



VICTORY NICKEL INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

DATED APRIL 29, 2021

Management's Comments on Audited Consolidated Financial Statements

The accompanying audited consolidated financial statements of Victory Nickel Inc. are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with international financial reporting standards ("IFRS"). Where necessary, management has made judgements and estimates in preparing the consolidated financial statements and such statements have been prepared within acceptable limits of materiality.

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

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

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

Sean Stokes
Interim CEO and Acting Chief Financial Officer
April 29, 2021

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

Opinion

We have audited the consolidated financial statements of Victory Nickel Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and December 31, 2019 and the consolidated statements of operations, comprehensive loss, shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements which indicates that at year-end certain loans and borrowings were in default and describes the significant liquidity issues the Company is facing. In addition, none of the Company's mining projects have commenced commercial production and, accordingly, the Company is dependent upon debt or equity financings, and the optioning and/or sale of resource or resource-related assets and/or the ability to generate sufficient cash flow from its other operating activities for its funding. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussions and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Black.

A handwritten signature in cursive script that reads "Flabbi & Associates LLP".

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
April 29, 2021

Consolidated Balance Sheets

(in thousands of United States dollars)	<i>Notes</i>	December 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		\$ 23	\$ 23
Receivables	6	34	36
Marketable securities		2	1
Inventory	7	522	1,151
Prepays and other		78	-
Held for sale asset	10	11,471	-
Total current assets		12,130	1,211
Non-current assets			
Property, plant and equipment	9	1,435	1,868
Mine property and development project	11	-	12,800
Exploration and evaluation projects	12	3,430	3,430
Total non-current assets		4,865	18,098
Total Assets		\$ 16,995	\$ 19,309
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Trade and other payables	13	\$ 3,509	\$ 2,968
Loans and borrowings	14	22,066	18,886
Total current liabilities		25,575	21,854
Non-current liabilities			
Loans and borrowings	14	31	-
Participating Interest	15	1	1
Total non-current liabilities		32	1
Total Liabilities		25,607	21,855
Shareholders' deficiency			
Share capital	17	53,410	53,410
Contributed surplus		6,255	6,178
Accumulated other comprehensive loss		(3,455)	(3,456)
Deficit		(64,822)	(58,678)
Total shareholders' deficiency		(8,612)	(2,546)
Total Liabilities and Shareholders' Deficiency		\$ 16,995	\$ 19,309

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

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

Approved by the Board of Directors

(signed)
Cynthia P. Thomas
 Director

(signed)
Michael Anderson
 Director

Consolidated Statements of Operations

(in thousands of United States dollars)

Years ended December 31,	Notes	2020	2019
Sales		\$ 450	\$ 461
Cost of goods sold	7	(922)	(746)
Gross loss		(472)	(285)
Operating expenses			
General and administrative		(796)	(816)
Share-based payments	19	(77)	-
Amortization of property, plant and equipment	9	(433)	(602)
Writedown of Mine property and development project	11	(1,542)	(17)
Writedown of Exploration & Evaluation projects	9, 12	(17)	(18)
Operating loss		(3,337)	(1,738)
Finance income	20	15	13
Finance costs	20	(2,822)	(2,859)
Net finance costs		(2,807)	(2,846)
Net loss for the year		\$ (6,144)	\$ (4,584)
Loss per share	18		
Basic and diluted loss per share		\$ (0.06)	\$ (0.05)

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

Consolidated Statements of Comprehensive Loss

(in thousands of United States dollars)

Years ended December 31,	2020	2019
Net loss for the year	\$ (6,144)	\$ (4,584)
Other comprehensive income ("OCI")		
Net change in fair value of financial assets	1	38
Other comprehensive income for the year	1	38
Total Comprehensive Loss for the year	\$ (6,143)	\$ (4,546)

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

Consolidated Statements of Shareholders' Deficiency

(in thousands of United States dollars)		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity (Deficiency)
Balances as at January 1, 2019	<i>Notes</i>	\$ 53,410	\$ 6,178	\$ (3,494)	\$ (54,094)	\$ 2,000
Total comprehensive loss for the year						
Net loss for the year					(4,584)	(4,584)
Other comprehensive income						
Net change in fair value of financial assets				38		38
Total other comprehensive income				38		38
Total comprehensive loss for the year						(4,546)
Balances as at December 31, 2019		\$ 53,410	\$ 6,178	\$ (3,456)	\$ (58,678)	\$ (2,546)
Total comprehensive loss for the year						
Net loss for the year					(6,144)	(6,144)
Other comprehensive income						
Net change in fair value of financial assets				1		1
Total other comprehensive income				1		1
Total comprehensive loss for the year						(6,143)
Transactions with owners, recorded directly in equity						
Contributions in the period						
Options granted and vested	19		77			77
Total contributions		-	77			77
Total transactions with owners		-	77			77
Balances as at December 31, 2020		\$ 53,410	\$ 6,255	\$ (3,455)	\$ (64,822)	\$ (8,612)

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

Consolidated Statements of Cash Flows

(in thousands of United States dollars)

Years ended December 31,	Notes	2020	2019
Cash flows from operating activities			
Net loss for the year		\$ (6,144)	\$ (4,584)
Adjustments for:			
Shared-based payments	19	77	-
Amortization of property, plant and equipment	9	433	602
Writedown of Mine property and development project	11	1,542	17
Writedown of exploration and evaluation projects	9,12	17	18
Net finance costs	20	2,691	2,631
Net change in working capital:			
Change in receivables	6	2	5
Change in prepaids and other		(78)	
Change in inventory	7	629	214
Change in trade and other payables	13	541	453
Net cash provided (used) by operating activities		(290)	(644)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	-	(7)
Proceeds on sale of marketable securities		-	149
Expenditures on mine property and development project	11	(213)	(17)
Expenditures on exploration and development projects	12	(17)	(15)
Net cash (used) provided by investing activities		(230)	110
Cash flows from financing activities			
Net receipts of loans	14	489	514
Net receipts of government loan	14	31	-
Net cash provided by financing activities		520	514
Net increase (decrease) in cash		-	(20)
Cash balance at beginning of the year		23	43
Cash balance at end of the year		\$ 23	\$ 23

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

Notes to the Consolidated Financial Statements

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of Operations

Victory Nickel Inc. (“Victory Nickel” or the “Company”) is a company domiciled in Canada. The address of the Company’s registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The consolidated financial statements as at and for the years ended December 31, 2020 and 2019 comprise the Company and its subsidiaries Victory Silica Ltd. (“Victory Silica”) and BG Solutions Ltd. (“BG”) together referred to as “Victory Nickel” and individually as “Victory Nickel entities”. Victory Nickel was primarily engaged in the acquisition, exploration and development of nickel properties in Canada (Minago, Mel and Lynn Lake in Manitoba, and Lac Rocher in Quebec) until 2014 when the Company became a producer and supplier of premium frac sand from its frac sand plant (the “7P Plant”), located near the town of Seven Persons, approximately 18 kilometres southwest of Medicine Hat, Alberta. The 7P Plant comprises a fully-operational wet plant with a nominal capacity of approximately 120,000 tons per annum (“tpa”) and a dry plant with a nominal capacity of 500,000 tpa. Frac sand is specialized sand that is used as a proppant to enhance recovery from oil and gas wells; however the sand produced at the 7P Plant also has uses in other markets. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

On February 9, 2021, Victory Nickel sold its Minago nickel property to Silver Elephant Mining Corp. (“Silver Elephant”) under the terms of the asset purchase agreement (“APA”). Refer to Notes 10 and 24 for more details.

The Company is listed on the Canadian Securities Exchange (“CSE”) under the symbol NI.

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

Going Concern

These 2020 consolidated financial statements have been prepared using Generally Accepted Accounting Principles (“GAAP”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2020, the Company had a working capital deficiency of \$13,445,000, calculated as current assets less current liabilities, a decrease from a working capital deficiency of \$20,643,000 as at December 31, 2019 mostly due to the Company’s *Mine property and development project* being reclassified as an *Held for sale asset* and interest accrued on debt. At December 31, 2020, the current loans and borrowings and accrued interest of \$22,066,000 were the largest factor in the Company’s working capital deficiency.

The Company’s main assets are its nickel projects. Minago is the most advanced of its projects. Subsequent to December 31, 2020, the Company sold its Minago property to Silver Elephant, as discussed further below. However, the Company’s total obligations still exceed the current carrying amount of its assets.

Subsequent to year-end, following the sale of Minago, restructuring of the Secured Debt (see details below) and the success in generating \$5,750,000 in liquidity, the Company announced it had engaged a financial advisor to assist the Company with restructuring options related to the Company’s unsecured debt. At this time, it is unclear what steps will be required to restructure the existing debt, but could include investment in the frac sand business to broaden the product offerings to increase competitiveness, further asset sales or alternative sources of financing such as issuing additional debt or equity. There are no assurances that the Company will be able to restructure its remaining unsecured debt and there is no certainty as to what further steps, if any, the debtors, or the Company, will take.

Cash flows from frac sand sales during 2019 and 2020 were not sufficient to pay financing costs and the Company was not able to make most of its interest payments due. The near-term outlook in the frac sand market remains unclear.

During 2016, the Company restructured its debt (the “Debt Restructuring Agreement”) with holders of promissory convertible notes and trade creditors, by issuing shares of the Company and unsecured promissory convertible notes (“Promissory Convertible Notes”).

During 2016, all of the Promissory Convertible Note holders participated in the Debt Restructuring Agreement, except for one holder of a \$3,000,000 promissory convertible note (the “Outstanding Note”). In March 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning

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

non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. The Outstanding Note matured in July 2016 and the Company has been unable to repay the amounts owing and interest payments due, which has resulted in the Company defaulting on the Outstanding Note.

The Company has not made interest payments due on any of its Promissory Convertible Notes, which has resulted in the Company defaulting on these notes. The Company at its election may pay the accrued interest in shares.

On February 9, 2021, Silver Elephant acquired 100% of Victory Nickel's debt held by the Secured Lender, upon sale of the Minago property, and restructured the Secured Debt in accordance with the APA as follows:

- A credit of \$6,675,000 against the balance of the Secured Debt owed by Victory Nickel;
- The balance of the Secured Debt will be non-interest bearing;
- The balance of the Secured Debt will mature on February 9, 2026 and will automatically be extended in 5-year increments; and
- A credit on the remainder of the balance owing under the Secured Debt, upon receipt of an independent economic study in respect of the Minago project proving positive net present value.

The APA also provides consideration to Victory Nickel which includes:

- \$5,000,000 Silver Elephant common shares issued in three tranches over a one-year period;
- CAD\$1,000,000 subscription by Silver Elephant for the purchase of Victory Nickel commons shares;
- An agreement to issue Victory Nickel CAD\$2,000,000 Silver Elephant commons shares, upon the price of nickel exceeding US\$10.00 per pound for 30 consecutive business days on or before December 31, 2023; and,
- A right of first refusal, exercisable by Victory Nickel until December 31, 2023, with respect to the exploration of sandstone (non-nickel bearing sulphides) resources at Minago.

Per guidelines from the province of Alberta, the 7P Plant is considered an essential service and is therefore able to continue operations; the Company intends to continue to operate the 7P Plant for the foreseeable future. Throughout the evolution of the COVID-19 pandemic, the Company's head office personnel in Toronto have been working remotely and all staff in Ontario and Alberta has complied with applicable provincial and federal regulations and guidelines. The Company will continue to monitor the COVID-19 situation and adapt as necessary.

Management continues to advance its program to supplement existing sand inventory with domestic Canadian "in-basin" sand supply. Given the current situation as it relates to COVID-19, the timeline to development and sand production from the Short Grass Property, defined below, remains to be determined.

During 2020, the Company cut non-essential costs in an effort to reduce operating losses and deferred payments wherever possible. To date, management and the board of directors have reduced and/or deferred salaries and director fees until business recovers, but there is no certainty that this will continue. Management salary reductions and/or deferrals put the Company at risk of being unable to retain key personnel.

In addition to the above liquidity issues, the Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully fund its projects and operating expenses.

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

Should the Company not be able to overcome the risks described in this section, the carrying value of the Company's assets would be subject to material adjustment and, in addition, other adjustments may be necessary to these

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

consolidated financial statements should such adverse events impair the Company's ability to continue as a going concern as contemplated under GAAP. There is no certainty that the Company will be able to generate sufficient cash to fund its activities including debt servicing, project expenditures and corporate costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ significantly from the going concern basis.

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

The management of the Company prepares the consolidated financial statements, which are then reviewed by the Audit Committee and the Board of Directors. The consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2021 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historic cost basis except for derivative financial instruments, such as warrants and the Participating Interest (as described in Note 15), which are measured at fair value with changes through operations and financial assets, such as marketable securities, which are measured at fair value with changes through other comprehensive income or loss ("OCI").

(c) Functional and Presentation Currency

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

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

(d) Use of Estimates and Judgements

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

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

The accompanying consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation.

Significant estimates and assumptions

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

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

- Note 7 – valuation of inventory;
- Note 9 – measurement of the recoverable amount of property, plant and equipment;
- Note 10 – valuation of held for sale asset;
- Note 11 – measurement of the recoverable amount of mine property and development project;
- Note 12 – measurement of the recoverable amount of exploration and evaluation projects;

Notes to the Consolidated Financial Statements

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

- Note 14 – measurement and valuation of the embedded derivatives in promissory convertible notes;
- Note 14 – measurement and the valuation of the fair value of debt issued in the restructuring;
- Note 15 – measurement and valuation of the Participating Interest; and
- Note 19 – measurement of share-based payments.

Significant judgements

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

- Note 1 – going concern assessment;
- Note 2 – determination of the functional currency for the Company and its subsidiaries;
- Note 7 – impairment of inventory;
- Note 9 - impairment of property, plant and equipment;
- Note 10 – classification of held for sale asset;
- Note 11 – classification of expenditures as mine property and development project or operating expenses;
- Note 12 – classification of expenditures as exploration and evaluation projects or operating expenses;
- Note 11 – impairment of mine property and development project;
- Note 12 – impairment of exploration and evaluation projects; and
- Note 16 – recoverability of deferred tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Consolidation

Subsidiary

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

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign Currency

Foreign currency transactions

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

(c) Financial Instruments

(i) Non-derivative financial instruments

Notes to the Consolidated Financial Statements

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

Non-derivative financial instruments comprise investments in equity securities, receivables, cash, trade and other payables, loans and borrowings, if any.

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

Cash comprises cash balances and call deposits.

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

Financial assets at fair value through OCI

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

Financial instruments at amortized cost

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

(ii) Derivative financial instruments

Convertible promissory notes contain embedded derivatives which are separated from the financial instrument measured at amortized cost.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized through operations when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately through operations. The Participating Interest is a derivative that requires adjustment to the fair value at each reporting period (refer to Note 15).

(d) Inventory

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

(e) Property, Plant and Equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset.

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

(ii) Depreciation

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

Notes to the Consolidated Financial Statements

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

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

Item	Method	2020	2019
Building	Declining-balance	5%	5%
Plant and Equipment at 7P Plant	Straight-line	10% to 20%	10% to 20%
Other Equipment and Furniture	Declining-balance	20%	20%
Vehicles and Mobile Equipment	Declining-balance	30%	30%

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

(f) Held for Sale Asset

An asset is classified as held for sale, if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, the following criteria must all be met:

- The asset (or disposal group) is available for immediate sale;
- The terms of asset sale must be usual and customary for sales of such assets;
- The sale must be highly probable;
- Management is committed to a plan to sell the asset;
- Asset must be actively marketed for a sale at a reasonable price in relation to its current fair value;
- Sale should be completed within one year from classification date; and
- Sale transactions include exchanges of non-current assets for other noncurrent assets when the exchange has commercial substance in accordance with IAS 16 Property, Plant and Equipment.

Immediately prior to classification as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs. Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less cost to sell.

(g) Exploration and Evaluation Projects

(i) Exploration and Evaluation expenditures

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

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

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

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

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

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

(ii) Pre-E&E expenditures

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

(iii) Impairment

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

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

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

(h) Mine Property and Development Project

(i) Pre-production development expenditures

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

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

The Company's sole project classified as an *MP&D* asset on the 2020 consolidated balance sheet is the Minago project; it is in the pre-production phase and costs are capitalized without depreciation.

(ii) Impairment

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

(i) Government Grants

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

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the related asset. A forgivable loan is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

(j) Investment Tax Credits

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

(k) Impairment

(i) Financial assets

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

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

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

(ii) Non-financial assets

The carrying amounts of Victory Nickel's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized through operations.

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

(l) Leases

For those assets determined to meet the definition of a lease, IFRS 16 has a single, on-balance sheet accounting model, with limited exceptions for short-term leases or leases of low value assets.

The Company has elected to not recognize the right-of-use assets and lease liabilities for low value leases or leases that have a lease term of 12 months or less. The Company accounts for these leases as short-term leases and recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(m) Employee Benefits

(i) Short-term benefits

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

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(ii) Share-based payment transactions

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

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

(n) Provisions

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

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

(o) Finance Income and Finance Costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets and liabilities at fair value through operations and losses recognized on financial assets that are recognized through operations. All borrowing costs are recognized through operations using the effective interest method.

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

(p) Income Taxes

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

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(q) Share Capital

(i) Common shares

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

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

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

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

(ii) Share-based payment arrangements **Stock Option Plan**

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 19. Awards to non-employees are measured at the fair value of the goods or services received. Awards made to employees are measured at the grant date. All stock-based awards made to employees and non-employees are recognized at the date of grant using a fair-value-based method to calculate the share-based payment. The share-based payment is charged to operations over the vesting period of the options or service period, whichever is shorter. Stock options vest either immediately and/or over a 12-month period.

Share Incentive Plan

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

The Share Incentive Plan is described in Note 17. The Company uses the fair value method of accounting for, and to recognize as compensation expense, its share-based payments for employees. Common shares issued under the Share Incentive Plan are valued based on the quoted market price on the date of the award. This amount is expensed over the vesting period.

(r) Revenue Recognition

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

(s) Earnings (Loss) per Share

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

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(t) New Standards and Interpretations Not Yet Adopted

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current and Deferral of Effective Date

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments:

- specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months;
- provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and
- clarify when a liability is considered settled.

On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its financial statements.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview

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

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

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

Risk Management Framework

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

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

Credit Risk

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

Cash

The Company's cash is held through large Canadian financial institutions.

Receivables

Trade accounts receivable are typically due from customers in the oil and gas services sector or from the sales of fiberglass sand. As such, the Company has concentration of credit risk within those industries. The Company's other receivables consist of amounts due from federal and provincial governments. Amounts due from other parties are settled on a regular basis.

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

Marketable securities

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

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will enure to the Company. As at December 31, 2020 and 2019, the Company had no third-party guarantees outstanding.

Liquidity Risk

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

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and marketable securities. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. When possible, spending plans are adjusted accordingly to provide for liquidity.

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

Market Risk

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

Currency risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's debt bears interest at fixed rates (Note 14). Accordingly, the estimated effect of a 50bps change in interest rate would not have a material effect on the Company's results of operations. None of the Company's other financial instruments are interest-bearing. Consequently, the Company is not presently exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

Other market price risk

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

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The value of the Company's mineral resource properties is related to the price of, and

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outlook for, base and precious metals. Historically, such prices have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures.

The Company does not have any hedging or other commodity-based risks respecting its operations. The value of the Company's strategic investments is also related to the price of, and outlook for, base and precious metals and other minerals. The future prices of frac sand sales are also subject to similar risks.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

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

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

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

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

Capital Management Disclosures

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

As at December 31,		2020		2019
Shareholders' equity	\$	(8,612)	\$	(2,546)
Loans and borrowings - long-term portion		31		-
Participating Interest		1		1
	\$	(8,580)	\$	(2,545)

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

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

5. DETERMINATION OF FAIR VALUES

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

Fair value hierarchy

The different levels of valuation are defined as follows:

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

(a) Participating Interest

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

(b) Marketable Securities

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

(c) Receivables

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

(d) Warrants and/or embedded derivatives

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

(e) Non-derivative Financial Liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(f) Share-based Payment Transactions

The fair value of share options is measured using the Black-Scholes option-pricing model. Any service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

6. RECEIVABLES

All trade accounts receivable balance is as follows:

As at December 31,	2020		2019	
Trade accounts receivable				
Current	\$	29	\$	31
Past due 0-30 days		5		-
	\$	34	\$	31

As at December 31, 2020, one of four customers of the Company's customers accounted for 96% of the trade accounts

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receivable balance (December 31, 2019 – one of four customers accounted for 87%).

7. INVENTORY

As at December 31,	2020		2019	
Raw material stored at 7P Plant	\$	162	\$	102
Finished goods & other inventory		360		1,049
	\$	522	\$	1,151

The Company determined that a write-down of inventory of \$286,000 (2019 - \$147,000) to net realizable value was required during 2020 and was recorded under cost of goods sold in the *Statement of Operations*.

8. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

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

As at December 31,	2020		2019	
Carrying amount				
Cash	\$	23	\$	23
Receivables	6	34		36
Financial assets at fair value through OCI		2		1
	\$	59	\$	60

Liquidity Risk

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

	<u>Non-derivative financial liabilities</u>				Total
	Trade and other payables	Short-term loans	Long-term liabilities		
As at December 31, 2020					
Carrying amount	\$ 3,509	\$ 22,066	\$ 31	\$	25,606
Contractual cash flows	3,509	22,066	31		25,606
6 months or less	3,509	22,066	-		25,575
6 - 12 months	-	-	-		-
1 - 2 years	-	-	31		31
As at December 31, 2019					
Carrying amount	\$ 2,968	\$ 18,886	\$ -	\$	21,854
Contractual cash flows	2,968	18,933	-		21,901
6 months or less	2,968	18,933	-		21,901

As described in Notes 13 and 14, significant amounts in trade payables and the entire balance of short-term loans, excluding the secured debt, cannot be repaid until the Secured Lender is repaid. Thus, although the contractual cash flows of these balances are all six months or less, they are not expected to be repaid until after the maturity date of the Secured Lender.

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Currency Risk

Exposure to currency risk

As at December 31, 2020

(in thousands of US dollars)

	US\$	CAD\$
Cash	\$ -	\$ 23
Receivables	-	34
Marketable securities	-	2
Trade and other payables	(1,392)	(2,117)
Loans and borrowings	(20,923)	(1,174)
Participating Interest	-	(1)
	\$ (22,315)	\$ (3,233)

As at December 31, 2019

(in thousands of US dollars)

	US\$	CAD\$
Cash	\$ 1	\$ 22
Receivables	4	32
Marketable securities	-	1
Trade and other payables	(1,282)	(1,686)
Loans and borrowings	(17,828)	(1,058)
Participating Interest	-	(1)
	\$ (19,105)	\$ (2,690)

Sensitivity analysis

A 10% weakening of the United States dollar would have an approximate effect on the Company's equity of \$323,000 on balances denominated in CAD\$ as at December 31, 2020 (2019 - \$269,000). The analysis assumes that all other variables, in particular interest rates, remain constant.

Fair Value

Fair values versus carrying amounts

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

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

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9. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
Balances as at January 1, 2019					
Cost	83	4,882	685	220	5,870
Accumulated Amortization	(15)	(2,468)	(515)	(44)	(3,042)
Effect of Foreign Exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	\$ 61	\$ 2,271	\$ 129	\$ 5	\$ 2,466
Additions	-	7	-	-	7
Writedowns of exploration & evaluation project	(3)	-	-	-	(3)
Amortization	(1)	(564)	(36)	(1)	(602)
Balances as at December 31, 2019					
Cost	80	4,889	685	220	5,874
Accumulated amortization	(16)	(3,032)	(551)	(45)	(3,644)
Effect of foreign exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	\$ 57	\$ 1,714	\$ 93	\$ 4	\$ 1,868
Amortization	(1)	(404)	(27)	(1)	(433)
Balances as at December 31, 2020					
Cost	80	4,889	685	220	5,874
Accumulated amortization	(17)	(3,436)	(578)	(46)	(4,077)
Effect of foreign exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	\$ 56	\$ 1,310	\$ 66	\$ 3	\$ 1,435

10. HELD FOR SALE ASSET

As announced on October 30, 2020, the Company engaged Red Cloud Securities Inc. ("Red Cloud") on an exclusive basis as its financial advisor to manage the sale process of Minago on behalf of the Company to improve the capital structure of the Company. The firm was paid a retainer fee of CAD\$50,000. Upon receipt of non-binding offers, the firm and the Company evaluated potential opportunities and structures that would improve the Company's capital structure and allow the Company to move forward to the benefit of all stakeholders. On February 9, 2021, Victory Nickel sold its Minago nickel property in northern Manitoba to Silver Elephant.

As a result of the sales process that was underway subsequent to December 31, 2020, Minago met the criteria set under IFRS 5 to be classified as an asset held for sale. Immediately prior to classification as held for sale, Minago was measured at the lower of its carrying value less cost to sell, resulting in the recognition of an impairment (see Note 11).

11. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2020	Current Expenditures	Writedowns	Transferred to Held for Sale	December 31, 2020
Minago	\$ 12,800	\$ 213	\$ (1,542)	\$ (11,471)	\$ -
	\$ 12,800	\$ 213	\$ (1,542)	\$ (11,471)	\$ -
	January 1, 2019	Current Expenditures	Writedowns	Transferred to Held for Sale	December 31, 2019
Minago	\$ 12,800	\$ 17	\$ (17)	\$ -	\$ 12,800
	\$ 12,800	\$ 17	\$ (17)	\$ -	\$ 12,800

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Minago

The 100%-owned Minago project covers approximately 19,799 ha, through a combination of mining claims, mineral leases and a mineral exploration licence, on Manitoba's Thompson Nickel Belt. The property encompasses the Nose Deposit, which contains the entire current nickel mineral resource, and the North Limb, a zone of nickel mineralization with a known strike length of 1.5 kilometres located to the north of the Nose Deposit.

From 2006 to date, considerable work has been performed, including diamond drilling, metallurgical testing, engineering studies, the Minago Feasibility Study ("FS") and all other studies required to complete the Environmental Impact Study that was filed in May 2010. As a result, in August 2011, the Company received its Environmental Act Licence ("EAL"). In April 2014, the Company announced the filing of an amendment to the EAL to relocate the permitted Minago tailings facilities, such that it will not interfere with potential nickel resources and also reduce operating costs. Although this amendment would be preferable, it is not necessary for the Minago project to be developed. On completion of First Nations consultation, the government is expected to issue the amendment to the existing EAL which continues to be valid. The results of the FS were announced in December 2009 and improvements thereto announced in June 2010 and July 2011.

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

On April 8, 2020, the Company announced the completion of two exploration diamond drill holes at Minago. The two-hole program at the Minago project targeted geophysical responses underlying the northern part of the property and constitutes condemnation testing related to potential infrastructure development for future project purposes. The geophysical targets tested were identified during historic surveys conducted by previous workers as well as a VTEM survey conducted for the Company in 2007. Due to the limitations on personnel movement resulting from restrictions stemming from the on-going COVID-19 pandemic, processing of core and receipt of assay results are likely to be significantly delayed.

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

At the end of 2020, the Company assessed the carrying value of Minago for impairment. At December 31, 2020, Management believed that impairment existed due to the valuation of Minago as part of the APA with Silver Elephant completed on February 9, 2021, and concluded that a write-down of \$1,542,000 was necessary. The carrying amount of the Minago property was transferred to *Held for Sale Asset* on the *Consolidated Statement of Financial Position* as at December 31, 2020. Refer to Note 10 for details.

12. 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, 2020	Current Expenditures	Writedowns	December 31, 2020
Lac Rocher	\$ 480	\$ 11	\$ (11)	\$ 480
Mel	2,950	6	(6)	2,950
	\$ 3,430	\$ 17	\$ (17)	\$ 3,430

	January 1, 2019	Current Expenditures	Writedowns	December 31, 2019
Lac Rocher	\$ 480	\$ 10	\$ (10)	\$ 480
Mel	2,950	5	(5)	2,950
	\$ 3,430	\$ 15	\$ (15)	\$ 3,430

For the year ended 2020, the Company reviewed for any indication of impairment on the asset's recoverable amount and determined that there were no significant events, progress or adverse changes to materially impact the carrying values of its E&E projects. Due to the significant write-down in 2018 and despite the Company's financial difficulties,

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management believes that the current carrying amounts of its E&E projects are likely to be recovered in full, from successful development or by sale in the future.

Lac Rocher

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

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

Mel

The Company purchased a 100% interest in the Mel properties located near Thomson, Manitoba from Vale. Vale is entitled to a 10% royalty on "distributable earnings" defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

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

Lynn Lake

The Lynn Lake nickel property ("Lynn Lake") covers approximately 600 ha in northern Manitoba. In 2014, the Company announced that it had optioned Lynn Lake to Corazon Mining Limited ("Corazon"). Under the terms of the option agreement, subject to any required regulatory approvals, Corazon can acquire a 100% interest in Lynn Lake by issuing to Victory Nickel, 40,000,000 Corazon shares upon closing and incurring AU\$3,500,000 in exploration expenditures or payments (in cash or Corazon shares at Corazon's option) to Victory Nickel before December 19, 2019. In April 2015, the Company received 40,000,000 shares of Corazon valued at \$192,000 as part of the option agreement. These shares were subsequently sold. On January 14, 2020, the Company received an interim report from Corazon, indicating that over AU\$3,500,000 in exploration expenditures has been incurred. The Company is currently in the process of reviewing the interim report.

If the terms of the option are determined to not have been met, Corazon shall either pay to the Company (in cash or in Corazon shares, at the discretion of Corazon) the difference between AU\$3,500,000 and the amount spent by Corazon on Lynn Lake or elect to return the property to the Company. If the terms of the option are met, Victory Nickel will retain a 1.5% net smelter royalty on production from Lynn Lake and receive a payment of AU\$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of the commencement of ore processing activities.

Bear Coulee

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

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

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Short Grass Property

In October 2018, Victory Silica entered into an option agreement (the "Exploration and Option Agreement") with Short Grass Ranches Ltd. (the "Owner") giving the Company the option to mine frac sand from one of the Owner's properties (the "Short Grass Property"), located in Alberta, Canada, approximately 52 kilometres from the 7P Plant.

Under the terms of the Exploration and Option Agreement, the Company had a 180-day period to evaluate the Short Grass Property. The Company completed third-party testing of sand resources on the Short Grass Property. In April 2019 the Company notified the Owner of its exercise of the Exploration and Option Agreement.

On February 6, 2020, Victory Silica executed an agreement (the "Non-Metallic Mineral Rights Agreement") with the Owner to develop a commercial frac sand mine. The initial term of the Non-Metallic Mineral Rights Agreement is for five years with the ability to extend for additional five-year terms and will pay the Owner a royalty for net frac sand sold from the Short Grass Property. The Non-Metallic Mineral Rights Agreement gives the Company the potential to produce in-basin domestic sand which has grown in popularity in North America as a means for the Company's customers and potential customers to reduce their overall frac cost. Any sand mined from the Short Grass Property would be trucked to the 7P Plant for processing and sale alongside existing inventory.

The Short Grass Property has a high-quality sand deposit, is well-located and gives the Company the opportunity to access new customers in evolving markets.

13. TRADE AND OTHER PAYABLES

As at December 31,	2020	2019
Accounts payable		
Mine property and development project	\$ 18	\$ 13
Exploration and evaluation projects	5	3
Frac sand segment	1,969	1,806
Other payables	136	126
Accrued liabilities		
Frac sand segment	436	347
Other payables	945	673
	\$ 3,509	\$ 2,968

As part of the Secured Debt terms with the Secured Lender, the Company agreed to not make any payments, prior to the repayment of the Secured Debt and without the Secured Lender's approval, to settle past unsecured debt or balances outstanding with trade creditors. The balances owing to trade creditors that did not agree to the Debt Restructuring Agreement in 2016 amount to \$975,000 and CAD\$777,000 and remained outstanding as at December 31, 2020.

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14. LOANS AND BORROWINGS

As at December 31,	Notes	2020	2019
Current loans and borrowings			
Secured Debt	(a)	\$ 10,009	\$ 7,050
Promissory notes	(b)	2,341	2,275
Debt due to management & directors	(c)	398	383
Outstanding Note	(d)	3,000	3,000
Other loans with Secured Lender	(e)	447	645
Accrued interest		5,871	5,533
Total current loans and borrowings		22,066	18,886
Long-term loans and borrowings			
Government loan	(f)	\$ 31	-
Total long-term loans and borrowings		31	-
		\$ 22,097	\$ 18,886

During 2020, the Company incurred interest expense of \$2,606,000 (2019 - \$2,108,000), amortized loan fees of \$nil (2019 - \$60,000) and amortized note discount and embedded derivatives of \$47,000 (2019 - \$454,000).

(a) Secured Debt

As at December 31,	2020	2019
Carrying balance at beginning of the period	\$ 7,050	\$ 6,990
Conversion from accrued interest	2,271	-
Restructure of other loans with Secured Lender	688	-
Amortized loan fees	-	60
Secured Debt	\$ 10,009	\$ 7,050

As at December 31, 2019, the Secured Debt of \$7,050,000 had a maturity date of January 31, 2020. On January 31, 2020, the Secured Debt increased by the amount of working capital advances and unpaid interest to \$10,009,000, and the maturity date was extended to July 31, 2021. The interest rate on the Secured Debt and additional loans remained unchanged at 14.8% with interest payable in arrears.

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

As at December 31, 2020, accrued interest on the secured debt was \$1,378,000 (2019 - \$2,119,000)

In addition, the Company has agreed to not make any payments to settle past unsecured debt prior to the repayment of the Secured Debt, without the Secured Lender's approval.

On February 9, 2021, Silver Elephant acquired 100% of Victory Nickel's debt held by the Secured Lender, upon sale of the Minago property, and restructured the Secured Debt in accordance with the APA as follows:

- A credit of \$6,675,000 against the balance of the Secured Debt owed by Victory Nickel;
- The balance of the Secured Debt will be non-interest bearing;
- The balance of the Secured Debt will mature on February 9, 2026 and will automatically be extended in 5-year increments; and

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- A credit on the remainder of the balance owing under the Secured Debt, upon receipt of an independent economic study in respect of the Minago project proving positive net present value.

(b) Promissory Convertible Notes

As at December 31,		2020		2019
Total principal outstanding at beginning of the period	\$	5,275	\$	4,817
Change in present value discount on debt		47		454
Change in unamortized embedded derivatives		-		(13)
Effect of foreign exchange		19		17
Carrying balance at the end of the period		5,341		5,275
Less: Outstanding Note		(3,000)		(3,000)
Current portion of Promissory Convertible Notes	\$	2,341	\$	2,275

During 2016, the Company announced that it had restructured a portion of its debt through private placements of common shares and Promissory Convertible Notes, in settlement of current indebtedness to certain of its unsecured lenders and trade creditors.

The Company has not made any interest payments due on its Promissory Convertible Notes, which has resulted in the Company defaulting on these notes.

Promissory Convertible Note Holders

The Promissory Convertible Notes have the following terms:

- A maturity date of July 31, 2018 or January 31, 2020;
- An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
- Convertible at CAD\$0.25 per share, at the option of the holder, in which the conversion rights expired on July 31, 2018 or January 31, 2020; and
- Holders of the Promissory Convertible Notes will also receive one common share purchase warrant for every four common shares acquired upon conversion of the Promissory Convertible Notes, with an exercise price of CAD\$0.50 per share, exercisable for a five-year period from the date of conversion.

As at December 31, 2020, accrued interest on the Promissory Convertible Notes was \$503,000 (2019 – 353,000).

(c) Debt Owed to Directors and Management

All outstanding debt due to management and director fees due to directors accumulated up to July 31, 2019 were due on January 31, 2020. The short-term debt of \$398,000 owed to directors and management is comprised of a portion of the restructured debt owed to current and previous directors and management amounting to CAD\$224,000, and unpaid director fees incurred by current and previous directors during 2016, 2017, 2018 and the first half of 2019 totalling CAD\$283,000.

(d) Outstanding Note

During 2016, all of the then holders of promissory convertible notes participated in the Debt Restructuring Agreement except for the one holder of the Outstanding Note of \$3,000,000. In March 2016, the Company announced that it had received notice that the holder of the Outstanding Note had filed a statement of claim concerning non-payment of principal and interest. The Company has reviewed the statement of claim with legal counsel to assess its impact on the Company and has concluded that there is no significant impact on the status of the Company's debt. Pursuant to the terms of the Secured Debt, the Company is prevented from making payments under outstanding unsecured debt until the Secured Debt is repaid. As a result, the Company has not paid interest accrued on the Outstanding Note. The Outstanding Note matured in July 2016 and the Company is in default.

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As at December 31, 2020, accrued interest on the Outstanding Note was \$3,957,000 (2019 – \$2,999,000).

(e) Other loans with Secured Lender

During 2019 and 2020, the Company's Secured Lender has provided working capital advances to ensure the protection of the Company's core assets. These loans also bear interest at 14.8% per annum, are secured by a general security agreement over the Company's assets.

(f) Government loan

In April 2020, the Government of Canada implemented the Canada Emergency Business Account ("CEBA"), whereby certain businesses could apply for an interest-free loan of up to CAD\$40,000 to help cover their operating costs. The Company applied for, and received, this loan during April 2020. Up to 25% of the loan will be forgiven if repaid by December 31, 2022. The Company also applied for the additional loan of CAD\$20,000, which was received in December 2020. Up to 50% of the additional loan will be forgiven if repaid by December 31, 2022.

15. PARTICIPATING INTEREST

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

As a result of the continued slowdown in demand for frac sand, the continued negative cash flows at the 7P Plant and the losses incurred during the last few years, the estimated fair value of the Participating Interest was valued at \$1,000 at December 31, 2020 (December 31, 2019 - \$1,000). This is a Level 3 methodology and is subject to the highest level of uncertainty. The Company will continue to review and revise its value of the Participating Interest, as the expectations of payments of the Participating Interest change. Changes in that estimate will be recorded through operations with appropriate adjustment for actual cash flows paid.

16. DEFERRED TAX LIABILITY

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

As at December 31,	2020	2019
Temporary Differences		
Property, plant and equipment, net	\$ 797	\$ 669
Exploration, evaluation & development projects, net	3,060	2,629
Non-capital losses carried forward	6,384	5,715
Capital losses carried forward	1,804	1,804
Other	269	336
Deferred Tax Assets Unrecognized	\$ 12,314	\$ 11,153

As at December 31, 2020, non-capital losses of \$23,763,000 expire in 2032 to 2040 (2019 - \$21,168,000). As at December 31, 2020, the Company had capital losses of \$13,365,000 available to be carried forward indefinitely (December 31, 2019 - \$13,365,000).

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17. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

The Company is authorized to issue an unlimited number of common shares with no par value and preferred shares that may be issued in one or more series. The issued and outstanding common shares for the following periods are as follows:

	Number of Shares	Share Capital
Balance as at January 1, 2019, December 31, 2019 and December 31, 2020	97,903,867	\$ 53,410

Share Incentive Plan

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

Share Purchase Plan

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

Share Bonus Plan

The Share Bonus Plan permits common shares to be issued as a discretionary bonus to eligible directors, senior officers and employees of the Company and its designated affiliates, and consultants from time to time. At the Company's Annual and Special Meeting of Shareholders held on June 26, 2012, shareholders approved an increase in the maximum number of common shares issuable under the Share Bonus Plan to 1,000,000. No shares were issued under the plan during 2020 or 2019.

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.

18. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share for the years ended December 31, 2020 and 2019 was based on the information in the table below.

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Years ended December 31,	2020	2019
Weighted average number of common shares at end of the period - Basic and Diluted	97,903,867	97,903,867
Potentially dilutive instruments excluded:		
Effect of options granted and outstanding	12,225,000	11,900,000
Effect of convertible promissory notes	-	10,426,794
Net loss attributable to shareholders - Basic and Diluted	\$ (6,144)	\$ (4,584)
Weighted Average Basic and Diluted Loss Per Share	\$ (0.06)	\$ (0.05)

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 common shares on a diluted basis for periods where losses are incurred for information only.

19. SHARE-BASED PAYMENTS

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

Share Bonus Plan

The terms of the Share Bonus Plan are set out in Note 17.

Share purchase warrants (equity-settled)

There were no share purchase warrants outstanding as at December 31, 2020 and 2019.

Stock Option Plan (equity-settled)

The Company has a Stock Option Plan to encourage ownership of its common shares by key management personnel (directors and executive management), employees and consultants, and to provide compensation for certain services. The terms of the Stock Option Plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the common shares on the day preceding the grant. No compensation is recognized when options are exercised. The number of common shares reserved for issuance is not to exceed 15% of the aggregate number of common shares issued and outstanding (calculated on a non-diluted basis) from time to time.

As at December 31, 2020, the Company had 2,460,580 common shares available for the granting of future options (2019 – 2,785,580 common shares). Options are exercisable at the closing market price of the common shares at the date prior to grant. The Company does not have any cash-settled transactions. The terms and conditions relating to the grants of the Stock Option Plan are as follows:

- Options issued during the year and granted to executive management, consultants and employees have a maximum term of five years and are equity-settled.
- Options issued during the year and granted to directors have a maximum term of five years and are equity-settled. All options granted vest immediately.
- All options are to be settled by physical delivery of common shares.

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Stock Option Plan

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

(amounts in Canadian dollars) Years ended December 31,	Number of options		Weighted average exercise price	
	2020	2019	2020	2019
Outstanding as at beginning of the year	11,900,000	12,258,000	\$ 0.050	\$ 0.070
Granted	2,525,000	-	\$ 0.045	\$ -
Expired	(2,200,000)	(358,000)	\$ 0.050	\$ 0.660
Outstanding as at the end of the year	12,225,000	11,900,000	\$ 0.049	\$ 0.050
Exercisable as at the end of the year	12,225,000	11,900,000	\$ 0.049	\$ 0.050

As at December 31,	Number of options outstanding		Contractual life (years)	
	2020	2019	2020	2019
Range of exercise prices (Canadian dollars)				
\$0.045 to \$0.060	12,225,000	11,900,000	1.90	2.19
	12,225,000	11,900,000	1.90	2.19

During 2020, the Company recorded \$77,000 (2019 - \$nil) in share-based payments upon the vesting of options. Options outstanding at December 31, 2020 expire between February 2022 and October 2025.

The grant-date fair values of share-based payments were measured based on the Black-Scholes option pricing model. The inputs used in the measurement of the fair values at grant dates during 2020 were as follows:

For the year ended December 31,	2020
Fair value	CAD\$0.0407
Share price at valuation date	CAD\$0.045
Assumptions	
Exercise price	CAD\$0.045
Expected volatility	149.15%
Expected remaining term (years)	5
Expected dividend	-
Risk-free interest rate	0.30%

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20. FINANCE INCOME AND FINANCE COSTS

Years ended December 31,	Note		2020	2019
Change in value of embedded derivatives	14	\$	-	\$ 13
Forgivable portion of government loan	14		15	-
Finance income			15	13
Interest expense on loans				
Accrued and/or cash settled	14		2,606	2,108
Amortization of loan fees	14		-	60
Amortization of embedded derivatives	14		47	454
Net foreign exchange loss			78	126
Other			91	111
Finance costs			2,822	2,859
Net Finance Costs		\$	(2,807)	\$ (2,846)

21. INCOME TAXES

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

Years Ended December 31,		2020	2019
Loss before taxes		\$ (6,144)	\$ (4,584)
Combined Canadian tax rate		27%	27%
Income tax recovery at combined rate		\$ (1,659)	\$ (1,238)
Non-deductible amounts and other adjustments		499	6
Change in deferred tax assets unrecognized		1,160	1,231
Income Tax Recovery, net		\$ -	\$ -

Certain components of finance income and finance costs are not taxable and their volatility has an apparent effect on the effective income tax rate.

22. OPERATING SEGMENT

Reporting Segment

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

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

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

The Frac Sand segment is managed and operated by Victory Silica's executives and employees, although the business and operating assets are part of Victory Nickel. The segment is located in Canada. The following tables

Notes to the Consolidated Financial Statements

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

provide information on the assets of the Company's segments:

As at December 31,	2020	2019
Canada		
Corporate	\$ 1,643	\$ 1,531
Exploration and development	3,430	16,230
Frac sand	1,932	2,989
Held for sale assets	11,471	-
Intersegment elimination	(1,481)	(1,441)
Total Assets	\$ 16,995	\$ 19,309

There have been no changes in the segments or the treatment of segmented assets and revenues during 2020 and 2019.

For the year ended December 31, 2020	Corporate	Exploration and Development	Frac Sand	Total
Revenues	\$ -	\$ -	\$ 450	\$ 450
Cost of goods sold	-	-	(922)	(922)
Gross loss	-	-	(472)	(472)
Operating expenses				
General and administrative	(553)	(12)	(231)	(796)
Shared-based payments	(77)	-	-	(77)
Amortization of property, plant and equipment	-	-	(433)	(433)
Writedow n of mine property and development project	-	(1,542)	-	(1,542)
Writedow n of exploration and evaluation projects	-	(17)	-	(17)
Operating loss	(630)	(1,571)	(1,136)	(3,337)
Finance income	15	-	-	15
Finance costs	(2,822)	-	-	(2,822)
Net finance costs	(2,807)	-	-	(2,807)
Net loss for the year	\$ (3,437)	\$ (1,571)	\$ (1,136)	\$ (6,144)

For the year ended December 31, 2019	Corporate	Exploration and Development	Frac Sand	Total
Revenues	\$ -	\$ -	\$ 461	\$ 461
Cost of goods sold	-	-	(746)	(746)
Gross loss	-	-	(285)	(285)
Operating expenses				
General and administrative	(569)	(28)	(220)	(816)
Amortization of property, plant and equipment	-	-	(602)	(602)
Writedow n of mine property and development project	-	(17)	-	(17)
Writedow n of exploration and evaluation projects	-	(18)	-	(18)
Operating loss	(569)	(63)	(1,107)	(1,738)
Finance income	13	-	-	13
Finance costs	(2,859)	-	-	(2,859)
Net finance costs	(2,846)	-	-	(2,846)
Net loss for the year	\$ (3,415)	\$ (63)	\$ (1,107)	\$ (4,584)

Notes to the Consolidated Financial Statements

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

23. RELATED PARTIES AND MANAGEMENT AGREEMENT

Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and sick leave as well as non-monetary benefits such as medical care. The Company may also issue options and common shares as part of the Stock Option Plan and Share Bonus Plan (Notes 17 and 19). Payables to key management personnel relate to director's fees, consulting fees and expense reimbursements.

Balances with related parties as at and for the years ended December 31, 2020 and 2019 are shown in the following table:

As at December 31,		2020		2019
Balances Outstanding				
Debt due to key management personnel	\$	398	\$	383
Other payables and accrued liabilities due to key management personnel		1,026		675
	\$	1,424	\$	1,058

Key management personnel compensation is composed of:

Years ended December 31,		2020		2019
Short-term employee benefits	\$	509	\$	431
	\$	509	\$	431

24. SUBSEQUENT EVENT

Sale of Minago to Silver Elephant

On February 9, 2021, Victory Nickel sold its Minago nickel property in northern Manitoba to Silver Elephant Mining under the terms of the APA.

Silver Elephant acquired 100% of Victory Nickel's debt held by the Secured Lender, upon sale of the Minago property, and restructured the Secured Debt in accordance with the APA as follows:

- A credit of \$6,675,000 against the balance of the Secured Debt owed by Victory Nickel;
- The balance of the Secured Debt will be non-interest bearing;
- The balance of the Secured Debt will mature on February 9, 2026 and will automatically be extended in 5-year increments; and
- A credit on the remainder of the balance owing under the Secured Debt, upon receipt of an independent economic study in respect of the Minago project proving positive net present value.

The APA also provides consideration to Victory Nickel which includes:

- \$5,000,000 Silver Elephant common shares issued in three tranches over a one-year period;
- CAD\$1,000,000 subscription by Silver Elephant for the purchase of Victory Nickel commons shares;
- An agreement to issue Victory Nickel CAD\$2 million Silver Elephant commons shares, upon the price of nickel exceeding US\$10.00 per pound for 30 consecutive business days on or before December 31, 2023;
- A right of first refusal, exercisable by Victory Nickel until December 31, 2023, with respect to the exploration of sandstone (non-nickel bearing sulphides) resources at Minago; and
- Reimbursement of up to \$200,000 for financial advisory services rendered by Red Cloud Securities Inc.

Engaged Financial Advisor for Debt Restructuring

During March 2021, the Company engaged Grant Thornton Limited as its financial advisor to assist the Company with restructuring options related to the Company's unsecured debt.



VICTORY NICKEL INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

DATED APRIL 29, 2021

VICTORY NICKEL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Years Ended December 31, 2020 and 2019

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of April 29, 2021 consolidates management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2020 and 2019, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's consolidated financial statements for the years ended December 31, 2020 and 2019 (the "2020 Consolidated Financial Statements") and the notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The 2020 Consolidated Financial Statements are available at www.sedar.com and at the Company's website www.victorynickel.ca. All amounts disclosed are in United States dollars ("US\$" or "US dollars") unless otherwise stated as Canadian dollars ("CAD\$") or Australian dollars ("AU\$"). All tabular amounts are in thousands of US dollars.

Common shares of the Company trade on the Canadian Securities Exchange ("CSE") under the symbol NI.

COMPANY OVERVIEW

The Company was formed on February 1, 2007 as an exploration and development mineral resources company primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada.

As at December 31, 2020, Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (under option to Corazon Mining Ltd. ("Corazon"), an Australian public company (ASX: CZN)) and Mel projects in Manitoba, and the Lac Rocher project in Québec. The Minago project is the Company's most advanced nickel project.

On February 9, 2021, Victory Nickel sold its Minago nickel property in northern Manitoba to Silver Elephant Mining Corp. ("Silver Elephant") under the terms of the asset purchase agreement ("APA"). This transaction benefitted the Company as follows:

- the amount of secured debt on the balance sheet was substantially decreased and became non-interest bearing;
- the cash position was enhanced through the completion of a private placement financing on closing;
- further liquidity was secured in the form of Silver Elephant common shares to be received over the course of 2021, along with the potential receipt of additional Silver Elephant shares contingent on the future performance of the nickel price;
- and the Company retained a right of first refusal on the Minago frac sand resource.

More details are included below, in *Going Concern* and elsewhere in this MD&A.

The Company's decision to enter the frac sand business was initially based on the need to generate cash flow and the desire to highlight the value of frac sand, which can be sold into the oil & gas industry, as a co-product at its Minago nickel project in Manitoba. Based on the Minago FS, approximately 11 million tonnes of frac sand exist within the Minago pit footprint. The pit footprint represents only a small portion of the Minago property. Under the APA, Victory Nickel retained a right of first refusal on the frac sand resource at Minago.

Since 2014, Victory Nickel, and its wholly-owned subsidiary Victory Silica Ltd. ("Victory Silica"), has been a producer and supplier of frac sand from its frac sand plant (the "7P Plant") located near Seven Persons, Alberta, approximately 18 kilometres southwest of Medicine Hat, Alberta. Frac sand is used as a proppant to enhance recovery from oil and gas wells. The 7P Plant comprises a wash plant with a nominal capacity of approximately 120,000 tons per annum ("tpa") and a fully-operational dry plant with a nominal capacity of 500,000 tpa.

To ensure supply of a variety of sand products, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in Trempeleau County, Wisconsin, USA (the "Bear Coulee Property"). The option is valid for six months from receipt of permits with two equivalent extensions available under certain circumstances. Prior to production the Company will be required to pay \$40,000 per annum as an advance royalty on the initial 20,000 tons

of sand production. If the Bear Coulee Property is put into production, the Company will be required to pay a royalty of \$2.00 per ton of frac sand sold from the property. In February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed by Summit Envirosolutions Inc. on the Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

Further to the strategy of providing a full suite of sand products, in October 2018 the Company entered into an option agreement (the "Exploration and Option Agreement") "with Short Grass Ranches Ltd. (the "Owner") giving the Company the option to mine frac sand from one of the Owner's properties (the "Short Grass Property"). Under the terms of the Exploration and Option Agreement, the Company had a 180-day period to evaluate the Short Grass Property and exercise its right to develop a commercial frac sand mine (the "Option"). On April 5, 2019, the Owner was notified of the exercise of the Option.

On February 6, 2020, Victory Silica executed an agreement (the "Non-Metallic Mineral Rights Agreement") with the Owner to develop a commercial frac sand mine. The initial term of the Non-Metallic Mineral Rights Agreement is for five years with the ability to extend for additional five-year terms and will pay the Owner a royalty for net frac sand sold from the Short Grass Property. The Non-Metallic Mineral Rights Agreement gives the Company the potential to produce in-basin domestic sand which has grown in popularity in North America as a means for the Company's customers and potential customers to reduce their overall frac cost. Any sand mined from the Short Grass Property would be trucked to the 7P Plant for processing and sale alongside existing inventory.

Going Concern

These 2020 consolidated financial statements have been prepared using Generally Accepted Accounting Principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. As at December 31, 2020, the Company had a working capital deficiency of \$13,445,000, calculated as current assets less current liabilities, a decrease from a working capital deficiency of \$20,643,000 as at December 31, 2019 mostly due to the Company's *Mine property and development project* being reclassified as an *Held for sale asset* and interest accrued on debt. At December 31, 2020, the current loans and borrowings and accrued interest of \$22,066,000 were the largest factor in the Company's working capital deficiency.

The Company's main assets are its nickel projects. Minago is the most advanced of its projects. Subsequent to December 31, 2020, the Company sold its Minago property to Silver Elephant, as discussed further below. However, the Company's total obligations still exceed the current carrying amount of its assets.

Subsequent to year-end, following the sale of Minago, restructuring of the Secured Debt (see details below) and the success in generating \$5,750,000 in liquidity, the Company announced it had engaged a financial advisor to assist the Company with restructuring options related to the Company's unsecured debt. At this time, it is unclear what steps will be required to restructure the existing debt, but could include investment in the frac sand business to broaden the product offerings to increase competitiveness, further asset sales or alternative sources of financing such as issuing additional debt or equity. There are no assurances that the Company will be able to restructure its remaining unsecured debt and there is no certainty as to what further steps, if any, the debtors, or the Company, will take.

Cash flows from frac sand sales during 2019 and 2020 were not sufficient to pay financing costs and the Company was not able to make most of its interest payments due. The near-term outlook in the frac sand market remains unclear.

During 2016, the Company restructured its debt (the "Debt Restructuring Agreement") with holders of promissory convertible notes and trade creditors, by issuing shares of the Company and unsecured promissory convertible notes ("Promissory Convertible Notes").

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

The Company has not made interest payments due on any of its Promissory Convertible Notes, which has resulted in the Company defaulting on these notes. The Company at its election may pay the accrued interest in shares.

On February 9, 2021, Silver Elephant acquired 100% of Victory Nickel's debt held by the Secured Lender, upon sale of the Minago property, and restructured the Secured Debt in accordance with the APA as follows:

- A credit of \$6,675,000 against the balance of the Secured Debt owed by Victory Nickel;
- The balance of the Secured Debt will be non-interest bearing;
- The balance of the Secured Debt will mature on February 9, 2026 and will automatically be extended in 5-year increments; and
- A credit on the remainder of the balance owing under the Secured Debt, upon receipt of an independent economic study in respect of the Minago project proving positive net present value.

The APA also provides consideration to Victory Nickel which includes:

- \$5,000,000 Silver Elephant common shares issued in three tranches over a one-year period;
- CAD\$1,000,000 subscription by Silver Elephant for the purchase of Victory Nickel common shares;
- An agreement to issue Victory Nickel CAD\$2,000,000 Silver Elephant common shares, upon the price of nickel exceeding US\$10.00 per pound for 30 consecutive business days on or before December 31, 2023; and,
- A right of first refusal, exercisable by Victory Nickel until December 31, 2023, with respect to the exploration of sandstone (non-nickel bearing sulphides) resources at Minago.

Per guidelines from the province of Alberta, the 7P Plant is considered an essential service and is therefore able to continue operations; the Company intends to continue to operate the 7P Plant for the foreseeable future. Throughout the evolution of the COVID-19 pandemic, the Company's head office personnel in Toronto have been working remotely and all staff in Ontario and Alberta has complied with applicable provincial and federal regulations and guidelines. The Company will continue to monitor the COVID-19 situation and adapt as necessary.

Management continues to advance its program to supplement existing sand inventory with domestic Canadian "in-basin" sand supply. Given the current situation as it relates to COVID-19, the timeline to development and sand production from the Short Grass Property, defined below, remains to be determined.

During 2020, the Company cut non-essential costs in an effort to reduce operating losses and deferred payments wherever possible. To date, management and the board of directors have reduced and/or deferred salaries and director fees until business recovers, but there is no certainty that this will continue. Management salary reductions and/or deferrals put the Company at risk of being unable to retain key personnel.

In addition to the above liquidity issues, the Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully fund its projects and operating expenses.

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

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

which would differ significantly from the going concern basis.

OUTLOOK

2020 was very challenging, remarkable and unique. In a year when the COVID-19 pandemic put severe pressure on all facets of society and necessitated that businesses adjust their strategies given the uncertain and constantly changing global outlook, the efforts of Victory Nickel's Board of Directors and management generated liquidity which positions the Company to tackle the next phase of debt restructuring and move forward in 2021 to the benefit of all stakeholders.

In the third quarter it was announced that a third-party financial advisor had been engaged to manage a formal process to improve the Company's capital structure. The process progressed until the first quarter of 2021 when the Company successfully completed the sale of its Minago property to Silver Elephant (the "Silver Elephant Transaction") concurrent with Silver Elephant acquiring 100% of the Company's Secured Debt. The Secured Debt was restructured to be non-interest bearing and was also significantly reduced to approximately \$5,400,000.

The goal of the Board of Directors and management for the past several years has been to preserve value for all stakeholders of Victory Nickel while at the same time creating a platform that would allow for growth of the business. This was achieved with the completion of the Silver Elephant Transaction. As detailed elsewhere in this MD&A, entering 2021 the Company has:

- substantially reduced the amount of the Secured Debt with the opportunity to extinguish the remaining debt without cash payment;
- dramatically increased liquidity with CAD\$1,000,000 cash consideration on closing of the Silver Elephant Transaction and an additional \$5,000,000 over the course of 2021 in Silver Elephant shares;
- the potential to receive an additional CAD\$2,000,000 in Silver Elephant shares conditional on the performance of the price of nickel; and,
- retained a right of first refusal on the frac sand resource at Minago.

In addition to reduced debt, increased liquidity and a revenue-generating frac sand operation, one can't neglect the value of the Mel and Lac Rocher sulphide nickel properties. Well-located in Manitoba and Quebec, these projects combine to give the Company significant sulphide nickel resources and exploration upside in a market where "energy metals" which are needed to support the electric vehicle revolution, including sulphide nickel, are increasingly in demand.

Sadly, in March of 2021 René Galipeau, a founding director of the Company and its first CEO, passed away. Rene was a creative leader and a man of great integrity who, in business, always put employees and shareholders first. He is greatly missed.

Optimistically, part of René's legacy is that 2021 finds the Company financially better positioned than has been the case for some time and the Board of Directors and management look forward to a year of positive developments. We thank our shareholders, lenders and suppliers for their continued patience and support.

RESULTS OF OPERATIONS

For the year ended December 31, 2020	Corporate	Exploration and Development	Frac Sand	Total
Revenues	\$ -	\$ -	\$ 450	\$ 450
Cost of goods sold	-	-	(922)	(922)
Gross loss	-	-	(472)	(472)
Operating expenses				
General and administrative	(553)	(12)	(231)	(796)
Shared-based payments	(77)	-	-	(77)
Amortization of property, plant and equipment	-	-	(433)	(433)
Writedow n of mine property and development project	-	(1,542)	-	(1,542)
Writedow n of exploration and evaluation projects	-	(17)	-	(17)
Operating loss	(630)	(1,571)	(1,136)	(3,337)
Finance income	15	-	-	15
Finance costs	(2,822)	-	-	(2,822)
Net finance costs	(2,807)	-	-	(2,807)
Net loss for the year	\$ (3,437)	\$ (1,571)	\$ (1,136)	\$ (6,144)

For the year ended December 31, 2019	Corporate	Exploration and Development	Frac Sand	Total
Revenues		\$ -	\$ 461	\$ 461
Cost of goods sold	-	-	(746)	(746)
Gross loss	-	-	(285)	(285)
Operating expenses				
General and administrative	(569)	(28)	(220)	(816)
Amortization of property, plant and equipment	-	-	(602)	(602)
Writedow n of mine property and development project	-	(17)	-	(17)
Writedow n of exploration and evaluation projects	-	(18)	-	(18)
Operating loss	(569)	(63)	(1,107)	(1,738)
Finance income	13	-	-	13
Finance costs	(2,859)	-	-	(2,859)
Net finance costs	(2,846)	-	-	(2,846)
Net loss for the year	\$ (3,415)	\$ (63)	\$ (1,107)	\$ (4,584)

Overall

For the year ended December 31, 2020, the Company had a net loss of \$6,144,000 or a loss of \$0.06 per share (December 31, 2019 - \$4,584,000 or \$0.05 per share). The following narrative discusses the relevant operations of the Frac Sand and Exploration and Development segments first, and then addresses the corporate segment.

Frac Sand Segment

The Company holds inventory in excess of 11,000 tons as at December 31, 2020 (December 31, 2019 – 17,000 tons) at various stages of the process and made sales of 6,038 tons of various grades of frac sand during 2020 (2019 – 5,497 tons) by drawing down inventories and/or brokering sand, generating a gross loss of \$472,000 (2019 – \$285,000).

Revenues

The Company recognized revenue on frac sand sales during 2020 aggregating \$450,000, or \$74.53 per ton, on frac sand sales (2019 - \$461,000, or \$83.86 per ton). Revenue includes freight for sales delivered to certain customers at certain times.

Cost of goods sold

The cost of goods sold includes the cost of sand purchased from third-parties, the cost of delivery to the 7P Plant including handling and trans-loading costs and the operating cost to wash, dry and screen the sand. Cost of goods sold may also include sand purchased from third parties. These costs are capitalized as a component of inventory on a normalized basis and are charged to cost of goods sold when title to the product passes to the customer. Cost of goods sold may also include any write-down or recovery of impairment of inventory values to the lower of cost or net realizable value.

The cost of goods sold was \$922,000 during 2020 (2019 - \$746,000) including an inventory writedown of \$286,000 to net realizable value (2019 - \$147,000). The 7P Plant continues to operate on an as-needed basis, resulting in higher operating costs per ton of product produced than what is expected on a continuous operating basis. The Company has reduced manpower to a level sufficient to start production as demand returns on a consistent basis.

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

Gross profit (loss)

The 7P Plant generated a gross loss during 2020 and 2019 due to the factors noted above.

General and administrative and other costs

General and administrative costs for the frac sand segment amounted to \$231,000 for the year ended December 31, 2020 (2019 - \$220,000). These costs include salaries, administration, marketing and logistics management. The Company reduced manpower and overhead as noted above.

Amortization of property, plant and equipment of \$433,000 was recorded for the year (2019 - \$602,000), for items in use at the 7P Plant.

Net loss

All of the above items combined to produce a net loss for the frac sand segment of \$1,136,000 for the year ended December 31, 2020 (2019 - \$1,107,000).

Exploration and Development Segment

At December 31, 2020, the Company recorded an impairment of \$17,000 on its exploration and evaluation projects (2019 - \$18,000) and \$1,542,000 on its mine, property and development project (2019 - \$17,000).

Corporate Segment

The corporate component of net loss for the year ended December 31, 2020 was \$3,437,000 (2019 - \$3,415,000), including operating expenses of \$630,000 (2019 - \$569,000) and net finance costs of \$2,807,000 (2019 - \$2,846,000). Operating expenses include non-cash share-based payments of \$77,000 in 2020 (2019 - \$ nil).

General and administrative expenses were \$553,000 during 2020 (2019 - \$569,000). These costs include statutory costs incurred as a public company, general investor relations expenses, consulting, travel, health benefits, salaries and director costs.

Net finance income (costs)

The Company considers financing activities to be part of the Corporate segment.

Finance costs were \$2,822,000 for 2020 (2019 - \$2,859,000), representing the Company's most significant expense. Cash and accrued interest expense were \$2,606,000 for the year ended December 31, 2020 (2019 - \$2,108,000). The increase in interest expense during 2020 compared with 2019 is mainly related to the compounding of interest outstanding on various debts.

The Company has several tranches of Promissory Convertible Notes issued. There are several elements of finance costs associated with these notes: accrued and cash-settled interest expense, non-cash amortization of loan fees, non-cash amortization of the embedded derivatives related to the value of the convertibility feature, the change in the fair value of the embedded derivatives, and the non-cash amortization of the present value discount on the Promissory Convertible Notes. All amortizable elements are calculated using the effective interest rate method. As at December 31, 2020, the amortization of the embedded derivatives on the Promissory Convertible Notes amounted to \$47,000 (2019 - \$454,000).

The embedded derivatives are calculated using the Black-Scholes option-pricing methodology and are a function of share

price, the conversion price, risk-free interest rate, length of time to expiry and share price volatility as well as the US dollar exchange rate for loans denominated in US dollars, but convertible using a Canadian dollar price. All other things being equal, one would expect the value of the option to decline as time approaches the expiry date. However, because of the volatility of exchange rates and the Company's share price, this may not always be the case. At December 31, 2020, all notes have passed their maturity. As such, all discounts and embedded derivatives have been fully amortized. The conversion rights have expired.

Other finance costs include interest accrued on accounts payable overdue of \$91,000 during 2020 (2019 - \$85,000).

Income tax expense (recovery)

The Company does not allocate income taxes between segments. The Company has significant deferred tax assets that do not meet the criteria for recognition and as a result, did not record a tax recovery. Certain components of finance income and finance costs are not taxable, and their volatility has an apparent effect on the effective income tax rate.

Other comprehensive income

Other comprehensive income ("OCI") for the year ended December 31, 2020 relates to the net change in fair value of financial assets of \$1,000 (2019 - \$38,000). These changes are a result of the net market value changes and/or gain or loss in the sale of the Company's marketable securities. The company sold a majority of its marketable securities for \$149,000 during 2019. There were no sales of marketable securities during 2020.

Deferred tax asset

Deferred income tax assets and liabilities arise from temporary differences between the carrying value of the balance sheet items and their corresponding tax values, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are considered probable to be realized. The deferred tax amount reflects a rate of 27% (2019 – 27%).

SUMMARY OF QUARTERLY RESULTS

Selected financial information for each of the last eight quarters is as follows:

(in thousands of United States dollars)

Fiscal year 2020	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Sales	\$ 86	\$ 56	\$ 51	\$ 257
Gross loss	\$ (368)	\$ (18)	\$ (58)	\$ (28)
General and administrative	\$ (211)	\$ (222)	\$ (208)	\$ (155)
Net finance costs	\$ (948)	\$ (962)	\$ (535)	\$ (362)
Net loss	\$ (3,255)	\$ (1,318)	\$ (913)	\$ (658)
Total comprehensive loss	\$ (3,254)	\$ (1,318)	\$ (913)	\$ (658)
Loss per share - basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Fiscal year 2019	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Sales	\$ 54	\$ 56	\$ 190	\$ 161
Gross (loss) profit	\$ (343)	\$ 30	\$ 34	\$ (6)
General and administrative	\$ (224)	\$ (207)	\$ (243)	\$ (142)
Net finance costs	\$ (785)	\$ (625)	\$ (744)	\$ (692)
Net loss	\$ (1,545)	\$ (944)	\$ (1,112)	\$ (983)
Total comprehensive loss	\$ (1,555)	\$ (929)	\$ (1,139)	\$ (923)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)

The gross profit or loss includes cost of goods sold, which contain operating costs for a full period despite production being at less-than-full capacity. During the last quarter of 2020 and 2019, the Company recorded an impairment on inventory to net realizable value. During the last quarter of 2020, the Company recorded an impairment on the valuation of its Mine Property and Development project.

Net finance income and costs have fluctuated period-over-period during 2019 and 2020, due to changes in foreign exchange gain or loss, change in the fair value of the embedded derivatives, and amortization of embedded derivatives and loan fees on the Promissory Convertible Notes.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, the Company had a working capital deficiency of \$13,445,000, compared with a working capital deficiency of \$20,643,000 as at December 31, 2019. The increase in the working capital deficiency resulted mostly due to the Company's *Mine property and development project* being reclassified as an *Held for sale asset* and interest accrued on debt

Participating Interest

Pursuant to a participating interest loan (the "Participating Interest") with Nuinsco Resources Limited (or the "Lender"), the Lender converted its outstanding balance into a limited participating interest (the "Conversion"), whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. The Conversion constituted payment of the loan in full. This obligation will be settled through a 52.16% participation in net operating cash flows from the frac sand business after recoupment of capital costs for phase one and pre-operating expenses. The participation is capped at CAD\$7,667,124 provided the Company proceeds with phase two (see FRAC SAND SEGMENT below for a description of phases one, two and three), otherwise the cap is approximately CAD\$10,222,831. Distributions under the Participating Interest terms are calculated based on operating cash flow after recovery of capital and pre-operating costs and take into account working capital. Given the operating losses incurred since 2014, it is not likely that any payments will be made on the participating interest. As a result, at December 31, 2020, the carrying value of the Participating Interest was \$1,000, compared with \$1,000 at December 31, 2019. Any change in value is recorded through Finance Income or Cost in the statement of operations. The Company will continue to reassess the carrying value of the Participating Interest as circumstances warrant.

Secured Debt

As at December 31, 2019, the Secured Debt of \$7,050,000 had a maturity date of January 31, 2020. On January 31, 2020, the Secured Debt increased by the amount of working capital advances and unpaid interest to \$10,009,000, and the maturity date was extended to July 31, 2021. The interest rate on the Secured Debt and additional loans remained unchanged at 14.8% with interest payable in arrears.

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

In addition, the Company has agreed to not make any payments to settle past unsecured debt prior to the repayment of the Secured Debt, without the Secured Lender's approval.

On February 9, 2021, Silver Elephant acquired 100% of Victory Nickel's debt held by the Secured Lender, upon sale of the Minago property, and restructured the Secured Debt in accordance with the APA as follows:

- A credit of \$6,675,000 against the balance of the Secured Debt owed by Victory Nickel;
- The balance of the Secured Debt will be non-interest bearing;
- The balance of the Secured Debt will mature on February 9, 2026 and will automatically be extended in 5-year increments; and
- A credit on the remainder of the balance owing under the Secured Debt, upon receipt of an independent economic study in respect of the Minago project proving positive net present value.

Promissory Convertible Notes

During 2016, the Company announced that it had restructured a portion of its debt through private placements of common shares and Promissory Convertible Notes, in settlement of current indebtedness to certain of its unsecured lenders and trade creditors.

The Company has not made any interest payments due on its Promissory Convertible Notes, which has resulted in the Company defaulting on these notes.

Promissory Convertible Note Holders

The Promissory Convertible Notes have the following terms:

- A maturity date of July 31, 2018 or January 31, 2020;
- An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
- Convertible at CAD\$0.25 per share, at the option of the holder, in which the conversion rights expired on July 31, 2018 or January 31, 2020; and
- Holders of the Promissory Convertible Notes will also receive one common share purchase warrant for every four common shares acquired upon conversion of the Promissory Convertible Notes, with an exercise price of CAD\$0.50 per share, exercisable for a five-year period from the date of conversion.

Debt Owed to Directors and Management

Current directors and management deferred payment, until January 31, 2020, of all outstanding debt and director fees accumulated up to July 31, 2019. As a result, the long-term debt of \$398,000 owed to current and previous directors and management is comprised of a portion of the restructured debt owed to current and previous directors and management amounting to CAD\$224,000, and unpaid director fees incurred by current directors during 2016, 2017, 2018 and the first half of 2019 totalling CAD\$283,000.

Outstanding Note

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

Other loans with Secured Lender

During 2019 and 2020, the Company's Secured Lender has provided working capital advances to ensure the protection of the Company's core assets. These loans also bear interest at 14.8% per annum and are secured by a general security agreement over the Company's assets.

Canada Emergency Business Account ("CEBA")

In April 2020, the Government of Canada implemented the CEBA, whereby certain businesses could apply for an interest-free loan of up to CAD\$40,000 to help cover their operating costs. The Company applied for, and received, this loan during April 2020. Up to 25% of the loan will be forgiven if repaid by December 31, 2022. The Company also applied for the additional loan of CAD\$20,000, which was received in December 2020. Up to 50% of the additional loan will be forgiven if repaid by December 31, 2022.

Cash Flows During the Year

Cash as at December 31, 2020 and 2019 was held with major Canadian banks.

For the year ended December 31, 2020, the Company used cash of \$290,000 through operating activities (2019 – \$644,000).

During the year ended December 31, 2020, net cash used by investing activities was \$230,000 (2019 – provided \$110,000). In 2020, the Company generated \$nil in net proceeds on the sale of marketable securities (2019 - \$149,000) and incurred \$213,000 on a drilling program at Minago (2019 - \$17,000 to maintain the property in good standing).

The Company received \$520,000 from net financing activities during 2020 (2019 – \$514,000), mainly due to net receipts of current loans. During 2020, the Company received advances from the Secured Lender of \$489,000 (2019 - \$514,000) for working capital purposes.

The Company's activities during the year ended December 31, 2020 provided cash of \$nil (2019 – used cash of \$20,000).

Table of Contractual Commitments

	Due Date	Currency	As at	
			December 31, 2020	December 31, 2019
			USD	USD
Promissory Convertible Note	July 7, 2016	US Dollar	\$ 3,000	\$ 3,000
Other current loan	July 31, 2021	US Dollar	\$ 447	\$ 645
Promissory Convertible Notes	July 31, 2018 and Jan 31, 2020	US Dollar	\$ 1,762	\$ 1,762
Promissory Convertible Notes	July 31, 2018 and Jan 31, 2020	Canadian Dollar	\$ 579	\$ 560
Senior Secured Debt	July 31, 2021	US Dollar	\$ 10,009	\$ 7,050
Senior Management Debt	Jan 31, 2020	Canadian Dollar	\$ 398	\$ 383
Accrued Interest	July 7, 2016 to July 31, 2021	US and Canadian Dollar	\$ 5,871	\$ 5,533
Government Loan	December 31, 2022	Canadian Dollar	\$ 31	N/A

The other current loan, senior secured debt and accrued interest due in 2021 are in default as at December 31, 2020 and therefore are due on demand.

Other Potential Sources of Cash Flow

The APA provides consideration to Victory Nickel which includes:

- \$5,000,000 Silver Elephant common shares issued in three tranches over a one-year period commencing on February 9, 2021;
- CAD\$1,000,000 subscription by Silver Elephant for the purchase of Victory Nickel common shares; and
- An agreement to issue Victory Nickel CAD\$2 million Silver Elephant common shares, upon the price of nickel exceeding US\$10.00 per pound for 30 consecutive business days on or before December 31, 2023.

The Company also has over 11,000 tons of sand in inventory at December 31, 2020. The Company has eliminated all discretionary costs that should not have a negative impact on its ability to resume production. Staffing, salaries and director fees have been previously reduced or accrued and deferred where possible.

REPORTING SEGMENT

The Company is engaged in the exploration, evaluation and development of properties for the mining and production of nickel and associated products. The Company also produces frac sand for the oil and gas industry in Canada and the northern US. The Company has three reporting segments: Corporate, Exploration and Development, and Frac Sand. The Corporate segment supports all of the Company's activities.

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

The frac sand segment is managed and operated by Victory Silica's executives and employees although the business and operating assets are part of Victory Nickel. The segment is located in Canada.

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

As at December 31,	2020	2019
Canada		
Corporate	\$ 1,643	\$ 1,531
Exploration and development	3,430	16,230
Frac sand	1,932	2,989
Held for sale assets	11,471	-
Intersegment elimination	(1,481)	(1,441)
Total Assets	\$ 16,995	\$ 19,309

EXPLORATION AND DEVELOPMENT ACTIVITIES

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

MINE PROPERTY AND DEVELOPMENT ACTIVITIES

Minago Project

During the year ended December 31, 2020, \$213,000 was incurred on the Minago project (2019 - \$17,000).

The Minago project is a permitted project ready for development. It is located on the unexposed southern part of the Thompson Nickel Belt in Manitoba, and is one of Canada's largest undeveloped sulphide nickel deposits. Minago has been shown to be capable of producing a nickel concentrate grading from 22.3% up to 35.0%, making it reportedly the world's highest grade nickel concentrate. In addition to metal by-products such as copper, cobalt, gold, platinum, palladium, silver and rhodium, a layer of silica sand averaging approximately nine metres thick overlies the nickel mineralization within the open pit. Approximately 84% of the sand is marketable as frac sand. The frac sand forms part of the overburden that must be removed prior to mining the nickel ore. According to the Minago FS, production of frac sand could begin 20 months after the start of mine development.

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

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

¹ Lerch-Grossman pit optimization shell

² Whittle pit optimization shell

³ Nickel in sulphide form

On August 23, 2011, the Manitoba Government issued Victory Nickel's final EAL for the Minago project. The licence was to expire on August 22, 2014 unless the Company completes a certain amount of work to move the project forward. During 2014, the Company complied with the conditions of the EAL and, in December 2014, filed an Environmental Act Proposal (“EAP”) to amend the EAL to relocate the proposed tailings and waste rock management facility. The construction of drainage ditches installed to lower the water table within the pit shell limits, the installation of Flow Gauging and Telemetry systems and the implementation of a comprehensive environmental monitoring program are considered part of the site development necessary to maintain the EAL. Consultations with First Nations by the government of Manitoba continue. The existing EAL continues to be valid and although the amendment would be preferable, it is not necessary for the Minago project to be developed. On completion of consultations, the government is expected to issue the amendment to the existing EAL.

On April 8, 2020, the Company announced the completion of two exploration diamond drill holes at Minago. The two-hole program at the Minago project targeted geophysical responses underlying the northern part of the property and constitutes condemnation testing related to potential infrastructure development for future project purposes. The geophysical targets tested were identified during historic surveys conducted by previous workers as well as a VTEM survey conducted for the Company in 2007. Due to the limitations on personnel movement resulting from restrictions stemming from the on-going COVID-19 pandemic, processing of core and receipt of assay results are likely to be significantly delayed.

Minago Frac Sand

An indicated resource of 15,000,000 tonnes of sandstone has been estimated to occur within the current Minago pit shell. The frac sand component of this resource is approximately 11,000,000 tonnes and is a significant contributor to

the positive economics at Minago. As part of the FS, Outotec produced a feasibility-level design for a frac sand plant complete with capital and operating costs to produce 1,140,000 tonnes of frac sand annually for a ten-year period. Considerable potential exists to expand the resource beyond the limits of the current pit.

At the end of 2020, the Company assessed the carrying value of Minago for impairment. At December 31, 2020, Management believed that impairment existed due to the valuation of Minago as part of the APA with Silver Elephant completed on February 9, 2021, and concluded that a write-down of \$1,542,000 was necessary. The carrying amount of the Minago property was transferred to Held for Sale Asset on the *Consolidated Statement of Financial Position* as at December 31, 2020. Refer to HELD FOR SALE ASSET section below.

EXPLORATION AND EVALUATION ACTIVITIES

For the year ended 2020, the Company reviewed for any indication of impairment on the asset's recoverable amount and determined that there were no significant events, progress or adverse changes to materially impact the carrying values of its E&E projects. Due to the significant write-down in 2018 and despite the Company's financial difficulties, management believes that the current carrying amounts of its E&E projects are likely to be recovered in full, from successful development or by sale in the future. For the year ended December 31, 2020, the Company recorded a write-down of \$11,000 and \$6,000 on its Lac Rocher and Mel properties, respectively (2019 - \$10,000 and \$5,000, respectively) and incurred \$17,000 exploration expenditures on its E&E projects (2019 - \$15,000). Expenditures have been reduced due to the tight equity markets and management's focus on the frac sand business.

Nickel

Lac Rocher

Lac Rocher, with year-round access, is located in northwestern Québec and has measured (0.29 million tonnes grading 1.23% Ni) and indicated (0.51 million tonnes grading 1.05% Ni) resources of 0.80 million tonnes grading 1.12% nickel, at a 0.5% nickel cutoff, for approximately 20 million pounds of in-situ nickel located between surface and 125 vertical metres. Additional inferred resources total 0.44 million tonnes grading 0.65% Ni. Mineralization remains open to the southwest. The breakeven price of nickel per pound in the Lac Rocher PEA was US\$9.74 with copper at US\$3.65 with an exchange of CAD\$0.95 / US\$1.00.

The Lac Rocher property is subject to a discovery incentive plan (the "DIP") to reward certain individuals involved in the discovery of Lac Rocher with a 2% net smelter royalty ("NSR") for mines that were discovered on certain properties prior to the expiry of the DIP. The NSR is payable only on revenues earned after recovery of all development costs for any mine on the property. The terms of the DIP provide the Company with a right of first refusal on any proposed disposition of the NSR. In addition, the DIP contains put/call provisions under which the Company may be required to purchase, or may exercise an option to purchase, the NSR at the value of its discounted cash flows, as defined therein. The Lac Rocher property is the only property subject to the DIP. As the Lac Rocher property is not yet in production, no royalties are currently payable. No work has been conducted on site since December 2009.

As at December 31, 2020, the Company recorded an impairment of \$11,000 (2019 - \$10,000) on its Lac Rocher property (refer to IMPAIRMENT ANALYSIS UPDATE section below).

Mel Project

The 100% owned Mel project is located on the Thompson Nickel Belt, just north of Thompson, Manitoba and remains underexplored.

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

The re-evaluation of the Mel dataset has been completed for both the drill hole data on the Mel deposit and the considerable drilling (111 drill holes) conducted on the claims portion of the property. The study has included reinterpretation of the geological context in order to evaluate new or under-tested target areas for future work that can be incorporated into further, more refined, modelling of the Mel resource. No fieldwork has been conducted since 2011.

Under the terms of the Mel option agreement with Vale, Vale must mill ore from the Mel project at cash costs plus 5% subject to capacity availability and metallurgy. Furthermore, in accordance with the terms of the agreement with Vale, they are entitled to a 10% royalty on "distributable earnings" as defined in the agreement. Distributable earnings is

defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

As at December 31, 2020, the Company recorded an impairment of \$6,000 (2019 - \$5,000) on its Mel property (refer to IMPAIRMENT ANALYSIS UPDATE section below).

Lynn Lake

The Lynn Lake property is located in the historic mining town of Lynn Lake in northern Manitoba, about 320km by road northwest of the Thompson mining camp. The property is the former Sherritt Gordon Mines Limited (“Sherritt”) mine site known as the Lynn Lake A Mine and Farley Mine, comprised of 13 mining claims, 14 mining claim leases and 2 mineral leases covering an area of 2,170.26 hectares. The property was operated by Sherritt from 1953 to 1976 with reported production of 22.2 million tons at an average grade of 1.023% nickel and 0.535% copper.

The Lynn Lake nickel property covers approximately 600 ha in northern Manitoba. In November 2014, the Company announced that it had optioned Lynn Lake to Corazon. Under the terms of the option agreement, subject to any required regulatory approvals, Corazon can acquire a 100% interest in Lynn Lake by issuing to Victory Nickel, 40,000,000 Corazon shares upon closing and incurring AU\$3,500,000 in exploration expenditures or payments (in cash or Corazon shares at Corazon’s option) to Victory Nickel before December 19, 2019. In April 2015, the Company received 40,000,000 shares of Corazon valued at \$192,000 as part of the option agreement. These shares were subsequently sold. On January 14, 2020, the Company received an interim report from Corazon, indicating that over AU\$3,500,000 in exploration expenditures has been incurred. The Company is currently in the process of reviewing the interim report.

If the terms of the option are determined to not have been met, Corazon shall either pay to the Company (in cash or in Corazon shares, at the discretion of Corazon) the difference between AU\$3,500,000 and the amount spent by Corazon on Lynn Lake or elect to return the property to the Company. If the terms of the option are met, Victory Nickel will retain a 1.5% net smelter royalty on production from Lynn Lake and receive a payment of AU\$1,000,000 (in cash or Corazon shares at Corazon’s option) within 30 days of the commencement of ore processing activities.

FRAC SAND SEGMENT

As explained above, the frac sand segment is managed and operated by Victory Silica, although the business and operating assets are part of Victory Nickel. The Company’s frac sand segment is located in Canada although initially sand as raw material was imported from the United States. As customer demand has changed, the Company has purchased domestic (Canadian) sand from suppliers near to the 7P Plant and has also brokered frac sand to generate revenue.

With the Bear Coulee (Wisconsin) and Short Grass Ranch (Alberta) properties (see discussion below), the Company has the potential to provide both import and domestic sand to customers should market demand dictate. At the present time, the Company is focused on evaluating the development of, and production from, the Short Grass Ranch property as this product is better suited to current market demand.

Bear Coulee Property

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

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

Short Grass Property

In October 2018, Victory Silica entered into the Exploration and Option Agreement with Short Grass Ranches Ltd. giving the Company the option to mine frac sand from the Short Grass Property, located in Alberta, Canada, approximately 52 kilometres from the 7P Plant.

Under the terms of the Exploration and Option Agreement, the Company had a 180-day period to evaluate the Short Grass Property. The Company completed third-party testing of sand resources on the Short Grass Property. In April 2019 the Company notified the Owner of its exercise of the Exploration and Option Agreement.

On February 6, 2020, Victory Silica executed the Non-Metallic Mineral Rights Agreement with the Owner to develop a commercial frac sand mine. The initial term of the Non-Metallic Mineral Rights Agreement is for five years with the ability to extend for additional five-year terms and will pay the Owner a royalty for net frac sand sold from the Short Grass Property. The Non-Metallic Mineral Rights Agreement gives the Company the potential to produce in-basin domestic sand which has grown in popularity in North America as a means for the Company's customers and potential customers to reduce their overall frac cost. Any sand mined from the Short Grass Property would be trucked to the 7P Plant for processing and sale alongside existing inventory.

The Short Grass Property has a high-quality sand deposit, is well-located and gives the Company the opportunity to access new customers in evolving markets.

IMPAIRMENT ANALYSIS UPDATE

The Company performed an analysis for any indicators of impairment on each of its E&E projects and the MP&D project as at December 31, 2020. The challenge facing all junior resource companies remains to find financing for development of projects. This difficulty is not a reflection of the quality of the Company's projects, but is indicative of a continued general malaise affecting the junior resources sector in general. The Company performed an analysis for any indicators of impairment at the project level.

The Company considered a number of factors including its current financial position, the amount of capital required to develop the project, delays to development due to financing requirements and the probability of obtaining such financing. The Company's current financial position will make obtaining financing extremely difficult. The low market capitalization may also hinder the Company if it were to attempt to sell any of its projects. Additionally, the Company considered current and forecast nickel prices, frac sand pricing and prices of other by-products, in addition to the current market conditions for nickel projects.

At the end of 2020, the Company assessed the carrying value of Minago for impairment. At December 31, 2020, Management believed that impairment existed due to the valuation of Minago as part of the APA with Silver Elephant completed on February 9, 2021, and concluded that a write-down of \$1,542,000 was necessary. The revalued carrying amount of the Minago property was transferred to Held for Sale Asset on the *Consolidated Statement of Financial Position* as at December 31, 2020. Refer to HELD FOR SALE ASSET section below.

For the year ended 2020, the Company reviewed for any indication of impairment on the asset's carrying amount and determined that there were no significant events, progress or adverse changes to materially impact the carrying values of its E&E projects. Due to the significant write-down in 2018 and despite the Company's financial difficulties, management believes that the current carrying amounts of its E&E projects are likely to be recovered in full, from successful development or by sale in the future. For the year ended December 31, 2020, the Company recorded an impairment of \$11,000 and \$6,000 on its Lac Rocher and Mel properties, respectively (2019 - \$10,000 and \$5,000, respectively).

HELD FOR SALE ASSET

As announced on October 30, 2020, the Company has engaged Red Cloud Securities Inc. ("Red Cloud") on an exclusive basis as its financial advisor to manage the sale process of Minago on behalf of the Company to improve the capital structure of the Company. The firm was paid a retainer fee of CAD\$50,000. Upon receipt of non-binding offers, the firm and the Company evaluated potential opportunities and structures that could improve the Company's capital structure and allow the Company to move forward to the benefit of all stakeholders.

At the end of 2020, the Company assessed the carrying value of Minago for impairment. At December 31, 2020, Management believed that impairment existed due to the valuation of Minago as part of the APA with Silver Elephant completed on February 9, 2021, and concluded that a write-down was necessary. The carrying amount of the Minago property was transferred to *Held for Sale Asset* on the *Consolidated Statement of Financial Position* as at December 31, 2020.

TRANSACTIONS WITH RELATED PARTIES

Related Party Balances and Transactions for Services

Short-term benefits provided by the Company to key management personnel include salaries, directors' fees, statutory contributions and paid sick leave as well as non-monetary benefits such as medical care. The Company may also issue options and common shares as part of the stock option plan and the share bonus plan.

Balances with related parties are shown in the following tables:

(in thousands of United States dollars)

As at December 31,	2020	2019
Balances Outstanding		
Debt due to key management personnel	\$ 398	\$ 383
Other payables and accrued liabilities due to key management personnel	1,026	675
	\$ 1,424	\$ 1,058

Key management personnel compensation is comprised of:

(in thousands of United States dollars)

Years ended December 31,	2020	2019
Short-term employee benefits	\$ 509	\$ 431
	\$ 509	\$ 431

OUTSTANDING SHARE DATA

As at April 28, 2021, the Company had 138,178,867 common shares issued and outstanding. In addition, there were 10,950,000 stock options outstanding with a weighted average exercise price of CAD\$0.049.

Upon the issuance of 40,000,000 common shares of Victory Nickel to Silver Elephant as part of the APA on February 9, 2021, Silver Elephant effectively owned 29% of Victory Nickel on a non-dilutive basis. The shares issued are subject to a statutory holding period of four months plus one day.

SUBSEQUENT EVENTS

Sale of Minago to Silver Elephant

On February 9, 2021, Victory Nickel sold its Minago nickel property in northern Manitoba to Silver Elephant Mining under the terms of the APA.

Silver Elephant acquired 100% of Victory Nickel's debt held by the Secured Lender, upon sale of the Minago property, and restructured the Secured Debt in accordance with the APA as follows:

- A credit of \$6,675,000 against the balance of the Secured Debt owed by Victory Nickel;
- The balance of the Secured Debt will be non-interest bearing;
- The balance of the Secured Debt will mature on February 9, 2026 and will automatically be extended in 5-year increments; and
- A credit on the remainder of the balance owing under the Secured Debt, upon receipt of an independent economic study in respect of the Minago project proving positive net present value.

The APA also provides consideration to Victory Nickel which includes:

- \$5,000,000 Silver Elephant common shares issued in three tranches over a one-year period;
- CAD\$1,000,000 subscription by Silver Elephant for the purchase of Victory Nickel common shares;
- An agreement to issue Victory Nickel CAD\$2,000,000 Silver Elephant common shares, upon the price of nickel exceeding US\$10.00 per pound for 30 consecutive business days on or before December 31, 2023;

- A right of first refusal, exercisable by Victory Nickel until December 31, 2023, with respect to the exploration of sandstone (non-nickel bearing sulphides) resources at Minago; and
- Reimbursement of up to \$200,000 for financial advisory services rendered by Red Cloud Securities Inc.

Engaged Financial Advisor for Debt Restructuring

During March 2021, the Company engaged Grant Thornton Limited as its financial advisor to assist the Company with restructuring options related to the Company's unsecured debt.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and judgements used in the preparation of the consolidated financial statements include determining the carrying value of investments, MP&D and E&E projects, assessing the impairment and classification of long-lived assets, determining the recoverability of deferred income tax assets, the valuation of the convertibility feature of the New Promissory Convertible Notes, the valuation of share-based payments and the disclosure of contingencies and going concern matters. These estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control.

For a complete list of the significant accounting policies as well as information concerning the use of estimates, judgments and measurement uncertainty, reference should be made to Note 3 to the Company's 2020 Consolidated Financial Statements. The Company's 2020 Consolidated Financial Statements have been prepared using the going concern assumption; reference should be made to Note 1 to the Company's 2020 Consolidated Financial Statements.

The recorded value of the Company's E&E projects and the MP&D project is based on historic costs, net of any impairment, that are expected to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is exposed to a number of risks and there is always the potential for a material adjustment to the value assigned to these assets. Such risks also extend to the evaluation of fair values of net assets upon acquisition.

The fair value of the Company's Held for Sale Asset is based on the purchase price by Silver Elephant as part of the APA completed on February 9, 2021.

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

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

The Company has significant deferred tax assets that do not meet the criteria for recognition. Given the uncertainties disclosed in the going concern note above, the Company has determined that it cannot recognize any deferred tax assets at the time. The Company will monitor any changes that would allow for the recognition of its deferred tax assets. This is a significant judgement that, dependent upon future events, may turn out to be incorrect. The Company will monitor any changes in circumstances which could require a reversal of the valuation allowance.

Accounting Standards Issued But Not Yet Applied

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current and Deferral of Effective Date

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments:

- specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months;
- provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and
- clarify when a liability is considered settled.

On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its financial 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 meets with management to review the 2020 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 a Compensation committee, a Corporate Governance and Nominating and a Health, Safety & Environment committee.

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

The Company's Certifying Officer is responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP. 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.

RISKS AND UNCERTAINTIES

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

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

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

Financial and Investment Risks

Going Concern

Readers are encouraged to read and consider the going concern note specifically described at the beginning of the MD&A and contained in the 2020 Consolidated Financial Statements.

Substantial Debt and Loss from Operations

As reflected in the accompanying consolidated financial statements and notes, the Company's outstanding debt balance, both secured and unsecured, raises substantial doubt about our ability to continue as a going concern and to generate sufficient liquidity to meet our operating needs. While the Company is attempting to generate sufficient revenue and reduce costs, the cash position may not be sufficient to support ongoing daily operations and the Company cannot ensure that the business will generate sufficient cash flows from operations or future borrowings. As noted above, readers are encouraged to read and consider the going concern note specifically described at the beginning of the MD&A and contained in the 2020 Consolidated Financial Statements.

Substantial Capital Requirements

Victory Nickel will have to make substantial capital expenditures for the development of, and to achieve production from, its nickel projects. Production will only be reached a number of years following the start of development. Until that time, the Company is reliant on cash flows generated by its frac sand business, on the equity markets and on asset sales to generate cash for ongoing operations and programs. There can be no assurance that any debt or equity financing or cash generated by operations or asset sales will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Victory Nickel. Moreover, future activities may require Victory Nickel to alter its capitalization significantly. The inability of Victory Nickel to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects. Flow-through financing cannot be used to fund the Company's corporate costs.

The 7P Plant has been substantially completed, however additional capital will be required. This capital requirement may be in excess of the net funds generated by the business. The frac sand operations have ongoing requirements for working capital financing. There is a risk that sufficient working capital financing may not be available at suitable prices.

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

Market Perception

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

Metal, Hydrocarbon and Frac Sand Prices

There is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Nickel and by-product prices fluctuate on a daily basis and are affected by numerous factors beyond Victory Nickel's control – including factors which are influenced by worldwide circumstances. The level of interest rates, the rate of inflation, world supply and demand for commodities and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The prices of nickel and by-products have historically fluctuated widely and future price declines could cause commercial production to be uneconomical and such fluctuations could have a material adverse effect on Victory Nickel's business, financial condition and prospects. As Victory Nickel has historically been in the exploration and development stage, the above factors have had no material impact on present operations but must be considered in evaluating the impairment of long-lived assets. These factors are of significant importance for the Minago FS and decisions related thereto as well as being important to the developing frac sand business.

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

Areas of Investment Risk

The Company's common shares are listed on the CSE. The share prices of publicly traded companies can be volatile as the price of common shares is dependent upon a number of factors, some of which are general or market or sector specific and others that are specific to Victory Nickel. The market for shares in small public companies is less liquid than for large public companies. Investors should be aware that the value of the Company's common shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Company's common shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their securities may be influenced by a number of factors, some of which may pertain to the Company and others of which are extraneous. On any disposal of their common shares, investors may realize less than the original amount invested.

Industry Risks

Speculative Nature of Mineral Exploration

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

Evaluation and Development Projects

In general, evaluation and development projects have no operating history upon which to base estimates of future cash operating costs. For evaluation and development projects such as the mineral resource properties owned by Victory Nickel, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital cost, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. In addition, there remains to be undertaken certain feasibility and/or development preparation work on the projects that could adversely impact estimates of capital and operating costs required for the development of the projects. Costs necessary to develop the projects could be significant and have a direct impact on the economic evaluation of the projects. As a result, it is possible that the actual capital cost, cash operating costs and economic returns of the projects may differ from those currently estimated. The costs estimated under the Minago FS for Minago differed from the Preliminary Economic Assessment and may differ again upon actual development.

Frac Sand Industry

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

With respect to the frac sand industry itself, risks include: changes in transportation availability and pricing, inclement or hazardous weather conditions from flooding or climate change, environmental hazards, industrial accidents, changes in the regulatory framework impacting mining, processing and the fracking industries in both Canada and the US, inability

to procure sand in the required quantities or qualities, inability to obtain replacement parts or equipment on a timely basis, reduction in the availability of water for processing, inability to hire, train and retain qualified staff at acceptable rates; and other technical difficulties or failures.

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

Competition

The mineral exploration business is highly competitive in all of its phases. Victory Nickel competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Victory Nickel, in the search for and acquisition of exploration and development rights on attractive mineral properties. Victory Nickel's ability to acquire exploration and development rights in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on other suitable properties. There is no assurance that Victory Nickel will compete successfully in acquiring exploration and development rights on such other properties or in securing customers, sand supplies or other resources such as transportation.

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

Operational Risks

Limited History of Operations

Victory Nickel has no history of earnings and limited financial resources. Victory Nickel currently has no operating mines and its ultimate success may depend on the ability of active mining operations to generate cash flow in the future, as well as its ability to access capital markets for its development requirements. There is no assurance that Victory Nickel will earn profits in the future. Significant capital investment will be required to achieve commercial production at Victory Nickel's existing nickel projects. There is no assurance that Victory Nickel will be able to raise the required funds to continue these activities. The 7P Plant continues to operate on an as-needed basis, and there can be no assurance when or if full-time operations will resume.

Frac Sand Processing Operations

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

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

timely basis, resulting in adverse effects on the cost profile.

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

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

Development Targets, Permitting and Operational Delays

There can be no assurance that Victory Nickel will be able to complete the planned development of its projects on time or on budget due to, among other things, delays in receiving required consents, permits and registrations, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support Victory Nickel's operations. Any failure to meet development targets or other operational delays or inadequacies could have a material adverse effect. In particular, while the Company is confident it has complied with the conditions of the EAL and has filed, with the government of Manitoba, an EAP to amend its EAL providing for the relocation of the Minago project tailings impoundment to an area much more suitable than previously proposed in the Minago FS, there is no guarantee that the EAP will be approved or that an amendment to the EAL will be granted.

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

Resources and Reserves

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

The Company's frac sand business in its present phase is reliant upon a handful of suppliers for its product. The Company has no resources or reserves of its own that can presently be exploited, although it has announced resources on the Bear Coulee option in Wisconsin. The same is true of the Short Grass Property. Permitting this property for production is expected to take several years.

Title Risks

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

Insurance Risk

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

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

Regulatory Risks

Government Regulation

Existing and possible future environmental and social impact legislation, regulations and actions, including the regulation

of air and water quality, mining reclamation, solid and hazardous waste handling and disposal, the promotion of occupational health and safety, the protection of wildlife and ecological systems and the protection of the societies and communities of indigenous peoples, could cause significant expense, capital expenditures, restrictions and delays in activities, the extent of which cannot be predicted and which may well be beyond Victory Nickel's capacity to fund. Environmental laws are becoming more stringent and actively enforced. Environmental and social impact studies may be required for some operations and significant fines and clean-up responsibilities may be assessed for companies causing damage to the environment in the course of their activities.

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

Victory Nickel may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors in the areas in which Victory Nickel does or will operate and holds its interests, as well as unforeseen matters. In particular, the fracking industry is often at the forefront of public attention whether or not deserved. Nonetheless, this provokes attention and scrutiny.

Other Risks

Environmental and Health Risks

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

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

Key Personnel

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

Conflicts of Interest

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

Investments and Other Agreements with Resource Companies

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

Unfavourable Global Economic Conditions

The Company's results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. A severe or prolonged economic downturn could result in a variety of risks to our business, including the Company's ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could strain suppliers, possibly resulting in supply disruption, or cause delays in payments by third-party payers. Any of the foregoing could harm the Company's business and management cannot anticipate all of the ways in which the current or future economic climate and financial market conditions could adversely impact the business. For example, in 2020, COVID-19 was reported in many countries around the globe. The extent to which the COVID-19 impacts the Company and its results will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain the COVID-19 or remedy its impact, among others.

Summary

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

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information. All statements, other than statements of historic fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow, costs, economic return, net present value, mine life and financial models, mineral resource estimates, potential mineralization, potential mineral resources, timing of possible production, the Company's development plans and objectives and the ability of the Company to restructure its debt with the relevant lenders and the ability of the Company to pay future interest and other payments in connection with such debts) constitute forward-looking information

The forward-looking information contained in this MD&A reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from current expectations, including, but not limited to, an unwillingness of the Company's lenders to refinance the Company's debts on terms favourable to the Company or at all and the ability of the Company to continue selling frac sand. Additionally, if the Company is unable to restructure its debts, obtain additional financing and/or continue generating revenue through the sale of frac sand, the Company may be required to curtail activities and/or liquidate its assets or the Company's creditors may seek to seize its assets.

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

April 29, 2021