

VICTORY RESOURCES CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited – Prepared By Management)
(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MAY 31, 2021 AND 2020

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

VICTORY RESOURCES CORPORATION**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

AS AT

	May 31, 2021	February 28, 2021
ASSETS		
Current assets		
Cash	\$ 1,124,513	\$ 15,780
GST receivable	25,517	26,824
Prepaid expenditures	39,694	100,670
Deposits and loan receivable (Note 4)	80,000	80,000
Total current assets	1,269,724	223,274
Non-current assets		
Long-term investments (Note 4)	978,931	1,558,354
Right-of-use asset (Note 3)	130,206	137,307
Reclamation deposits (Note 5)	18,732	18,732
Exploration and evaluation assets (Note 5)	1,093,733	499,072
Total non-current assets	2,221,602	2,213,465
Total assets	\$ 3,491,326	\$ 2,436,739
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	\$ 204,879	\$ 165,756
Due to related parties (Note 7)	17,926	15,235
Current portion of lease liability (Note 3)	30,672	30,672
Total current liabilities	253,477	211,663
Lease liability (Note 3)	116,930	121,136
Total liabilities	370,407	332,799
Shareholders' equity		
Share capital (Note 8)	35,382,126	32,796,798
Subscriptions received in advance	-	127,500
Reserves (Note 8)	1,489,747	1,146,775
Deficit	(33,750,954)	(31,967,133)
Total shareholders' equity	3,120,919	2,103,940
Total liabilities and shareholders' equity	\$ 3,491,326	\$ 2,436,739

Nature of operations and going concern (Note 1)

Segmented information (Note 9)

Approved and authorized on behalf of the Board of Directors on July 21, 2021.

“Mark Ireton”

Director

“David Lane”

Director

VICTORY RESOURCES CORPORATION**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

FOR THE THREE MONTHS ENDED MAY 31,

	2021	2020
EXPENSES		
Advertising and promotion	\$ 332,787	\$ 29,308
Amortization of right-of-use asset (Note 3)	7,101	7,102
Consulting	263,260	52,500
Interest income	-	(30,666)
Interest on lease liability (Note 3)	1,731	2,014
Management and directors fees (Note 7)	133,200	24,000
Office and administration	25,816	24,919
Professional fees (Note 7)	39,930	24,400
Realized loss on long-term investments (Note 4)	6,876	-
Stock-based compensation (Note 8)	435,400	-
Transfer agent and filing fees	10,881	3,034
Travel	30,000	-
Unrealized loss on long-term investments (Note 4)	496,839	58,805
Net loss and comprehensive loss for the period	\$ (1,783,821)	\$ (195,416)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.001)
Weighted average number of common shares outstanding – basic and diluted	72,462,015	19,325,084

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

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)
FOR THE THREE MONTHS ENDED MAY 31,

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (1,783,821)	\$ (195,416)
Items not affecting cash:		
Interest on lease	-	2,014
Accrued interest income	-	(30,663)
Amortization of right-of-use asset	7,101	7,102
Stocks issued for property acquisition	202,500	-
Stock-based compensation	435,400	-
Realized loss on long-term investments	6,876	-
Unrealized loss (gain) on long-term investments	496,839	(60,534)
Changes in non-cash working capital:		
Prepaid expenditures	60,976	(46,185)
Amounts receivable	1,307	(14,272)
Accounts payable and accrued liabilities	39,122	167,399
Net cash used in operating activities	<u>(533,700)</u>	<u>(170,555)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related parties	2,691	3,840
Proceeds from private placements	2,281,513	-
Share issuance costs	(96,113)	-
Subscriptions received in advance	(127,500)	-
Net cash provided in financing activities	<u>2,060,591</u>	<u>3,840</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Advance of deposits for investments and loans receivable	-	150,000
Acquisition of exploration and evaluation assets	(489,661)	-
Repayment of lease liabilities	(4,206)	(5,653)
Proceeds from sale of long-term investment	75,709	-
Net cash provided by (used in) investing activities	<u>(418,158)</u>	<u>144,347</u>
Change in cash for the period	(1,108,733)	(22,368)
Cash, beginning of the period	15,780	38,620
Cash, end of the period	\$ 1,124,513	\$ 16,252
Supplemental cash flow information		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 12)

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

VICTORY RESOURCES CORPORATION

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

FOR THE THREE MONTHS ENDED MAY 31, 2021 AND 2020

	Common shares number	Share Capital amount	Subscriptions received in advance	Reserves	Deficit	Total Shareholders' equity
Balance as at February 29, 2020	19,325,085	\$ 30,131,721	\$ -	\$ 806,175	\$ (29,412,380)	\$ 1,525,516
Net loss and comprehensive loss for the period	-	-	-	-	(195,416)	(195,416)
Balance as at May 31, 2020	19,325,085	30,131,721	-	806,175	(29,607,796)	1,330,100
Share adjustment, consolidation	(2)	-	-	-	-	-
Private placement	28,568,332	2,142,625	-	-	-	2,142,625
Private placement, flow-through shares	1,780,000	178,000	-	-	-	178,000
Share issuance costs - cash	-	(42,948)	-	-	-	(42,948)
Share issuance costs - warrants	-	(87,600)	-	87,600	-	-
Subscriptions received in advance (Note 13(i))	-	-	127,500	-	-	127,500
Share issuances for property acquisitions	5,500,000	475,000	-	-	-	475,000
Stock-based compensation	-	-	-	253,000	-	253,000
Net loss and comprehensive loss for the period	-	-	-	-	(2,359,337)	(2,359,337)
Balance as at February 28, 2021	55,173,415	32,796,798	127,500	1,146,775	(31,967,133)	2,103,940
Private placement	25,928,594	1,856,522	-	-	-	1,856,522
Share issued for stock options exercise	2,615,000	298,068	-	(141,943)	-	156,125
Share issued for warrants exercise	4,713,667	472,452	-	(1,085)	-	471,367
Share issuance costs - cash	-	(96,114)	-	-	-	(96,114)
Share issuance costs - warrants	-	(50,600)	-	50,600	-	-
Subscriptions received in advance (Note 13(i))	-	-	(127,500)	-	-	(127,500)
Share issuances for property acquisition	1,500,000	105,000	-	-	-	105,000
Stock-based compensation	-	-	-	435,400	-	435,400
Net loss and comprehensive loss for the period	-	-	-	-	(1,783,821)	(1,783,821)
Balance as at May 31, 2021	89,930,676	\$ 35,382,126	\$ -	\$ 1,489,747	\$ (33,750,954)	\$ 3,120,919

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

VICTORY RESOURCES CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

FOR THE THREE MONTHS ENDED MAY 31, 2021 AND 2020

1. NATURE OF OPERATIONS AND GOING CONCERN

Victory Resources Corporation, (“Victory” or “the Company”) is a publicly traded company (CSE: VR) incorporated under the laws of British Columbia, Canada. The Company is a junior exploration stage mining corporation with interests in North America. The Company has no plans to divest itself of its existing exploration properties, although it is currently seeking and investigating other business opportunities in the mining space.

These condensed consolidated interim financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at May 31, 2021, the Company has a deficit of \$33,750,954 (February 28, 2021 - \$31,967,133). The Company is in the process of exploring and developing its mineral properties and has not yet determined whether those properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to fund property commitments and to complete the exploration and development of the properties and upon achieving future profitable production or proceeds from the disposition thereof.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

These events and conditions create a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

The Company has financed its operations primarily through the issuance of common shares, proceeds from loans and advances from related parties. The Company continues to seek capital through various means including the issuance of equity and/or debt. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future or on terms that are favorable to the Company. Accordingly, these condensed consolidated interim financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company’s assets and liabilities on a liquidation basis could be material to these condensed consolidated interim financial statements.

2. BASIS OF PREPARATION

Basis of Presentation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”), and its interpretations, using accounting policies consistent with International Financial Reporting Standards (“IFRS”). The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended February 28, 2021, which have been prepared in accordance with IFRS as issued by the IASB and interpretations of the IFRS Interpretations Committee (“IFRIC”). The accounting policies followed in these condensed interim financial statements are consistent with those applied in the Company’s financial statements for the year ended February 28, 2021.

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

VICTORY RESOURCES CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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FOR THE THREE MONTHS ENDED MAY 31, 2021 AND 2020

2. BASIS OF PREPARATION (cont'd...)

Basis of Consolidation

The condensed consolidated interim financial statements include Victory Resources Corporation and its wholly owned subsidiary Victory Resources (Nevada) Inc. from the date of incorporation, October 19, 2020. All inter-company transactions have been eliminated.

Subsidiaries are entities over which the Company has exposure to variable returns from its involvement and has the ability to use power over the investee to affect its returns.

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

Stock Split and Consolidation

On June 25, 2020, the Company consolidated its issued and outstanding common shares on the basis of one share for every ten existing common shares. Unless otherwise noted, all share, option and warrant information, including per share amounts have been retrospectively adjusted to reflect this stock consolidation in these condensed consolidated interim financial statements.

Use of estimates and judgments

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

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

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include the following:

Valuation of stock options and compensation warrants

The fair value of stock options and compensation warrants issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Changes in the input assumptions can materially affect the fair value estimate of stock options and compensation warrants.

Valuation of long-term investments

The valuation and measurement of long-term investments, including the determination of fair value, is subject to the limitations of the Black-Scholes option pricing model and net present value cash flow projections, both of which incorporate market data and involve uncertainty and subjectivity in estimates used by management in the assumptions. Changes in the input assumptions can materially affect the fair value estimates of long-term investments.

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2. BASIS OF PREPARATION (cont'd...)

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

Determination of functional currency

In accordance with IAS 21, “The Effects of Changes in Foreign Exchange Rates” management determined that the functional currency of the Company is Canadian dollars based on the primary economic environment in which the Company operates.

Carrying value and recoverability of exploration and evaluation assets

The assessment of the potential impairment of the carrying value and recoverability of exploration and evaluation assets included in the statements of financial position is based on management’s best judgment of the prospects for each property based on currently available information.

Going concern

The assessment of the Company’s ability to continue as a going concern is a significant management judgment. See Note 1.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rates in effect at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the period end date.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss).

Financial Instruments

Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial Instruments (cont'd...)

Classification and Measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- i) those to be measured subsequently at fair value, either through profit or loss (“FVTPL”) or through other comprehensive income (“FVTOCI”); and,
- ii) those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

The classification and measurement bases of the Company’s financial instruments are as follows:

Financial Instrument	Classification
Cash	FVTPL
Amounts receivable	Amortized cost
Deposits and loan receivable	Amortized cost
Long-term investments	FVTPL*
Accounts payable and accrued liabilities	Amortized cost
Due to related parties	Amortized cost

*Long-term investments are at FVTPL for the year ended February 28, 2021. For the year ended February 28, 2020, the long-term investments were at Amortized cost.

After initial recognition at fair value, financial liabilities are classified and measured at either:

- i) amortized cost;
- ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- iii) FVTOCI, when the change in fair value is attributable to changes in the Company’s credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs for all classifications of financial instruments, other than those at FVTPL, that are directly attributable to the acquisition or issuance of a financial asset or financial liability are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are recognized in profit or loss.

VICTORY RESOURCES CORPORATION

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FOR THE THREE MONTHS ENDED MAY 31, 2021 AND 2020

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and evaluation assets

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash or other consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess consideration accounted for as a gain in profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. If impairment is assessed, exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction.” Exploration and evaluation assets are tested for impairment before the assets are transferred to mines under construction.

Mineral exploration and evaluation expenditures are classified as intangible assets.

Impairment of long-lived assets

At the end of each reporting period, the Company’s long-lived assets are reviewed to determine whether there is any indication that those assets may be impaired. If an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

VICTORY RESOURCES CORPORATION

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Provision for environmental rehabilitation

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In a loss period, potentially dilutive stock options and warrants are excluded from the loss per share calculation as the effect would be anti-dilutive.

Share-based payments

Where equity-settled stock options are awarded to employees, consultants, officers and directors, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Fair value is determined on the grant date using the Black-Scholes option pricing model. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payments cannot be reliably estimated, the fair value is measured using the market value of the Company's common shares where the share-based payment is made in shares, and the Black-Scholes option pricing model for grants of stock options. The expected life used in the model is adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioral considerations.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the associated amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. The amount recorded in reserves for unexercised share options is transferred to deficit upon expiry or cancellation of such options.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes

Income tax on profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

The Company engages in equity financing transactions to obtain the funds necessary to continue operations, make investments and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are assigned the residual value after the main component of the equity financing (common shares) is valued, which is determined by the closing market price of the Company's common shares on the date of issuance. Warrants that are issued as payment for agency fees or other transaction costs are accounted for as share-based payments. When warrants expire they remain in reserves.

Where subscriptions for common shares or units are received in advance of the Company issuing the associated common shares or units, the subscriptions are recorded as a component or shareholders' equity, and are subsequently reclassified to share capital when the common shares or units are issued.

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up is not readily determinable, the fair value of the shares is used to record the transaction. The fair value of the shares issued, or received, is based on the trading price of those shares on the appropriate exchange on the date the shares were granted.

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid by the investor for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability and included in profit or loss at the same time the qualifying expenditures are made.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New Accounting Pronouncements Adopted During the Year Ended February 29, 2020

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 became effective and was adopted by the Company beginning on March 1, 2019.

On adoption of IFRS 16, there was no impact to the Company of the adoption of this standard, as the Company had no leases in place. During the year ended February 29, 2020, the Company recognized lease liabilities in relation to leases which were entered into on January 1, 2020. These liabilities were measured at the present value of the lease payments excluding renewal options as they are not expected to be exercised, discounted using the Company's incremental borrowing rate as of January 1, 2020. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2020 was 4.85%.

The following is the lease liabilities recognized at January 1, 2020:

Total operating lease commitments disclosed at February 28, 2019	\$	-
Less: short-term leases		-
Facilities lease entered into at January 1, 2020		197,664
Lease liabilities before discounting		197,664
Discounted using incremental borrowing rate		(27,213)
Total lease liabilities recognized under IFRS 16 at January 1, 2020	\$	170,451

The recognized right-of-use asset relates to the lease on the Canadian facilities. The change in accounting policy did not affect the statement of financial position until the Canadian facilities lease was entered into on January 1, 2020, which required accounting as right-of-use assets and lease liabilities as follows:

- Right-of-use assets – increased by \$170,451
- Lease liabilities – increased by \$170,451

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New Accounting Pronouncements Adopted During the Year Ended February 29, 2020 (cont'd...)

For the year ending February 28, 2021, depreciation of the right of use asset was \$28,409 and for the three months ending May 31, 2021, depreciation of the right of use asset was \$7,102. The right of use asset is depreciated on a straight-line basis over the term of the lease.

Right of use asset recognized on January 1, 2020	\$	170,451
Depreciation of right of use asset		(4,735)
Right of use asset, February 29, 2020		165,716
Depreciation of right of use asset		(28,409)
Right of use asset, February 28, 2021		137,307
Depreciation of right of use asset		(7,101)
Right of use asset, May 31, 2021	\$	130,206

The lease term expires on December 31, 2025.

Balance at February 28, 2019	\$	-
Lease liability recognized on January 1, 2020		170,451
Lease payments		(5,112)
Interest		1,329
Balance, February 29, 2020		166,668
Lease payments		(22,528)
Interest		7,668
Balance, February 28, 2021		151,808
Lease payments		(5,937)
Interest		1,731
Total lease liability at May 31, 2021	\$	147,602
Current lease liability	\$	30,672
Long-term lease liability		116,930
Total lease liability at May 31, 2021	\$	147,602

4. INVESTMENTS, DEPOSITS AND LOAN RECEIVABLE

CIA Cannabis Intelligence Agency Inc. (“CIA”)

During the year ended February 29, 2020, the Company entered into an LOI with CIA with respect to an equity investment. The Company advanced \$80,000 to CIA by way of a secured loan bearing interest at 8% and repayable in one year. Subsequent to the period ended May 31, 2021, the loan was extended to be repayable by February 28, 2023. Security on the loan consists of a general security interest against the assets and undertakings of CIA. The Company has recorded this amount as a deposit until such time as the transaction is completed and an equity investment in CIA is received.

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4. INVESTMENTS, DEPOSITS AND LOAN RECEIVABLE (cont'd...)

Glenbriar Technologies Inc. (“Glenbriar”)

During the year ended February 29, 2020, the Company advanced \$150,000 to Glenbriar for the future issuance of common shares which was recorded as a deposit. On March 20, 2020, the Company received 6,000,000 common shares with a fair value of \$180,000 with respect to this deposit resulting in an unrealized gain on investment of \$30,000. At May 31, 2021, the fair value of the shares was \$180,000 (February 28, 2021 - \$180,000).

Love Hemp Group PLC (“Love Hemp”) (formerly World High Life PLC)

On October 22, 2019, the Company purchased 6,666,670 convertible debenture units (the “Debentures”) of Love Hemp for \$1,100,000. Love Hemp is a UK CBD wellness and medicinal cannabis investment company listed on the London NEX Exchange under the symbol LIFE. The debentures pay interest of 10% annually, and are convertible into ordinary shares of Love Hemp at a price of £0.10 per share, subject to Love Hemp’s right to force conversion upon 30 days’ notice in the event that the Ordinary Shares trade at £0.30 or higher for a 10 day period. The debenture units consisted of a £1.00 principal amount and included 1 warrant to purchase additional ordinary shares at a price £0.15 per share for two years (6,666,670 warrants in total), subject to Love Hemp’s right to accelerate the maturity date upon 30 days’ notice in the event that the Ordinary Shares trade at £0.25 or higher for a 10 day period. The debentures mature two years plus one day from closing.

On October 22, 2019, the initial fair value of the convertible debenture was determined to be the initial cost of \$1,100,000, which was split between the principal note and the conversion feature being \$606,498 and \$493,502, respectively. Initially, \$Nil was allocated to the warrants received.

On July 3, 2020 the Company converted all of the debentures and accrued interest into 7,182,138 Love Hemp shares. The Company recorded a \$201,745 realized loss on the investment.

As at May 31 2021:

- i) the warrants were fair valued at \$Nil (February 28, 2021 - \$1,905) using the Black- Scholes option pricing model and a discounted cash flow.
- ii) during the period ended May 31, 2021, the Company recorded \$Nil of interest income.

During the year ended February 28, 2020, the Company entered into a loan agreement with Love Hemp whereby the Company loaned Love Hemp \$300,000 with an annual interest rate of 10% repayable by January 30, 2021. On September 30, 2020 the Company entered into a loan agreement whereby the Company loaned Love Hemp \$50,000 with an annual interest rate of 10% repayable by January 30, 2021. The Company entered into a settlement agreement with Love Hemp on November 10, 2020. 9,196,950 Love Hemp common shares at £0.02 for total consideration £183,749 including interest £4,696 were issued on November 24, 2020.

On May 31, 2021, the Company held 13,820,600 shares of Love Hemp with a fair value of \$800,836 (February 28, 2021 – 14,702,138 shares with a fair value of \$1,376,449). During the three months period ended May 31, 2021 the Company sold 881,538 shares of Love Hemp for total proceeds \$75,709 and recorded the realized loss on the Love Hemp long-term investments of \$6,876. During the three month period ended May 31, 2021, the Company recorded an unrealized loss on the Love Hemp long-term investments of \$493,209 (Year ended February 28, 2021 - \$222,602).

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5. EXPLORATION AND EVALUATION ASSETS

	Toni Property	Lac Simard Property	Hammond Reef South Project	Rich Lake Property	Mal- Wen Property	Loner Property	Black Diablo Property	Smokey Lithium Property	Total
Balance, February 29, 2020	\$10,000	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 10,001
Acquisition costs	-	375,000	154,000	-	-	47,240	15,720	-	591,960
Exploration costs	-	-	-	-	-	35,375	1,650	-	37,025
Property survey	-	-	-	-	24,087	-	-	-	24,087
Impairment	(10,000)	-	(154,000)	(1)	-	-	-	-	(164,001)
Balance, February 28, 2021	-	375,000	-	-	24,087	82,615	17,370	-	499,072
Acquisition costs - cash	-	-	-	-	-	25,000	-	221,970	246,970
Acquisition costs - shares	-	-	-	-	-	-	-	105,000	105,000
Exploration costs	-	-	-	-	400	219,229	3,888	19,174	242,691
Balance, May 31, 2021	\$ -	\$ 375,000	\$ -	\$ -	\$ 24,487	\$ 326,844	\$ 21,258	\$ 346,144	\$ 1,093,733

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims that may be impacted by the conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and to the best of its knowledge, title to all of its properties are properly registered and in good standing.

Toni Property, Nicola Division, British Columbia

The Company has a 100% interest in the Toni Property and is not aware of any charges, encumbrances or claims. As consideration the Company paid \$30,000, issued 30,000 common shares and incurred at least \$250,000 in cumulative exploration expenditures during the years ended February 28, 2006 and 2007. The property is subject to a 2% net smelter returns royalty.

During the year ended February 28, 2019, the Company determined the Toni Property to be impaired and wrote down the carrying value to \$10,000 in accordance with level 3 of the fair value hierarchy.

During the year ended February 28, 2021, the Company determined the Toni Property to be impaired as the Company's claims were allowed to expire, and wrote down the carrying value to \$Nil in accordance with level 3 of the fair value hierarchy.

Hammond Reef South, Ontario

The Company entered into an agreement dated July 27, 2020 and amended on August 5, 2020 to earn a 100% interest in the Hammond Reef South Project, in Northwestern Ontario. To earn the interest, the Company must make cash payments totaling \$275,000 and issue a total of 2,750,000 common shares. During the year ended February 28, 2021, the Company paid \$50,000, issued 500,000 shares at a fair value of \$0.20 per share or \$100,000, and paid finders' fees of \$4,000.

During the year ended February 28, 2021, the Company determined the Hammond Reef South property to be impaired, due to a lack of mineral deposit findings and the lapsing of the exploration claims, and wrote down the carrying value to \$Nil in accordance with level 3 of the fair value hierarchy.

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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Rich Lake Lithium Property, Ontario

During the year ended February 29, 2016, the Company acquired claims in the area designated as the Rich Lake Lithium Property. During the years ended February 28, 2018 and February 28, 2021, the Company fully impaired the Rich Lake Lithium Property, due to the claims to the property being allowed to lapse, in accordance with level 3 of the fair value hierarchy.

Lac Simard Property, Quebec

On September 22, 2020, the Company acquired the Las Simard Property in Quebec by issuing 5,000,000 shares at a fair value of \$0.075 per share or \$375,000. The Company must make the following payment: \$25,000 in cash due on acquisition (unpaid).

Mal-Wen Property, British Columbia

The Company has certain claims to the Mal-Wen property.

Black Diablo Property, USA

During the year ended February 28, 2021, the Company staked certain claims to the Black Diablo Property, located in Nevada, USA.

Loner Property, USA

On December 1, 2020, the Company entered into an option agreement to acquire the right to acquire an 80% interest in the Loner Property, located in the USA. To acquire the right, the Company paid \$26,318 (US\$20,000), a Bond and Permit Payment of \$15,682, and paid staking fees of \$5,240, and must make the following payments:

- i) US\$20,000 on or before May 8, 2021 (paid);
- ii) US\$40,000 on or before December 8, 2021;
- iii) US\$60,000 on or before December 8, 2022;
- iv) US\$100,000 on or before December 8, 2023;
- v) US\$160,000 on or before December 8, 2024.

During the year ended February 28, 2021, the Company also paid \$20,922 of staking and permit fees to add to the land package.

Smokey Lithium Property, USA

On April 14, 2021 the Company acquired the Smokey Lithium Project, located in Esmeralda County, Nevada by issuing 1,500,000 common shares at a fair value of \$202,500. The property is subject to a net smelter return royalty equal to 2% on revenues derived from the sale of lithium and other ores extracted from the property. The Company has the right to buy one half (1%) of the royalty at any time for \$1,000,000 in cash. The Company has further agreed to pay the vendor \$1,000,000 in cash or common shares in 4 staged payments (90-day intervals), upon completion of a positive feasibility study. During the three months ended May 31, 2021 the Company paid \$89,600 for staking fees and \$132,370 for claims as a part of this property acquisition.

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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2021	February 28, 2021
Trade payables	\$ 142,879	\$ 132,756
Accrued liabilities	62,000	33,000
Total	\$ 204,879	\$ 165,756

All accounts payable and accrued liabilities for the Company are expected to fall due within the next 12 months.

7. RELATED PARTY TRANSACTIONS

Management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and directors.

Key management personnel compensation during the three months ended May 31, 2021 and May 31, 2020 was as follows:

	May 31, 2021	May 31, 2020
Management and directors fees	\$ 136,800	\$ 24,000
Accounting and professional fees, included in professional fees	-	3,000
Legal fees, included in professional fees	-	800
	\$ 136,800	\$ 27,800

The amounts due to the related parties are as follows:

	As at May 31, 2021	As at May 31, 2020
Due to directors and officers	\$ 271	\$ 11,725
Due to a company with common directors	11,655	15,487
	\$ 11,926	\$ 27,212

The amounts owing are unsecured, non-interest bearing and have no fixed term for repayment.

8. SHARE CAPITAL AND RESERVES

a) Authorized share capital:

As at May 31, 2021, the Company has unlimited authorized common shares without par value.

b) Issued share capital:

During the period ended May 31, 2021, the Company:

- i) completed a non-brokered private placement of 8,304,001 units at \$0.075 per unit for gross proceeds of \$622,800. Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one additional share at price of \$0.08 per share, with an expiry date of March 9, 2023. The Company incurred cash finder fees of \$28,464 and issued 379,520 finder's warrants with a fair value of \$14,400 using the Black-Scholes option pricing mode. The warrants have the same term as those in the private placement unit. During the year ended February 28, 2021, the Company received \$127,500 of funds towards the placement.

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8. SHARE CAPITAL AND RESERVES (cont'd...)

b) Issued share capital:

- ii) completed a non-brokered private placement of 17,624,593 units at \$0.07 per unit for gross proceeds of \$1,233,722. Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one additional share at price of \$0.10 per share, with an expiry date of May 15, 2023. The Company incurred cash finder fees of \$67,649 and issued 924,419 finder's warrants with a fair value of \$36,200 using the Black-Scholes option pricing mode. The warrants have the same term as those in the private placement unit.
- iii) issued 1,500,000 shares relating to exploration and evaluation assets (Note 5)
- iv) issued 2,615,000 common shares upon the exercise of stock options for total proceeds of \$156,125. The Company reallocated \$141,943 from reserves to share capital relating to the fair value of options exercised.
- v) issued 4,713,667 common shares upon the exercise of warrants for total proceeds of \$471,367. The Company reallocated \$1,085 from reserves to share capital relating to the fair value of finder's warrants exercised.

During the year ended February 28, 2021, the Company:

- i) completed a non-brokered private placement of 1,780,000 Flow-Through Share units at \$0.10 per unit for gross proceeds of \$178,000. Each unit consists of one Flow-Through common share and one warrant. Each warrant entitles the holder to purchase one additional share at price of \$0.15 per share, with an expiry date of September 18, 2022. No value was attributed to the flow-through premium liability in connection with the financing, as the financing was below the market value of the Company's shares on the date of issuance.
- ii) completed a non-brokered private placement of 23,594,665 units at \$0.075 per unit for gross proceeds of \$1,769,600. Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one additional share at price of \$0.10 per share, with an expiry date of August 12, 2022. Finder's fees of \$29,815 were incurred. 626,453 finder's warrants (valued at \$85,000 using the Black-Scholes option pricing model) exercisable at a price of \$0.10 until August 12, 2022 were paid and issued in connection with the unit issuance.
- iii) issued 5,500,000 shares relating to exploration and evaluation assets (Note 5).
- iv) completed a non-brokered private placement of 4,973,667 units at \$0.075 per unit for gross proceeds of \$373,025. Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one additional share at price of \$0.10 per share, with an expiry date of August 27, 2022. Finder's fees of \$2,340 were incurred. 31,200 finder's warrants (valued at \$2,600 using the Black-Scholes option pricing model) exercisable at a price of \$0.10 until August 27, 2022 were paid and issued in connection with the unit issuance.

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8. SHARE CAPITAL AND RESERVES (cont'd...)

c) Stock options:

The Company grants options under the terms of its rolling stock option plan to executive officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding shares of the Company. The exercise price of each option equals the market price of the Company's shares, less allowable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years.

During the period ended May 31, 2021, the Company:

- i) granted 1,645,000 stock options to officers, directors, employees and consultants of the Company. The options are exercisable at a price of \$0.075 per option for a period of five years. The options vested immediately on grant and the Company recorded stock-based compensation of \$91,700 relating to the fair value of the options, calculated using the Black-Scholes option pricing model.
- ii) granted 3,400,000 stock options to officers, directors, employees and consultants of the Company. The options are exercisable at a price of \$0.10 per option for a period of five years. The options vested immediately on grant and the Company recorded stock-based compensation of \$252,600 relating to the fair value of the options, calculated using the Black-Scholes option pricing model.

During the year ended February 28, 2021, the Company granted 4,700,000 stock options to directors, officers and consultants of the Company. The options are exercisable at a price of \$0.055 per option for a period of five years. 3,700,000 of the stock options vested immediately on grant, and 1,000,000 vested 25% immediately, and 25% in each of the three following anniversary dates. The Company used the Black-Scholes option pricing model to calculate the fair value of the options and recorded \$253,000 in share-based compensation.

A summary of stock options is presented as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, February 29, 2020	495,200	\$ 0.750
Granted	4,700,000	\$ 0.055
Expired	(3,200)	\$ 6.250
Outstanding and exercisable, February 28, 2021	5,192,000	\$ 0.117
Granted	1,645,000	\$ 0.075
Granted	3,400,000	\$ 0.100
Cancelled	(492,000)	\$ 0.713
Exercised	(2,615,000)	\$ 0.060
Outstanding and exercisable, May 31, 2021	7,130,000	\$ 0.079

At May 31, 2021, the following stock options were outstanding and exercisable:

Expiry Date	Number of Options	Exercise Price
December 14, 2025	2,700,000	\$ 0.550
March 10, 2026	1,030,000	\$ 0.075
March 25, 2026	3,400,000	\$ 0.100
Total:	7,130,000	\$ 0.079

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8. SHARE CAPITAL AND RESERVES (cont'd...)

The following weighted average assumptions were used for the Black-Scholes option pricing model of the stock options:

	Three month period ended May 31, 2021	Year ended February 28, 2021
Share price	\$ 0.09	\$ 0.07
Exercise price	0.09	0.055
Risk-free interest rate	0.22%	0.26%
Expected life of the stock options	5 years	5 years
Expected annualized volatility	100%	100%
Expected dividend rate	0.00%	0.00%

d) Warrants:

A summary of warrants is presented as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, February 29, 2020	18,472,625	\$ 0.490
Issued	31,005,985	0.103
Expired	(260,000)	0.375
Outstanding, February 28, 2021	49,218,610	\$ 0.247
Issued	27,274,533	0.094
Exercised	(4,713,667)	0.100
Outstanding, May 31, 2021	71,779,476	\$ 0.199

At May 31, 2021, the following warrants were outstanding and exercisable:

	Number of Warrants Outstanding	Exercise Price
January 21, 2022	1,893,790	\$ 0.6875
January 21, 2022	1,942,000	0.525
January 29, 2022	4,210,000	0.375
October 9, 2021	8,714,723	0.50
October 9, 2021 – agent warrants	563,845	0.50
November 12, 2021	886,667	0.50
November 12, 2021 – agent warrants	1,600	0.50
August 12, 2022	20,055,665	0.10
August 12, 2022 – agent warrants	618,453	0.10
August 27, 2022	3,807,000	0.10
August 27, 2022 – agent warrants	31,200	0.10
September 18, 2022	1,780,000	0.15
March 8, 2023	8,304,001	0.08
March 8, 2023 – agent warrants	379,520	0.08
May 14, 2023	17,624,593	0.10
May 14, 2023 – agent warrants	966,419	0.10
Total outstanding and exercisable:	71,779,476	\$ 0.20

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8. SHARE CAPITAL AND RESERVES (cont'd...)

* On January 14, 2021, the Company extended the expiry date of an aggregate 4,210,000 previously issued warrants for an additional year. The warrants were originally issued January 29, 2019, with the original expire date January 29, 2021. The 4,210,000 warrants entitle the holder to purchase a common share of the Company at an exercise price of \$0.375.

The following weighted average assumptions were used for the Black-Scholes option pricing model of the agent warrants:

	Three months ended May 31, 2021	Year ended February 28, 2021
Share price	\$ 0.08	\$ 0.20
Exercise price	\$ 0.09	\$ 0.10
Risk-free interest rate	0.22%	0.26%
Expected life of warrants	2 years	2 years
Expected annualized volatility	100%	100%
Expected dividend rate	0.00%	0.00%

9. SEGMENTED INFORMATION

During the period ended May 31, 2021 and the year ended February 28, 2021, the Company operated in two reportable operating segments within the geographic location of Canada. The segments being administrative and investing activities, and the acquisition, exploration, and development of mineral properties. Segment information is as follows:

	As at May 31, 2021	As at February 28, 2021
Administrative and investing		
Long-term investments	\$ 978,931	\$ 1,558,354
Right-of-use asset	130,206	137,307
Acquisition, exploration and development of mineral properties		
Reclamation deposit	18,732	18,732
Exploration and evaluation assets	1,093,733	499,072
Total non-current assets	\$ 2,221,602	\$ 2,213,465

	Three Months Ended May 31, 2021	Year Ended February 28, 2021
Loss from operations for the period		
Administrative and investing	\$ (1,783,821)	\$ (2,390,752)
Acquisition, development and exploration of mineral properties	-	(164,001)
	\$ (1,783,821)	\$ (2,554,753)

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10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Fair values

The Company's financial instruments consist of cash, amounts receivable, deposits and loan receivable, reclamation deposits, long-term investments, accounts payable and accrued liabilities and due to related parties. Cash and long-term investments are carried at fair value. The fair values of amounts receivable, deposits and loan receivable, accounts payable and accrued liabilities and due to related parties approximate their carrying amounts due to their current nature. Investments were carried at amortized cost, and approximated their fair values due to market rates of interest attached to those investments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy based on the degree to which the inputs used to determine the fair value are observable. The three levels of the fair value hierarchy are:

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

The Company's financial assets measured at fair value on a recurring basis were calculated as follows:

	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>As at May 31, 2021</i>				
Cash	\$ 1,124,513	\$ 1,124,513	\$ -	\$ -
Long-term investments	978,931	978,931	-	-
<i>As at February 28, 2021</i>				
Cash	\$ 15,780	\$ 15,780	\$ -	\$ -
Long-term investments	1,558,354	1,558,354	-	-

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risks associated with cash are minimal as the Company deposits the majority of its cash with a large Canadian financial institution. The Company's credit risks associated with its amounts receivable, and deposits and loan receivable are monitored by management, and are adjusted for expected credit losses if or when the associated financial instrument is deemed to be impaired. At May 31, 2021 and February 28, 2021, the Company has not recorded any provision for expected credit losses. The Company's maximum exposure to credit risk is equal to the carrying value of the cash, amounts receivable, deposits and loan receivable, and reclamation deposit.

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10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (cont'd....)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure, as outlined below. As at May 31, 2021, the Company had a cash balance of \$1,124,513 (February 28, 2021 - \$15,780) and amounts receivable of \$Nil (February 28, 2021 - \$Nil) to settle current liabilities of \$253,477 (February 28, 2021 - \$211,663). All of the Company's trade accounts payable and amounts due to related parties have contractual maturities of 30 days or are due on demand and accounts payable are subject to normal trade terms. The Company will require financing from lenders, shareholders and other investors, or liquidation of long-term investments to generate sufficient capital to meet its short term business requirements. The Company has completed additional financings in the near term to raise working capital to finance its ongoing operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

a) Interest rate risk

As at May 31, 2021, the Company did not hold any material interest bearing financial assets or liabilities with variable interest rates, and therefore has no significant interest rate risk.

b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. At February 28, 2021, the Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company has foreign currency exposure with respect to the investment in Love Hemp, which is denominated in British Pounds. A 5% change in the value of the British Pound with respect to the Canadian Dollar would impact profit or loss by approximately \$44,946.

c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The recoverability of the Company's exploration and evaluation assets is indirectly related to the market price of commodities. The Company's ability to continue with its exploration of the properties is also indirectly subject to commodity prices. The Company is not currently directly exposed to fluctuations in commodity prices as the Company is currently in the exploration phase and has no production.

The recoverability of the Company's investments in Love Hemp and Glenbriar are directly tied to the market price of those Companies common shares. A 5% change in the value of the Love Hemp and Glenbriar common shares would impact profit or loss by approximately \$48,946.

VICTORY RESOURCES CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

FOR THE THREE MONTHS ENDED MAY 31, 2021 AND 2020

11. CAPITAL RISK MANAGEMENT

Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to pursue the exploration and development of its mineral properties, maximize the return on its investments to support the exploration and development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, and/or acquire or dispose of assets.

The Company is dependent on the capital markets as its sole source of operating capital. The Company's capital resources are largely determined by the strength of the junior resource markets, the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements.

The Company's approach to capital management did not change during the three month period ended May 31, 2021.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Investing and financing activities that do not require the use of cash are excluded from the statement of cash flows. For the three month period ended May 31, 2021, this includes:

- i) agent warrant finder fees issued with a fair value of \$50,600 (2020 - \$Nil).
- ii) shares issued for exploration and evaluation asset acquisitions of \$105,000 (2020 - \$Nil).
- iii) reallocated \$141,943 (2020 - \$Nil) of contributed surplus to share capital upon the exercise of stock options.