VICTORY NICKEL INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019

DATED MAY 29, 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 months ended March 31, 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)	*Notes*	March 31, 2019 (unaudited)	December 31, 2018
ASSETS			
Current assets			
Cash		**$ 22**	$ 43
Receivables	*4*	**188**	41
Marketable securities	*5*	**1**	116
Inventory	*6*	**1,263**	1,365
Total current assets		**1,474**	1,565
Non-current assets			
Property, plant and equipment	*7*	**2,325**	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		**18,555**	18,696
Total Assets		**$ 20,029**	$ 20,261
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	*10*	**$ 2,661**	$ 2,605
Loans and borrowings	*11*	**16,290**	7,160
Total current liabilities		**18,951**	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		**18,952**	18,261
Shareholders' equity			
Share capital	*13*	**53,410**	53,410
Contributed surplus		**6,178**	6,178
Accumulated other comprehensive loss		**(3,434)**	(3,494)
Deficit		**(55,077)**	(54,094)
Total shareholders' equity		**1,077**	2,000
Total Liabilities and Shareholders' Equity		**$ 20,029**	$ 20,261

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

Consolidated Statements of Operations

(in thousands of United States dollars, except per share amounts)	Notes	Three months ended March 31, 2019 (unaudited)	March 31, 2018 (unaudited)
Sales		**$ 161**	$ 399
Cost of goods sold		**(167)**	(388)
Gross (loss) profit		**(6)**	11
Operating expenses			
General and administrative		**(142)**	(187)
Share based payments		**-**	(20)
Amortization of property, plant and equipment	*7*	**(143)**	(147)
Operating loss		**(291)**	(343)
Finance costs	*16*	**(692)**	(623)
Net finance costs		**(692)**	(623)
Loss before income taxes		**(983)**	(966)
Income tax recovery		**-**	238
Net loss for the period		**$ (983)**	$ (728)
Loss per share	*14*		
Basic and diluted loss per share		**$ (0.01)**	$ (0.01)

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

Consolidated Statements of Comprehensive (Loss) Income

(in thousands of United States dollars)	Notes	Three months ended March 31, 2019 (unaudited)	March 31, 2018 (unaudited)
Net loss for the period		**$ (983)**	$ (728)
Other comprehensive income (loss) ("OCI")			
Net change in fair value of financial assets	*5*	**84**	(106)
Foreign exchange (loss) gain		**(24)**	36
Other comprehensive income for the period		**60**	(70)
Total Comprehensive Loss for the period		**$ (923)**	$ (798)

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

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					(728)	(728)
Other comprehensive income						
Net change in fair value of financial assets				(106)		(106)
Foreign exchange on change in functional currency				36		36
Total other comprehensive income				(70)		(70)
Total comprehensive loss for the period						(798)
Transactions with owners, recorded directly in equity						
Contributions in the period						
Options granted and vesting			20			20
Total contributions by owners			20			20
Total transactions with owners			20			20
Balances as at March 31, 2018		$ 53,323	$ 6,160	$ (3,847)	$ (24,775)	$ 30,861
Balances as at January 1, 2019		**$ 53,410**	**$ 6,178**	**$ (3,494)**	**$ (54,094)**	**$ 2,000**
Total comprehensive loss for the period						
Net loss for the period					(983)	(983)
Other comprehensive income						
Net change in fair value of financial assets	*5*			84		84
Foreign exchange on change in functional currency				(24)		(24)
Total other comprehensive income				60		60
Total comprehensive loss for the period						(923)
Balances as at March 31, 2019		**$ 53,410**	**$ 6,178**	**$ (3,434)**	**$ (55,077)**	**$ 1,077**

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

Consolidated Statements of Cash Flows

(in thousands of United States dollars)	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018
Cash flows from operating activities			
Net loss for the period		**$ (983)**	$ (728)
Adjustments for:			
Share based payments		**-**	20
Amortization of property, plant and equipment	*7*	**143**	147
Net finance costs	*16*	**625**	610
Income tax recovery		**-**	(238)
Net change in working capital:			
Change in receivables	*4*	**(146)**	(264)
Change in inventory	*6*	**102**	82
Change in trade and other payables	*10*	**56**	40
Net cash (used) provided by operating activities		**(203)**	(331)
Cash flows from investing activities			
Purchase of property, plant and equipment	*7*	**(2)**	-
Issuance of current promissory note		**-**	(90)
Proceeds on sale of marketable securities	*5*	**149**	-
Net cash provided (used) by investing activities		**147**	(90)
Cash flows from financing activities			
Net receipts of current loans		**-**	302
Payments under leases		**-**	(2)
Net cash provided (used) by financing activities		**-**	300
Net decrease in cash		**(56)**	(121)
Foreign exchange effect on cash and cash equivalents		**35**	42
Cash balance at beginning of the period		**43**	125
Cash balance at end of the period		**$ 22**	$ 46

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of Operations

Victory Nickel Inc. ("Victory Nickel" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 80 Richmond St. West, Suite 1802, Toronto, Ontario, M5H 2A4. The consolidated financial statements as at and for the three months ended March 31, 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 March 31, 2019, the Company had a working capital deficiency of $17,375,000, 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. At March 31, 2019, the debts of $16,290,000 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 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. Sales of frac sand have yet to recover to levels that would generate positive cash flow.

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 months ended March 31, 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 months ended March 31, 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 March 31, 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 paid interest payments due on 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.

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 the 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 May 29, 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.

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

4. RECEIVABLES AND PREPAIDS

		March 31, 2019		December 31, 2018
Trade accounts receivable	**$**	**169**	$	31
Other receivables		**19**		10
	$	**188**	$	41

The aging of the accounts receivable balance is as follows:

		March 31, 2019		December 31, 2018
Trade accounts receivable				
Current	**$**	**135**	$	31
Past due 0-30 days		**34**		-
	$	**169**	$	31

As at March 31, 2019, one of the Company's four customers accounted for 58% 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 three months ended March 31, 2019, the Company sold 99% of its holdings in marketable securities for proceeds of $149,000 (March 31, 2018 - $nil).

6. INVENTORY

		March 31, 2019		December 31, 2018
Raw material				
Stored at 7P Plant	**$**	**839**	$	957
Finished goods & other inventory		**424**		408
	$	**1,263**	$	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, 2018					
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	-	2	-	-	2
Amortization	-	(133)	(10)	-	(143)
Balances as at March 31, 2019					
Cost	83	4,884	685	220	5,872
Accumulated amortization	(15)	(2,601)	(525)	(44)	(3,185)
Effect of foreign exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	**$ 61**	**$ 2,140**	**$ 119**	**$ 5**	**$ 2,325**

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

8. MINE PROPERTY AND DEVELOPMENT PROJECT

	January 1, 2019	Current Expenditures	Writedowns	**March 31, 2019**
Minago	$ 12,800	$ -	$ -	**$ 12,800**
	$ 12,800	$ -	$ -	**$ 12,800**

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

From 2006 to date, considerable work has been performed, including diamond drilling, metallurgical testing and engineering studies and all the studies required to complete the Environmental Impact Study that was filed in May 2010. As a result, in August 2011, the Company received its Environmental Act Licence ("EAL"). In April 2014, the Company announced the filing of an amendment to the EAL to relocate the permitted Minago tailings facilities, such that it will not interfere with potential nickel resources and also reduce operating costs. 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 Minago Feasibility Study ("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	**March 31, 2019**
Lac Rocher	$ 480	$ -	$ -	**$ 480**
Mel	2,950	-	-	**2,950**
	$ 3,430	$ -	$ -	**$ 3,430**

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

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

Mel

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

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

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 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 November 2019. 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 side the Northern White products.

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

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

10. TRADE AND OTHER PAYABLES

		March 31, 2019		December 31, 2018
Accounts payable				
Mine property and development project	**$**	**10**	$	10
Exploration and evaluation projects		**2**		2
Frac sand segment		**1,773**		1,773
Other payables		**138**		138
Accrued liabilities				
Other accrued liabilities		**738**		682
	$	**2,661**	$	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 March 31, 2019.

11. LOANS AND BORROWINGS

	Notes		**March 31, 2019**		December 31, 2018
Current loans and borrowings					
Secured Debt	*(a)*	**$**	**7,018**	$	-
Outstanding Note	*(d)*		**3,000**		3,000
Promissory notes	*(b)*		**1,915**		312
Debt due to management & directors	*(c)*		**293**		293
Accrued interest			**3,932**		3,423
Other current loans			**132**		132
Total current loans and borrowings			**16,290**		7,160
Long-term loans and borrowings					
Secured Debt	*(a)*	**$**	**-**	$	6,990
Promissory notes	*(b)*		**-**		1,505
Total long-term loans and borrowings			**-**		8,495
		$	**16,290**	$	15,655

The Company also incurred interest expense of $498,000 (March 31, 2018 - $470,000), amortized loan fees of $28,000 (March 31, 2018 - $13,000) and amortized note discount and embedded derivatives of $98,000 (March 31, 2018 - $127,000).

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

(a) Secured Debt

		March 31, 2019		December 31, 2018
Carrying balance at beginning of the year	**$**	**6,990**	$	6,968
Amortized loan fees		**28**		103
Payment of loan fees		**-**		(81)
Secured Debt	**$**	**7,018**	$	6,990

The Secured Debt of $7,050,000 has a maturity date of January 31, 2020. Under the terms of the Secured Debt, an additional fee of 2,500,000 common shares was issued by the Company to the Secured Lender, as a result of non-repayment of the Secured Debt by December 31, 2018.

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 March 31, 2019 interest payments. As such, the Company has defaulted on the Secured Debt and it is payable on demand.

(b) Promissory Convertible Notes

		March 31, 2019		December 31, 2018
Total principal outstanding at beginning of the year	**$**	**4,817**	$	4,629
Restructure of debt		**-**		(1,670)
Issuance of extended debt		**-**		2,006
Change in present value discount on debt		**98**		(177)
Change in unamortized embedded derivatives		**-**		91
Effect of foreign exchange		**-**		(62)
Carrying balance at the end of the year		**4,915**		4,817
Less: Outstanding Note		**(3,000)**		(3,000)
Less: current portion of promissory notes		**(1,915)**		(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 a portion of 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 USD$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.

(c) Debt Owed to Directors and Management

All outstanding debt due to management and director fees due to directors accumulated up to December 31, 2017 were due in July 2019. As a result, the short-term debt of $293,000 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 and 2017 totalling CAD$175,000.

(d) Outstanding Note

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

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 March 31, 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.

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

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 March 31, 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 March 31, 2019 was based on the information in the table below.

		Three months ended March 31, 2019
Weighted average number of common shares at beginning and end of the period - Basic and Diluted		**97,903,867**
Potentially dilutive instruments excluded:		
Effect of options granted and outstanding		12,155,000
Effect of convertible promissory notes		10,635,596
Net loss attributable to shareholders - Basic and Diluted	**$**	**(983)**
Weighted Average Basic and Diluted Loss Per Share	**$**	**(0.01)**

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.

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**	**$**	**0.07**
Expired	**(103,000)**	**$**	**0.55**
Outstanding at March 31, 2019	**12,155,000**	**$**	**0.06**
Exercisable at March 31, 2019	**12,155,000**	**$**	**0.06**

	Number of options outstanding	Contractual life (years)
Range of exercise prices (Canadian dollars)		
$0.05 to $0.06	**11,900,000**	**2.95**
$0.70	**255,000**	**0.31**
	12,155,000	**2.89**

During the three months ended March 31, 2019, the Company recorded $nil (March 31, 2018 - $20,000) in share-based payments upon the vesting of options. As at March 31, 2019 and 2018, there were no share-based payments remaining to be recognized. Options outstanding at March 31, 2019, expire between July 2019 and June 2022.

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

16. FINANCE INCOME AND FINANCE COSTS

	Three months ended	
	March 31, 2019	March 31, 2018
Interest expense on loans		
Accrued and/or cash settled	**498**	470
Amortization of loan fees	**28**	13
Amortization of embedded derivatives	**98**	127
Net foreign exchange loss	**68**	13
Net Finance Costs	**$ (692)**	$ (623)

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. Any applicable amounts relating to such projects will continue to be capitalized to the relevant project as either *Exploration and evaluation projects* or *Mine property and development project* on the consolidated balance sheets.

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

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

	March 31, 2019	December 31, 2018
Canada		
Corporate	**$ 1,533**	$ 1,637
Exploration and development	**16,230**	16,230
Frac sand	**3,691**	3,796
Intersegment elimination	**(1,425)**	(1,402)
Total Assets	**$ 20,029**	$ 20,261

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

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

For the three months ended March 31, 2019	Corporate	Exploration and Development	Frac Sand	Total	March 31, 2018
Revenues	$ -	$ -	$ 161	**$ 161**	$ 399
Cost of goods sold	-	-	(167)	**(167)**	(388)
Gross (loss) profit	-	-	(6)	**(6)**	11
Operating expenses					
General and administrative	(106)	-	(36)	**(142)**	(187)
Share-based payments	-	-	-	**-**	(20)
Amortization of property, plant and equipment	-	-	(143)	**(143)**	(147)
Operating loss	(106)	-	(185)	**(291)**	(343)
Finance costs	(692)	-	-	**(692)**	(623)
Net finance costs	(692)	-	-	**(692)**	(623)
Loss before income taxes	(798)	-	(185)	**(983)**	(966)
Income tax recovery	-	-	-	**-**	238
Net loss for the period	$ (798)	$ -	$ (185)	**$ (983)**	$ (728)

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 paid sick leave as well as non-monetary benefits such as medical care. In addition to short-term employee benefits, 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 generally relate to director's fees, consulting fees and expense reimbursements. Balances and transactions with related parties as at and for the periods ended are shown in the following tables:

	March 31, 2019	December 31, 2018
Balances Outstanding		
Debt due to key management personnel	**$ 293**	$ 293
Other payables due to key management personnel	**545**	522
	$ 838	$ 815

Key management personnel compensation is composed of:

	Three months ended	
	March 31, 2019	March 31, 2018
Short-term employee benefits	**$ 108**	$ 140
	$ 108	$ 140