



**Consolidated Financial Statements**

**February 28, 2019 and 2018**

*(Expressed in Canadian Dollars)*



## *Independent auditor's report*

To the Shareholders of Victoria Gold Corp.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Victoria Gold Corp. and its subsidiaries (together, the Company) as at February 28, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at February 28, 2019 and 2018;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Material uncertainty related to going concern*

We draw attention to note 1 to the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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\*PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Financial Results.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk





of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Craig Moffat.

**(Signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
June 20, 2019



***MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION***

The accompanying consolidated financial statements and all other financial information included in this report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Financial statements include certain amounts based on estimates and judgments. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management maintains appropriate systems of internal control, to give reasonable assurance that its assets are safeguarded, and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which is comprised of three Directors, all of whom are non-management and independent, meets with management to review the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial reporting standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed) "John McConnell"  
Director, President and CEO  
June 21, 2019

(signed) "Marty Rendall"  
CFO  
June 21, 2019

*See accompanying notes to the consolidated financial statements.*

**Victoria Gold Corp.**  
**Consolidated Statements of Financial Position**

(Expressed in Canadian Dollars)

	Notes	February 28, 2019	February 28, 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 12,322,795	\$ 9,374,888
Marketable securities and warrants		302,919	552,203
HST and other receivables		3,155,100	323,017
Due from related parties	13	1,366,950	-
Prepaid expenses		1,240,286	659,403
		<u>18,388,050</u>	<u>10,909,511</u>
<b>Non-current assets</b>			
Deferred financing fees	5	2,373,292	-
Restricted cash	8	14,941,444	9,014,172
Advances and deposits	7	-	8,485,953
Property, plant and equipment	7	456,448,575	7,588,142
Resource properties	8	30,463,977	163,740,148
		<u>\$ 522,615,338</u>	<u>\$ 199,737,926</u>
<b>Total assets</b>			
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 76,599,319	\$ 6,096,519
Current portion of long-term debt	6	11,552,952	-
		<u>88,152,271</u>	<u>6,096,519</u>
<b>Non-current liabilities</b>			
Deferred taxes	22	3,300,000	-
Derivative instruments	17	14,634,483	-
Long-term debt	6	116,546,077	-
Asset retirement obligations ("ARO")	9	8,405,028	2,228,313
		<u>231,037,859</u>	<u>8,324,832</u>
<b>Total liabilities</b>			
<b>Shareholders' Equity</b>			
Share capital	11	328,239,074	216,096,163
Contributed surplus		22,485,359	22,427,641
Accumulated other comprehensive loss		(2,599,650)	(2,539,471)
Accumulated deficit		(56,547,304)	(44,571,239)
		<u>291,577,479</u>	<u>191,413,094</u>
<b>Total shareholders' equity</b>			
		<u>\$ 522,615,338</u>	<u>\$ 199,737,926</u>
<b>Total liabilities and equity</b>			

**Nature of operations and going concern (Note 1)**

See accompanying notes to the consolidated financial statements.

**Authorized for issue by the Board  
of Directors on June 21st, 2019 and  
signed on its behalf.**

"T. Sean Harvey"

Director

"Chris Hill"

Director

**Victoria Gold Corp.**  
**Consolidated Statements of Comprehensive Loss**

(Expressed in Canadian Dollars)

	Notes	For the year ended	
		2019	2018
<b>Operating expenses</b>			
Salaries and benefits excluding share-based payments		\$ 2,438,530	\$ 1,815,906
Office and administrative		1,318,772	660,241
Share-based payments	12	809,214	829,349
Marketing		811,663	781,911
Legal and accounting		173,883	1,105,379
Consulting	20	2,669,694	566,236
Amortization		5,494	5,438
Foreign exchange (gain) loss		(3,202,913)	170,042
		<u>5,024,337</u>	<u>5,934,502</u>
<b>Finance (income) costs</b>			
Unwinding of present value discount: ARO		112,592	33,551
Interest and bank charges		36,966	26,040
Interest income		(1,273,624)	(403,745)
Change in fair value of marketable securities		279,434	58,369
Change in fair value of derivative instruments	17	4,984,135	-
		<u>4,139,503</u>	<u>(285,785)</u>
<b>Loss before taxes</b>			
		(9,163,840)	(5,648,717)
Current income taxes	22	224,558	563,025
Deferred tax (expense) recovery	22	(3,036,783)	1,907,509
		<u>(11,976,065)</u>	<u>(3,178,183)</u>
<b>Net loss</b>			
<b>Other Comprehensive income (loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation adjustment		(60,179)	84,041
<b>Total items that may be reclassified subsequently to profit or loss</b>		<u>(60,179)</u>	<u>84,041</u>
<b>Total comprehensive loss for the year</b>		<u>\$ (12,036,244)</u>	<u>\$ (3,094,142)</u>
<b>Loss per share - basic and diluted</b>		10 <u>\$ (0.016)</u>	<u>\$ (0.006)</u>
<b>Weighted average number of shares</b>			
Basic and Diluted		746,850,409	514,720,574

See accompanying notes to the consolidated financial statements.



Victoria Gold Corp.

Consolidated Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Notes	Share capital		Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Total equity
		Number of shares	Amount				
Balance at March 1, 2017		504,301,913	\$ 207,603,077	\$ 21,040,214	\$ (2,623,512)	\$ (41,393,056)	\$ 184,626,723
<b>Transactions with owners:</b>							
Proceeds from share issue		11,494,253	10,000,000				10,000,000
Proceeds from stock options exercised		1,341,250	291,000				291,000
Fair values allocated upon exercise:							
Stock options			156,109	(156,109)			-
Share issuance costs			(46,515)	-			(46,515)
Share-based payments, expensed				829,349			829,349
Share-based payments, capitalized				714,187			714,187
Premium on flow-through shares			(1,907,508)				(1,907,508)
Total transactions with owners:		12,835,503	8,493,086	1,387,427	-	-	9,880,513
Net loss for the year						(3,178,183)	(3,178,183)
<b>Other comprehensive income/(loss):</b>							
Currency translation adjustment					84,041		84,041
<b>Balance at February 28, 2018</b>	<b>11</b>	<b>517,137,416</b>	<b>\$ 216,096,163</b>	<b>\$ 22,427,641</b>	<b>\$ (2,539,471)</b>	<b>\$ (44,571,239)</b>	<b>\$ 191,413,094</b>
Balance at March 1, 2018		517,137,416	\$ 216,096,163	\$ 22,427,641	\$ (2,539,471)	\$ (44,571,239)	\$ 191,413,094
<b>Transactions with owners:</b>							
Proceeds from share issue		253,355,000	126,677,500				126,677,500
Fair values assigned to gold calls issued under private placement			(5,290,998)				(5,290,998)
Fair values assigned to warrants issued under private placement			(4,359,350)				(4,359,350)
Proceeds from stock options exercised		15,480,417	2,539,300				2,539,300
Fair values allocated upon exercise:							
Stock options			1,276,934	(1,276,934)			-
Share issuance costs			(8,437,258)				(8,437,258)
Share-based payments, expensed				809,214			809,214
Share-based payments, capitalized				525,438			525,438
Premium on flow-through shares			(263,217)				(263,217)
Total transactions with owners:		268,835,417	112,142,911	57,718	-	-	112,200,629
Net loss for the year						(11,976,065)	(11,976,065)
<b>Other comprehensive income/(loss):</b>							
Currency translation adjustment					(60,179)		(60,179)
<b>Balance at February 28, 2019</b>	<b>11</b>	<b>785,972,833</b>	<b>\$ 328,239,074</b>	<b>\$ 22,485,359</b>	<b>\$ (2,599,650)</b>	<b>\$ (56,547,304)</b>	<b>\$ 291,577,479</b>

See accompanying notes to the consolidated financial statements.

**Victoria Gold Corp.**  
**Consolidated Statement of Cash Flows**

*(Expressed in Canadian Dollars)*

	Notes	For the year ended February 28,	
		2019	2018
<b>Cash flows from operating activities</b>			
Net income/(loss) for the year		\$ (11,976,065)	\$ (3,178,183)
<b>Adjustments for:</b>			
Share-based payments	12	809,214	829,349
Income taxes	22	2,812,415	(2,501,737)
Unwinding of present value discount: ARO	9	112,592	33,551
Change in fair value of marketable securities		279,434	58,369
Change in fair value of derivative instruments	17	4,984,135	-
Amortization		5,494	5,438
Net unrealized foreign exchange (gain) loss		(369,161)	441,598
		(3,341,942)	(4,311,615)
<b>Working capital adjustments:</b>			
(Increase) decrease in HST and other receivables		(2,832,083)	35,274
(Increase) decrease in marketable securities		(30,150)	(33,850)
(Increase) decrease in prepaid expenses and deposits		(892,152)	(300,626)
Increase (decrease) in accounts payables and accrued liabilities		(997,538)	1,101,280
		(4,751,923)	802,078
<b>Net cash flows used in operating activities</b>		<b>(8,093,865)</b>	<b>(3,509,537)</b>
<b>Cash flows from (used) in investing activities</b>			
Sale of mineral property interest	8	78,400,000	-
Resource properties	8	(8,059,483)	(36,017,610)
Related party loan	13	(1,366,950)	-
Restricted cash		(5,917,443)	(7,195,157)
Purchase of property, plant and equipment		(294,527,512)	(13,657,766)
<b>Net cash flows used in investing activities</b>		<b>(231,471,388)</b>	<b>(56,870,533)</b>
<b>Cash flows from financing activities</b>			
Shares issued for cash, net of issuance cost	11	118,240,242	9,953,485
Exercise of warrants and options		2,539,300	291,000
Credit Facility, net of deferred finance fees	6	124,806,866	-
Repayment of long-term debt	6	(3,185,010)	-
<b>Net cash flows from financing activities</b>		<b>242,401,398</b>	<b>10,244,485</b>
Foreign exchange gain (loss) on cash balances		111,762	(77,724)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>2,947,907</b>	<b>(50,213,309)</b>
Cash and cash equivalents, beginning of the year		9,374,888	59,588,197
<b>Cash and cash equivalents, end of the year</b>		<b>\$ 12,322,795</b>	<b>\$ 9,374,888</b>

See accompanying notes to the consolidated financial statements. Supplementary Cash Flow information is provided in Note 16.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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(Expressed in Canadian Dollars)

### 1. NATURE OF OPERATIONS AND GOING CONCERN

Victoria Gold Corp. ("Victoria" or "the Company"), a British Columbia company, was incorporated in accordance with the Business Corporations Act (British Columbia) on September 21, 1981. The Company's common shares are listed on the TSX-Venture Exchange (TSX-V).

The Company is engaged in the acquisition, exploration and development of mineral properties. To date, the Company has not realized any revenues from its properties and is considered to be an exploration and development stage company, with a current focus on mine construction. The Company's registered office is located at 80 Richmond St. West, Suite 303, Toronto, Ontario, M5H 2A4, Canada.

These consolidated financial statements have been prepared using IFRS applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due for the foreseeable future. The Company's future is currently dependent upon the existence of economically recoverable mineral reserves and its ability to successfully complete construction of the mine, on time and budget and ramp up production on time and on budget.

The Company periodically seeks financing to continue the exploration and development of its resource properties and to meet its future administrative requirements. Although the Company has been successful in raising funds to date, there can be no assurances that the steps management is taking, and will continue to take, will be successful in future reporting periods. These material uncertainties lend significant doubt about the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern and therefore these financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

At February 28, 2019, Victoria Gold Corp. ("Victoria" or "the Company") had a working capital deficit of \$69,764,221 (compared with a surplus of \$4,812,992 at February 28, 2018), an accumulated deficit of \$56,547,304 (\$44,571,239 at February 28, 2018) and reported a net loss of \$11,976,065 of (2018 net loss - \$3,178,183). See Subsequent Event *Note 21* for details on additional funds received.

### 2. BASIS OF PRESENTATION

These consolidated financial statements include the accounts of Victoria and its wholly-owned subsidiaries including:

- Victoria Resources (U.S.) Inc., a Nevada corporation,
- Gateway Gold Corp., a British Columbia corporation,
- Gateway Gold (USA) Corp., a Nevada corporation,
- StrataGold Corporation, a British Columbia corporation,

Gateway Gold Corp. and Gateway Gold (USA) Corp. (together referred to as "Gateway") were acquired by the Company on December 18, 2008.

StrataGold Corporation ("StrataGold") was acquired by the Company on June 4, 2009.

These financial statements were approved by the Board of Directors for issue on June 21, 2019.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation and adoption of IFRS

The consolidated financial statements of the Company are prepared in accordance with IFRS, are presented in Canadian dollars and include the operating results of the Company's subsidiaries. The preparation of the



# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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(Expressed in Canadian Dollars)

consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in *Note 4*.

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except for the revaluation of certain financial instruments to fair value.

### **(c) Consolidation**

Subsidiaries are entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The Company has control when it has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases. Accounting policies of the subsidiaries are consistent with those of the Company. All inter-company balances and transactions have been eliminated.

### **(d) Share-based payments**

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense or capitalized is adjusted to reflect the actual number of share options that are expected to vest.

### **(e) Current and deferred taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognized through earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### **(f) Property and equipment**

Property and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company provides for amortization of its property and equipment at the following annual rates:

Field and Automotive equipment	-from 20%-30% declining balance basis
Buildings and structures	-straight line over the useful life (ranging three to twelve years)
Leasehold improvements	-straight line over the term of the lease (five years)
Other assets	-from 20%-30% declining balance basis

Assets under construction are capitalized as a separate component of property and equipment. On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not amortized. Amortization commences on the date when the assets are available for use.

Interest and financing costs on debt or other liabilities that are directly attributed to the acquisition, construction and development of a qualifying asset are capitalized to the asset. All other borrowing costs are expensed as incurred.

### **(g) Resource properties and deferred exploration and evaluation costs**

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are expensed in the loss for the year.

Capitalized costs, including certain operating expenses, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are reviewed for impairment at each cash-generating unit ("CGU") level. The Company defines CGU on a property by property basis.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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*(Expressed in Canadian Dollars)*

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial production, or alternatively, sale of the respective areas of interest.

### **(h) Flow-through shares**

Under Canadian income tax legislation, the Company is permitted to issue flow-through shares whereby the Company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The Company has adopted a policy to (i) allocate the proceeds between the offering of the shares and the sale of tax benefits when the shares are offered and (ii) recognize an income tax provision upon filing of appropriate renunciation forms with the Canadian taxation authorities for qualifying expenditures previously incurred.

The allocation of the proceeds is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors. The liability is reduced and the reduction of premium liability is recorded in other income upon filing of appropriate renunciation forms with the Canadian taxation authorities for qualifying expenditures previously incurred.

### **(i) Impairment of non-financial assets**

At each financial position reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such 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 the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to CGU's to which the exploration activity relates. 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 CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately through operations income.

### **(j) Foreign currencies**

#### **Functional and presentational currency**

All amounts in these financial statements are presented in Canadian Dollars unless otherwise stated.

The functional currency of the Company is the Canadian Dollar and the functional currency of the significant operating subsidiaries is either the Canadian Dollar or the US Dollar. The functional currency for the Company and its' subsidiaries is determined as the currency of the primary economic environment in which they operate.



# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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*(Expressed in Canadian Dollars)*

### **Foreign currency translation**

Transactions in currencies other than the functional currency are translated to the functional currency at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the statement of financial position date. Exchange gains and losses on settlement of transactions, and the translation of monetary assets and liabilities other than in functional currency are recorded in income.

### **Translation from functional to presentational currency**

The results and financial position of all of the Company's subsidiaries that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each statement of comprehensive loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- All resulting exchange differences are recognized in other comprehensive income or loss and as a separate component of equity.

### **(k) Cash and cash equivalents**

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit and short-term investments with remaining maturities of three months or less at time of acquisition.

### **(l) Restricted cash**

Restricted cash includes debt service reserve account ('DSRA) for the CAT financial facility and reclamation bonds held by the Government of Yukon and the Nevada Bureau of Land Management in the United States. The cash will be returned to the Company upon successful completion of reclamation at the Company's properties Yukon, Canada and in Nevada, USA.

### **(m) Asset retirement obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying value of the asset, as soon as the obligation to incur such costs arises. Risk-free discount rates using pre-tax rates that reflect the time value of money are used to calculate the net present value. The Company records a provision for environmental rehabilitation in the financial statements when it is incurred and capitalizes this amount as an increase in the carrying amount of the related asset. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

### **(n) Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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(Expressed in Canadian Dollars)

### (o) Expenses

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (p) Earnings (Loss) per share

Basic earnings/loss per common share is calculated by dividing the earnings/loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period.

### (q) Segment reporting

A segment is a component of the Company that is distinguishable by economic activity (operating segment), and/or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company reports separately three operating segments, corporate segment and mineral exploration and evaluation in two geographical segments, Canada and the United States.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker which consists of review of total assets and net income/(loss). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

### r) Derivative Instruments

The Company uses derivative financial instruments to manage exposure to fluctuations in gold prices and may use derivatives to manage exposure to interest rates, foreign currency exchange rates and input costs.

The Company initially recognizes all derivative financial instruments at fair value and on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are classified as current or non-current based on contractual maturity.

### s) Changes in IFRS effective for the first time

The following revised standards are effective for annual periods beginning on or after January 1, 2018. The Company has assessed the amendments and determined that there are no material impacts on the accounting and presentation of the Financial Statements.

#### i) IFRS 9, Financial Instruments – for the year ended February 28, 2019

IFRS 9, Financial Instruments, the Company adopted IFRS 9, Financial Instruments: (“IFRS 9”) effective March 1, 2018. Further, no material changes were noted as a result of the new impairment model, and the Company does not currently engage in any hedging activity that meets the criteria for hedge accounting and is therefore not affected by the new hedge accounting guidance. Financial liabilities will continue to be measured at amortized cost. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

#### **Financial assets at fair value through profit or loss (“FVTPL”)**

Financial assets measured at FVTPL are assets which do not qualify as financial assets at amortized cost or at fair value through other comprehensive income. Changes in fair values of FVTPL assets are recorded in the consolidated statement of loss and comprehensive loss/(income) in the period in which they arise.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

The Company currently has marketable securities classified as FVTPL.

### **Financial assets at amortized cost**

Financial assets classified as amortized cost are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. The Company's financial assets, which are not provisionally priced, are comprised of cash, due from related parties, other receivables and interest receivable with fixed or determined cash flows related solely to principal and interest amounts. Financial assets at amortized cost are initially recognized at the amount expected to be received, net of any transaction costs incurred. Subsequently, financial assets are measured at amortized cost using the effective interest method. The Company recognizes a loss allowance for expected credit losses on a financial asset that is measured at amortized cost when applicable.

### **Financial liabilities at amortized cost**

Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at FVTPL, or the Corporation has opted to measure them at FVTPL. Accounts payable and accrued liabilities and credit facilities are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost, using the effective interest method. Transaction costs incurred on the establishment of the debt facilities are recognized as deferred finance charge and transferred as a reduction to debt in proportion to the drawdown of the debt facility. Deferred finance charges classified as a reduction to debt are amortized over the life of the debt facility using the effective interest rate method. When it is determined that it is probable that some or all of the debt facility will not be drawn-down, the related transaction costs are amortized over the remaining debt facility period.

### **Financial liabilities at FVTPL**

Financial liabilities at FVTPL are liabilities which include embedded derivatives and cannot be classified as amortized cost. Financial liabilities at FVTPL are initially recognized at fair value with any changes to fair value recognized in the consolidated statement of loss and comprehensive loss/(income) in the period in which they arise.

The adoption of IFRS 9 did not impact the carrying value of any financial asset or financial liability on the transition date. The table below illustrates the change in classification of the Company's financial instruments under IAS 39 and IFRS 9.

Line Item	IFRS 9	IAS 39	
	New Classification	Original Classification	Measurement Model
Cash and cash equivalents	FVTPL	FVTPL	FVTPL
Restricted cash	FVTPL	FVTPL	FVTPL
Marketable securities and warrants	FVTPL	FVTPL	FVTPL
Other receivables	Amortized cost	Loans and receivables	Amortized cost
Due from related parties	Amortized cost	Loans and receivables	Amortized cost
Accounts payable and other accrued liabilities	Amortized cost	Other liabilities	Amortized cost
Derivative instruments	FVTPL	FVTPL	FVTPL
Long term debt	Amortized cost	Loans and receivables	Amortized cost

### **Financial Instruments – for the year ended February 28, 2018**

Financial assets held are cash and cash equivalents, restricted cash, marketable securities and accounts receivable. Financial liabilities are accounts payable and accrued liabilities.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. These are classified into the following specified categories: available-for-sale (“AFS”), financial assets at fair value through profit and loss, loans and receivables or other liabilities. The classification depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition. The AFS category included non-derivatives that are either designated in this AFS category or not classified in any of the other categories. Marketable securities held by the Company for trading in an active market are classified as being financial assets at fair value through profit and loss and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in loss.

Amounts receivable that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate. Other financial liabilities are measured at amortized cost.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	-	Loans and receivables
Term deposits, restricted cash	-	Loans and receivables
Marketable securities and warrants	-	Financial assets at fair value through profit and loss
Other receivables	-	Loans and receivables
Accounts payable and accrued liabilities	-	Other financial liabilities

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

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

### **Impairment of financial assets:**

Financial assets other than those at fair value through profit and loss are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent



# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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*(Expressed in Canadian Dollars)*

recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. The Company does not have any derivative financial instruments or interest calculated using the effective interest method.

### **ii) IFRS 15, Revenue from Contracts with Customers**

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was adopted effective for annual periods beginning March 1, 2018 and given that the Company does not have revenue from contracts with customers, there is no material impact from adoption of the standard.

The accounting policies set out above have been applied consistently to all periods presented in these consolidated financial statements.

### **Future accounting pronouncements**

The following revised interpretation and standard is effective for annual periods as noted below. The Company has not fully assessed the standards, interpretations and amendments, but does not expect them to have a material impact on the Company's accounting or disclosures, except as disclosed in i) and ii) below:

#### **i) IFRS 16, Leases**

In January 2016, the IASB issued IFRS 16 "Leases", which establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard becomes effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company will adopt the new standard beginning March 1, 2019 using the modified retrospective approach. Under the modified retrospective approach, the Company recognizes transition adjustments, if any, in retained earnings on the date of initial application, without restating the financial statements on a retrospective basis.

The Company has assessed the estimated impact of the initial application of IFRS 16 on the consolidated financial statements. The new standard will result in an increase in assets and liabilities, a corresponding increase in amortization and finance expense and a decrease in capitalized costs and office and administrative expenses. Cash flow from operating activities will increase under the new standard because lease payments for most leases will be recorded as cash outflows from financing activities in the statements of cash flows. Upon adoption, the Company has elected to apply the available exemptions as permitted by IFRS 16 to recognize a lease expense on a straight line basis for short term leases (lease term of 12 months or less) and low value assets. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of initial application would be accounted for in the same way as short term leases. A review of leases was completed as of February 28, 2019 with further analysis and quantification of impacts to be finalized. The impact is expected to not be material and the implementation of IFRS 16 is expected to increase property, plant and equipment, related debt amounts and corresponding depreciation and finance cost expenses

#### **ii) IFRIC 23, Uncertainty over Income Tax Treatments**

Uncertainty over Income Tax Treatments ("IFRIC 23") was issued in June 2017 and is to be applied to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation becomes effective for annual periods beginning on or after January 1, 2019 and management does not currently anticipate the early adoption of the standard.



# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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(Expressed in Canadian Dollars)

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

#### ***Asset Retirement Obligation (ARO)***

The determination of provisions for environmental rehabilitation and reclamation obligations arising from the Company's evaluation and exploration activities requires the use of estimates and management judgment. Future reclamation costs in relation to changes in estimates are accrued based on management's best estimate at the end of each period of the discounted cash costs expected to be incurred. Accounting for reclamation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation work required to comply with existing laws and regulations. These estimates are dependent upon labor and materials costs, known environmental impacts, the effectiveness of rehabilitation measures, inflation rates, and pre-tax interest rates that reflect a current market assessment of time value for money and the risk specific to the obligation. The Company also estimates the timing of the outlays, which is subject to change depending on continued exploitation and newly discovered mineral resources.

Actual reclamation costs incurred may differ from those amounts estimated by management. Moreover, future changes to environmental laws and regulations could increase the extent of reclamation work required to be performed by the Company, therefore increasing future costs.

#### ***Equipment Finance Facility***

Upon the drawdown under the Cat Financial facility, judgment is required in assessing the appropriate accounting treatment for the transaction. The Company considers the terms of the Master Lease Agreement ("MLA") to determine whether the transaction should be treated as a sale and finance leaseback or as a debt facility. The Company concluded that the substance of the sale and finance leaseback is a means whereby Cat Financial can provide the Company with financing with the assets used as security. The Company determined that it will account for the Cat Facility as a debt facility with consistent financial statement disclosures.

#### ***Impairment of assets***

Determining whether facts and circumstances indicate that the Company's assets may be impaired and require the recognition of an impairment loss, or conversely whether a reversal of an impairment loss recognized in a prior period may be required, is a subjective process involving judgment and a number of estimates and interpretations.

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs of disposal.

In testing an individual asset or CGU for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the CGU. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change as new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ from amounts recognized in the Company's financial statements, and significant adjustments to the carrying values of the Company's assets and reported earnings may occur during subsequent accounting periods.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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(Expressed in Canadian Dollars)

No impairment indicators of non-financial assets have been noted for the years ended February 28, 2019 and 2018.

### ***Income taxes and recovery of deferred tax assets***

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. Management did not recognize deferred tax assets as future taxable profits are not expected until the Company reaches technical feasibility and commercial viability of the extraction of the mineral resources, the timing of which is uncertain as the Company is still in the exploration & evaluation and development stage.

### ***Royalty agreements***

When entering into a long-term royalty arrangement linked to production at specific project, judgment is required in assessing the appropriate accounting treatment for the transaction. The Company considers the specific terms of each arrangement to determine whether the Company has disposed of an interest in the reserves and resources of the respective operation. This assessment considers what the counterparty is entitled to and the associated risks and rewards attributable to them over the life of the operation.

### ***Stock-based compensation***

Management is required to make certain estimates when determining the fair value of stock options awards and the number of awards that are expected to vest. These estimates affect the amount recognized as stock based payments in the consolidated statements of loss and comprehensive loss based on estimates of forfeiture, stock price volatility and expected lives of the underlying stock options.

### ***Contingent liabilities***

Contingent liabilities are possible obligations that arise from past events which will be confirmed by the occurrence or non-occurrence of future events. These contingencies are not recognized in the consolidated financial statements when the obligation is not probable or if the obligation cannot be measured reliably. The Company exercises significant judgment when determining the probability of the future outcome and with regard to any required disclosure of contingencies, and measuring the liability is a significant estimate.

## **5. DEFERRED FINANCING COSTS**

The Company initially recognized \$5.9 million in net deferred financing charges as a result of the financing facilities entered into below in *Note 6*. During the year ended February 28, 2019, the Company allocated \$2.4 million to the Cat financial facility and \$1.1 million to the Orion subordinated credit facility. As at February 28, 2019, the Company has \$2.4 million of deferred financing charges.

## **6. DEBT**

On March 8, 2018, the Company announced a construction financing package totaling approximately \$505 million in aggregate (the "Financing") to fund the construction of the Eagle Gold project through to commercial production with Orion Mine Finance ("Orion"), Osisko Gold Royalties Ltd ("Osisko") and Caterpillar Financial Services Limited ("Cat Financial"). Execution of definitive documentation in conjunction with the Financing was announced on April 16, 2018.

### **Transaction Details**

In connection with the Financing, the Company has (together, in certain cases, with its subsidiaries) entered into, with Orion:

- a credit agreement with respect to a US\$75 million senior secured credit facility;
- a credit agreement with respect to a US\$100 million subordinated secured credit facility;
- a subscription agreement with respect to a private placement of 150,000,000 common shares of the Company at a price of \$0.50 per share for gross proceeds of \$75 million;
- a warrant certificate with respect to 25,000,000 common share purchase warrants, with each warrant entitling Orion to purchase one common share of the Company at a price of \$0.625 per share for a period of five years;

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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(Expressed in Canadian Dollars)

- a gold call option certificate with respect to options on 20,000 ounces of refined gold at a price of US\$1,485 per ounce, with an exercise date of April 13, 2023; and
- an offtake agreement entitling Orion to purchase 25% of the gold production from the Eagle Gold project on the terms set out therein.

The Company has also (together, in certain cases, with its subsidiaries) entered into, with Osisko:

- a royalty purchase agreement and royalty agreement with respect to the granting of a 5% net smelter return royalty (subject to reduction to 3% upon the achievement of certain output thresholds) on the Dublin Gulch property (subject to certain exclusions), which includes the Eagle Gold project for an aggregate purchase price of \$98 million; and
- a subscription agreement with respect to a private placement of 100,000,000 common shares of the Company at a price of \$0.50 per share for gross proceeds of \$50 million;

Separately, the Company has also entered into, with Cat Financial, a master lease agreement with respect to a US\$50 million equipment financing facility.

Subsequent to the year ended February 28, 2019, on May 28, 2019 the Company announced certain amendments to its existing debt facilities. The Company has increased the senior secured credit facility to US\$100 million from US\$75 million while decreasing the subordinated secured credit facility to US\$75 million from US\$100 million. The quantum of the combined credit facilities remains unchanged at US\$175 million. The subordinated secured credit facility will continue to be held by Orion Mine Finance ("Orion") while the senior secured credit facility will be held by Societe Generale ("SocGen"), Macquarie Bank Ltd. ("Macquarie") and Caterpillar Financial Services Limited ("Cat Financial").

### **Debt Facilities**

#### **Senior Secured Debt Facility**

The Company entered into a US\$75 million debt facility with Orion under the following commercial terms:

- Available from the date the Subordinated Loan Facility is fully drawn until two years post-closing;
- Interest rate of 3-month LIBOR plus 5.00%;
- Two-year interest holiday during which interest will accrue during the construction period;
- Principal and accrued interest is repayable in 15 quarterly installments beginning 24 months post-closing.

As at February 28, 2019, the Company has not made a drawdown under the Senior Secured Debt Facility.

#### **Subordinated Loan Facility**

The Company entered into a US\$100 million loan facility with Orion under the following commercial terms:

- Available for drawdown from closing for a period of two years;
- Interest rate of 3-month LIBOR plus 6.70%;
- Two-year interest holiday during which interest will accrue during the construction period;
- Principal is due at maturity on May 31, 2024.

On September 21, 2018 the Company made its first drawdown in the amount of \$38.7 million ("Principal Amount"). The Principal Amount is due at the end of the term, May 31, 2024. Deferred financing charges in the amount of \$0.5 million were allocated to the first drawdown and will be amortized over the term using the effective interest rate method.

On December 12, 2018 the Company made its second drawdown in the amount of \$40.0 million ("Principal Amount"). The Principal Amount is due at the end of the Term, May 31, 2024. Deferred financing charges in the amount of \$0.5 million were allocated to the second drawdown and will be amortized over the Term using the effective interest rate method.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

### Equipment Finance Facility

The Company entered into a US\$50 million facility with Caterpillar Financial Services Limited ("Cat Financial") under the following commercial terms:

- Available for drawdown against the acquisition cost of Cat mining equipment;
- Interest rate of 3-month LIBOR plus 4.25%;
- Six year, amortizing facility, maturing on April 13, 2024 (the "Term");
- Secured by Cat mining equipment.

Each drawdown made under the Equipment Finance Facility is amortized and repaid over a term of 4 to 6 years, not exceeding the maturity date (April 13, 2024). In connection with the Equipment Finance Facility, the Company incurred \$2.7million in deferred financing charges that will be amortized over the life of this Facility. Upon drawdown, 10% is immediately repayable, with the remainder to be repaid in quarterly instalments as set out by each drawdown's amortization schedule. In addition, the Company is required to deposit 10% of each drawdown into a debt service reserve account ("DSRA"). Funds in the DSRA are released back to the Company when certain conditions defined in the Equipment Finance Facility are met.

On August 8, 2018 the Company made its first drawdown in the amount of \$13.1 million ("Principal Amount"). Subsequent drawdowns were made in September and November 2018 and February 2019 in the amount of \$42.2 million. Quarterly repayments of the remaining Principal Amount commenced in November 2018 until fully repaid by the end of the Term. Deferred financing charges in the amount of \$2.4 million were allocated to the drawdowns and will be amortized over the Term using the effective interest rate method.

	February 28, 2019	February 28, 2018
Senior Secured Debt Facility	\$ -	\$ -
Subordinated Loan Facility	78,695,165	-
Add: accrued interest	2,421,416	-
Less: interest paid	-	-
Allocation of Deferred Finance Fees, net of Amortization	(1,006,107)	-
	<u>\$ 80,110,474</u>	<u>\$ -</u>
Equipment Finance Facility, net advancement	51,958,050	-
Less: principal paid	(2,192,073)	-
Add: accrued interest	1,336,759	-
Less: interest paid	(992,937)	-
Allocation of Deferred Finance Fees, net of Amortization	(2,121,244)	-
	<u>\$ 128,099,029</u>	<u>\$ -</u>
Less: Current portion	(11,552,952)	-
Debt	<u>\$ 116,546,077</u>	<u>\$ -</u>

During the year ended February 28, 2019 the Company incurred interest expense of \$3,687,612 (2018 - \$nil) and amortized deferred financing charges of \$345,704 (2018 - \$nil). These charges were capitalized to construction in progress.

The Equipment Finance Facility with CAT is secured by leased equipment with a carrying value of \$59.4 million as of February 28, 2019. (\$nil- 2017)

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

The Company's scheduled debt principal repayments as at February 28, 2019 is summarized in the table, below:

Scheduled Debt Principal Repayments (by fiscal year)

	2020	2021	2022	2023	2024 and thereafter	Total
Senior Secured Debt Facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subordinated Loan Facility	-	-	-	-	79,014,000	79,014,000
Equipment Finance Facility	11,552,952	13,484,486	11,513,903	13,019,042	16,755,480	66,325,863
	<u>\$ 11,552,952</u>	<u>\$ 13,484,486</u>	<u>\$ 11,513,903</u>	<u>\$ 13,019,042</u>	<u>\$ 95,769,480</u>	<u>\$ 145,339,863</u>

### 7. PROPERTY, PLANT AND EQUIPMENT

In April 2018, the Company determined that the Eagle project demonstrated technical feasibility and commercial viability and, as a result, transferred the balance of the mineral property assets relating to the project to construction in progress (*Note 8*).

Additionally, the \$8.5 million of advances and deposits as of February 28, 2018 were transferred to construction in progress at May 31, 2018. All costs capitalized as part of construction in progress will commence to be amortized upon achievement of commercial production.



# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

	Other assets	Leasehold improvements	Buildings/ structure	Field & automotive equipment	Construction in progress	Total
<b>Cost</b>						
<b>March 1, 2017</b>	\$ 645,039	\$ 102,881	\$ 6,430,340	\$ 231,155	\$ -	\$ 7,409,415
Additions	207,917	43,651	4,124,456	795,789	-	5,171,813
<b>February 28, 2018</b>	852,956	146,532	10,554,796	1,026,944	-	12,581,228
Transfer from mineral property	-	-	-	-	92,773,088	92,773,088
Sale of property interest ( <i>Note 8</i> )	-	-	-	-	(29,400,000)	(29,400,000)
Additions	215,031	-	5,826,060	7,102,214	374,986,192	388,129,497
<b>February 28, 2019</b>	<b>\$1,067,987</b>	<b>\$ 146,532</b>	<b>\$16,380,856</b>	<b>\$ 8,129,158</b>	<b>\$ 438,359,280</b>	<b>\$464,083,813</b>
<b>Accumulated amortization</b>						
<b>March 1, 2017</b>	\$ 496,346	\$ 5,140	\$ 3,485,475	\$ 163,909	\$ -	\$ 4,150,870
Charge	128,584	16,835	605,244	91,553	-	842,216
<b>February 28, 2018</b>	624,930	21,975	4,090,719	255,462	-	4,993,086
Charge	205,986	13,879	1,453,392	968,895	-	2,642,152
<b>February 28, 2019</b>	<b>\$ 830,916</b>	<b>\$ 35,854</b>	<b>\$ 5,544,111</b>	<b>\$ 1,224,357</b>	<b>\$ -</b>	<b>\$ 7,635,238</b>
<b>Net book value</b>						
<b>March 1, 2017</b>	\$ 148,693	\$ 97,741	\$ 2,944,865	\$ 67,246	\$ -	\$ 3,258,545
<b>February 28, 2018</b>	\$ 228,026	\$ 124,557	\$ 6,464,077	\$ 771,482	\$ -	\$ 7,588,142
<b>February 28, 2019</b>	<b>\$ 237,071</b>	<b>\$ 110,678</b>	<b>\$10,836,745</b>	<b>\$ 6,904,801</b>	<b>\$ 438,359,280</b>	<b>\$456,448,575</b>

During the year ended February 28, 2019, the Company capitalized amortization related to construction in progress of \$2,636,659 (\$836,778 – 2018).

For the second tranche of the royalty purchase (*Note 6*), the Company recognized \$29.4 million as a sale of property interest during the year ended February 28, 2019 and the remaining \$19.6 million of the royalty purchase is considered a recovery of construction in progress costs. Accordingly, no gain or loss was recognized on the transactions.

The carrying value of equipment pledged as security for the related Equipment Financing Facility as at February 28, 2019 was \$59.4 million (\$nil- 2017). (*Note 6*)

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

### 8. RESOURCE PROPERTIES

	Santa Fe (Nevada)	Dublin Gulch (Yukon)	Other properties **	Total
<b>Balance February 28, 2018</b>	\$ 6,635,060	\$ 155,523,884	\$ 1,581,204	\$ 163,740,148
Transfer to property, plant and equipment		(92,773,088)		(92,773,088)
Sale of property interest *	-	(49,000,000)	(30,000)	(49,030,000)
Salaries and benefits	55,346	987,016	-	1,042,362
Amortization	-	-	-	-
Consulting and administration	19,745	1,410,125	-	1,429,870
Land claims and royalties	67,659	79,640	58,265	205,564
Environmental and permitting	24,122	334,810	-	358,932
Government and community relations	-	65,480	-	65,480
Drilling and indirects	-	1,278,490	-	1,278,490
Other exploration	-	3,860,299	99,960	3,960,259
Asset retirement obligation adjustment	(1,430)	-	-	(1,430)
Exploration and evaluation costs for the year	165,442	8,015,860	158,225	8,339,527
Currency translation	187,390	-	-	187,390
<b>Balance February 28, 2019</b>	\$ 6,987,892	\$ 21,766,656	\$ 1,709,429	\$ 30,463,977

\*\* Other properties include interests in Donjek, Aurex, CanAlask, Dace and Clear Creek in Yukon Territory.

\* On April 13, 2018, the Company entered into a royalty agreement with respect to the granting of a 5% net smelter return royalty (subject to reduction to 3% upon the achievement of certain output thresholds) on the Dublin Gulch property (subject to certain exclusions), which includes the Eagle Gold project for an aggregate purchase price of \$98 million. \$49 million was received during the period ended May 31, 2018 and the remaining of \$49 million of the royalty purchase is funded pro rata to drawdowns under the subordinated debt component of the Orion credit facilities (Note 6 & 7).

The Company recognized the first tranche of \$49 million as a sale of mineral property interest and the consideration received has been recorded as a recovery of mineral property costs. Accordingly, no gain or loss was recognized on the transaction.

Following closing of the financing facilities (see Note 6 and 11), the Company determined that the Eagle Gold mine had demonstrated technical feasibility and commercial viability as the Company completed a comprehensive financing package, had received major permits required to build and operate the Eagle Gold mine, and had issued a positive feasibility study in 2016. As a result, management assessed the asset for impairment and determined that no impairment exists, and exploration and evaluation assets of \$92.8 million were transferred to construction in progress within property, plant and equipment

As of February 28, 2019, restricted cash consists of \$0.4 million relating to Santa Fe, \$8.6 million for Dublin Gulch and \$5.9 million for the CAT financial facility which requires a 10% deposit of each drawdown into a debt service reserve account ("DSRA"). The restricted cash for Dublin Gulch is a restricted guaranteed investment certificate ("GIC") that supports a line of credit that the Bank of Nova Scotia provides to a surety provider that in turn provides a \$17.2M surety bond related to the reclamation performance bond.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

	Santa Fe (Nevada)	Dublin Gulch (Yukon)	Other properties **	Total
<b>Balance February 28, 2017</b>	\$ 6,664,497	\$ 115,109,320	\$ 1,599,705	\$ 123,373,522
Acquisition	-	-	(78,750)	(78,750)
Salaries and benefits	62,858	2,342,808	-	2,405,666
Amortization	-	836,778	-	836,778
Office and administration	27,445	1,684,393	-	1,711,838
Land claims and royalties	66,552	94,102	60,249	220,903
Environmental and permitting	123,743	930,867	-	1,054,610
Government and community relations	-	365,137	-	365,137
Site operations	-	12,440,901	-	12,440,901
Engineering and design	-	7,882,013	-	7,882,013
Drilling and indirects	-	5,786,803	-	5,786,803
Other exploration	-	6,864,659	-	6,864,659
Asset retirement obligation adjustment	(82,142)	1,186,103	-	1,103,961
Exploration and development costs for the period	198,456	40,414,564	60,249	40,673,269
Currency translation	(227,893)	-	-	(227,893)
<b>Balance February 28, 2018</b>	\$ 6,635,060	\$ 155,523,884	\$ 1,581,204	\$ 163,740,148

\*\* Other properties include interests in Donjek, Aurex, CanAlask and Clear Creek in Yukon Territory.

### 9. ASSET RETIREMENT OBLIGATIONS

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and measured with the most reliable information available. Management's estimate is determined based on the net present value of estimated future cash expenditures for reclamation and closure activities. Reclamation and closure costs are capitalized into Resource properties dependent on the nature of the asset related to the obligation and amortized over the life of the related asset. Future changes to those regulations and standards, as well as changes resulting from operations, may result in actual reclamation costs differing from the estimate.

The Company's asset retirement obligations arise from its obligations to undertake site reclamation and remediation in connection with the Santa Fe and Dublin Gulch properties. As a result of construction activities, the ARO was increased during the year ended February 28, 2019. The Company prepared the Dublin Gulch reclamation obligation using prescribed third-party contractor rates with a 10% contingency. The estimated costs of reclamation are based on current regulatory requirements and the estimated reclamation costs at the reporting date use the following assumptions:

- total undiscounted amount of inflation adjusted future reclamation costs was determined to be \$10,540,761 for Dublin Gulch and \$404,575 for Santa Fe;
- weighted average risk-free interest rate at 2.1% and a long-term inflation rate of 2.0%; and
- expected timing of risk adjusted cash outflows required to settle the obligation will be incurred over the period through 2033 for Dublin Gulch and through 2028 for Santa Fe.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

The following is an analysis of the Company's asset retirement obligation:

	February 28, 2019	February 28, 2018
Balance, beginning of year	\$ 2,228,313	\$ 1,104,821
Unwinding of discount: ARO	112,592	33,551
Currency translation	9,708	(14,020)
ARO change due to change in estimates	6,054,415	1,103,961
Balance, end of year	<u>\$ 8,405,028</u>	<u>\$ 2,228,313</u>

### 10. EARNINGS PER SHARE

(a) Basic

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of ordinary shares in issue during the year.

	For the years ended February 28,	
	2019	2018
Net income (loss)	\$(11,976,065)	\$ (3,178,183)
Weighted average number of common shares issued	746,850,409	514,720,574
Basic earnings (loss) per share	<u>\$ (0.016)</u>	<u>\$ (0.006)</u>

(b) Diluted

The effect of potential issuances of shares under options would be anti-dilutive, and accordingly, basic and diluted loss per share are the same.

### 11. SHARE CAPITAL AND OTHER EQUITY

*Authorized, issued and outstanding common shares*

Common shares, no par value, authorized unlimited number of shares, issued and outstanding were 785,972,833 and 517,137,416 shares as at February 28, 2019 and 2018, respectively.

On April 16, 2018, the Company closed a private placement and issued 150,000,000 common shares to Orion and 100,000,000 common shares to Osisko at a price of \$0.50 per share for aggregate gross proceeds of \$125 million. The Company also completed the issuance to Orion of 25,000,000 common share purchase warrants. There were no finders' fees for this transaction. Other issuance costs, including the common share warrants, of \$8.6 million were paid for advisory and legal fees in conjunction with the Offering.

On May 2, 2017, the Company closed a non-brokered private placement flow-through share offering (the "Offering") raising gross proceeds of \$10.0 million, representing the issuance of 11,494,253 common shares priced at \$0.87 per share. There were no finders' fees for this transaction. Other issuance costs were paid in conjunction with the Offering. The flow-through shares were subject to a four-month hold period.

On December 28, 2018, the Company closed a brokered flow-through share offering (the "Offering") raising gross proceeds of \$1.7 million, representing the issuance of 3,355,000 common shares priced at \$0.50 per share. Finders' fees of \$54,550 were paid for this transaction. Other issuance costs were paid in conjunction with the Offering. The flow-through shares were subject to a four-month hold period.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

### 12. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN AND WARRANTS

#### Stock options

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. At February 28, 2019, 42,278,116 (21,928,324 as at February 28, 2018) additional stock options were available for grant under the Company's stock option plan.

A summary of the status of the Plan as at February 28, 2019 and as at February 28, 2018, and changes during the periods ended on those dates is presented below:

	February 28, 2019			February 28, 2018		
	Number of stock options	Weighted average exercise price	Fair Value Assigned	Number of stock options	Weighted average exercise price	Fair Value Assigned
Outstanding, beginning of the year	29,305,417	\$ 0.27	\$4,181,751	29,541,667	\$ 0.25	\$3,883,389
Granted	16,500,000	\$ 0.50	1,717,946	1,190,000	\$ 0.72	476,714
Exercised	(15,480,417)	\$ 0.16	(1,276,936)	(1,341,250)	\$ 0.22	(156,109)
Expired	(25,000)	\$ 0.55	(7,435)	(60,000)	\$ 0.40	(14,808)
Forfeited	(270,000)	\$ 0.50	(31,253)	(25,000)	\$ 0.55	(7,435)
Outstanding, end of the year	30,030,000	\$ 0.44	\$4,584,073	29,305,417	\$ 0.27	\$4,181,751

As at February 28, 2019, the Company had stock options issued to directors, officers, employees and contractors of the Company outstanding as follows:

Date of grant	Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
December 15, 2015	6,600,000	6,600,000	\$ 0.15	December 15, 2020
August 9, 2016	600,000	600,000	\$ 0.70	August 9, 2021
January 12, 2017	5,410,000	5,410,000	\$ 0.55	January 12, 2020
April 24, 2017	1,190,000	1,190,000	\$ 0.72	April 24, 2020
May 28, 2018	5,770,000	2,930,000	\$ 0.50	May 28, 2021
August 15, 2018	4,020,000	2,010,000	\$ 0.50	August 15, 2021
January 25, 2019	6,440,000	1,610,000	\$ 0.50	January 25, 2022
	<u>30,030,000</u>	<u>20,350,000</u>		

The fair value of each option is accounted for in the statement of comprehensive loss or capitalized to resource properties over the vesting period of the options, and the related credit is included in contributed surplus.

On January 25, 2019, the Company granted 6,440,000 incentive stock options with an exercise price of \$0.50 per option to directors, officers and employees of the Company. The stock options have a term of three years and expire on January 25, 2022. The fair value of these options, totalling \$1,246,140, will be recognized (expensed and capitalized to resource properties) over the vesting period of one year, of which \$418,381 (\$279,354 expensed and \$139,027 capitalized to resource properties) has been recognized as at February 28, 2019. The fair value of these options was calculated based on a risk-free annual interest rate of 1.9%, an expected life of 3.0 years, an expected volatility of 61% and a dividend yield rate of nil. This results in an estimated fair value of \$0.19 per option at the grant date using the Black-Scholes option-pricing model.



# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

On August 15, 2018, the Company granted 4,020,000 incentive stock options with an exercise price of \$0.50 per option to directors, officers, employees and consultants of the Company. The stock options have a term of three years and expire on August 15, 2021. The fair value of these options, totalling \$391,548, will be recognized (expensed and capitalized to resource properties) over the vesting period of one year, of which \$296,485 (\$154,143 expensed and \$142,342 capitalized to resource properties) has been recognized as at February 28, 2019. The fair value of these options was calculated based on a risk-free annual interest rate of 2.1%, an expected life of 3.0 years, an expected volatility of 63% and a dividend yield rate of nil. This results in an estimated fair value of \$0.10 per option at the grant date using the Black-Scholes option-pricing model.

On May 28, 2018, the Company granted 6,040,000 incentive stock options with an exercise price of \$0.50 per option to directors, officers, employees and consultants of the Company. The stock options have a term of three years and expire on May 28, 2021. 270,000 options have since been forfeited as at February 28, 2019. The fair value of these options, totalling \$697,889, will be recognized (expensed and capitalized to resource properties) over the vesting period of one year, of which \$581,688 (\$374,437 expensed and \$207,251 capitalized to resource properties) has been recognized as at February 28, 2019. The fair value of these options was calculated based on a risk-free annual interest rate of 2.0%, an expected life of 3.0 years, an expected volatility of 65% and a dividend yield rate of nil. This results in an estimated fair value of \$0.12 per option at the grant date using the Black-Scholes option-pricing model.

On April 24, 2017, the Company granted 1,190,000 incentive stock options with an exercise price of \$0.72 per option to officers, employees and consultants of the Company. The stock options have a term of three years and expire on April 24, 2020. The fair value of these options, totalling \$476,744, has been fully recognized as at May 31, 2018 (\$15,970 expensed and \$460,774 capitalized to resource properties). The fair value of these options was calculated based on a risk-free annual interest rate of 0.8%, an expected life of 3.0 years, an expected volatility of 84% and a dividend yield rate of nil. This results in an estimated fair value of \$0.40 per option at the grant date using the Black-Scholes option-pricing model.

For purposes of the options granted, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model, with the above assumptions and a forfeiture rate ranging from 8.9-10.0%.

### Warrants

The following table summarizes information regarding changes in the Company's warrants outstanding:

	February 28, 2019			February 28, 2018		
	Number of Warrants	Weighted average exercise price	Fair Value	Number of Warrants	Weighted average exercise price	Fair Value
Outstanding, beginning of the year	40,000,000	\$ 0.400	\$ 6,620,000	40,000,000	\$ 0.40	\$6,620,000
Issued	25,000,000	\$ 0.625	4,359,350	-	\$ -	-
Outstanding, end of the year	65,000,000	\$ 0.487	\$10,979,350	40,000,000	\$ 0.40	\$6,620,000

	Number of Warrants	Exercise price	Expiry date
Issued in private placement	40,000,000	\$ 0.400	May 10, 2019 *
Issued in private placement	25,000,000	\$ 0.625	April 13, 2023
	65,000,000		

\* These warrants have since expired without being exercised.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

The fair value of the warrant expiring on May 10, 2019 were estimated as of the date of issuance using the Black-Scholes option pricing model with the following assumptions: a risk-free annual interest rate of 0.7%, an expected life of 3 years, an expected volatility of 84% and a dividend yield rate of nil.

The fair value of the warrant expiring on April 13, 2023 were estimated as of the date of issuance using the Black-Scholes option pricing model with the following assumptions: a risk-free annual interest rate of 2.1%, an expected life of 5 years, an expected volatility of 76% and a dividend yield rate of nil.

These April 13, 2023 warrants are considered financial instruments at FVTPL. The holder of the warrants may exercise the warrants for the Company's common shares. However, if the exercise would result in the holder's total share ownership exceeding 19.99% of the total number of the Company's common shares then issued and outstanding the Company would have to pay the value of the warrant. As a result, the warrants have been classified as a financial liability instrument and are recorded at fair value at each reporting period end using a Black-Scholes model. Warrant pricing models require the input of certain assumptions including price volatility and expected life. Changes in these assumptions could affect the reported fair value of the warrants (*Note 17*).

### 13. RELATED PARTIES

Related parties include key management personnel, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of directors and key management of the Company for the years ended February 28, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Salaries and other short term employment benefits	\$ 2,669,188	\$ 1,800,064
Share based compensation	\$ 1,043,804	\$ 1,087,499

The Company granted unsecured loans in May 2018 which were subsequently amended in January 2019, to directors and officers of the Company that are for a period of 1 year at interest rates of 2% per annum and payable in full on January 9, 2020.

	<u>February 28,</u> <u>2019</u>	<u>February 28,</u> <u>2018</u>
Outstanding, beginning of the year	\$ -	\$ -
Loans advanced	1,350,950	-
Loan repayments received	-	-
Interest charged	15,998	-
Interest received	-	-
Outstanding, end of the year	<u>\$ 1,366,948</u>	<u>\$ -</u>

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

### 14. COMMITMENTS AND CONTINGENCIES

#### Operating Leases

At February 28, 2019, the Company has future minimum annual operating lease commitments for vehicles and office premises in: (1) Vancouver, BC, (2) Toronto, Ontario and (3) Whitehorse, Yukon, as follows:

to February 28, 2020	\$	816,812
to February 29, 2021		725,747
to February 29, 2022		664,257
to February 28, 2023		146,477
to February 28, 2024 and thereafter		25,218
Total	\$	2,378,510

#### Contingencies

A contractor has placed a lien on StrataGold Corporation in the amount of approximately \$8.2 million before tax in conjunction with certain construction activities. The Company has agreed and accrued approximately \$4.2 million while the remaining \$4.0 million is in dispute. The Company believes the disputed amount to be without merit. The Company may advance to legal proceedings should a settlement not be achieved.

### 15. SEGMENTED INFORMATION

The Company's principal activity is the exploration and development of mineral properties. The Company reports separately three operating segments, corporate segment and mineral exploration and development in two geographical segments, Canada and the United States. A breakdown of mineral properties by geographic expenditures is disclosed in *Note 8*.

In millions of Cdn \$	Canada	USA	Corporate	Total
<b>As at February 28, 2019</b>				
Property, plant and equipment	456.4	-	-	456.4
Resource properties	23.5	7.0	-	30.5
Total Assets	498.9	7.4	16.3	522.6
Net loss/(income)	4.1	(0.2)	8.1	12.0
<b>As at February 28, 2018</b>				
Property, plant and equipment	7.6	-	-	7.6
Resource properties	157.1	6.6	-	163.7
Total Assets	177.2	7.7	14.8	199.7
Net loss/(income)	0.6	(0.5)	3.1	3.2

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

### 16. SUPPLEMENTARY CASH FLOW INFORMATION

	February 28, 2019	February 28, 2018
Non-cash investing and financing activities:		
Accounts payable and accrued liabilities relating to property, plant and equipment and resource property expenditures	\$ 74,124,215	\$ 2,449,814
Stock-based compensation, capitalized to resource properties (Note 12)	\$ 525,438	\$ 714,187
Income taxes paid	\$ -	\$ -
Interest paid (Note 6)	\$ 992,937	\$ -

Reconciliation of movements in liabilities to cash flows arising from financing activities:

	Long term debt (Note 6)	Deferred Finance Charge (Note 5)	Total
Balance, March 1, 2018	-	-	-
Changes from financing activities:			-
Net Proceeds from Credit Facility Draws:	130,653,215	-	130,653,215
Principal paid:	(2,192,073)		(2,192,073)
Interest paid:	(992,937)		(992,937)
Transaction Cost paid:	-	(5,846,347)	(5,846,347)
	127,468,205	(5,846,347)	121,621,858
Non-cash changes:			
Deferred financing fees attributable to draws	(3,473,055)	3,473,055	-
Capitalized amortization of deferred financing fees	345,704	-	345,704
Capitalized interest	3,758,175	-	3,758,175
Balance, February 28, 2019	128,099,029	(2,373,292)	125,725,737

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

### 17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Instruments outstanding	Quantity outstanding	Remaining term	Exercise price (C\$/oz)	Fair value - asset (liability) <sup>(1)</sup>
<b><u>Zero-cost collars</u></b>				
Gold call options - sold	100,000 oz	June 2020 - December 2021	\$ 1,936	\$ (7,406,123)
Gold put options - purchased	100,000 oz	June 2020 - December 2021	\$ 1,500	2,204,455
				\$ (5,201,668)
<b><u>Gold call options</u></b>				
Gold call options - sold	20,000 oz	April 13, 2023	US\$1,485	(3,530,315)
<b><u>Warrants</u></b>				
Warrants	25,000,000	April 13, 2023	\$ 0.625	(5,902,500)
				\$ (14,634,483)

1. The Company presents the fair value of put and call options on a net basis on the Consolidated Statements of Financial Position. The Company has a legally enforceable right to set off the amounts under its option contracts and intends to settle on a net basis.

#### **Zero Cost Collars**

In May 2018, the Company entered into gold price zero cost collars using option contracts that the Company has elected not to designate as cash flow hedges for hedge accounting under IFRS 9. The purchase of gold put options was financed through selling gold call options at a higher level such that the net premium payable by the Company was \$nil. These derivative financial instruments are classified within Level 2 of the fair value hierarchy and classified in the consolidated financial statements based on contractual maturity. These derivative financial instruments are recorded at fair value using external broker-dealer quotations corroborated by option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. The Company recognized the mark-to-market adjustment of \$5.2 million loss in net income/(loss) of the consolidated statements of comprehensive loss for the year ended February 28, 2019.

#### **Gold Call Options**

On April 13, 2018, the Company sold a gold call option on 20,000 ounces of gold at a price of US\$1,485 per ounce, with an expiry date of April 13, 2023. These derivative financial instruments are classified within Level 2 of the fair value hierarchy and classified in the consolidated financial statements based on contractual maturity. These derivative financial instruments are recorded at fair value using external broker-dealer quotations corroborated by option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. As at February 28, the gold call option fair value was \$3.5 million, using US\$1,314 per ounce of gold and a foreign exchange rate of 1.3169 US\$ to C\$. The Company recognized the mark-to-market adjustment \$1.8 million gain in net income/(loss) of the consolidated statements of comprehensive loss for the year ended February 28, 2019.

#### **Warrants**

On April 13, 2018, the Company granted 25,000,000 warrants with a strike price of \$0.625 and a term of five years. These derivative financial instruments are classified within Level 2 of the fair value hierarchy and classified in the consolidated financial statements based on contractual maturity. These derivative financial instruments are recorded at fair value using Black-Scholes option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. As at February 28, the warrant fair value was \$5.9 million. The Company recognized the mark-to-market adjustment \$1.5 million loss in net income/(loss) of the consolidated statements of comprehensive loss for the year ended February 28, 2019.



# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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(Expressed in Canadian Dollars)

### 18. CAPITAL RISK MANAGEMENT

The Company considers its capital structure to consist of capital stock, contributed surplus and accumulated deficit. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development, construction and operations activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its resource properties and maximize shareholder returns. The Company satisfies its capital requirements through management of its cash resources and by utilizing bank indebtedness, project or equipment financing, a royalty or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets.

Management reviews its capital management approach on an ongoing basis. There were no significant changes in the Company's approach to capital management during the three months ended February 28, 2019. The Company is not subject to externally imposed capital requirements.

### 19. FINANCIAL RISK MANAGEMENT

#### (a) Credit risk management

Certain of the Company's financial assets are exposed to a degree of credit risk. The Company endeavours to manage credit risk by holding its cash and cash equivalents as cash deposits and short-term government treasury funds with major commercial banks.

Credit risk relating to accounts receivable and restricted cash arises from the possibility that any counterparty to an instrument fails to perform. The Company's accounts receivable relate to recoveries of HST. Restricted cash includes reclamation bonds and a debt service account. Reclamation bonds reflect non-interest bearing cash deposits held with governmental agencies representing the state of Nevada, and interest bearing certificates of deposit held by Wells Fargo and Bank of Nova Scotia. An interest bearing debt service account is held with the Bank of Nova Scotia. The Company does not feel there is significant counterparty risk that could have an impact on the fair value of cash and cash equivalents, restricted cash, receivables and due from related parties. The maximum exposure is limited to amounts of cash and cash equivalents, restricted cash and receivables on the statement of financial position.

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities associated with exploration and development, including construction. To the extent the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity or debt funding. The Company's liquidity may be adversely affected if its access to the capital and debt markets are hindered, whether as a result of a downturn in market conditions generally, or as a result of conditions specific to the company.

As of February 28, 2019, the Company had a cash balance of \$12,322,795 (2018 - \$9,374,888) to settle current accounts payable, accrued liabilities and current portion of long-term debt of \$88,152,271 (2018 - \$6,096,519). See Subsequent Event *Note 21* for details on additional funds received.

#### (c) Price risk

The Company's financial assets and liabilities are exposed to price risk with respect to commodity prices and prices of the Company's equity investments. The price risk on equity investments is limited due to the nature and low balance of the Company's holdings. Commodity price risk refers to the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company entered into gold zero-

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cost collars (Note 17) and continues to monitor prices of precious minerals to determine the appropriate course of action to be taken.

### (d) Foreign currency risk

The Company incurs minimal exploration expenditures in the United States and holds a portion of its restricted cash and cash and cash equivalents in US dollars. The Company also has debt facilities in US dollars being utilized. The Company funds certain construction expenditures in US dollars. This gives rise to a risk that its US dollar expenditures and US dollar cash holdings and debt may be adversely impacted by fluctuations in foreign exchange. The Company does not undertake currency hedging activities.

### (e) Interest rate risk

Interest rate risk is the impact that changes in interest rates could have on the Company's investments and liabilities. The Company's cash balances are not subject to significant interest rate risk as balances are current. The Credit Facilities are subject to a variable LIBOR rate. Significant changes in the LIBOR rate could have a significant impact on the Company's loans payable balance in the consolidated statement of financial position and interest capitalized in property, plant and equipment on the consolidated statement of financial position.

### Sensitivity analysis

The following table summarizes the sensitivity of the Company's cash, cash equivalents and restricted cash to changes in interest rates and foreign exchange rates over the twelve month reporting period ended February 28, 2019.

	Carrying Amount	Interest rate change (1)		Foreign currency change (2)	
		+ 1%	- 1%	+ 10%	- 10%
<b>Cash and cash equivalents (Cdn \$)</b>					
Cash - Cdn\$ denominated	4,434,219	44,342	(44,342)	-	-
Cash - US\$ denominated	10,005,467	100,055	(100,055)	1,000,547	(1,000,547)
Treasury funds – Canadian denominated	3,800,243	38,002	(38,002)	-	-
<b>Total cash and cash equivalents</b>	<b>18,239,929</b>	<b>182,399</b>	<b>(182,399)</b>	<b>1,000,547</b>	<b>(1,000,547)</b>
Reclamation bonds - US\$ denominated (interest bearing)	359,784	3,598	(3,598)	35,978	(35,978)
Reclamation bonds - Cdn\$ denominated (interest bearing)	8,664,526	86,645	(86,645)	-	-
<b>Total amount or impact - cash and deposits</b>	<b>27,264,239</b>	<b>272,642</b>	<b>(272,642)</b>	<b>1,036,525</b>	<b>(1,036,525)</b>
<b>Total debt – US\$ denominated</b>	<b>128,099,029</b>	<b>(556,650)</b>	<b>556,650</b>	<b>(12,809,903)</b>	<b>12,809,903</b>
<b>Total impact – cash, deposits and debt</b>		<b>(284,008)</b>	<b>284,008</b>	<b>(11,773,378)</b>	<b>11,773,378</b>

1) Interest earned on the Company's interest bearing cash accounts, treasury funds and certificates of deposit is at prevailing rates that fluctuate with changes in banking interest rates and Government t-bill rates. Interest expense on the Company's interest bearing debt is at prevailing rates that fluctuate with changes in banking interest rates. Management believes that a plus or minus 1% annual change in rates is a reasonable estimate of variability over a twelve month period.

2) The Company's US dollar cash balance, US dollar reclamation bonds, US dollar based certificates of deposit and US dollar debt balances are subject to foreign exchange risk. Management has shown a sensitivity analysis of a plus or minus change of 10%.

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The sensitivity of the Company's foreign currency (US\$) intercompany loan which is eliminated in the consolidated financial statements, to changes in foreign exchange rates as of February 28, 2019 is Cdn\$ 752,389 for a plus 10% change and Cdn\$ (752,389) for a minus 10% change.

### (f) Fair value of financial assets and liabilities

The book values of the cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, approximate their respective fair values.

The fair values together with the carrying amounts shown in the statements of financial position are as follows:

	Classification	February 28, 2019		February 28, 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Level 1	\$ 12,322,795	\$ 12,322,795	\$ 9,374,888	\$ 9,374,888
Restricted cash	Level 1	14,941,444	14,941,444	9,014,172	9,014,172
Marketable securities	Level 1	302,919	302,919	552,203	552,203
Other receivables	Amortized Cost	3,155,100	3,155,100	323,017	323,017
Due from related parties	Amortized Cost	1,366,950	1,366,950	-	-
Accounts payable and accrued liabilities	Amortized Cost	(76,599,319)	(76,599,319)	(6,096,519)	(6,096,519)
Debt	Amortized Cost	(128,099,029)	(128,099,029)	-	-
Fair value of derivative instruments	Level 2	14,634,483	14,634,483	-	-

### (g) Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

#### *Restricted cash/Securities in listed entities (financial assets at fair value through profit and loss)*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

#### *Trade and other receivables/payables*

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

#### *Derivative instruments*

The fair value of these derivatives is determined using a valuation model that incorporates such factors as metal prices, metal price volatility and expiry date.

## 20. CONSULTING EXPENSE

During the year, the Company incurred a break fee for a previously announced and uncompleted commercial debt package transaction as well as consulting costs for general corporate consulting services and a fee for an unused and now canceled bridge loan facility.

# Victoria Gold Corp.

## Notes to the Consolidated Financial Statements For the years ended February 28, 2019 and 2018

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### 21. SUBSEQUENT EVENTS

Subsequent to February 28, 2019, the Company received its third and final drawdown of US\$40 million from Orion under the subordinated debt facility of US\$100 million. The Company also received \$19.6 million from Osisko under the royalty financing, funded pro-rata with the Orion subordinated debt. The Company again expects to account for this as a sale of interest in mineral property (recovery of construction in progress).

On April 2, 2019, the Company closed a private placement financing of 34,090,909 common shares of the Corporation at a price of \$0.44 per share for gross proceeds of \$15,000,000. The Company also closed an over-allotment brokered prospectus financing on April 5, 2019 of 10,020,695 common shares of the Corporation at a price of \$0.44 per share for gross proceeds of \$4,409,106. The Company also closed a brokered flow-through financing of 28,310,000 common shares of the Corporation that qualifies as "Canadian development expenses (CDE) flow through shares" at a price of \$0.53 per share for gross proceeds of \$15,004,300. Finders' fees of 5%, other than certain insider orders which were at 1.25%, and other issuance costs were paid in connection with this transaction. The shares are subject to a four-month hold period.

### 22. INCOME TAXES

	Year ended February 28, 2019	Year ended February 28, 2018
Current income tax:		
Based on taxable income for the period	\$ -	\$ -
Prior period (under) over provision	224,558	563,025
	224,558	563,025
Deferred income tax:		
Origination/reversal of temporary differences	\$ 263,217	\$ 1,907,509
Deferred tax liability	(3,300,000)	-
	(3,036,783)	1,907,509
Income tax recovery / (expense)	\$ (2,812,225)	\$ 2,470,534

# Victoria Gold Corp.

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(Expressed in Canadian Dollars)

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended February is as follows:

	Year ended February 28, 2019	Year ended February 28, 2018
Net (Income) Loss before recovery of income taxes	\$ 9,806,692	\$ 5,648,717
Expected income tax (expense) recovery	2,598,773	1,496,910
Increase (decrease) resulting from:		
Change in tax benefits not recognized	(2,726,271)	1,836,117
Under (over) provided in prior periods	(224,558)	196,821
Effect of flow-through renunciation	(911,573)	-
Tax effect on sale of resource properties	5,194,000	-
Other	(560,834)	-
Non-deductible (non-taxable) permanent items	(557,312)	(1,059,314)
Income tax recovery / (expense)	\$ 2,812,225	\$ 2,470,534
The Company's income tax is allocated as follows:		
Current tax recovery / (expense)	224,558	563,025
Deferred tax recovery / (expense)	(3,036,783)	1,907,509
	(2,812,225)	2,470,534

The 2019 statutory tax rate of 26.5% did not change from the 2018 statutory tax rate.



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Management believes that it is not probable that sufficient taxable profit will be available in future years to allow the benefit of the deferred tax assets arising from the following deductible temporary differences to be utilized:

	<u>2019</u>	<u>2018</u>
Non-capital losses		
Canada	\$ 42,907,139	\$ 21,926,100
U.S.	\$ 40,728,540	\$ 40,728,540
Capital loss - Canada	\$ 3,344,101	\$ 3,688,887
Resource related deductions	\$ 1,586,721	\$ 8,956,785
Share issue costs	\$ 7,932,681	\$ 1,794,996
Intangible assets	\$ 323,798	\$ 323,798
Property plant and equipment	\$ 10,456	\$ 5,876,235
Marketable Securities	\$ 561,542	\$ 312,258
Other	\$ 1,016,791	\$ 154,158

The Canadian and United States non-capital income tax losses expire from 2026 to 2037; intangible assets, mineral property and exploration expenses, property plant and equipment and marketable securities have no expiry date. Share issue cost is deductible between 2018 to 2023. Capital losses can be carried forward indefinitely but may only be applied against capital gains income.

As a February 28, 2019, \$3.3 million (2018 - \$nil) was recognized as a deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future; and the investments are not held for resale and are expected to be recouped by continued use of these operations by the subsidiaries. The amount of temporary differences not booked for these unremitted earnings at February 28, 2019 is \$nil (2018 - \$nil).