



VICTORY NICKEL INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2020**

DATED MAY 27, 2020

Management's Comments on Unaudited Condensed Interim Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Victory Nickel Inc. for the three months ended March 31, 2020 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

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

Condensed Interim Consolidated Balance Sheets

| (in thousands of United States dollars) | <i>Notes</i> | March 31, 2020 | December 31, 2019 |
|---|--------------|-------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | \$ 39 | \$ 23 |
| Receivables | 4 | 248 | 36 |
| Marketable securities | | 1 | 1 |
| Inventory | 5 | 914 | 1,151 |
| Total current assets | | 1,202 | 1,211 |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 1,759 | 1,868 |
| Mine property and development project | 7 | 13,062 | 12,800 |
| Exploration and evaluation projects | 8 | 3,430 | 3,430 |
| Total non-current assets | | 18,251 | 18,098 |
| Total Assets | | \$ 19,453 | \$ 19,309 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | 9 | \$ 2,986 | \$ 2,968 |
| Loans and borrowings | 10 | 9,487 | 18,886 |
| Total current liabilities | | 12,473 | 21,854 |
| Non-current liabilities | | | |
| Loans and borrowings | 10 | 10,183 | - |
| Participating Interest | 11 | 1 | 1 |
| Total non-current liabilities | | 10,184 | 1 |
| Total Liabilities | | 22,657 | 21,855 |
| Shareholders' equity | | | |
| Share capital | 12 | 53,410 | 53,410 |
| Contributed surplus | | 6,178 | 6,178 |
| Accumulated other comprehensive loss | | (3,456) | (3,456) |
| Deficit | | (59,336) | (58,678) |
| Total shareholders' equity | | (3,204) | (2,546) |
| Total Liabilities and Shareholders' Equity | | \$ 19,453 | \$ 19,309 |

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

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

Consolidated Statements of Operations

| (in thousands of United States dollars) | <i>Notes</i> | Three months ended | |
|--|--------------|---------------------------|-----------------|
| | | March 31, 2020 | March 31, 2019 |
| Sales | | \$ 257 | \$ 161 |
| Cost of goods sold | | (285) | (167) |
| Gross loss | | (28) | (6) |
| Operating expenses | | | |
| General and administrative | | (155) | (142) |
| Amortization of property, plant and equipment | 6 | (109) | (143) |
| Writedown of Exploration & Evaluation projects | 8 | (4) | - |
| Operating loss | | (296) | (291) |
| Finance income | 15 | 244 | - |
| Finance costs | 15 | (606) | (692) |
| Net finance costs | | (362) | (692) |
| Net loss for the year | | \$ (658) | \$ (983) |
| Loss per share | 13 | | |
| Basic and diluted loss per share | | \$ (0.01) | \$ (0.01) |

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

Consolidated Statements of Comprehensive Loss

| (in thousands of United States dollars) | Three months ended | |
|--|---------------------------|-----------------|
| | March 31, 2020 | March 31, 2019 |
| Net loss for the year | \$ (658) | \$ (983) |
| Other comprehensive income ("OCI") | | |
| Net change in fair value of financial assets | - | 84 |
| Foreign exchange gain | - | (24) |
| Other comprehensive income for the year | - | 60 |
| Total Comprehensive Loss for the year | \$ (658) | \$ (923) |

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

Consolidated Statements of Shareholders' Equity

| (in thousands of United States dollars) | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Loss | Deficit | Total Equity |
|---|------------------|------------------------|---|-------------|--------------|
| Balances as at January 1, 2019 | \$ 53,410 | \$ 6,178 | \$ (3,494) | \$ (54,094) | \$ 2,000 |
| Total comprehensive loss for the period | | | | | |
| Net loss for the period | | | | (983) | (983) |
| Other comprehensive income | | | | | |
| Net change in fair value of financial assets | | | 84 | | 84 |
| Foreign exchange on change in functional currency | | | (24) | | (24) |
| Total other comprehensive income | | | 60 | | 60 |
| Total comprehensive loss for the period | | | | | (923) |
| Balances as at March 31, 2019 | \$ 53,410 | \$ 6,178 | \$ (3,434) | \$ (55,077) | \$ 1,077 |
| Balances as at January 1, 2020 | \$ 53,410 | \$ 6,178 | \$ (3,456) | \$ (58,678) | \$ (2,546) |
| Total comprehensive loss for the period | | | | | |
| Net loss for the year | | | | (658) | (658) |
| Total comprehensive loss for the period | | | | | (658) |
| Balances as at March 31, 2020 | \$ 53,410 | \$ 6,178 | \$ (3,456) | \$ (59,336) | \$ (3,204) |

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

Consolidated Statements of Cash Flows

| (in thousands of United States dollars) | <i>Notes</i> | Three months ended | |
|---|--------------|---------------------------|-----------------------|
| | | March 31, 2020 | March 31, 2019 |
| Cash flows from operating activities | | | |
| Net loss for the year | | \$ (658) | \$ (983) |
| Adjustments for: | | | |
| Amortization of property, plant and equipment | 6 | 109 | 143 |
| Writedown of exploration and evaluation projects | 8 | 4 | - |
| Net finance costs | 15 | 568 | 625 |
| Net change in working capital: | | | |
| Change in receivables | 4 | (212) | (146) |
| Change in inventory | 5 | 237 | 102 |
| Change in trade and other payables | 9 | 18 | 56 |
| Net cash provided (used) by operating activities | | 66 | (203) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 6 | - | (2) |
| Proceeds on sale of marketable securities | | - | 149 |
| Expenditures on mine property and development project | 7 | (262) | - |
| Expenditures on exploration and development projects | 8 | (4) | - |
| Net cash (used) provided by investing activities | | (266) | 147 |
| Cash flows from financing activities | | | |
| Net receipts of current loans | 10 | 216 | - |
| Net cash provided by financing activities | | 216 | - |
| Net increase (decrease) in cash | | 16 | (56) |
| Foreign exchange effect on cash and cash equivalents | | - | 35 |
| Cash balance at beginning of the year | | 23 | 43 |
| Cash balance at end of the year | | \$ 39 | \$ 22 |

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

Notes to the Condensed Interim 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 three months ended March 31, 2020 (the “Condensed Interim Consolidated Financial Statements”) 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 the second quarter of 2014 when the Company became a producer and supplier of premium frac sand from its frac sand plant (the “7P Plant”), 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.

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 Condensed Interim 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 March 31, 2020, the Company had a working capital deficiency of \$11,271,000, calculated as current assets less current liabilities, a decrease from a working capital deficiency of \$20,643,000 as at December 31, 2020 mostly due to interest accrued on debt and the fact that the Secured Debt became a long term liability in January 2020 as described further below. At March 31, 2020, the debts of \$19,670,000 were the largest factor in the Company’s working capital deficiency.

The Company’s main assets are its nickel projects. Minago, the most advanced of its projects, is permitted and ready for development. However, development costs are estimated to be in excess of CAD\$500,000,000 and given the current price of nickel, it is unlikely that financing for this project will be available in the near future. If the Company is unable to finance and develop its nickel projects, the potential recovery via sale of these projects may be below the current carrying amounts. Given the defaults on loans discussed below, there is an increased risk that the Company’s creditors could force the Company to liquidate its core assets under less than favourable terms.

Due to market conditions beyond the Company’s control the suspension of operations at the 7P Plant until the demand for frac sand improved was announced in April 2015. The 7P Plant was restarted in March 2017, and in October 2017 the Company announced that it had completed the refurbishment of its frac sand wash plant at the 7P Plant. The 7P Plant continues to serve customers, however sales remain well below the level required to generate positive cash flow.

The near-term outlook in the frac sand market remains unclear. The significant drop in oil prices subsequent to year-end adds further uncertainty for the demand and price of oil and gas as well as associated products including frac sand. The US dollar continues to negatively impact demand for high-quality Wisconsin frac sand in Canada due to the fact that the relative price for Canadian frac sand has dropped and service companies appear satisfied with using lower-quality domestic frac sand. The Company’s existing inventory is Wisconsin frac sand, however the Company is planning to add Canadian sand to its inventory in order to be more competitive.

Cash flows from frac sand sales during 2019 and to date in 2020 were not sufficient to pay financing costs and the Company was not able to make most of its interest payments due.

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”). In 2017, the Company’s secured debt (“Secured Debt”) increased by the

Notes to the Condensed Interim Consolidated Financial Statements

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

amount of unpaid interest to \$7,050,000 and the maturity date was extended to July 31, 2019. In 2018, the maturity date of the Secured Debt was further extended to January 31, 2020. On January 31, 2020, the maturity date on the Secured Debt of \$7,050,000 and related accrued interest was extended to July 31, 2021. The interest rate on the Secured Debt remained unchanged at 14.8% with interest payable in arrears.

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. The Company has not been able to repay the Secured Debt. The lender of the Secured Debt (the "Secured Lender") has provided a forbearance agreement for the balance of the accrued interest and continues to make advances to cover non-discretionary costs. The Company's ability to make the required interest payments in 2020 is also in doubt and dependent upon frac sand sales and/or third-party funding or asset sales. The Company's Secured Lender continues to demonstrate its commitment to ensuring the protection of the Company's core assets by providing working capital advances and forbearance agreements with respect to the interest due under the Secured Debt. Should the support of the Secured Lender change, the going concern assumption would be in doubt.

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.

On July 31, 2018, the Company obtained approval from certain holders of Promissory Convertible Notes amounting to CAD\$357,000 and \$1,396,000, to extend the maturity date to January 31, 2020, from July 31, 2018, upon the issuance of an aggregate total of 532,899 common shares of the Company. The balance of the promissory notes remained in default as the Company was unable to repay the Promissory Convertible Notes when they became due.

In addition to the liquidity and solvency uncertainties described above, the ability to resume full operations at the 7P Plant will require additional financing. As noted, the Company's Secured Lender has been supportive to date, however there are no assurances that this will continue, that the Company will be able to find alternative financing or that sand sales will achieve the level sufficient to generate cash flows to repay its outstanding obligations.

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 "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.

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. During 2019, the Company, with the agreement of its Secured Lender, sold non-core assets to provide operating funds and liquidated the remainder of its marketable securities, eliminating this source of funds for operations. However, without an injection of capital and/or until the demand and pricing for frac sand returns, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company's existing obligations add to the challenge of obtaining additional capital.

There can be no assurance that the Company will be able to restructure its debt further and/or recapitalize, and there is no certainty as to what further steps, if any, the secured and unsecured lenders may take. To date,

Notes to the Condensed Interim Consolidated Financial Statements

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

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, including the low nickel price, and the Company's existing liquidity challenges, the ability to raise sufficient funds will be difficult.

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

The Condensed Interim Consolidated Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34. The accounting policies, methods of computation and presentation applied in these Condensed Interim Consolidated Financial Statements are consistent with those of the previous fiscal year.

The unaudited Condensed Interim Consolidated Financial Statements reflect the accounting policies and disclosures described in Notes 2, 3, 4 and 5 to the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2018 (the "2019 Audited Financial Statements") (with the exception of changes set out below, if any) and accordingly, should be read in conjunction with those financial statements and the notes thereto.

The management of the Company prepares the consolidated financial statements, which are then reviewed by the Audit Committee and the Board of Directors. The Condensed Interim Consolidated Financial Statements were authorized for issue by the Board of Directors on May 27, 2020 and are made available to shareholders and others through filing on SEDAR shortly thereafter.

These Condensed Interim Consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail in Note 3 to the 2019 Audited Financial Statements. Such policies have been applied consistently by all Victory Nickel entities and to all periods presented in these Condensed Interim Consolidated Financial Statements.

There have been no new accounting policies adopted by the Company.

Notes to the Condensed Interim Consolidated Financial Statements

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

4. RECEIVABLES

| | March 31, 2020 | December 31, 2019 |
|---------------------------|-------------------|----------------------|
| Trade accounts receivable | \$ 246 | \$ 31 |
| Other receivables | 2 | 5 |
| | \$ 248 | \$ 36 |

All trade accounts receivable balance is as follows:

| | March 31, 2020 | December 31, 2019 |
|---------------------------|-------------------|----------------------|
| Trade accounts receivable | | |
| Current | \$ 224 | \$ 31 |
| Past due 0-30 days | 12 | - |
| Past due 31-60 days | 10 | - |
| | \$ 246 | \$ 31 |

As at March 31, 2020, one of four of the Company's customers accounted for 84% of the trade accounts receivable balance (December 31, 2019 – one of four customers accounted for 87%).

5. INVENTORY

| | March 31, 2020 | December 31, 2019 |
|----------------------------------|-------------------|----------------------|
| Raw material stored at 7P Plant | \$ 354 | \$ 102 |
| Finished goods & other inventory | 560 | 1,049 |
| | \$ 914 | \$ 1,151 |

6. PROPERTY, PLANT AND EQUIPMENT

| | Land and Building | 7P Plant | Vehicles and Mobile Equipment | Equipment and Furniture | Total |
|---------------------------------------|----------------------|-----------------|-------------------------------------|----------------------------|-----------------|
| Balances as at January 1, 2020 | | | | | |
| 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) | (101) | (7) | - | (109) |
| Balances as at March 31, 2020 | | | | | |
| Cost | 80 | 4,889 | 685 | 220 | 5,874 |
| Accumulated amortization | (17) | (3,133) | (558) | (45) | (3,753) |
| Effect of foreign exchange | (7) | (143) | (41) | (171) | (362) |
| Carrying Amount | \$ 56 | \$ 1,613 | \$ 86 | \$ 4 | \$ 1,759 |

7. MINE PROPERTY AND DEVELOPMENT PROJECT

| | January 1, 2020 | Current Expenditures | Writedowns | March 31, 2020 |
|--------|--------------------|-------------------------|-------------|-------------------|
| Minago | \$ 12,800 | \$ 262 | \$ - | \$ 13,062 |
| | \$ 12,800 | \$ 262 | \$ - | \$ 13,062 |

Notes to the Condensed Interim Consolidated Financial Statements

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

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.

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

8. 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 | March 31, 2020 |
|------------|--------------------|-------------------------|------------|-------------------|
| Lac Rocher | \$ 480 | \$ 2 | \$ (2) | \$ 480 |
| Mel | 2,950 | 2 | (2) | 2,950 |
| | \$ 3,430 | \$ 4 | \$ (4) | \$ 3,430 |

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.

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

Lynn Lake

The Lynn Lake nickel property ("Lynn Lake") covers approximately 600 ha in northern Manitoba. In November 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 October 2014, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in Trempeleau County Wisconsin, USA (the "Bear Coulee Property"). The option agreement provides for a cash payment on signing of the agreement, a second cash payment on delivery of permits and a third cash payment on exercise of the option. The option is valid for six months from 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 February 2015, the Company announced that a resource estimate of approximately 11 million tons of sand has been completed on the Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

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 resource, is well-located and gives the Company the opportunity to access new customers in evolving markets.

Notes to the Condensed Interim Consolidated Financial Statements

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

9. TRADE AND OTHER PAYABLES

| | March 31, 2020 | December 31, 2019 |
|---------------------------------------|-------------------|----------------------|
| Accounts payable | | |
| Mine property and development project | \$ 13 | \$ 13 |
| Exploration and evaluation projects | 3 | 3 |
| Frac sand segment | 1,806 | 1,806 |
| Other payables | 126 | 126 |
| Accrued liabilities | 1,038 | 1,020 |
| | \$ 2,986 | \$ 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 March 31, 2020.

10. LOANS AND BORROWINGS

| | <i>Notes</i> | March 31, 2020 | December 31, 2019 |
|--------------------------------------|--------------|-------------------|----------------------|
| Current loans and borrowings | | | |
| Secured Debt | (a) | \$ - | \$ 7,050 |
| Promissory notes | (b) | 2,283 | 2,275 |
| Debt due to management & directors | (c) | 383 | 383 |
| Outstanding Note | (d) | 3,000 | 3,000 |
| Other loans with Secured Lender | (e) | - | 645 |
| Accrued interest | | 3,821 | 5,533 |
| Total current loans and borrowings | | 9,487 | 18,886 |
| Long-term loans and borrowings | | | |
| Secured Debt | (a) | \$ 7,050 | \$ - |
| Other loans with Secured Lender | (e) | 862 | - |
| Accrued interest | | 2,271 | - |
| Total long-term loans and borrowings | | 10,183 | - |
| | | \$ 19,670 | \$ 18,886 |

During the three months ended March 31, 2020, the Company also incurred interest expense of \$559,000 (March 31, 2020 - \$498,000), amortized loan fees of \$nil (March 31, 2020 - \$28,000) and amortized note discount and embedded derivatives of \$47,000 (March 31, 2020 - \$98,000).

(a) 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 maturity date and related accrued interest 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

Notes to the Condensed Interim Consolidated Financial Statements

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

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.

(b) Promissory Convertible Notes

| | March 31, 2020 | December 31, 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 | (39) | 17 |
| Carrying balance at the end of the period | 5,283 | 5,275 |
| Less: Outstanding Note | (3,000) | (3,000) |
| Current portion of Promissory Convertible Notes | \$ 2,283 | \$ 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 original terms:

- A maturity date of July 31, 2018;
- An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
- Convertible at CAD\$0.25 per share, at the option of the holder; 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.

On July 31, 2018, the Company obtained approval from certain holders of Promissory Convertible Notes amounting to CAD\$357,000 and \$1,396,000, to extend the maturity date to January 31, 2020, from July 31, 2018, upon the issuance of an aggregate total of 532,899 common shares of the Company. These Promissory Convertible Notes increased by the amount of unpaid interest of CAD\$72,000 and \$281,000. Concurrent with the extension of these Promissory Convertible Notes, the conversion option above was also extended to January 31, 2020 with the same terms as noted above. All other terms remain the same as the original terms. Those notes which were not extended to January 31, 2020 remain in default and the conversion rights on those notes expired.

(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 \$383,000 owed to directors and management is comprised of a portion of the restructured debt owed to current 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.

(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

Notes to the Condensed Interim Consolidated Financial Statements

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

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.

(e) Other loans with Secured Lender

The Company's Secured Lender has provided working capital advances on a monthly basis, 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 and have a maturity date of July 31, 2021.

11. 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.

The Participating Interest is classified as a financial liability carried at amortized cost. 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 March 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.

12. CAPITAL AND OTHER COMPONENTS OF EQUITY

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 and March 31, 2020 | 97,903,867 | \$ 53,410 |

13. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share for the period ended December 31, 2019 and 2018 was based on the information in the table below.

| | Three months ended March 31, 2020 |
|--|--------------------------------------|
| Weighted average number of common shares at end of the period - Basic and Diluted | 97,903,867 |
| Potentially dilutive instruments excluded: | |
| Effect of options granted and outstanding | 11,900,000 |
| Effect of convertible promissory notes | 10,426,794 |
| Net loss attributable to shareholders - Basic and Diluted | \$ (658) |
| Weighted Average Basic and Diluted Loss Per Share | \$ (0.01) |

Notes to the Condensed Interim Consolidated Financial Statements

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

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.

14. SHARE-BASED PAYMENTS

Stock Options

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

| (amounts in Canadian dollars) | Number of options | Weighted average exercise price |
|---|-------------------------------|---------------------------------|
| Outstanding as at January 1 and March 31, 2020 | 11,900,000 | \$ 0.05 |
| Exercisable as at January 1 and March 31, 2020 | 11,900,000 | \$ 0.05 |
| | Number of options outstanding | Contractual life (years) |
| Range of exercise prices (Canadian dollars) | | |
| \$0.05 to \$0.06 | 11,900,000 | 1.94 |
| | 11,900,000 | 1.94 |

During the three months ended March 31, 2020 and 2019, the Company recorded \$nil in share-based payments upon the vesting of options. As at March 31, 2020 and 2019, there were no share-based payments remaining to be recognized. Options outstanding at March 31, 2020, expire between February 2022 and June 2022.

15. FINANCE INCOME AND FINANCE COSTS

| | <i>Notes</i> | Three months ended March 31, 2020 | March 31, 2019 |
|--------------------------------------|--------------|--------------------------------------|-----------------|
| Net foreign exchange gain | | \$ 244 | \$ - |
| Finance income | | 244 | - |
| Interest expense on loans | | | |
| Accrued and/or cash settled | 10 | 559 | 498 |
| Amortization of loan fees | 10 | - | 28 |
| Amortization of embedded derivatives | 10 | 47 | 98 |
| Net foreign exchange loss | | - | 68 |
| Finance costs | | 606 | 692 |
| Net Finance Costs | | \$ (362) | \$ (692) |

16. 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.

Notes to the Condensed Interim Consolidated Financial Statements

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

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

| | March 31, 2020 | December 31, 2019 |
|-----------------------------|-------------------|----------------------|
| Canada | | |
| Corporate | \$ 1,543 | \$ 1,531 |
| Exploration and development | 16,492 | 16,230 |
| Frac sand | 2,859 | 2,989 |
| Intersegment elimination | (1,441) | (1,441) |
| Total Assets | \$ 19,453 | \$ 19,309 |

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

| For the three months ended March 31, 2020 | Corporate | Exploration and Development | Frac Sand | Total | March 31, 2019 |
|--|-----------------|--------------------------------|-----------------|-----------------|-------------------|
| Revenues | \$ - | \$ - | \$ 257 | \$ 257 | \$ 161 |
| Cost of goods sold | - | - | (285) | (285) | (167) |
| Gross loss | - | - | (28) | (28) | (6) |
| Operating expenses | | | | | |
| General and administrative | (100) | (2) | (53) | (155) | (142) |
| Amortization of property, plant and equipment | - | - | (109) | (109) | (143) |
| Writedown of exploration and evaluation projects | - | (4) | - | (4) | - |
| Operating loss | (100) | (6) | (190) | (296) | (291) |
| Finance income | 244 | - | - | 244 | - |
| Finance costs | (606) | - | - | (606) | (692) |
| Net finance costs | (362) | - | - | (362) | (692) |
| Net loss for the period | \$ (462) | \$ (6) | \$ (190) | \$ (658) | \$ (983) |

17. 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. Other payables and accrued liabilities due to key management personnel relate to director's fees, consulting fees and expense reimbursements. Balances with related parties as at and for the periods ended are shown in the following table:

| | March 31, 2020 | December 31, 2019 |
|--|-------------------|----------------------|
| Balances Outstanding | | |
| Debt due to key management personnel | \$ 383 | \$ 383 |
| Other payables and accrued liabilities due to key management personnel | 747 | 675 |
| | \$ 1,130 | \$ 1,058 |

Notes to the Condensed Interim Consolidated Financial Statements

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

Key management personnel compensation is composed of:

| | Three months ended | |
|------------------------------|--------------------|----------------|
| | March 31, 2020 | March 31, 2019 |
| Short-term employee benefits | \$ 115 | \$ 108 |
| | \$ 115 | \$ 108 |

18. SUBSEQUENT EVENTS

Minago Drilling Update

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.

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 \$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.

Canada Emergency Wage Subsidy (“CEWS”)

In April 2020, the Government of Canada implemented the CEWS, whereby certain businesses could apply for a wage subsidy during certain periods where their revenues have been reduced. To date the Company has applied for, and received, the wage subsidies for two periods.



VICTORY NICKEL INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2020**

DATED MAY 27, 2020

VICTORY NICKEL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Three months ended March 31, 2020

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 May 27, 2020 consolidates management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2020, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020 (the "Condensed Interim 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.

Readers are also encouraged to consult the audited consolidated financial statements for the years ended December 31, 2019 and 2018 (the "2019 Audited Financial Statements"). The Condensed Interim Consolidated Financial Statements and the 2019 Audited 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. 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. A feasibility study on the Minago Project ("Minago FS") was completed and the results were announced in December 2009. The Environmental Impact Study ("EIS") was filed in May 2010 and receipt of the Environmental Act Licence ("EAL") was announced in August 2011. Subsequent improvements to the project were announced in June 2010 and July 2011. In April 2014, the Company announced the filing of an amendment to the EAL to relocate the permitted Minago tailings facilities such that it will not interfere with potential nickel resources and should 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 by the government of Manitoba, it is expected that the government of Manitoba will issue the requested amendment to the existing EAL which remains valid.

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. The frac sand is a significant contributor to the economics of the Minago project.

During 2014, Victory Nickel became a producer and supplier of premium Wisconsin frac sand from its frac sand plant (the "7P Plant") located near Seven Persons, Alberta, approximately 18 kilometres southwest of Medicine Hat, Alberta. High-quality Northern White frac sand is sourced from Wisconsin, USA, through the Company's wholly-owned subsidiary Victory Silica Ltd. ("Victory Silica"). Northern White occurs predominantly in the US Midwest and generally exceeds American Petroleum Institute ("API") specifications for frac sand. For this reason, it is a highly-desirable and preferred frac sand. Frac sand is used as a proppant to enhance 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. The Company established itself as a frac sand producer by acquiring concentrated sand in Wisconsin, USA, washing it prior to shipment to the 7P Plant for processing into four main categories of finished frac sand products.

Crucial to the success of its frac sand operations is the Company's ability to build a solid customer base within an economic distance of its production facilities or to acquire/build additional frac sand processing facilities to serve additional

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

To ensure long-term supply of concentrated sand, the Company entered into an option to acquire a 100% interest in a frac sand land package totalling over 300 acres in 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. 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 that a resource estimate of approximately 11 million tons of sand has been completed by Summit Envirosolutions Inc. on the Bear Coulee Property and was incorporated into a National Instrument 43-101 technical report.

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

Due to the sudden drop in the price of oil during late 2014, drilling activity by oil and gas exploration and production ("E&P") companies decreased significantly and sustained relatively low oil and gas prices continued to negatively affect frac sand demand into 2019. The drop in sales required a temporary suspension in production at the 7P Plant in April 2015. The 7P Plant operates on an as-needed basis only (see Going Concern below). In March 2017, the Company announced that due to increasing market demand for frac sand, it had restarted the dry plant at its 7P Plant. In October 2017, the Company announced that it had completed the refurbishment of its frac sand wash plant at the 7P Plant, enhancing the ability to produce and sell frac sand.

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"). The strategy is in line with the Company's view to provide a full suite of import and domestic frac sand products to the northern oil and gas markets. 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

The Condensed Interim 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 March 31, 2020, the Company had a working capital deficiency of \$11,271,000, calculated as current assets less current liabilities, a decrease from a working capital deficiency of \$20,643,000 as at December 31, 2020 mostly due to interest accrued on debt and the fact that the Secured Debt became a long term liability in January 2020 as described further below. At March 31, 2020, the debts of \$19,670,000 were the largest factor in the Company's working capital deficiency.

The Company's main assets are its nickel projects. Minago, the most advanced of its projects, is permitted and ready for development. However, development costs are estimated to be in excess of CAD\$500,000,000 and given the current price of nickel, it is unlikely that financing for this project will be available in the near future. If the Company is unable to finance and develop its nickel projects, the potential recovery via sale of these projects may be below the current carrying amounts. Given the defaults on loans discussed below, there is an increased risk that the Company's creditors could force the Company to liquidate its core assets under less than favourable terms.

Due to market conditions beyond the Company's control the suspension of operations at the 7P Plant until the demand for frac sand improved was announced in April 2015. The 7P Plant was restarted in March 2017, and in October 2017 the Company announced that it had completed the refurbishment of its frac sand wash plant at the 7P Plant. The 7P Plant continues to serve customers, however sales remain well below the level required to generate positive cash flow.

The near-term outlook in the frac sand market remains unclear. The significant drop in oil prices subsequent to year-end adds further uncertainty for the demand and price of oil and gas as well as associated products including frac sand. The US dollar continues to negatively impact demand for high-quality Wisconsin frac sand in Canada due to the fact that the relative price for Canadian frac sand has dropped and service companies appear satisfied with using lower-quality domestic frac sand. The Company's existing inventory is Wisconsin frac sand, however the Company is planning to add Canadian sand to its inventory in order to be more competitive.

Cash flows from frac sand sales during 2019 and to date in 2020 were not sufficient to pay financing costs and the Company was not able to make most of its interest payments due.

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"). In 2017, the Company's secured debt ("Secured Debt") increased by the amount of unpaid interest to \$7,050,000 and the maturity date was extended to July 31, 2019. In 2018, the maturity date of the Secured Debt was further extended to January 31, 2020. On January 31, 2020, the maturity date on the Secured Debt of \$7,050,000 and related accrued interest was extended to July 31, 2021. The interest rate on the Secured Debt remained unchanged at 14.8% with interest payable in arrears.

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. The Company has not been able to repay the Secured Debt. The lender of the Secured Debt (the "Secured Lender") has provided a forbearance agreement for the balance of the accrued interest and continues to make advances to cover non-discretionary costs. The Company's ability to make the required interest payments in 2020 is also in doubt and dependent upon frac sand sales and/or third-party funding or asset sales. The Company's Secured Lender continues to demonstrate its commitment to ensuring the protection of the Company's core assets by providing working capital advances and forbearance agreements with respect to the interest due under the Secured Debt. Should the support of the Secured Lender change, the going concern assumption would be in doubt.

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.

On July 31, 2018, the Company obtained approval from certain holders of Promissory Convertible Notes amounting to CAD\$357,000 and \$1,396,000, to extend the maturity date to January 31, 2020, from July 31, 2018, upon the issuance of an aggregate total of 532,899 common shares of the Company. The balance of the promissory notes remained in default as the Company was unable to repay the Promissory Convertible Notes when they became due.

In addition to the liquidity and solvency uncertainties described above, the ability to resume full operations at the 7P Plant will require additional financing. As noted, the Company's Secured Lender has been supportive to date, however there are no assurances that this will continue, that the Company will be able to find alternative financing or that sand sales will achieve the level sufficient to generate cash flows to repay its outstanding obligations.

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 "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.

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. During 2019, the Company, with the agreement of its Secured Lender, sold non-core assets to provide operating funds and liquidated the remainder of its marketable securities, eliminating this source of funds for operations. However, without an injection of capital and/or until the demand and pricing for frac sand returns, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company's existing obligations add to the challenge of obtaining additional capital.

There can be no assurance that the Company will be able to restructure its debt further and/or recapitalize, and there is no certainty as to what further steps, if any, the secured and unsecured lenders may take. To date, 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, including the low nickel price, and the Company's existing liquidity challenges, the ability to raise sufficient funds will be difficult.

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

These are challenging times. But as we look ahead to the balance of 2020, management continues to believe in the strength of its assets and the fact that the Company's sulphide nickel assets remain at the heart of the longer-term value proposition for shareholders.

That said 2020 began with a high level of uncertainty surrounding the global economy arising from several events including an oil price war, falling oil prices and most importantly the spread of COVID-19 which was declared a pandemic on March 11, 2020 by the World Health Organization. The spread of COVID-19 continued rapidly through April. As of the date of this MD&A, some reasons for optimism were starting to appear, however in light of this uncertainty regarding the duration of the pandemic it is impossible to accurately estimate the impact on the operations of the Company and the world economy as a whole.

The 7P Plant continues to generate revenue from ongoing sand sales, albeit not in sufficient volume to fully fund Victory Nickel's operations. The Company's Secured Lender remained financially supportive throughout 2019 and this has not changed thus far into 2020. The Company has continued to serve customers from the 7P Plant throughout the COVID-19 crisis in line with the Alberta government's guidelines. Management is also pushing forward with initiatives including the Short Grass Ranch domestic sand opportunity and will update the market on progress accordingly.

With regard to the Company's sulphide nickel assets, management is in ongoing communication with governments in the jurisdictions in which it operates to ensure the security of tenure as the realities of operating in the face of COVID-19 evolve. All of the Company's nickel projects remain in good standing. As previously announced, a small drill program took place at Minago early in the year, however reporting of results will be delayed due to travel and other limitations arising from COVID-19.

All commodity prices have been impacted by COVID-19; as of this writing, nickel price has decreased by 14% in 2020. Standard & Poor's predicts an increase in nickel price during the second half of the year, however the magnitude will depend on how national economies rebound from COVID-19. Overall, primary nickel demand is expected to decline by 8.1% year-over-year to 2.21 Mt in 2020 according to Standard & Poors.

Much has been made of the electric vehicle ("EV") revolution and its impact on "energy metals" including sulphide nickel. The EV market is not immune to the forces impacting every segment of global life in 2020. Significantly though, analysts like Roskill and the Bank of America believe the momentum generated in in EVs during 2019 will return, and they remain positive on in the longer-term prospects of EVs and the resources, like sulphide nickel, necessary to produce them.

It is important to remember that all of the factors currently in play do not impact the quality of the Company's sulphide nickel resources at Minago, Mel, Lac Rocher and Lynn Lake. These assets are rare, well located and combine to give your company one of Canada's most significant in-situ sulphide nickel inventories.

We thank our shareholders, lenders and suppliers for their continued patience and support. Victory Nickel will continue to evaluate the impact of COVID-19 on its business and will promptly disclose any material impact on its operations.

RESULTS OF OPERATIONS

| For the three months ended March 31, 2020 | Corporate | Exploration and Development | Frac Sand | Total | March 31, 2019 |
|--|-----------|--------------------------------|-----------|-----------------|-------------------|
| Revenues | \$ - | \$ - | \$ 257 | \$ 257 | \$ 161 |
| Cost of goods sold | - | - | (285) | (285) | (167) |
| Gross loss | - | - | (28) | (28) | (6) |
| Operating expenses | | | | | |
| General and administrative | (100) | (2) | (53) | (155) | (142) |
| Amortization of property, plant and equipment | - | - | (109) | (109) | (143) |
| Writedown of exploration and evaluation projects | - | (4) | - | (4) | - |
| Operating loss | (100) | (6) | (190) | (296) | (291) |
| Finance income | 244 | - | - | 244 | - |
| Finance costs | (606) | - | - | (606) | (692) |
| Net finance costs | (362) | - | - | (362) | (692) |
| Net loss for the period | \$ (462) | \$ (6) | \$ (190) | \$ (658) | \$ (983) |

Overall

For the three months ended March 31, 2020, the Company had a net loss of \$658,000 or a loss of \$0.01 per share (March 31, 2019 - \$983,000 or a loss of \$0.01 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

Due to the decline in the price of oil beginning in 2014, demand for frac sand in the Company's target markets was under pressure throughout 2019 and into 2020. The Company holds inventory of 14,000 tons as at March 31, 2020 (December 31, 2019 – 17,000 tons) at various stages of the process and made sales of 3,235 tons of various grades of frac sand during the three months ended March 31, 2020 (March 31, 2019 – 2,078 tons) by drawing down inventories and/or brokering sand, generating a gross loss of \$28,000 (March 31, 2019 – \$6,000).

Revenues

The Company recognized revenue on frac sand sales during the three months ended March 31, 2020 aggregating \$257,000, or \$79.44 per ton, on frac sand sales (March 31, 2019 - \$161,000 or \$77.48 per ton). Revenue includes freight for sales delivered to certain customers at certain times. While sales and pricing periodically show signs of improvement, the market has not improved sufficiently in the Company's target areas where it can generate positive cash flow sufficient to service debt.

Cost of goods sold

The cost of goods sold includes the cost of concentrated sand purchased in Wisconsin, the cost of delivery to the 7P Plant including handling and trans-loading costs and the operating cost to dry and screen the concentrated sand into four main dry products. 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 \$285,000 during the three months ended March 31, 2020 (March 31, 2019 - \$167,000). 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 the three months ended March 31, 2020 and 2019. 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, while finished goods inventory is written-down when impaired to the lower of cost of net realizable value.

General and administrative and other costs

General and administrative costs for the frac sand segment amounted to \$53,000 for the three months ended March 31, 2020 (March 31, 2019 - \$36,000). These costs include Victory Silica salaries, administration, marketing and logistics management. The Company reduced manpower and overhead as noted above.

Amortization of property, plant and equipment of \$109,000 was recorded for the three months ended March 31, 2020 (March 31, 2019 - \$143,000), 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 \$190,000 for the three months ended March 31, 2020 (March 31, 2019 - \$185,000).

Exploration and Development Segment

At March 31, 2020, the Company recorded an impairment of \$4,000 on its exploration and evaluation projects (March 31, 2019 - \$nil).

Corporate Segment

The corporate component of net loss for the three months ended March 31, 2020 was \$462,000 (March 31, 2019 - \$798,000), including operating expenses of \$100,000 (March 31, 2019 - \$106,000) and net finance costs of \$362,000 (March 31, 2019 - \$692,000).

General and administrative expenses were \$100,000 during the three months ended March 31, 2020 (March 31, 2019 - \$106,000). 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 \$606,000 for the three months ended March 31, 2020 (March 31, 2019 - \$692,000), representing the Company's most significant expense. Cash and accrued interest expense were \$559,000 for the three months ended

March 31, 2020 (March 31, 2019 - \$498,000). The increase in interest expense during 2020 compared with 2019 is mainly related to the compounding of interest outstanding on various unsecured 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. During the three months ended March 31, 2020, the amortization of the embedded derivatives on the Promissory Convertible Notes amounted to \$47,000 (March 31, 2019 - \$98,000).

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.

Finance income during the three months ended March 31, 2020 was \$244,000 (March 31, 2019 - \$nil), which relates to a net foreign exchange gain due to the change in the foreign exchange rate between US and Canadian dollars.

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 three months ended March 31, 2019 relates to the net change in fair value of financial assets of \$84,000. 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 the three months ended March 31, 2019. There were no changes in the fair value of financial assets during the three months ended March 31, 2020.

The foreign exchange gain in OCI during the three months ended March 31, 2019 of \$24,000 was due to the translation of the Company's subsidiaries' functional currency of CAD\$ to the Company's functional currency of US\$.

Deferred tax asset

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying value of the balance sheet items and their corresponding tax values, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are considered probable to be realized. The deferred tax amount reflects a rate of 27% (March 31, 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 2020/2019 | 1st Quarter | 4th Quarter | 3rd Quarter | 2nd Quarter |
|---|--------------------|-------------------------------|-------------------------------|-------------------------------|
| Sales | \$ 257 | \$ 54 | \$ 56 | \$ 190 |
| Gross (loss) profit | \$ (28) | \$ (343) | \$ 30 | \$ 34 |
| General and administrative | \$ (155) | \$ (224) | \$ (207) | \$ (243) |
| Net finance costs | \$ (362) | \$ (785) | \$ (625) | \$ (744) |
| Net loss | \$ (658) | \$ (1,545) | \$ (944) | \$ (1,112) |
| Total comprehensive loss | \$ (658) | \$ (1,555) | \$ (929) | \$ (1,139) |
| Loss per share - basic and diluted | \$ (0.01) | \$ (0.02) | \$ (0.01) | \$ (0.01) |
| Fiscal year 2019/2018 | 1st Quarter | 4th Quarter | 3rd Quarter | 2nd Quarter |
| Sales | \$ 161 | \$ 35 | \$ 207 | \$ 58 |
| Gross (loss) profit | \$ (6) | \$ (371) | \$ (19) | \$ (68) |
| General and administrative | \$ (142) | \$ (220) | \$ (220) | \$ (242) |
| Net finance costs | \$ (692) | \$ (168) | \$ (132) | \$ (610) |
| Net (loss) income | \$ (983) | \$ (28,239) | \$ (205) | \$ (875) |
| Total comprehensive income (loss) | \$ (923) | \$ (28,288) | \$ 154 | \$ (832) |
| (Loss) income per share - basic and diluted | \$ (0.01) | \$ (0.30) | \$ (0.00) | \$ (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 2019, the Company recorded impairment on inventory to net realizable value. During the last quarter of 2018, the Company recorded a significant impairment in its exploration and evaluation (“E&E”) projects and its Minago project. Impairment on inventory to net realizable value was also recorded during the same period.

Net finance income and costs have fluctuated period-over-period during 2018 and 2019, due to the gain in restructuring of debt, change in the fair value of the embedded derivatives, change in the fair value of the Participating Interest (defined below), and amortization of embedded derivatives and loan fees on the Promissory Convertible Notes.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2020, the Company had a working capital deficiency of \$11,271,000, compared with a working capital deficiency of \$20,643,000 as at December 31, 2019. The decrease in the working capital deficiency resulted mainly from the movement of debt from short-term to long-term.

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. Until there is an improvement in the frac sand market from the uncertainty seen in recent years and 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 March 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

The Secured Debt of \$7,050,000 had a maturity date of January 31, 2020. On January 31, 2020, the maturity date on the Secured Debt of \$7,050,000 and related accrued interest 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 statements 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. Based on current conditions, no payments are expected to be made under the terms of the cash sweep during 2019.

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 original terms:

- A maturity date of July 31, 2018;
- An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;
- Convertible at CAD\$0.25 per share, at the option of the holder; 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.

On July 31, 2018, the Company obtained approval from certain holders of Promissory Convertible Notes amounting to CAD\$357,000 and \$1,396,000, to extend the maturity date to January 31, 2020, from July 31, 2018, upon the issuance of an aggregate total of 532,899 common shares of the Company. These Promissory Convertible Notes increased by the amount of unpaid interest of CAD\$72,000 and \$281,000. Concurrent with the extension of these Promissory Convertible Notes, the conversion option above was also extended to January 31, 2020 with the same terms as noted above. All other terms remain the same as the original terms. Those notes which were not extended to January 31, 2020 remain in default and are presented as current. The conversion rights on those notes expired.

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 \$383,000 owed to directors and management is comprised of a portion of the restructured debt owed to current 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

The Company's Secured Lender has provided working capital advances on a monthly basis, 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 and have a maturity date of July 31, 2021.

Cash Flows during the period

Cash as at March 31, 2020 was held with major Canadian banks. The Company has a policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks. For the three months ended March 31, 2020, the Company generated cash of \$66,000 through operating activities (March 31, 2019 - \$203,000).

During the three months ended March 31, 2020, net cash used by investing activities was \$266,000 (March 31, 2019 – provided \$147,000). During March 31, 2020, the company incurred \$262,000 on drilling activities at its Minago property. The Company generated \$149,000 in net proceeds on the sale of marketable securities during the three months ended March 31, 2019.

The Company received \$216,000 from net financing activities during the three months ended March 31, 2020 (March 31, 2019 - \$nil), mainly due to net receipts of current loans from the Secured Lender.

The Company's activities during the three months ended March 31, 2020 provided cash of \$16,000 (March 31, 2019 – used \$56,000).

Other Potential Sources of Cash Flow

The Company has over 15,000 tons of sand in inventory at March 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:

| | March 31, 2020 | December 31, 2019 |
|-----------------------------|---------------------------|----------------------|
| Canada | | |
| Corporate | \$ 1,543 | \$ 1,531 |
| Exploration and development | 16,492 | 16,230 |
| Frac sand | 2,859 | 2,989 |
| Intersegment elimination | (1,441) | (1,441) |
| Total Assets | \$ 19,453 | \$ 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 three months ended March 31, 2020, \$262,000 was incurred on the Minago project (March 31, 2019 - \$nil).

The Company’s 100%-owned Minago project is a permitted project ready for development. It is located on the unexposed southern part of the Thompson Nickel Belt in Manitoba, and is one of Canada’s largest undeveloped sulphide nickel deposits. Minago has been shown to be capable of producing a nickel concentrate grading from 22.3% up to 35.0%, making it reportedly the world’s highest grade nickel concentrate. In addition to metal by-products such as copper, cobalt, gold, platinum, palladium, silver and rhodium, a layer of silica sand averaging approximately nine metres thick overlies the nickel mineralization within the open pit. Approximately 84% of the sand is marketable as frac sand. The frac sand forms part of the overburden that must be removed prior to mining the nickel ore. According to the Minago FS, production of frac sand could begin 20 months after the start of mine development.

The analytical data and geological interpretations obtained from a work program in 2010 were incorporated into an updated geological model and resource estimate. The updated resource incorporates a 24% increase (over the previous resource estimate) in the NI 43-101 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.

Minago Frac Sand

An indicated resource of 15 million tonnes of sandstone has been estimated to occur within the current Minago pit shell. The frac sand component of this resource is approximately 11 million 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.

EXPLORATION AND EVALUATION ACTIVITIES

For the three months ended March 31, 2020, the Company incurred \$4,000 on exploration expenditures on its E&E projects (March 31, 2019 – \$nil). Expenditures have been reduced due to the tight equity markets and management's focus on Victory Silica and the frac sand business.

Frac Sand

Bear Coulee Property

In October 2014, the Company entered into an option to acquire a 100% interest in a frac sand land package totaling over 300 acres in Trempeleau County Wisconsin, USA (the "Bear Coulee Property"). The option agreement provides for a cash payment of \$10,000 on signing of the agreement (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 resource, is well-located and gives the Company the opportunity to access new customers in evolving markets.

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.

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. An application to renew Mel mining lease ML-007 was successful and the lease has been renewed for a 21-year term.

Under the terms of the Mel option agreement with Vale, Vale must mill ore from the Mel project at cash costs plus 5% subject to capacity availability and metallurgy – this is unaffected by Vale’s decision not to exercise its back-in right. Furthermore, in accordance with the terms of the agreement with Vale, they now are entitled to a 10% royalty on “distributable earnings” as defined in the agreement. Distributable earnings is defined as net revenue less operating expenses, before federal and provincial income taxes, after provincial mining taxes and less aggregate pre-production capital but before depreciation.

Lynn Lake

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

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 segment is located in Canada although sand as raw material is currently imported from the United States. The plan is to eventually produce both domestic and imported sand.

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

The Board of Directors approved proceeding with phase two, provided non-dilutive financing could be arranged. However, in 2015, the Company announced that phase two had been deferred due to the uncertainty caused by the drop in the price of oil. However, phase two remains a desirable next step which could not only make the Company

more competitive, but also provide significant flexibility to target certain markets which often require different grades of sand.

Phase two is to build a wash plant on a Wisconsin sand resource. Frac sand production is a two-stage process: the wet stage (washing) and the dry stage. The Company has historically contracted out the wet stage in Wisconsin prior to shipping the wet sand to its plant in Alberta. The wet stage removes impurities, enabling transport of only the desired sand size fractions. The dry stage, where the sand is dried and separated into several products of different sizes, is completed at the Company's 7P Plant.

Phase three of the business plan is to build a second dry processing facility in or around Winnipeg, Manitoba capable of producing 1,000,000 tpa. A site serviced by multiple rail carriers would give the Company more flexibility in accessing only the highest quality sand from the Wisconsin/Minnesota region. The ultimate plan is to provide customers with a variety of qualities, which would include domestic sand from the Company's Minago project in Manitoba (see above). The Minago project is a nickel project overlain by overburden, which includes high-purity silica sand. The sand located at Minago is the highest-quality domestic sand and would be a welcome addition to the Company's mix of products as not all of the Company's customers' applications require Wisconsin sand.

As a result of commodity market uncertainty, the 7P Plant operates on an as-needed basis only. Due to continued uncertainty in the oil price E&P companies have reduced capital expenditure programs, placing pressure on Victory Nickel's oilfield service company customers to reduce E&P company drilling costs. These companies, in turn, look to their suppliers, including frac sand producers, to help lower their costs. Accordingly, frac sand prices in Canada have decreased to levels that do not appear to be sustainable over the long term.

TRANSACTIONS WITH RELATED PARTIES

Related Party Balances and Transactions for Services

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

Balances with related parties are shown in the following table for the periods ended:

| (in thousands of United States dollars) | March 31, 2020 | December 31, 2019 |
|--|---------------------------|----------------------|
| Balances Outstanding | | |
| Debt due to key management personnel | \$ 383 | \$ 383 |
| Other payables and accrued liabilities due to key management personnel | 747 | 675 |
| | \$ 1,130 | \$ 1,058 |

Key management personnel compensation is comprised of:

| (in thousands of United States dollars) | Three months ended | |
|---|---------------------------|----------------|
| | March 31, 2020 | March 31, 2019 |
| Short-term employee benefits | \$ 115 | \$ 108 |
| | \$ 115 | \$ 108 |

SUBSEQUENT EVENTS

Minago Drilling Update

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.

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 \$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.

Canada Emergency Wage Subsidy (“CEWS”)

In April 2020, the Government of Canada implemented the CEWS, whereby certain businesses could apply for a wage subsidy during certain periods where their revenues have been reduced. The Company applied for, and received, the wage subsidies for two periods.

OUTSTANDING SHARE DATA

As at May 27, 2020, the Company had 97,903,867 common shares issued and outstanding. In addition, there were 11,900,000 stock options outstanding with a weighted average exercise price of CAD\$0.05.

CORPORATE GOVERNANCE

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.

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. For a discussion in respect of risks and other factors that could influence

forward-looking events, please refer to the factors discussed in the Company's MD&A for the year ended December 31, 2019, under the heading "Risk Factors". These factors are not and should not be construed as being exhaustive.

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

May 27, 2020