VICTORY NICKEL INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

DATED NOVEMBER 24, 2021

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, 2021 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		September 30, 2021 (unaudited)		December 31, 2020 (unaudited)
ASSETS					
Current assets					
Cash		**$**	**240**	$	23
Receivables	*4*		**1,056**		34
Marketable securities	*5*		**3,216**		2
Inventory	*6*		**373**		522
Prepaids and other			**18**		78
Held for sale asset	*8*		**-**		11,471
Total current assets			**4,903**		12,130
Non-current assets					
Property, plant and equipment	*7*		**1,115**		1,435
Exploration and evaluation projects	*9*		**3,430**		3,430
Total non-current assets			**4,545**		4,865
Total Assets		**$**	**9,448**	$	16,995
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
Current liabilities					
Trade and other payables	*10*	**$**	**3,671**	$	3,509
Loans and borrowings	*11*		**11,166**		22,066
Total current liabilities			**14,837**		25,575
Non-current liabilities					
Loans and borrowings	*11*	.	**2,864**		31
Participating Interest	*12*		**1**		1
Total non-current liabilities			**2,865**		32
Total Liabilities			**17,702**		25,607
Shareholders' deficiency					
Share capital	*13*		**54,214**		53,410
Contributed surplus			**6,245**		6,255
Accumulated other comprehensive loss			**(3,453)**		(3,455)
Deficit			**(65,260)**		(64,822)
Total shareholders' deficiency			**(8,254)**		(8,612)
Total Liabilities and Shareholders' Deficiency		**$**	**9,448**	$	16,995

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

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

Approved by the Board of Directors

(signed)
Cynthia P. Thomas
Director

(signed)
Michael Anderson
Director

Condensed Interim Consolidated Statements of Operations

(in thousands of United States dollars)	Notes	Three months ended September 30, 2021 (unaudited)	Three months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2021 (unaudited)	Nine months ended September 30, 2020 (unaudited)
Sales		**$ 117**	$ 56	**$ 318**	$ 364
Cost of goods sold		**(119)**	(74)	**(359)**	(468)
Gross loss		**(2)**	(18)	**(41)**	(104)
Operating expenses					
General and administrative		**(178)**	(222)	**(728)**	(585)
Amortization of property, plant and equipment	*7*	**(107)**	(108)	**(320)**	(325)
Writedown of Exploration & Evaluation projects	*9*	**-**	(8)	**(8)**	(16)
Operating loss		**(287)**	(356)	**(1,097)**	(1,030)
Finance income	*16*	**12**	-	**2,815**	131
Finance costs	*16*	**(287)**	(962)	**(2,156)**	(1,990)
Net finance (loss) income		**(275)**	(962)	**659**	(1,859)
Net (loss) income for the period		**$ (562)**	$ (1,318)	**$ (438)**	$ (2,889)
(Loss) Income per share	*14*				
Basic and diluted (loss) income per share		**$ (0.00)**	$ (0.01)	**$ (0.00)**	$ (0.02)

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

Condensed Interim Consolidated Statements of Comprehensive Loss

(in thousands of United States dollars)	Three months ended September 30, 2021 (unaudited)	Three months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2021 (unaudited)	Nine months ended September 30, 2020 (unaudited)
Net (loss) income for the period	**$ (562)**	$ (1,318)	**$ (438)**	$ (2,889)
Other comprehensive income ("OCI")				
Net change in fair value of financial assets	**1**	-	**2**	-
Other comprehensive income for the period	**1**	-	**2**	-
Total Comprehensive (Loss) Income for the period	**$ (561)**	$ (1,318)	**$ (436)**	$ (2,889)

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

Condensed Interim Consolidated Statements of Shareholders’ Deficiency

(in thousands of United States dollars)		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity (Deficiency)
Balances as at January 1, 2020	***Notes***	$ 53,410	$ 6,178	$ (3,456)	$ (58,678)	$ (2,546)
Total comprehensive loss for the period						
Net loss for the period					(2,889)	(2,889)
Total comprehensive loss for the period						(2,889)
Balances as at September 30, 2020		$ 53,410	$ 6,178	$ (3,456)	$ (61,567)	$ (5,435)
Balances as at January 1, 2021		**$ 53,410**	**$ 6,255**	**$ (3,455)**	**$ (64,822)**	**$ (8,612)**
Total comprehensive income for the period						
Net income for the period					(438)	(438)
Other comprehensive income						
Net change in fair value of financial assets				2		2
Total other comprehensive income				2		2
Total comprehensive income for the period						(436)
Transactions with owners, recorded directly in equity						
Contributions in the period						
Issue of common shares	*13*	784				784
Options exercised	*15*	20	(10)			10
Total contributions		804	(10)			794
Total transactions with owners		804	(10)			794
Balances as at September 30, 2021		**$ 54,214**	**$ 6,245**	**$ (3,453)**	**$ (65,260)**	**$ (8,254)**

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)	*Notes*	**Nine months ended September 30, 2021 (unaudited)**	September 30, 2020 (unaudited)
Cash flows from operating activities			
Net income (loss) for the year		**$ (438)**	$ (2,889)
Adjustments for:			
Amortization of property, plant and equipment	*7*	**320**	325
Writedown of exploration and evaluation projects	*9*	**8**	16
Net finance costs	*16*	**(648)**	1,988
Net change in working capital:			
Change in receivables	*4*	**(22)**	(9)
Change in prepaids and other		**60**	-
Change in inventory	*6*	**149**	279
Change in trade and other payables	*10*	**(42)**	295
Net cash (used) provided by operating activities		**(613)**	5
Cash flows from investing activities			
Expenditures on mine property and development project		**-**	(206)
Expenditures on exploration and evaluation projects	*9*	**(8)**	(16)
Net cash used by investing activities		**(8)**	(222)
Cash flows from financing activities			
Issue of common shares	*13*	**784**	-
Net receipts of loans	*11*	**44**	269
Options exercised	*15*	**10**	-
Net receipts of government loan	*14*	**-**	30
Net cash provided by financing activities		**838**	299
Net increase in cash		**217**	82
Cash balance at beginning of the year		**23**	23
Cash balance at end of the year		**$ 240**	$ 105

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 9 Crestwood Drive, Toronto, Ontario, M1E 1E6. The consolidated financial statements as at and for the three and nine months ended September 30, 2021 (the "Condensed Interim Consolidated Financial Statements") comprise the Company and its subsidiaries Victory Silica Ltd. ("Victory Silica") and BG Solutions Ltd. ("BG") together referred to as "Victory Nickel" and individually as "Victory Nickel entities". Victory Nickel was primarily engaged in the acquisition, exploration and development of nickel properties in Canada (Minago, Mel and Lynn Lake in Manitoba, and Lac Rocher in Quebec) until 2014 when the Company became a producer and supplier of premium frac sand from its frac sand plant (the "7P Plant"), located near the town of Seven Persons, approximately 18 kilometres southwest of Medicine Hat, Alberta. The 7P Plant comprises a fully-operational wet plant with a nominal capacity of approximately 120,000 tons per annum ("tpa") and a dry plant with a nominal capacity of 500,000 tpa. Frac sand is specialized sand that is used as a proppant to enhance recovery from oil and gas wells; however the sand produced at the 7P Plant also has uses in other markets. The Company was formed on February 1, 2007 pursuant to a plan of arrangement.

On February 9, 2021, Victory Nickel sold its Minago nickel property to Silver Elephant Mining Corp. ("Silver Elephant") under the terms of the asset purchase agreement ("APA"). See below for more details.

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

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

Going Concern

These 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, 2021, the Company had a working capital deficiency of $9,934,000, calculated as current assets less current liabilities, a decrease from a working capital deficiency of $13,445,000 as at December 31, 2020 mainly due to the restructuring of the secured debt upon the sale of Minago as discussed below. At September 30, 2021, the current loans and borrowings and accrued interest of $11,166,000 were the largest factor in the Company's working capital deficiency.

Following the sale of Minago, restructuring of the secured debt (see details below) and the success in generating $5,750,000 in liquidity, the Company announced it had engaged a financial advisor to assist the Company with restructuring options related to the Company's unsecured debt which includes promissory convertible notes (outstanding and restructured, in default since 2016), trade payables and monies owed to related parties. At this time, it is unclear what steps will be required to restructure the existing debt, but could include investment in the frac sand business to broaden the product offerings to increase competitiveness, investment in the Company's nickel properties, further asset sales or alternative sources of financing such as issuing additional debt or equity. There are no assurances that the Company will be able to restructure its remaining unsecured debt and there is no certainty as to what further steps, if any, the debtors, or the Company, will take.

On February 9, 2021, Silver Elephant (or the "Secured Lender") acquired 100% of the secured debt owed by Victory Nickel (the "Secured Debt"). Upon the sale of the Minago property to Silver Elephant, the Secured Debt was restructured in accordance with the APA as follows:

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

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

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

During 2020 and into 2021, the Company cut non-essential costs in an effort to reduce operating losses and deferred payments wherever possible. To date, management and the board of directors have reduced and/or deferred salaries and director fees until business recovers, but there is no certainty that this will continue. Management salary reductions and/or deferrals put the Company at risk of being unable to retain key personnel.

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

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

Should the Company not be able to overcome the risks described in this section, the carrying value of the Company’s assets would be subject to material adjustment and, in addition, other adjustments may be necessary to these 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, 2020 and 2019 (the “2020 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 24, 2021 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 2020 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

	September 30, 2021	December 31, 2020
Trade accounts receivable	**$ 56**	$ 34
Other receivables	**1,000**	-
	$ 1,056	$ 36

Other receivables as at September 30, 2021 comprise of the remaining Silver Elephant common shares receivable over a one-year period upon closing of the APA on February 9, 2021.

All trade accounts receivable balance is as follows:

	September 30, 2021	December 31, 2020
Trade accounts receivable		
Current	**$ 51**	$ 29
Past due 0-30 days	**-**	5
Past due 31-60 days	**5**	-
	$ 56	$ 34

As at September 30, 2021, two of four of the Company's customers accounted for 89% of the trade accounts receivable balance (December 31, 2020 – one of four customers accounted for 96%).

5. MARKETABLE SECURITIES

As part of the APA discussed above, the Company received $2,000,000 Silver Elephant shares upon closing of the APA on February 9, 2021. The Company received another $2,000,000 Silver Elephant shares on August 31, 2021. Any change in fair value at period end is recorded as a gain or loss through the *Statement of Operations.*

6. INVENTORY

	September 30, 2021	December 31, 2020
Raw material stored at 7P Plant	**$ 147**	$ 162
Finished goods & other inventory	**226**	360
	$ 373	$ 522

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

7. PROPERTY, PLANT AND EQUIPMENT

Balances as at January 1, 2021	**Land and Building**	**7P Plant**	**Vehicles and Mobile Equipment**	**Equipment and Furniture**	**Total**
Cost	80	4,889	685	220	5,874
Accumulated amortization	(17)	(3,436)	(578)	(46)	(4,077)
Effect of foreign exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	**$ 56**	**$ 1,310**	**$ 66**	**$ 3**	**$ 1,435**
Amortization	-	(307)	(12)	(1)	(320)
Balances as at September 30, 2021					
Cost	80	4,889	685	220	5,874
Accumulated amortization	(17)	(3,743)	(590)	(47)	(4,397)
Effect of foreign exchange	(7)	(143)	(41)	(171)	(362)
Carrying Amount	**$ 56**	**$ 1,003**	**$ 54**	**$ 2**	**$ 1,115**

8. HELD FOR SALE ASSET

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

On February 9, 2021, Victory Nickel sold its Minago nickel property in northern Manitoba to Silver Elephant. The total fee of CAD$400,000 payable to Red Cloud for the completion of the sale process, less the retainer already paid, is due over three tranches as follows; CAD$250K paid upon closing of the transaction, CAD$64,000 due August 31, 2021 and CAD $36,000 due December 31, 2021. As part of the APA, Victory Nickel was reimbursed by Silver Elephant for CAD$200,000 of the fee charged by Red Cloud. The Company also incurred an additional CAD$59,000 in legal costs associated with the sale of Minago.

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, 2021	Current Expenditures	Writedowns	**September 30, 2021**
Lac Rocher	$ 480	$ -	$ -	**$ 480**
Mel	2,950	8	(8)	**2,950**
	$ 3,430	$ 8	$ (8)	**$ 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 Lynn Lake nickel property (“Lynn Lake”) covers approximately 600 ha in northern Manitoba. In 2014, the Company announced that it had optioned Lynn Lake to Corazon Mining Limited (“Corazon”). Under the terms of the option agreement, subject to any required regulatory approvals, Corazon can acquire a 100% interest in Lynn Lake by issuing to Victory Nickel, 40,000,000 Corazon shares upon closing and incurring AU$3,500,000 in exploration expenditures or payments (in cash or Corazon shares at Corazon’s option) to Victory Nickel before December 19, 2019. In April 2015, the Company received 40,000,000 shares of Corazon valued at $192,000 as part of the option agreement. These shares were subsequently sold. On January 14, 2020, the Company received an interim report from Corazon, indicating that over AU$3,500,000 in exploration expenditures has been incurred. The Company is currently in the process of reviewing the interim report.

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

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

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

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

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

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

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

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

10. TRADE AND OTHER PAYABLES

	September 30, 2021	December 31, 2020
Accounts payable		
Mine property and development project	**$ -**	$ 18
Exploration and evaluation projects	**3**	5
Frac sand segment	**1,945**	1,969
Other payables	**254**	136
Accrued liabilities		
Frac sand segment	**436**	436
Other payables	**1,033**	945
	$ 3,671	$ 3,509

11. LOANS AND BORROWINGS

	Notes	**September 30, 2021**	December 31, 2020
Current loans and borrowings			
Secured Debt	*(a)*	**$ -**	$ 10,009
Promissory notes	*(b)*	**2,341**	2,341
Debt due to management & directors	*(c)*	**398**	398
Outstanding Note	*(d)*	**3,000**	3,000
Other loans with previous secured lender	*(a)*	**-**	447
Accrued interest		**5,427**	5,871
Total current loans and borrowings		**$ 11,166**	$ 22,066
Long-term loans and borrowings			
Secured Debt	*(a)*	**$ 2,833**	$ -
Government loan	*(e)*	**$ 31**	$ 31
Total long-term loans and borrowings		**$ 2,864**	$ 31
		$ 14,030	$ 22,097

During the three and nine months ended September 30, 2021, the Company incurred interest expense of $335,000 and $1,113,000 (September 30, 2020 - $810,000 and $1,943,000), respectively, and amortized note discount or embedded derivatives of $103,000 and $255,000 (September 30, 2020 - $nil and $47,000), respectively.

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

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

(a) Secured Debt

		September 30, 2021		December 31, 2020
Carrying balance at beginning of the period	**$**	**10,009**	$	7,050
Conversion from accrued interest		**-**		2,271
Restructuring of Secured debt and/or other loans		**(4,628)**		688
Present value discount on restructured Secured Debt		**(2,803)**		-
Amortization of present value discount		**255**		-
Secured Debt	**$**	**2,833**	$	10,009

On January 1, 2021, the Secured Debt was $10,009,000 with interest of 14.8% per annum payable in arrears. Prior to the restructuring of the Secured Debt on February 9, 2021 (as detailed below), accrued interest on the Secured Debt and other loans amounted to $1,556,000.

Upon restructuring of the Secured Debt, the remaining balance is $5,381,000 and is non-interest bearing. The remaining balance of the Secured Debt is carried at its present value based on 5 years to maturity and a discount rate of 14.8%.

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

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

(b) Promissory Convertible Notes

		September 30, 2021		December 31, 2020
Total principal outstanding at beginning of the period	**$**	**5,341**	$	5,275
Change in present value discount on debt		**-**		47
Effect of foreign exchange		**-**		19
Carrying balance at the end of the period	**$**	**5,341**	$	5,341
Less: Outstanding Note		**(3,000)**		(3,000)
Current portion of Promissory Convertible Notes	**$**	**2,341**	$	2,341

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

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

Promissory Convertible Note Holders
The Promissory Convertible Notes have the following terms:

- A maturity date of July 31, 2018 or January 31, 2020;
- An interest rate of 7% per annum, payable annually or at any time in cash or in common shares valued at market, at the option of the Company;

- Convertible at CAD$0.25 per share, at the option of the holder, in which the conversion rights expired on July 31, 2018 or January 31, 2020; and
- Holders of the Promissory Convertible Notes will also receive one common share purchase warrant for every four common shares acquired upon conversion of the Promissory Convertible Notes, with an exercise price of CAD$0.50 per share, exercisable for a five-year period from the date of conversion.

As at September 30, 2021, accrued interest on the Promissory Convertible Notes was $653,000 (December 31, 2020 – $503,000).

(c) Debt Owed to Directors and Management

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

(d) Outstanding Note

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

As at September 30, 2021, accrued interest on the Outstanding Note was $4,773,000 (December 31, 2020 – $3,957,000).

(e) Government loan

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

12. PARTICIPATING INTEREST

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

As a result of the continued slowdown in demand for frac sand, the continued negative cash flows at the 7P Plant and the losses incurred during the last few years, the estimated fair value of the Participating Interest was valued at $1,000 at March 31, 2021 (December 31, 2020 - $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, 2021	**97,903,867**	**$**	**53,410**
Issue of common shares to Silver Elephant	40,000,000		784
Issue of common shares for options exercised	275,000		20
Balance as at September 30, 2021	**138,178,867**	**$**	**54,214**

On February 8, 2021, the Company issued 40,000,000 common shares for CAD$1,000,000 to Silver Elephant. In April 2021, 275,000 options were exercised at CAD$0.045 per common share.

14. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share for the periods ended was based on the information in the table below.

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
Balance as at beginning of the period		**138,178,867**		**97,903,867**
Effect of shares issued to Silver Elephant		-		34,432,234
Effect of shares issued upon options exercised		-		180,311
Weighted average number of common shares at end of the period - Basic and Diluted		**138,178,867**		**132,516,412**
Potentially dilutive instruments excluded:				
Effect of options granted and outstanding		10,950,000		10,950,000
Net loss attributable to shareholders - Basic and Diluted	**$**	**(562)**	**$**	**(438)**
Weighted Average Basic and Diluted Loss Per Share	**$**	**(0.00)**	**$**	**(0.00)**

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 September 30, 2021		Weighted average exercise price September 30, 2021
Outstanding as at beginning of the year	12,225,000	$	0.049
Expired	(1,000,000)	$	0.050
Excercised	(275,000)	$	0.045
Outstanding as at the end of the period	**10,950,000**	**$**	**0.049**
Exercisable as at the end of the period	**10,950,000**	**$**	**0.049**

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

	Number of options outstanding September 30, 2021	Contractual life (years) September 30, 2021
Range of exercise prices (Canadian dollars)		
$0.045	2,525,000	4.01
$0.05-0.06	9,700,000	0.41
Total	**12,225,000**	**1.15**

During the three and nine months ended September 30, 2021 and 2020, the Company recorded $nil in share-based payments upon the vesting of options. As at September 30, 2021 and 2020, there were no share-based payments remaining to be recognized. Options outstanding at September 30, 2021, expire between February 2022 and October 2025.

16. FINANCE INCOME AND FINANCE COSTS

		Three months ended		Nine months ended	
	Note	**September 30, 2021**	September 30, 2020	**September 30, 2021**	September 30, 2020
Gain on present value discount of restructured Secured Loan	*11*	**$ -**	$ -	**$ 2,803**	$ -
Net foreign exchange gain		**12**	-	**12**	131
Finance income		**12**	-	**2,815**	131
Interest expense on loans					
Accrued and/or cash settled	*11*	**335**	810	**1,113**	1,943
Amortization of present value discount on Secured Loan	*11*	**103**	-	**255**	-
Amortization of embedded derivatives	*11*	**-**	-	**-**	47
Net foreign exchange loss		**(64)**	152	**-**	-
Change in value of marketable securities	*5*	**(87)**	-	**788**	-
Finance costs		**287**	962	**2,156**	1,990
Net Finance (Costs) Income		**$ (275)**	$ (962)	**$ 659**	$ (1,859)

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.

(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, 2021	December 31, 2020
Canada		
Corporate	**$ 6,045**	$ 1,643
Exploration and evaluation	**3,430**	3,430
Frac sand	**1,486**	1,932
Held for sale assets	**-**	11,471
Intersegment elimination	**(1,513)**	(1,481)
Total Assets	**$ 9,448**	$ 16,995

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, 2021	**Corporate**	**Exploration and Development**	**Frac Sand**	**Total**	September 30, 2020
Revenues	$ -	$ -	$ 117	**$ 117**	$ 56
Cost of goods sold	-	-	(119)	**(119)**	(74)
Gross loss	-	-	(2)	**(2)**	(18)
Operating expenses					
General and administrative	(123)	(2)	(54)	**(178)**	(222)
Amortization of property, plant and equipment	-	-	(107)	**(107)**	(108)
Writedown of exploration and evaluation projects	-	-	-	**-**	(8)
Operating loss	(123)	(2)	(163)	**(287)**	(356)
Finance income	12	-	-	**12**	-
Finance costs	(287)	-	-	**(287)**	(962)
Net finance loss	(275)	-	-	**(275)**	(962)
Net loss for the period	$ (398)	$ (2)	$ (163)	**$ (562)**	$ (1,318)

For the nine months ended September 30, 2021	**Corporate**	**Exploration and Development**	**Frac Sand**	**Total**	September 30, 2020
Revenues	$ -	$ -	$ 318	**$ 318**	$ 364
Cost of goods sold	-	-	(359)	**(359)**	(468)
Gross loss	-	-	(41)	**(41)**	(104)
Operating expenses					
General and administrative	(549)	(10)	(169)	**(728)**	(585)
Amortization of property, plant and equipment	-	-	(320)	**(320)**	(325)
Writedown of exploration and evaluation projects	-	(8)	-	**(8)**	(16)
Operating loss	(549)	(18)	(530)	**(1,097)**	(1,030)
Finance income	2,815	-	-	**2,815**	131
Finance costs	(2,156)	-	-	**(2,156)**	(1,990)
Net finance income	659	-	-	**659**	(1,859)
Net income (loss) for the period	$ 110	$ (18)	$ (530)	**$ (438)**	$ (2,889)

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

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. Other payables and accrued liabilities due to key management personnel relate to director's fees, consulting fees and expense reimbursements.

Balances with related parties are shown in the following table:

	Note		**September 30, 2021**		December 31, 2020
Balances Outstanding					
Debt due to (current and previous) key management personnel	*11*	**$**	**398**	$	398
Other payables and accrued liabilities due to key management personnel			**551**		1,026
		$	**949**	$	1,424

Key management personnel compensation is composed of:

	Three months ended				**Nine months ended**			
		September 30, 2021		September 30, 2020		**September 30, 2021**		September 30, 2020
Short-term employee benefits	**$**	**71**	$	115	**$**	**195**	$	344
	$	**71**	$	115	**$**	**195**	$	344

Effective April 30, 2021, Sean Stokes resigned as Interim CEO, Acting CFO and Corporate Secretary. Cynthia Thomas, Executive Chair, has assumed the responsibilities on an interim basis. Previous management was compensated a bonus of CAD$200,000 in recognition of completing the sale of Minago.