portage property and are described below.

An induced polarization ("IP") survey over a 2km by 1.4km area in the north-eastern part of Portage Island and an 18 hole 1,683m drilling program completed during October-November 2012 to test new targets from the survey, and two gold enriched zones with subdued copper tenor known from historic exploration, was carried out in 2012.

In March-April 2013 linecutting and geophysical surveys consisting of IP and ground magnetics were conducted along strike to the southwest over additional mining concessions on Portage Island, covering an area measuring about 2.5km by 1.5km. Numerous chargeability anomalies and zones of low resistivity were identified, likely to represent zones of disseminated (non-conductive but chargeable) to stringer or semi-massive mineralization (exhibiting low resistivity to moderate conductivity), both types of which are prospective for gold and/or copper rich sulphides. This work provides a continuous east-west corridor of geophysical coverage across the island.

From late May to the end of July, a geological crew undertook field evaluation of the targets generated by geophysical surveys as well as conducting prospecting and sampling on other parts of the Chibougamau landholdings. In conjunction with the fieldwork, a data review is being conducted of extensive and very valuable historic information – to assess and unlock the potential of the other underexplored CBay-owned assets within the camp. Further, compilation and modelling of the past-producing Cedar Bay and Jaculet mines is also underway in order to develop "order-of-magnitude" estimates of targets, provide "scoping" for possible future drilling and allow visualization of the mineralization and target areas.

At the conclusion of the summer mapping and prospecting program, a dozen high priority, entirely-unexposed geophysical targets were examined by means of backhoe trenching in overburden. Those targets in the northwest part of Portage Island, hosted within either volcanic rocks or the iron-rich border phase of the Lac Doré Complex were found to lie generally beneath shallow cover and the geophysical responses investigated were found to be due to either disseminated pyrite and/or magnetite. Sampling revealed no economically-significant values in copper or gold.

In contrast, backhoe trenches excavated along the south-eastern portion of the island close to the past-producing Portage, Henderson 1 and Henderson 2 mines, where geophysical targets lie within anorthosites (plagioclase-rich intrusive rocks, host to most of the past-producing mines in the core of the Chibougamau mining camp) were found, without exception, to be deeply covered and impossible to expose by means of digging through soils utilizing a "high hoe" tracked excavator.

In early September, work commenced upon an exploration claim group in La Dauversière Township situated 3km northwest of the regionally-significant past-producing Joe Mann gold mine (1.24 million oz. Au at a grade of 0.24oz./ton). Targets were geophysical anomalies beneath deep cover possibly representing mineralized shear zones in a favourable orientation and a geological environment prospective for gold mineralization within quartz veins.

Two holes totalling 213m were completed, both of which cut pyrrhotite stringer mineralization causing the geophysical response, but which were barren of significant gold or copper values. The geological environment in the area is reasonably prospective for VMS mineralization, copper and/or zinc-rich volcanogenic massive sulphides and the Company will assess its options for further exploration upon the claim group directed towards this deposit type. Expenditures incurred during fieldwork and drilling are sufficient to maintain assessment requirements upon the claim group.

Four drill holes aggregating 288m were completed for infill, grade confirmation and mineralization characterization purposes at the flat-lying and near-surface Devlin copper deposit within Obalski Township, where a 1981 to 1982 underground bulk sample program partially developed the deposit by ramp access in preparation for possible mining.

Four drill holes totalling 582m were undertaken at the Baie du Commencement gold-copper zone in the southern part of Portage Island to confirm and trace downdip-significant gold copper intercepts reported from limited historic drilling in the mid 1930's and early 1990's. Observations suggest that this structure may coincide with the Mackenzie gold-copper vein system lying 4.5km to the northeast and may similarly show an increase in gold grades with depth. Testing of the structure at depths exceeding that to which the recent IP survey was capable of examining and drill testing of nearby IP anomalies covered beneath deep overburden is strongly recommended by the Company's consultants.

The final 5 drill holes comprising 477m of the fall 2013 drill program were completed to further evaluate the near-surface potential of the Mackenzie gold-copper vein system, mined at depth primarily for its gold content where the structure cut through the workings of the nearby past-producing Portage mine (which was developed upon an entirely separate mineralized structure situated several hundred metres to the southeast). The Mackenzie zone is developed within, adjacent to, and along strike from a locally highly-sheared and pyrite-rich quartz feldspar porphyry.

Although it has long been recognized as a result of 1930's era trenching that a set of near-flat-lying and often well-mineralized veins are present surrounding the two primary more steeply-dipping, shear-parallel veins, most drilling in recent times has been directed northward as though evaluating a simple sheet-like body and failed to adequately test for the presence of shallowly-northward-dipping vein sets. A steep south-facing hillside limits the possible choices of drill setup locations due to the dimensions of modern drilling equipment as compared with the 1930's era drills which initially tested the zone. Three of the holes completed during 2013 commenced in the footwall of the system and were directed in a generally-southerly direction "downdip" in order to cut the flatter vein set at high angle and to test for the presence of connector veins in various orientations developed between the two primary veins which define the trend of the zone overall. Assay results are pending and will be announced in the near future.

During the first quarter of 2013, CBay entered into an agreement to option the Perch River copper project for a total cost of \$200,000 payable over four years. CBay paid \$30,000 in the first quarter of 2013. In early May 2013, CBay announced the acquisition of the Devlin copper project for \$363,000 which amount was paid in May 2013. Both transactions provide for 2% NSRs to be retained by the vendors and are intended to provide near-term feed for the Copper Rand mill.

## **Turkish Property**

### ***Berta***

The Berta copper project is located in north-eastern Turkey. Berta was originally a 50:50 joint venture with Xstrata one of the commodity business units within Xstrata plc. Exploration began at Berta in 2004.

As noted historically, discussions with Xstrata were underway, including discussions to buy Xstrata's share of the joint venture. Subsequently, Xstrata advised that it was no longer interested in selling its share of Berta. As a result, Nuinsco opted not to pay the full share of the recorded expenditures and allowed itself to be diluted to approximately 36%. Nuinsco continues to accrue for its reduced proportionate share of expenditures incurred on Berta based on work plan budgets provided by Xstrata and where the Company has agreed to participate.

Most recently, a total of six diamond drill holes were completed in a work program conducted in the third and fourth quarters of 2012 that followed up on the widespread and very anomalous copper mineralization identified in previous work programs. The principal aim of the work was to assess parts of the Berta Project that, to date, have seen no drilling but which are overlain by very strong copper-in-soil anomalies located at the centre, east and north of the Berta porphyry system. Results from past drill programs conducted between 2005 and 2008 returned very positive results, including the results from DDH SD-07-08 and DDH SD-08-10 (collared 500m south of SD-07-08) which returned 164.0m grading 0.20% copper and 0.06g/t gold between 250.5m and 414.5m. All of the holes drilled to date, including those from the most recent program at Berta, have returned copper mineralization with variable alteration associated with porphyry copper mineralization and thus the drilling indicates the huge scale and continuity of the anomaly in the Berta porphyry system. The wide spacing of the drill holes and the long anomalous and altered intercepts obtained continue to demonstrate the scope of the copper mineralization at Berta. The property remains a very large and very prospective exploration opportunity. Subsequent to the end of the 2012 drilling program, Xstrata informed Nuinsco that it would resign as operator of the project. Nuinsco continues to examine the options with regard to additional work on the property - the challenges in Turkey with regard to timely granting of permits to allow work programs to be planned and conducted persist.



## **INVESTMENTS**

### **Victory Nickel Inc.**

As at November 8, 2013, the Company owns 68,524,727 shares, which represents an approximate 12.08% interest in Victory Nickel, which is held as marketable securities, with a fair value of \$1,370,000. Nuinsco also owns 53,799,900 warrants with an estimated fair value of \$430,000 using the Black-Scholes option-pricing model.

### **Coventry Resources Limited**

Pursuant to the sale of Cameron Lake, Nuinsco received 12,000,000 shares in Coventry (an approximate 6.9% interest – some of which has subsequently been sold) as well as the 3% NSR royalty over future production from the property, which was sold in September 2012. In early 2013, Coventry completed a corporate transaction with Crescent Resources Inc. which resulted in a merged corporation trading under the name Coventry Resources Inc. on the TSX-V:CYY as well as the ASX. As at September 30, 2013, the Company owns 1,458,528 shares with a fair value of \$117,000. On September 30, 2013, Coventry announced a further reorganization to merge with Chalice Gold Mines by way of a statutory plan of arrangement. If approved, Nuinsco will receive one Chalice Gold Mine share for every 1.78 Coventry shares. The merger is expected to be finalized by mid-December 2013. As at November 8, 2013, the Company owns 1,458,528 shares of Coventry with a fair value of \$102,000.

## **IMPAIRMENT ANALYSIS UPDATE**

The Company performed a detailed impairment analysis on each of its E&E projects as at December 31, 2012. The Company does not believe that there have been any material changes to date which would adversely affect this analysis. Furthermore, there has been no change in management's plans which would cause a reassessment. All projects have had recent expenditures or are otherwise considered to be active.

Management concluded that no impairment existed in each of its projects effective September 30, 2013 and that costs incurred to date on all projects 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 used in the preparation of the consolidated financial statements include determining the carrying value of investments and its E&E projects, assessing the impairment and classification of long-lived assets, assessing the allocation of assets into their components, the recognition of the convertibility feature of the loan and the valuation of share-based payments and warrants, assessing the value of deferred income tax assets 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, judgements and measurement uncertainty, reference should be made to Notes 2 and 3 to the Company's 2012 Audited Consolidated Financial Statements as updated by Note 3 to the Unaudited Condensed Consolidated Financial Statements. The Company's financial statements have been prepared using the going concern assumption.

The recorded value of the Company's E&E projects is based on historic costs that are expected to be recovered in the 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 uncertainties and there is always the potential for a material adjustment to the value assigned to these assets.

The fair value of the share-based payments, until exercise, is calculated using the Black-Scholes option-pricing model that takes into account the exercise price, the expected life of the option/warrant, expected volatility of the underlying shares, expected dividend yield and the risk-free interest rate for the term of the option/warrant.

The Company has determined that it is not highly probable that it 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 CBay is in its pre-operating phase, a full valuation allowance has been recorded against losses incurred in that 50%-owned subsidiary.

## **NEW ACCOUNTING POLICIES**

IFRS issued by the International Accounting Standards Board ("IASB") have been adopted in the Company's 2012 Audited Consolidated Financial Statements. Note 3 to those statements include the accounting policies that have been applied. Note 3 to the Unaudited Condensed Consolidated Financial Statements includes any new accounting policies – there have been none implemented to date. The joint operation in CBay continues to be accounted for on a proportionate consolidation basis which is in accordance with IFRS 11 which came into effect on January 1, 2013.

## **FUTURE ACCOUNTING CHANGES**

### **New Standards and Interpretations Not Yet Adopted**

Since the issuance of the Company's 2012 Audited Consolidated Financial Statements the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 to those statements.

## **CORPORATE GOVERNANCE**

The Company's Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of directors, none of whom are employees or officers of the Company, meets with management to review the Unaudited Condensed 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 and corporate governance and nominating committees composed of non-executive directors.

### **Design of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers"), are responsible for designing a system of disclosure controls and procedures, or causing them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed in reports filed with or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and that material information relating to the Company is made known to them with respect to financial and operational conditions to allow timely decisions regarding required disclosure. For the fiscal quarter ended September 30, 2013, the Certifying Officers have concluded that the design of the Company's disclosure controls and procedures were effective as at September 30, 2013. Such controls are facilitated by the small size of the Company's senior management team and their access to material information.

There were no changes to the Company's disclosure controls and procedures that occurred during the quarter ended September 30, 2013 that materially affected, or are reasonably likely to affect, the Company's disclosure controls and procedures.

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

The Company's Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO (1992) control framework. For the fiscal quarter ended September 30, 2013, the Certifying Officers have concluded that the design of the Company's internal controls over financial reporting and procedures were effective as at September 30, 2013.

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.

There were no changes to the Company's internal controls over financial reporting that occurred during the quarter ended September 30, 2013 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

## **TRANSACTIONS WITH RELATED PARTIES AND MANAGEMENT AGREEMENTS WITH VICTORY NICKEL AND CBAY**

### **Related Party Balances and Transactions for Services**

Short-term employee benefits provided by the Company include salaries, consulting fees, 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 shares as part of the Share Bonus Plan and the Stock Option Plan (Notes 19 and 21 to the 2012 Audited Consolidated Financial Statements).

Balances and transactions with related parties as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

|                                     | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------------|-----------------------|----------------------|
| <b>Balances Outstanding</b>         |                       |                      |
| Payable to key management personnel | \$ 57                 | \$ 57                |

Key management personnel compensation comprised:

|                                | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|--------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                | 2013                                | 2012   | 2013                               | 2012   |
| Short-term employee benefits   | \$ 151                              | \$ 168 | \$ 517                             | \$ 512 |
| Share-based payments - options | -                                   | -      | 44                                 | 209    |
|                                | \$ 151                              | \$ 168 | \$ 561                             | \$ 721 |

#### Balances and Transactions with Victory Nickel and CBay under the Management Agreements

The Company shares management, administrative assistance and facilities with Victory Nickel and CBay pursuant to separate management agreements; management operates under the supervision of the respective board of directors of each respective company; there is only one common director being Mr René Galipeau. As described earlier, Victory Nickel became a related party of the Company effective July 30, 2013. The costs recovered from Victory Nickel and CBay are recorded at the cost to the Company of such services plus 10 per cent. The management agreement for Victory Nickel commenced February 1, 2007 and is terminable by the Company upon 90 days' notice and by Victory Nickel upon 180 days' notice. The management agreement for CBay commenced February 14, 2012 and is terminable by the Company upon 90 days' notice and by CBay upon 60 days' notice.

Balances and transactions with Victory Nickel and CBay under the management agreements as at September 30, 2013 and December 31, 2012 and for the periods ended September 30, 2013 and 2012 are shown in the following tables:

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| <b>Balances Outstanding under Management Agreements</b> |                       |                      |
| Receivable from Victory Nickel Inc.                     | \$ 76                 | \$ -                 |
| Payable to Victory Nickel Inc.                          | \$ 10                 | \$ 43                |

|   | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|---|-------------------------------------|--------|------------------------------------|--------|
|   | 2013                                | 2012   | 2013                               | 2012   |
| <b>Transaction Values under Management Agreements</b> |                                     |        |                                    |        |
| Overhead charges to Victory Nickel Inc.               | \$ 204                              | \$ 130 | \$ 517                             | \$ 501 |
| Overhead charges from Victory Nickel Inc.             | \$ 2                                | \$ 6   | \$ 17                              | \$ 21  |
| Project costs charged by Victory Nickel Inc.          | \$ 8                                | \$ 2   | \$ 30                              | \$ 18  |
| Project recoveries charged to Victory Nickel Inc.     | \$ 11                               | \$ 11  | \$ 14                              | \$ 30  |
| Overhead charges to CBay Minerals Inc.                | \$ 62                               | \$ 66  | \$ 213                             | \$ 180 |
| Project recoveries charged to CBay Minerals Inc.      | \$ -                                | \$ 12  | \$ -                               | \$ 18  |

Amounts due to or from Victory Nickel and CBay under the management agreements are unsecured, non-interest bearing and due on demand. Amounts due to or from Victory Nickel and CBay are settled on a regular basis. Payables to key management personnel generally relate to directors' fees, consulting fees and expense reimbursements.

## Balances and Transactions with Victory Nickel under the Amended Loan

The terms of the Amended Loan are described in Note 11 to the Unaudited Condensed Consolidated Financial Statements as well as in the Liquidity and Capital Resources section of this MD&A. A summary of the balances and transactions of the Amended Loan is included in the table and accompanying note below.

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Advance for working capital                       | \$ 1,000              | \$ 1,000             |
| Advance under Amended Loan for standby commitment | 1,207                 | -                    |
| Aggregate advances                                | 2,207                 | 1,000                |
| Accrued interest receivable                       | -                     | 9                    |
|   | 2,207                 | 1,009                |
| Less: settled in Units of Victory Nickel          | (1,207)               | -                    |
| Less: unamortized loan fees                       | (199)                 | -                    |
|   | \$ 801                | \$ 1,009             |

Nuinsco has accrued \$9,000 as at September 30, 2013 for commitment fees receivable in shares upon the final advance under the Amended Loan; \$3,000 and \$9,000 are included in *Finance income* for the three and nine months ended September 30, 2013. Nuinsco recorded interest of \$30,000 and \$90,000 for the three and nine months ended September 30, 2013 which was paid in cash at the end of each respective quarter; \$9,000 related to 2012 was received in the first quarter of 2013.

## OUTSTANDING SHARE DATA

As at November 8, 2013, the Company had 295,525,745 common shares issued and outstanding. In addition, there were 26,075,000 stock options outstanding which, if exercised and issued, would bring the fully diluted issued common shares to a total of 321,600,745 and would generate approximately \$2,347,000. However, most of the options are not "in the money".

## RECENT DEVELOPMENTS

There have been no additional developments not already discussed elsewhere in this MD&A.

## CONTINGENCY

### CRA Reassessment

In March, 2011, the Company received notices of reassessment in the aggregate amount of approximately \$4,400,000 from the CRA related to transactions completed in 2006. The Company filed notices of objection on May 19, 2011 and also, on July 22, 2011, filed a request for adjustment to correspondingly adjust its tax pools and losses, in the unlikely event that the Company's appeal is unsuccessful. The appeal process could be lengthy and the Company believes that its position is correct and believes it will prevail. Accordingly, the Company has not recorded any liability with respect to this matter.

## RISKS AND UNCERTAINTIES

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. The risk factors which should be taken into account in assessing Nuinsco's activities and an investment in its securities include, but are not necessarily limited to, those set out in detail in the Company's 2012 MD&A. A summary is provided below.

The relative significance of each risk described below will vary as a function of several factors including, but not limited to, the state of the economy, the stage of Nuinsco'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 Nuinsco and the business, financial condition or operating results or prospects of Nuinsco and should be taken into account in assessing Nuinsco's activities.

## Industry Risks

### *Speculative Nature of Mineral Exploration*

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that Nuinsco's results will be successful. No assurance can be given that Nuinsco's exploration programs will

result in the establishment or expansion of resources or reserves. Furthermore, Nuinsco cannot give any assurance that its current and future exploration activities will result in the discovery of mineral deposits containing mineral 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 those projects that Nuinsco has an interest in, 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.

### ***Competition***

The mineral exploration business is highly competitive in all of its phases. Nuinsco competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Nuinsco, in the search for and acquisition of exploration and development rights on attractive mineral properties.

### ***Operational Risks***

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

Nuinsco has a limited history of earnings and limited financial resources. Nuinsco currently has no operating mines and its ultimate success will depend on its ability to generate cash flow from active mining operations in the future, as well as its ability to access capital markets for its development requirements.

#### ***Development Targets, Permitting and Operational Delays***

There can be no assurance that Nuinsco will be able to complete the planned development of the 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 Nuinsco's operations.

#### ***Resources and Reserves***

Figures relating to mineral resources and mineral reserves are estimates and no assurance can be given that the anticipated level of recovery and/or grades of mineral reserves or mineral resources will be realized.

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

Nuinsco's ability to hold various mineral rights require licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various governmental and quasi-governmental authorities. However, Nuinsco'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***

Nuinsco faces all of the hazards and risks normally incidental to the exploration of precious and base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. Not all such risks are insurable.

### ***Financial and Investment Risks***

#### ***Substantial Capital Requirements***

Nuinsco will have to make substantial capital expenditures for the development of and to achieve production from the projects. There can be no assurance that any debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Nuinsco. Moreover, future activities may require Nuinsco to alter its capitalization significantly. The inability of Nuinsco 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 or foreign projects.

#### ***Market Perception***

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

#### ***Metal and Mineral 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. Metal prices fluctuate on a daily basis and are affected by numerous factors beyond Nuinsco's control – including factors which are influenced by worldwide circumstances.



### **Areas of Investment Risk**

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

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 Nuinsco'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 Nuinsco and others of which are extraneous. On any disposal of their common shares, investors may realize less than the original amount invested.

### **Regulatory Risks**

#### **Government Regulation**

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

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

Nuinsco may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors in the areas in which Nuinsco does or will operate and holds its interests, as well as unforeseen matters. As referred to above, the Company has received notices of reassessment from the CRA and is in the process of defending what it and its advisors believe to have been a correct filing position.

### **Other Risks**

#### **Environmental and Health Risks**

The Company has no significant exposure to environmental or health risks, although this will change should any of the Company's projects approach production (a normal characteristic of mineral industry projects).

#### **Key Personnel**

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

#### **Conflicts of Interest**

Certain of Nuinsco'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.

#### **Foreign Operations**

In 2004, the Company initiated exploration work in Turkey. While the Company believes that the risks associated with operating in Turkey are very acceptable, most investors would attribute a higher degree of risk to operating in Turkey as compared to operating in Canada. While the Company has terminated its activity in Sudan and Egypt and has reduced activity in Turkey, it remains open to appropriate opportunities in the Middle East North Africa ("MENA") region and elsewhere.

Nuinsco's investments in foreign countries carry certain risks associated with different political, business, social and economic environments. The ability to carry on business in any country can be affected by possible political or economic instability in that country. Changes in mining or investment policies or shifts in political attitude may adversely affect private business. The effect of these factors cannot be accurately predicted. Should the respective government later seek to control any aspect of production, distribution or pricing of gold or precious metals, Nuinsco runs the risk that, at any time, its operations may be terminated for failure to comply with any permit, rule or regulation; or that its operations may prove to be unprofitable if the costs of compliance with such governmental regulations prove to be excessive.

There is a risk that the necessary permits, consents, authorizations and agreements to implement planned exploration, project development or mining may not be obtained under conditions, or within time frames, that make such plans



economic, that applicable laws, regulations or the governing authorities will change or that such changes will result in additional material expenditures or time delays.

As with Canadian projects, the acquisition and retention of title to mineral rights is a detailed and time-consuming process. Title to, and the area of, mineral resource claims may be disputed or challenged. Nuinsco's right to explore for, mine, produce and sell metals will be based on the respective governing agreement. Should Nuinsco's rights under any agreement not be honoured or be unenforceable for any reason, or if any material term of the agreements is unilaterally changed or not honoured, including any boundaries of properties, Nuinsco's ability to explore and produce metals in the future would be materially and adversely affected.

Nuinsco regularly and routinely considers the risks inherent in foreign jurisdictions and weighs such risks when evaluating continued, enhanced, reduced or renewed involvement in foreign projects.

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

In addition, Nuinsco 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 Nuinsco, and Nuinsco's investments in and agreements with these companies are subject to similar areas of risk as noted above. Nuinsco seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

Nuinsco, through the Amended Loan, the potential conversion thereof into a limited participating interest in cash flows, and its investment in Victory Nickel, has indirect exposure to the frac sand industry.

#### **Summary**

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

#### **FORWARD-LOOKING STATEMENTS**

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

Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; the possibility that actual circumstances will differ from estimates and assumptions; uncertainties relating to the availability and costs of financing expected or needed in the future; uncertainty of repayment of the Amended Loan; uncertainty, upon conversion, of cash flows from the limited participating interest in Victory Nickel's frac sand business; 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 or debt markets; operating performance of facilities; environmental and safety risks; delays in obtaining or failure to obtain necessary permits and approvals from government authorities; unavailability of plant, equipment or labour; inability to retain key management and personnel; changes to regulations or policies affecting the Company's activities; the uncertainties involved in interpreting geological data; and the other risks disclosed under the heading "Risks and

Uncertainties" and elsewhere. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

**November 8, 2013**