



VICTORY NICKEL INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

DATED NOVEMBER 21, 2019

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 and nine months ended September 30, 2019 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>	September 30, 2019 (unaudited)	December 31, 2018
ASSETS			
Current assets			
Cash		\$ 57	\$ 43
Receivables	4	14	41
Marketable securities	5	1	116
Inventory	6	1,425	1,365
Total current assets		1,497	1,565
Non-current assets			
Property, plant and equipment	7	2,046	2,466
Mine property and development project	8	12,800	12,800
Exploration and evaluation projects	9	3,430	3,430
Total non-current assets		18,276	18,696
Total Assets		\$ 19,773	\$ 20,261
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	10	\$ 2,682	\$ 2,605
Loans and borrowings	11	18,081	7,160
Total current liabilities		20,763	9,765
Non-current liabilities			
Loans and borrowings	11	-	8,495
Participating Interest	12	1	1
Total non-current liabilities		1	8,496
Total Liabilities		20,764	18,261
Shareholders' equity			
Share capital	13	53,410	53,410
Contributed surplus		6,178	6,178
Accumulated other comprehensive loss		(3,446)	(3,494)
Deficit		(57,133)	(54,094)
Total shareholders' equity		(991)	2,000
Total Liabilities and Shareholders' Equity		\$ 19,773	\$ 20,261

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

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

Condensed Interim Consolidated Statements of Operations

	<i>Notes</i>	Three months ended		Nine months ended	
		September 30, 2019 (unaudited)	September 30, 2018 (unaudited)	September 30, 2019 (unaudited)	September 30, 2018 (unaudited)
(in thousands of United States dollars, except per share amounts)					
Sales		\$ 56	\$ 207	\$ 407	\$ 664
Cost of goods sold		(26)	(226)	(349)	(740)
Gross profit (loss)		30	(19)	58	(76)
Operating expenses					
General and administrative		(207)	(220)	(592)	(649)
Share based payments		-	-	-	(20)
Amortization of property, plant and equipment	7	(142)	(146)	(427)	(439)
Writedown of Mine property and development project	8	-	-	(17)	-
Operating loss		(319)	(385)	(978)	(1,184)
Finance income	16	41	566	-	580
Finance costs	16	(666)	(698)	(2,061)	(1,945)
Net finance costs		(625)	(132)	(2,061)	(1,365)
Loss before income taxes		(944)	(517)	(3,039)	(2,549)
Income tax recovery		-	312	-	741
Net loss for the period		\$ (944)	\$ (205)	\$ (3,039)	\$ (1,808)
Loss per share					
	14				
Basic and diluted loss per share		\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.02)

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

Consolidated Statements of Comprehensive (Loss) Income

	<i>Notes</i>	Three months ended		Nine months ended	
		September 30, 2019 (unaudited)	September 30, 2018 (unaudited)	September 30, 2019 (unaudited)	September 30, 2018 (unaudited)
(in thousands of United States dollars)					
Net loss for the period		\$ (944)	\$ (205)	\$ (3,039)	\$ (1,808)
Other comprehensive income (loss) ("OCI")					
Net change in fair value of financial assets	5	-	424	-	340
Foreign exchange gain		15	(65)	48	(8)
Other comprehensive income for the period		15	359	48	332
Total Comprehensive (Loss) Income for the period		\$ (929)	\$ 154	\$ (2,991)	\$ (1,476)

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

Condensed Interim Consolidated Statements of Shareholders' Equity

(in thousands of United States dollars)	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balances as at January 1, 2018		\$ 53,323	\$ 6,140	\$ (3,777)	\$ (24,047)	\$ 31,639
Total comprehensive loss for the period						
Net loss for the period					(1,808)	(1,808)
Other comprehensive loss						
Net change in fair value of financial assets				182		182
Gain on sale of financial assets				158		158
Foreign exchange on change in functional currency				(8)		(8)
Total other comprehensive loss				332		332
Total comprehensive loss for the period						(1,476)
Transactions with owners, recorded directly in equity						
Contributions in the period						
Issue of common shares upon restructure of debt		25				25
Options granted and vesting			20			20
Total contributions by owners		25	20			45
Total transactions with owners		25	20			45
Balances as at September 30, 2018		\$ 53,348	\$ 6,160	\$ (3,445)	\$ (25,855)	\$ 30,208
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					(3,039)	(3,039)
Other comprehensive income						
Foreign exchange on change in functional currency				48		48
Total other comprehensive income				48		48
Total comprehensive loss for the period						(2,991)
Balances as at September 30, 2019		\$ 53,410	\$ 6,178	\$ (3,446)	\$ (57,133)	\$ (991)

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

Condensed Interim Consolidated Statements of Cash Flows

(in thousands of United States dollars)	<i>Notes</i>	Nine months ended	
		September 30,	September 30,
		2019	2018
Cash flows from operating activities			
Net loss for the period		\$ (3,039)	\$ (1,808)
Adjustments for:			
Share based payments		-	20
Amortization of property, plant and equipment	7	427	439
Writedown of Mine property and development project	8	17	-
Net finance costs	16	1,954	1,351
Income tax recovery		-	(741)
Net change in working capital:			
Change in receivables	4	27	(7)
Change in inventory	6	(60)	243
Change in trade and other payables	10	167	218
Net cash used by operating activities		(507)	(285)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(7)	(1)
Net receipts of current promissory note		-	55
Proceeds on sale of marketable securities		149	158
Expenditures on mine property and development project		(17)	(23)
Net cash provided by investing activities		125	189
Cash flows from financing activities			
Net receipts of current loans		381	44
Payments under leases		-	(5)
Net cash provided by financing activities		381	39
Net increase (decrease) in cash		(1)	(57)
Foreign exchange effect on cash and cash equivalents		15	73
Cash balance at beginning of the period		43	125
Cash balance at end of the period		\$ 57	\$ 141

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 and nine months ended September 30, 2019 and 2018 (the “Condensed Interim Consolidated Financial Statements”) comprise of 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 and associated products in Canada until the second quarter of 2014 when the Company became a producer and supplier of premium frac sand from its frac sand plant (the “7P Plant”), 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. 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 September 30, 2019, the Company had a working capital deficiency of \$19,266,000, calculated as current assets less current liabilities, an increase from a working capital deficiency of \$8,200,000 as at December 31, 2018 mostly due to interest accrued on debt and the fact that the Secured Debt became a current liability in January 2019. At September 30, 2019, the debts of \$17,991,000 were the largest factor in the Company’s working capital deficiency, as the Company was in default on all unsecured debt and related interest. A significant portion of debt is now classified as current liabilities.

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 these projects, the potential recovery via sale of these projects may be below the current carrying amounts. Given the defaults on various 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.

On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improved; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014. Since March 2015, sales have been significantly below rates achieved during 2014 and remain well below the level required to generate positive cash flow. The 7P Plant was restarted in March 2017 and continues to operate on an as-needed basis in order to fulfil customer needs. In October 2017, the Company announced that it had completed the refurbishment of its frac sand wash plant at the 7P Plant. The wash plant is now operational, enhancing the ability to produce and sell frac sand.

The near-term outlook in the frac sand market remains unclear. The US dollar continues to negatively impact demand for high-quality Wisconsin frac sand in Canada, as the price for Canadian frac sand has dropped and service companies appear satisfied with using lower-quality domestic frac sand, because of the price differential caused mainly by the exchange rate. The Company’s existing inventory is Wisconsin frac sand, which is hindering its ability to increase its sales. The Company is currently exploring the possibility of adding domestic sand to its inventory in order to be more competitive with the lower priced sand.

Cash flows from frac sand sales during the three and nine months ended September 30, 2019 were not sufficient to pay financing costs and the Company was not able to make most of its interest payments due during the three and nine months ended September 30, 2019.

During 2016, the Company restructured its debt (the “Debt Restructuring Agreement”) with holders of promissory

Notes to the Condensed Interim Consolidated Financial Statements

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

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.

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 lender of the Secured Debt (the "Secured Lender") provided a forbearance agreement for the balance of the accrued interest and made short term advances to cover non-discretionary costs. Barring a significant improvement in the sales of frac sand, the Company is unlikely to be able to repay the Secured Debt in full when it matures in January 2020. The Company's ability to make the required interest payments in 2019 is also in doubt and dependent upon frac sand sales and/or third-party funding or asset sales. The Company was unable to make its interest payment due on September 30, 2019. 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 note.

The Company has not made interest payments due on any of its Promissory Convertible Notes, which has resulted in the Company defaulting on a portion of 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 remains in default.

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

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. During 2019 and 2018, the Company, with the agreement of its Secured Lender, sold non-core assets to provide operating funds. During 2019, the Company 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 to pre-2015 levels, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company's existing obligations add to the challenge of obtaining additional capital.

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

Notes to the Condensed Interim Consolidated Financial Statements

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

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 2017 (the "2018 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 November 21, 2019 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 2018 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.

4. RECEIVABLES AND PREPAIDS

	September 30, 2019	December 31, 2018
Trade accounts receivable	\$ 14	\$ 31
Other receivables	-	10
	<u>\$ 14</u>	<u>\$ 41</u>

The aging of the accounts receivable balance is as follows:

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

	September 30, 2019	December 31, 2018
Trade accounts receivable		
Current	\$ 14	\$ 31
	\$ 14	\$ 31

As at September 30, 2019, one of the Company's one customer accounted for 100% of the trade accounts receivable balance (December 31, 2018 – one customer for 100%).

5. MARKETABLE SECURITIES

The Company records its investment in shares at available market prices with any difference in fair value compared with acquisition cost being recorded as gain or loss on financial assets at fair value through OCI. The Company's financial assets at fair value through OCI are listed on public stock exchanges, including the TSX and Toronto Venture Exchange. During the nine months ended September 30, 2019, the Company sold 99% of its holdings in marketable securities for proceeds of \$149,000 (September 30, 2018 - \$nil).

6. INVENTORY

	September 30, 2019	December 31, 2018
Raw material stored at 7P Plant	\$ 701	\$ 957
Finished goods & other inventory	724	408
	\$ 1,425	\$ 1,365

7. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	7P Plant	Vehicles and Mobile Equipment	Equipment and Furniture	Total
Balances as at January 1, 2019					
Cost	83	4,882	685	220	5,870
Accumulated amortization	(15)	(2,468)	(515)	(44)	(3,042)
Effect of foreign exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	\$ 61	\$ 2,271	\$ 129	\$ 5	\$ 2,466
Additions	-	7	-	-	7
Amortization	-	(399)	(28)	-	(427)
Balances as at September 30, 2019					
Cost	83	4,889	685	220	5,877
Accumulated amortization	(15)	(2,867)	(543)	(44)	(3,469)
Effect of foreign exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	\$ 61	\$ 1,879	\$ 101	\$ 5	\$ 2,046

8. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2019	Current Expenditures	Writedowns	September 30, 2019
Minago	\$ 12,800	\$ 17	\$ (17)	\$ 12,800
	\$ 12,800	\$ 17	\$ (17)	\$ 12,800

Minago

The 100%-owned Minago project covers approximately 19,799 ha, through a combination of mining claims, mineral

Notes to the Condensed Interim Consolidated Financial Statements

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

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.

9. 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, 2019	Current Expenditures	Writedowns	September 30, 2019
Lac Rocher	\$ 480	\$ -	\$ -	\$ 480
Mel	2,950	-	-	2,950
	<u>\$ 3,430</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,430</u>

Lac Rocher

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

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

Mel

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

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

Lynn Lake

The Company owns a 100% right, title and interest in the Lynn Lake nickel property ("Lynn Lake"), covering approximately 600 ha in northern Manitoba. In November 2014, the Company announced that it had optioned 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

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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 mid-December 2019. If these conditions are not met the property reverts to the Company. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from Lynn Lake and receive a payment of AU\$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of the commencement of ore processing activities. In April 2015, the Company received 40,000,000 shares of Corazon valued at \$192,000 as part of the option agreement. These shares were subsequently sold.

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 has a 180-day period to evaluate the Short Grass Property. Should the Company exercise its right to develop a commercial frac sand mine (the "Option"), it will pay the Owner a royalty for frac sand sold from the Short Grass Property. The initial term of the Option would be for five years with the ability to extend for additional five-year terms. Any sand mined from the Short Grass Property would be trucked to the 7P Plant for processing and sale alongside the Northern White products.

On April 5, 2019, the Owner was notified of the exercise of the Option; the Company is currently negotiating a mining agreement with the Owner.

10. TRADE AND OTHER PAYABLES

	September 30, 2019	December 31, 2018
Accounts payable		
Mine property and development project	\$ 10	\$ 10
Exploration and evaluation projects	2	2
Frac sand segment	1,794	1,773
Other payables	138	138
Accrued liabilities	738	682
	\$ 2,682	\$ 2,605

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 September 30, 2019.

Notes to the Condensed Interim Consolidated Financial Statements

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

11. LOANS AND BORROWINGS

	<i>Notes</i>	September 30, 2019	December 31, 2018
Current loans and borrowings			
Secured Debt	<i>(a)</i>	\$ 7,050	\$ -
Promissory notes	<i>(b)</i>	2,162	312
Accrued interest		4,973	3,423
Debt due to management & directors	<i>(c)</i>	383	293
Outstanding Note	<i>(d)</i>	3,000	3,000
Other current loans		513	132
Total current loans and borrowings		18,081	7,160
Long-term loans and borrowings			
Secured Debt	<i>(a)</i>	\$ -	\$ 6,990
Promissory notes	<i>(b)</i>	-	1,505
Total long-term loans and borrowings		-	8,495
		\$ 18,081	\$ 15,655

During the three and nine months ended September 30, 2019, the Company also incurred interest expense of \$543,000 and \$1,556,000 (September 30, 2018 - \$488,000 and \$1,434,000), amortized loan fees of \$3,000 and \$60,000 (September 30, 2018 - \$13,000 and \$39,000) and amortized note discount and embedded derivatives of \$119,000 and \$325,000 (September 30, 2018 - \$151,000 and \$449,000), respectively.

(a) Secured Debt

	September 30, 2019	December 31, 2018
Carrying balance at beginning of the period	\$ 6,990	\$ 6,968
Amortized loan fees	60	103
Payment of loan fees	-	(81)
Secured Debt	\$ 7,050	\$ 6,990

The Secured Debt of \$7,050,000 has a maturity date of January 31, 2020. The interest rate on the Secured Debt is 14.8% with interest payable in arrears. The Secured Debt is due in full on the date of maturity, subject to a cash sweep of 75% of free cash flow ("Free Cash Flow") payable within 45 days following the end of each fiscal quarter and 90 days from each fiscal year end. Free Cash Flow will be calculated based on the Company's quarterly unaudited and annually audited consolidated statement of cash flows, as net cash from operating and investing activities, plus interest and lease payments from financing activities. Allowable investing activities must be approved in advance by the Secured Lender.

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

The Company was unable to make the required September 30, 2019 interest payments. As such, the Company has defaulted on the Secured Debt and it is payable on demand.

Notes to the Condensed Interim Consolidated Financial Statements

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

(b) Promissory Notes

	September 30, 2019	December 31, 2018
Total principal outstanding at beginning of the period	\$ 4,817	\$ 4,629
Restructure of debt	-	(1,670)
Issuance of extended debt	-	2,006
Change in present value discount on debt	325	(177)
Change in unamortized embedded derivatives	-	91
Effect of foreign exchange	20	(62)
Carrying balance at the end of the period	5,162	4,817
Less: Outstanding Note	(3,000)	(3,000)
Less: current portion of Promissory Convertible Notes	(2,162)	(312)
Long term portion of promissory notes	\$ -	\$ 1,505

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 original following terms:

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

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 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.

12. PARTICIPATING INTEREST

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

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 suspension of operations 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 September 30, 2019 (December 31, 2018 - \$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.

13. 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, 2019 and September 30, 2019	97,903,867	\$ 53,410

14. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share for the period ended September 30, 2019 was based on the information in the table below.

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Weighted average number of common shares at beginning and end of the period - Basic and Diluted	97,903,867	97,903,867
Potentially dilutive instruments excluded:		
Effect of options granted and outstanding	11,900,000	11,900,000
Effect of convertible promissory notes	10,635,596	10,635,596
Net loss attributable to shareholders - Basic and Diluted	\$ (944)	\$ (3,039)
Weighted Average Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.03)

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.

Notes to the Condensed Interim Consolidated Financial Statements

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

15. 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, 2019	12,258,000	\$ 0.07
Expired	(358,000)	\$ 0.66
Outstanding at September 30, 2019	11,900,000	\$ 0.05
Exercisable at September 30, 2019	11,900,000	\$ 0.05

As at September 30, 2019	Number of options outstanding	Contractual life (years)
Range of exercise prices (Canadian dollars)		
\$0.05 to \$0.06	11,900,000	2.44
	11,900,000	2.44

During the three and nine months ended September 30, 2019, the Company recorded \$nil (September 30, 2018 - \$20,000) in share-based payments upon the vesting of options. As at September 30, 2019 and 2018, there were no share-based payments remaining to be recognized. Options outstanding at September 30, 2019, expire between February 2022 and June 2022.

16. FINANCE INCOME AND FINANCE COSTS

Notes	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net foreign exchange gain	\$ 41	\$ -	\$ -	\$ -
Gain on restructuring of debt	-	566	-	566
Other	-	-	-	14
Finance income	41	566	-	580
Interest expense on loans				
Accrued and/or cash settled	11 543	488	1,556	1,434
Amortization of loan fees	11 3	13	60	39
Amortization of embedded derivatives	11 119	151	325	449
Net foreign exchange loss	-	46	115	23
Other	1	-	5	-
Finance costs	666	698	2,061	1,945
Net Finance Costs	\$ (625)	\$ (132)	\$ (2,061)	\$ (1,365)

17. 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:

	September 30, 2019	December 31, 2018
Canada		
Corporate	\$ 1,559	\$ 1,637
Exploration and development	16,230	16,230
Frac sand	3,419	3,796
Intersegment elimination	(1,435)	(1,402)
Total Assets	\$ 19,773	\$ 20,261

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

For the three months ended September 30, 2019	Corporate	Exploration and Development	Frac Sand	Total	September 30, 2018
Revenues	\$ -	\$ -	\$ 56	\$ 56	\$ 207
Cost of goods sold	-	-	(26)	(26)	(226)
Gross profit (loss)	-	-	30	30	(19)
Operating expenses					
General and administrative	(138)	-	(69)	(207)	(220)
Share-based payments	-	-	-	-	-
Amortization of property, plant and equipment	-	-	(142)	(142)	(146)
Operating loss	(138)	-	(181)	(319)	(385)
Finance income	41	-	-	41	566
Finance costs	(666)	-	-	(666)	(698)
Net finance costs	(625)	-	-	(625)	(132)
Loss before income taxes	(763)	-	(181)	(944)	(517)
Income tax recovery	-	-	-	-	312
Net loss for the period	\$ (763)	\$ -	\$ (181)	\$ (944)	\$ (205)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the nine months ended September 30, 2019	Corporate	Exploration and Development	Frac Sand	Total	September 30, 2018
Revenues		\$ -	\$ 407	\$ 407	\$ 664
Cost of goods sold	-	-	(349)	(349)	(740)
Gross profit (loss)	-	-	58	58	(76)
Operating expenses					
General and administrative	(382)	-	(210)	(592)	(649)
Share-based payments	-	-	-	-	(20)
Amortization of property, plant and equipment	-	-	(427)	(427)	(439)
Writedown of Mine property and development project	-	(17)	-	(17)	-
Operating loss	(382)	(17)	(579)	(978)	(1,184)
Finance income	-	-	-	-	580
Finance costs	(2,061)	-	-	(2,061)	(1,945)
Net finance costs	(2,061)	-	-	(2,061)	(1,365)
Loss before income taxes	(2,443)	(17)	(579)	(3,039)	(2,549)
Income tax recovery	-	-	-	-	741
Net loss for the period	\$ (2,443)	\$ (17)	\$ (579)	\$ (3,039)	\$ (1,808)

18. 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. Payables 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:

	September 30, 2019	December 31, 2018
Balances Outstanding		
Debt due to key management personnel	\$ 383	\$ 293
Other payables and accrued liabilities due to key management personnel	880	522
	\$ 1,263	\$ 815

Key management personnel compensation is composed of:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Short-term employee benefits	\$ 153	\$ 136	\$ 429	\$ 415
	\$ 153	\$ 136	\$ 429	\$ 415



VICTORY NICKEL INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2019**

DATED NOVEMBER 21, 2019

VICTORY NICKEL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Three and Nine months ended September 30, 2019

The following discussion of the results of operations, financial condition and cash flows of Victory Nickel Inc. ("Victory Nickel" or the "Company") prepared as of May 29, 2019 consolidates management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2019, 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 and nine months ended September 30, 2019 (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, 2018 and 2017 (the "2018 Audited Financial Statements"). The Condensed Interim Consolidated Financial Statements and the 2018 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 resource company and was primarily engaged in the acquisition, exploration, evaluation and development of nickel projects and associated products in Canada. Victory Nickel owns 100% of four advanced sulphide nickel projects: the Minago, Lynn Lake (under option 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 2018. 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 has a 180-day period to evaluate the Short Grass Property. Should the Company exercise its right to develop a commercial frac sand mine (the "Option"), it will pay the Owner a \$2.00 per tonne royalty for frac sand sold from the Short Grass Property. The initial term of the Option would be for five years with the ability to extend for additional five-year terms. On April 5, 2019, the Owner was notified of the exercise of the Option; the Company is currently negotiating a mining agreement with the Owner.

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 September 30, 2019, the Company had a working capital deficiency of \$19,266,000, calculated as current assets less current liabilities, an increase from a working capital deficiency of \$8,200,000 as at December 31, 2018 mostly due to interest accrued on debt and the fact that the Secured Debt became a current liability in January 2019. At September 30, 2019, the debts of \$17,991,000 were the largest factor in the Company's working capital deficiency, as the Company was in default on all unsecured debt and related interest. A significant portion of debt is now classified as current liabilities.

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 these projects, the potential recovery via sale of these projects may be below the current carrying amounts. Given the defaults on various 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.

On April 14, 2015, the Company announced that operations at the 7P Plant were temporarily suspended until the demand for frac sand improved; this temporary suspension was due to the dramatic decrease in energy pricing that began in 2014.

Since March 2015, sales have been significantly below rates achieved during 2014 and remain well below the level required to generate positive cash flow. The 7P Plant was restarted in March 2017 and continues to operate on an as-needed basis in order to fulfil customer needs. In October 2017, the Company announced that it had completed the refurbishment of its frac sand wash plant at the 7P Plant. The wash plant is now operational, enhancing the ability to produce and sell frac sand.

The near-term outlook in the frac sand market remains unclear. The US dollar continues to negatively impact demand for high-quality Wisconsin frac sand in Canada, as the price for Canadian frac sand has dropped and service companies appear satisfied with using lower-quality domestic frac sand, because of the price differential caused mainly by the exchange rate. The Company's existing inventory is Wisconsin frac sand, which is hindering its ability to increase its sales. The Company is currently exploring the possibility of adding domestic sand to its inventory in order to be more competitive with the lower priced sand.

Cash flows from frac sand sales during the three and nine months ended September 30, 2019 were not sufficient to pay financing costs and the Company was not able to make most of its interest payments due during the three and nine months ended September 30, 2019.

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.

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 lender of the Secured Debt (the "Secured Lender") provided a forbearance agreement for the balance of the accrued interest and made short term advances to cover non-discretionary costs. Barring a significant improvement in the sales of frac sand, the Company is unlikely to be able to repay the Secured Debt in full when it matures in January 2020. The Company's ability to make the required interest payments in 2019 is also in doubt and dependent upon frac sand sales and/or third-party funding or asset sales. The Company was unable to make its interest payment due on September 30, 2019. 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 note.

The Company has not made interest payments due on any of its Promissory Convertible Notes, which has resulted in the Company defaulting on a portion of 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 remains in default.

The ability of the Company to continue as a going concern is heavily dependent on the continued support of its lenders and the frac sand market improving, both in demand and in price, and the Company's ability to resume full operations at its 7P Plant. In addition to the liquidity and solvency uncertainties described above, the ability to resume full operations at the 7P Plant will require additional financing. In order to resume purchasing and shipping supplies of frac sand and full

operations at the 7P Plant, the Company will require additional working capital. As noted, the Company's Secured Lender has been supportive to date. However, there are no assurances that the Company will be able to obtain the working capital to resume operations at the level sufficient to generate cash flows to repay its outstanding obligations.

The Company has cut non-essential costs in an effort to reduce operating losses and has deferred payments wherever possible. During 2019 and 2018, the Company, with the agreement of its Secured Lender, sold non-core assets to provide operating funds. During 2019, the Company 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 to pre-2015 levels, the Company will not be able to meet its outstanding obligations or any new obligations as they become due. The defaults on the Company's existing obligations add to the challenge of obtaining additional capital.

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

OUTLOOK

Sand sales from Alberta's 7P Plant will remain the focus during 2019, however management believes that the Company's three sulphide nickel assets are at the heart of the longer-term value proposition for shareholders.

Minago in Manitoba is host to one of Canada's largest undeveloped, permitted, sulphide nickel resources. Combined with Mel in Manitoba and Lac Rocher in Quebec, the three projects combine to give your company one of the country's most significant in-situ sulphide nickel inventories.

Why is this important? Because all of the Company's nickel assets are located in Canada, one of the world's most secure mining jurisdictions; because the projects are superbly located relative to access to infrastructure, particularly Minago; and because demand for nickel, specifically sulphide nickel, is projected to rise dramatically over the next two decades.

Nickel's presence as an "Energy Metal" came to prominence in 2018 with the acceleration of worldwide demand for electric



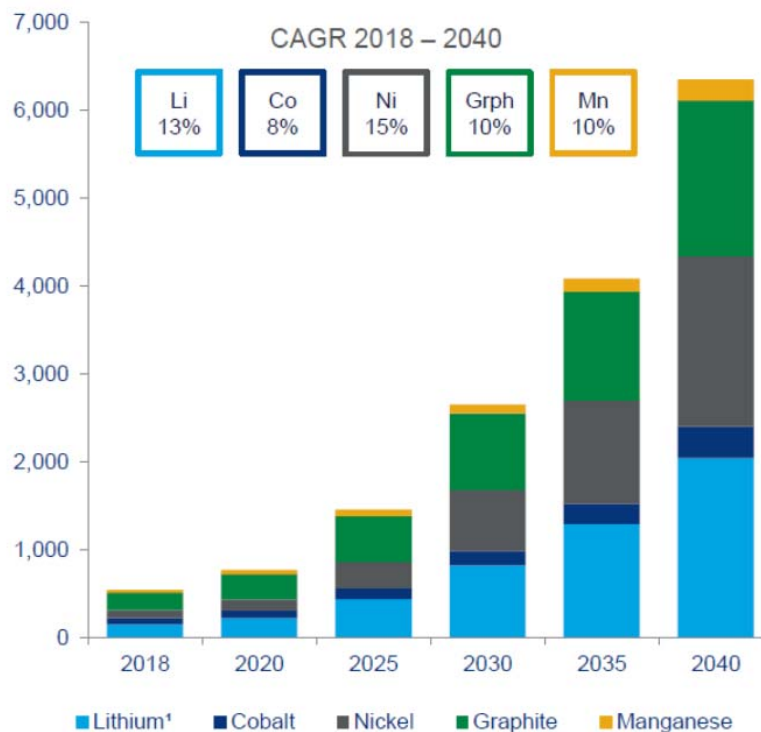
vehicles (“EV”). By 2040, market researcher Wood Mackenzie expects to see 300 million EV passenger cars on the road. The blooming global need for rechargeable batteries due to growth in the EV market, driven by government focus on reducing carbon emissions, combined with evolving battery technologies that incorporate increasing amounts of nickel has led market watchers to expand their projections for global nickel demand.

Wood Mackenzie breaks EV into three broad categories, each with increasing levels of electrification. From least to most electrification these are hybrid electric vehicles (“HEV”), plug-in hybrid electric vehicles (“PHEV”) and battery electric vehicles (“BEV”). As the level of electrification increases, so too does battery size and the amount of nickel and other battery materials required. By 2030, Wood Mackenzie expects 58% of passenger EV to be HEV, with the remaining 42% being PHEV or BEV; by 2040 the expectation is nearly 75% PHEV or BEV.

This increase in battery size and usage is complimented by the battery technologies themselves. There has been a global shift toward lithium-nickel-manganese-cobalt-oxide (“NMC”) cathode chemistries, says Wood Mackenzie, and by 2030 they expect 70% of EV to use an NMC cathode. And there is a shift toward less cobalt-intensive battery types, meaning more nickel is used in each battery. UBS points out that today’s cathodes used in EVs typically have a 1:1:1 ratio between nickel, manganese and cobalt. By 2021 this materials mix is expected to be optimized at 8:1:1. Further to this point, researcher Adamas Intelligence points to a 104% year-over-year (“YoY”) increase in the amount of nickel in passenger EV batteries during February 2019, a bigger jump than both manganese and cobalt. In China alone, the YoY increase from January 2018 was 253%, with the YoY increases in Germany and the US coming in at 88% and 54% respectively.

In addition, market watchers concur that due to the quality requirements of battery producers the winners in this new demand environment will be sulphide (“Class 1”) nickel producers such as Victory Nickel’s projects which, unlike laterite nickel (“Class 2”) deposits, have an economic advantage in the competition for EV battery market share. It is this demand that Bloomberg says accounted for a 35% increase in Class 1 nickel price on the London Metals Exchange between the end of 2018 and early august 2019. *Bloomberg New Energy Finance* forecasts that demand for nickel will multiply 16 times by 2030, and half of that is expected to go into batteries, driving nickel prices considerably higher. Through 2040, Wood Mackenzie expects nickel to be the highest-growth of the Energy Metals.

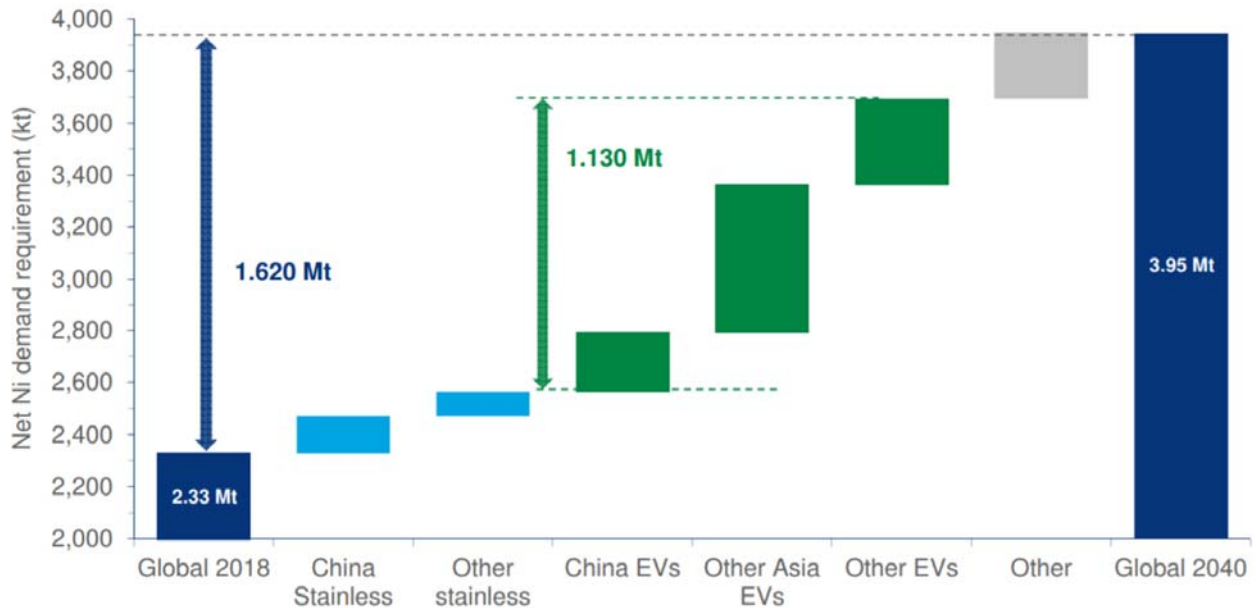
Global battery sector demand by metal (kt)



Source: Wood Mackenzie

This is not to discount the stainless steel and other markets using nickel. All in all, Wood Mackenzie sees global nickel demand rising significantly between 2018 and 2040.

Sources of Long-Term Incremental Nickel Demand



Source: Wood Mackenzie

Given the Company's leading position with regard to sulphide nickel resources, – Victory Nickel is well placed to take advantage of the significant market shift toward EVs and growing sulphide nickel demand in general.

Frac Sand

Frac sand is a substantial contributor to the overall economics at Minago. Victory Nickel became a player in the frac sand market in 2014, when construction and commissioning of its 7P Plant in Alberta was completed. Unfortunately, toward the end of 2014 the price of oil crashed. As a result, drill rig utilization decreased substantially. In direct response to the declining utilization, E&P companies reduced, cancelled or deferred capital programs. All of this led to an unprecedented decline in the pricing of drilling and well completions, putting downward pressure on the price of frac sand.

During this period, E&P companies looked for ways to improve their economics by reducing costs and enhancing recoveries. Measures include lengthening of both lateral and horizontal drilling, increasing the number of stages per foot and using more sand per stage. These changes have led to an increase in frac sand intensity – using more sand per well – a trend that bodes well for frac sand consumption.

According to energy market analytics company RBN Energy, a typical well in the Texas' Permian Basin is 10,000 lateral feet (and sometimes thousands of feet longer) using about 2,500 pounds of sand per linear foot. These dynamics have led to a doubling of frac sand demand over the past three years in the US to over 100,000,000 tons per annum. In the US, demand for frac sand is predicted to grow by 10% in 2019 and 17% in 2020, according to Rystad Energy.

As part of the trend toward E&P companies looking to reduce their costs, demand for more cost-effective in-basin domestic frac sand has increased in Canada. The Company's business plan always contemplated sales of domestic frac sand from both Minago and other strategically-located Canadian frac sand deposits in addition to sales of Northern White frac sand imported from Wisconsin. As such, the Option on the Short Grass Property furthers the Company's ability to better navigate changing frac sand demand in Canada by offering both imported Northern White and an in-basin domestic alternative. Broadening its product offering will allow Victory Nickel to appeal to a wider variety of customers and better take advantage of opportunities as the frac sand market evolves.

The softness in the frac sand market over the past several years led to declining valuations of frac sand assets throughout North America. Management has been evaluating opportunities to take advantage of market changes to build its presence in the frac sand business by acquiring undervalued North American frac sand production assets that offer immediate

potential to expand sales and open new markets, while at the same time being complementary to the Company's existing production activities. In addition, we remain confident that sulphide nickel demand will improve, such that not only the Minago nickel project can be developed, but that the Company's other nickel projects can be advanced as potential producers. We thank our shareholders, lenders and suppliers for their continued patience and support.

RESULTS OF OPERATIONS

For the three months ended September 30, 2019	Corporate	Exploration and Development	Frac Sand	Total	September 30, 2018
Revenues	\$ -	\$ -	\$ 56	\$ 56	\$ 207
Cost of goods sold	-	-	(26)	(26)	(226)
Gross profit (loss)	-	-	30	30	(19)
Operating expenses					
General and administrative	(138)	-	(69)	(207)	(220)
Share-based payments	-	-	-	-	-
Amortization of property, plant and equipment	-	-	(142)	(142)	(146)
Operating loss	(138)	-	(181)	(319)	(385)
Finance income	41	-	-	41	566
Finance costs	(666)	-	-	(666)	(698)
Net finance costs	(625)	-	-	(625)	(132)
Loss before income taxes	(763)	-	(181)	(944)	(517)
Income tax recovery	-	-	-	-	312
Net loss for the period	\$ (763)	\$ -	\$ (181)	\$ (944)	\$ (205)

For the nine months ended September 30, 2019	Corporate	Exploration and Development	Frac Sand	Total	September 30, 2018
Revenues	\$ -	\$ -	\$ 407	\$ 407	\$ 664
Cost of goods sold	-	-	(349)	(349)	(740)
Gross profit (loss)	-	-	58	58	(76)
Operating expenses					
General and administrative	(382)	-	(210)	(592)	(649)
Share-based payments	-	-	-	-	(20)
Amortization of property, plant and equipment	-	-	(427)	(427)	(439)
Writedown of Mine property and development project	-	(17)	-	(17)	-
Operating loss	(382)	(17)	(579)	(978)	(1,184)
Finance income	-	-	-	-	580
Finance costs	(2,061)	-	-	(2,061)	(1,945)
Net finance costs	(2,061)	-	-	(2,061)	(1,365)
Loss before income taxes	(2,443)	(17)	(579)	(3,039)	(2,549)
Income tax recovery	-	-	-	-	741
Net loss for the period	\$ (2,443)	\$ (17)	\$ (579)	\$ (3,039)	\$ (1,808)

Overall

For the three and nine months ended September 30, 2019, the Company had a net loss of \$944,000 and \$3,039,000 or a loss of \$0.01 and \$0.03 per share (September 30, 2018 - \$205,000 and \$1,808,000 or \$0.00 and \$0.02 per share), respectively. 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 2018 and into 2019. The Company holds inventory in excess of 18,000 tons as at September 30, 2019 (December 31, 2018 – 19,000 tons) at various stages of the process and made sales of 650 tons and 4,791 tons of various grades of frac sand during the three and nine months ended September 30, 2019 (September 30, 2018 – 949 tons and 5,869 tons), respectively, by drawing down inventories and/or brokering sand, generating a gross profit of \$30,000 and \$58,000 (September 30, 2018 – gross loss of \$19,000 and \$76,000), respectively.

Revenues

The Company recognized revenue on frac sand sales during the three and nine months ended September 30, 2019 aggregating \$56,000 and \$407,000, or \$86.15 and \$84.95 per ton (September 30, 2018 - \$207,000 and \$664,000 or \$113 per ton), respectively. 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 \$26,000 and \$349,000 during the three and nine months ended September 30, 2019 (September 30, 2018 - \$226,000 and \$740,000), respectively. The 7P Plant continues to operate on an as-needed basis, resulting in higher operating costs per ton of product produced than what is expected on a continuous operating basis. The Company has reduced manpower to a skeleton crew sufficient to start production as demand returns on a consistent basis. The Company suspended purchases of concentrated sand in 2015 and will resume purchases once demand is sufficient to utilize existing inventories at the 7P Plant. Finished goods inventory was valued at net realizable value of \$84.10 per ton at September 30, 2019 (September 30, 2018 - \$94.18 per ton) to reflect current market conditions.

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

Gross profit

The 7P Plant generated a gross profit of \$30,000 and \$58,000, respectively, during the three and nine months ended September 30, 2019 and a gross loss of \$19,000 and \$76,000, respectively, during the three and nine months ended September 30, 2018. 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 \$69,000 and \$210,000 for the three and nine months ended September 30, 2019 (September 30, 2018 - \$85,000 and \$216,000), respectively. These costs include Victory Silica salaries, administration, marketing and logistics management. The Company reduced manpower to a skeleton crew and overhead sufficient to operate the 7P Plant as demand requires.

Amortization of property, plant and equipment of \$142,000 and \$427,000 was recorded for the three and nine months ended September 30, 2019 (September 30, 2018 - \$145,000 and \$437,000), respectively, 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 \$181,000 and \$579,000 for the three and nine months ended September 30, 2019 (September 30, 2018 – \$249,000 and \$729,000).

Corporate Segment

The corporate component of net loss for the three months ended September 30, 2019 was \$763,000 (September 30, 2018 – net gain of \$45,000), including operating expenses of \$138,000 (September 30, 2018 - \$135,000), net finance costs of \$625,000 (September 30, 2018 – \$132,000) and an income tax recovery of \$nil (September 30, 2018 – \$312,000).

The corporate component of net loss for the nine months ended September 30, 2019 was \$2,443,000 (September 30, 2018 - \$1,077,000), including operating expenses of \$382,000 (September 30, 2018 - \$453,000), net finance costs of \$2,061,000 (September 30, 2018 – \$1,365,000) and an income tax recovery of \$nil (September 30, 2018 – \$741,000). Operating expenses include \$nil non-cash share-based payments during the three and nine months ended September 30, 2019 (September 30, 2018 - \$20,000).

General and administrative expenses were \$138,000 and \$382,000 during the three and nine months ended September 30, 2019 (September 30, 2018 - \$135,000 and \$433,000), respectively. 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 \$666,000 and \$2,061,000 for the three and nine months ended September 30, 2019 (September 30, 2018 - \$698,000 and \$1,945,000), respectively. Cash and accrued interest expenses was \$543,000 and \$1,556,000 for the three and nine months ended September 30, 2019 (September 30, 2018 - \$488,000 and \$1,434,000), respectively. The increase in interest expense during 2019 compared with 2018 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 and nine months ended September 30, 2019, the amortization of the embedded derivatives on the Promissory Convertible Notes amounted to \$119,000 and \$325,000 (September 30, 2018 - \$151,000 and \$449,000), respectively.

Income tax expense (recovery)

The Company does not allocate income taxes between segments. The Company records a tax recovery as a result of applying carry-forward non-capital losses against deferred tax liabilities. 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 and nine months ended September 30, 2019 was \$nil (September 30, 2018 – increase of \$424,000 and \$340,000). These changes are a result of the net market value changes and/or gain in the sale of the Company’s marketable securities. The company sold a portion of its marketable securities for \$149,000 during the nine months ended September 30, 2019 (September 30, 2018 - \$158,000). Furthermore, foreign exchange gain in OCI of \$15,000 and \$49,000 was incurred during the three and nine months ended September 30, 2019 (September 30, 2018 – loss of \$65,000 and \$8,000), respectively, mainly 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% (September 30, 2018 – 27%).

SUMMARY OF QUARTERLY RESULTS

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

Fiscal year 2019/2018	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
Sales	\$ 56	\$ 190	\$ 161	\$ 207
Gross profit (loss)	\$ 30	\$ 34	\$ (6)	\$ (19)
General and administrative	\$ (207)	\$ (243)	\$ (142)	\$ (220)
Net finance costs	\$ (625)	\$ (744)	\$ (692)	\$ (132)
Net loss	\$ (944)	\$ (1,112)	\$ (983)	\$ (205)
Total comprehensive (loss) income	\$ (929)	\$ (1,139)	\$ (923)	\$ 154
Loss per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
Fiscal year 2018/2017	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
Sales	\$ 58	\$ 399	\$ 156	\$ 428
Gross profit (loss)	\$ (68)	\$ 11	\$ 455	\$ (116)
General and administrative	\$ (242)	\$ (187)	\$ (133)	\$ (120)
Net finance costs	\$ (610)	\$ (623)	\$ (34)	\$ (448)
Net (loss) income	\$ (875)	\$ (728)	\$ 2,091	\$ (577)
Total comprehensive (loss) income	\$ (832)	\$ (798)	\$ 2,131	\$ (571)
(Loss) income per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ 0.02	\$ (0.00)

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 2018, the Company recorded a significant impairment in its exploration and evaluation (“E&E”) projects and its Minago project. An impairment on inventory to net realizable value was also recorded during the same period. In addition, the increase in the market value of frac sand required a recovery of impaired inventory values during the last quarter of 2017, to the lower of cost or net realizable value. Net finance income and costs have fluctuated period-over-period, due to the gain in restructuring of debt during 2018, change in the fair value of the embedded derivatives related to the Debt Restructuring Agreement, change in the fair value of the Participating Interest (defined below), and amortization of embedded derivatives and loan fees on the Promissory Convertible Notes. During 2017, the Company recorded an income tax recovery as a result of adjusting the foreign exchange rate on various tax pools.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2019, the Company had a working capital deficiency of \$19,266,000, compared with a working capital deficiency of \$8,200,000 as at December 31, 2018. The increase in the working capital deficiency resulted mainly from the increase in short-term loans as long-term debt becomes current.

Participating Interest

Pursuant to a participating interest loan (the “Participating Interest”) with Nuinsco Resources Limited (or the “Lender”), the Lender has the right to convert the outstanding balance into a limited participating interest (the “Conversion”), whereby the Lender is entitled to receive a share of cash flows earned from the sale of frac sand from the 7P Plant. On April 22, 2014, the Lender exercised the Conversion. The Conversion constituted payment of the loan in full. This obligation will be settled through a 52.16% participation in net operating cash flows from the frac sand business after recoupment of capital costs for phase one and pre-operating expenses. The participation is capped at CAD\$7,667,124 provided the Company proceeds with phase two (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 September 30, 2019, the carrying value of the Participating Interest was \$1,000, compared with \$1,000 at December 31, 2018. 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 has a maturity date of January 31, 2020. The interest rate on the Secured Debt is 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 original following terms:

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

Cash Flows during the period

Cash as at September 30, 2019 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 nine months ended September 30, 2019, the Company used cash of \$507,000 through operating activities (September 30, 2018 - \$285,000).

During the nine months ended September 30, 2019, net cash provided by investing activities was \$125,000 (September 30, 2018 - \$189,000). The Company generated \$149,000 in net proceeds on the sale of marketable securities (September 30, 2018 - \$158,000).

The Company received \$381,000 from net financing activities during the nine months ended September 30, 2019 (September 30, 2018 – \$39,000), mainly due to net receipts of current loans.

The Company's activities during the nine months ended September 30, 2019 used cash of \$1,000 (September 30, 2018 – \$57,000).

Other Potential Sources of Cash Flow

The Company has over 18,000 tons of sand in inventory at September 30, 2019. 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:

	September 30, 2019	December 31, 2018
Canada		
Corporate	\$ 1,559	\$ 1,637
Exploration and development	16,230	16,230
Frac sand	3,419	3,796
Intersegment elimination	(1,435)	(1,402)
Total Assets	\$ 19,773	\$ 20,261

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 and nine months ended September 30, 2019, \$nil was incurred on the Minago project (September 30, 2018 - \$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 and nine months ended September 30, 2019, the Company did not incur exploration expenditures on its E&E projects (September 30, 2018 – \$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 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 has a 180-day period to evaluate the Short Grass Property. Should the Company exercise its right to develop a commercial frac sand mine (the “Option”), it will pay the Owner a royalty for frac sand sold from the Short Grass Property. The initial term of the Option would be for five years with the ability to extend for additional five-year terms. Any sand mined from the Short Grass Property would be trucked to the 7P Plant for processing and sale alongside side the Northern White products.

On April 5, 2019, the Owner was notified of the exercise of the Option.

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.

On November 4, 2014, the Company announced that it had optioned the Lynn Lake project to Corazon, an Australian listed public company with assets in the Lynn Lake area. Under the terms of the agreement, Corazon can acquire a 100% interest in Lynn Lake by issuing 40,000,000 Corazon shares to the Company upon closing and incurring AU\$3,500,000 in exploration expenditures or in payments (in cash or Corazon shares at Corazon's option) to Victory Nickel before November 2019. In addition, Victory Nickel will retain a 1.5% net smelter royalty on production from the Lynn Lake nickel project, and receive a payment of AU\$1,000,000 (in cash or Corazon shares at Corazon's option) within 30 days of the commencement of ore processing activities at the Lynn Lake nickel project. On April 6, 2015 Corazon issued 40,000,000 Corazon shares to Victory Nickel as part of the terms of the option agreement between the two companies. These shares were sold in 2016.

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)

	September 30, 2019	December 31, 2018
Balances Outstanding		
Debt due to key management personnel	\$ 383	\$ 293
Other payables and accrued liabilities due to key management personnel	880	522
	\$ 1,263	\$ 815

Key management personnel compensation is comprised of:

(in thousands of United States dollars)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Short-term employee benefits	\$ 153	\$ 136	\$ 429	\$ 415
	\$ 153	\$ 136	\$ 429	\$ 415

OUTSTANDING SHARE DATA

As at November 21, 2019, 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, 2018, 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.

November 21, 2019