
Financial Statements

Victory Capital Corp.

For the Years Ended December 31, 2020 and 2019

(Stated in Canadian Dollars)

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Independent Auditor's Report

To the Shareholders of Victory Capital Corp.:

Opinion

We have audited the financial statements of Victory Capital Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and December 31, 2019, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 Jian-Kun Xu.

Vancouver, British Columbia

March 2, 2021

MNP LLP
Chartered Professional Accountants

Victory Capital Corp.

Statements of Financial Position as at December 31, 2020 and 2019

Stated in Canadian Dollars

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Assets | | |
| Current Assets | | |
| Cash (note 3) | \$ 426,284 | \$ 524,218 |
| Loan receivables (note 11) | 15,045 | - |
| | <u>\$ 441,329</u> | <u>\$ 524,218</u> |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 33,631 | \$ 16,028 |
| Shareholders' Equity | | |
| Issued Capital (note 4) | 767,579 | 767,579 |
| Contributed Surplus (note 5 and 6) | 80,877 | 80,877 |
| Deficit | (440,758) | (340,266) |
| | <u>407,698</u> | <u>508,190</u> |
| | <u>\$ 441,329</u> | <u>\$ 524,218</u> |

Nature of operations (note 1)

Proposed Qualifying Transaction and Subsequent Event (note 11)

The accompanying notes form an integral part of these financial statements.

Approved on Behalf of the Board

Signed "Roger (Zelong) He", Director

Signed "Justin Blanchet", Director

Victory Capital Corp.

Statements of Loss and Comprehensive Loss
For the Years Ended December 31, 2020 and 2019
Stated in Canadian Dollars

| | 2020 | 2019 |
|---|---------------------|--------------------|
| Expenses | | |
| Bank charges | 134 | - |
| Filing fees | 14,038 | 14,083 |
| Office and general | - | 848 |
| Professional fees | 86,365 | 47,226 |
| Share-based compensation (note 6) | - | 5,007 |
| | <u>100,537</u> | <u>67,164</u> |
| Other Expenses (Income) | | |
| Interest income | (45) | - |
| | <u>(45)</u> | <u>-</u> |
| Net loss and comprehensive loss for the year | <u>\$ (100,492)</u> | <u>\$ (67,164)</u> |
| Loss per Share - basic and diluted | <u>\$ (0.02)</u> | <u>\$ (0.01)</u> |
| Weighted Average Number of Common Shares | | |
| Outstanding - basic and diluted | <u>5,088,750</u> | <u>5,088,750</u> |

The accompanying notes form an integral part of these financial statements.

Victory Capital Corp.

Statements of Changes in Equity

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

| | Issued Capital | | | | |
|--------------------------------------|----------------|------------|---------------------|--------------|--------------|
| | Shares | Amount | Contributed Surplus | Deficit | Total Equity |
| Balance – December 31, 2018 | 5,088,750 | \$ 726,610 | \$ 116,839 | \$ (273,102) | \$ 570,347 |
| Fair value of expired agent warrants | - | 40,969 | (40,969) | - | - |
| Issuance of stock options | - | - | 5,007 | - | 5,007 |
| Net loss for the year | - | - | - | (67,164) | (67,164) |
| Balance - December 31, 2019 | 5,088,750 | \$ 767,579 | \$ 80,877 | \$ (340,266) | \$ 508,190 |
| Net loss for the year | - | - | - | (100,492) | (100,492) |
| Balance - December 31, 2020 | 5,088,750 | \$ 767,579 | \$ 80,877 | \$ (440,758) | \$ 407,698 |

The accompanying notes form an integral part of these financial statements.

Victory Capital Corp.

Statements of Cash Flow

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

| | 2020 | 2019 |
|--|--------------|-------------|
| Operating Activities | | |
| Net loss for the year | \$ (100,492) | \$ (67,164) |
| Items not affecting cash: | | |
| Share-based compensation | - | 5,007 |
| Changes in non-cash operating working capital: | | |
| Accounts payable and accrued liabilities | 17,603 | (17,824) |
| | (82,889) | (79,981) |
| Investing Activities | | |
| Loan receivables | (15,045) | - |
| | (15,045) | - |
| Change in Cash | (97,934) | (79,981) |
| Cash - beginning of year | 524,218 | 604,199 |
| Cash - end of year | \$ 426,284 | \$ 524,218 |

The accompanying notes form an integral part of these financial statements.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

1. Nature of Operations

Victory Capital Corp. (the "Company") was incorporated on November 6, 2009 pursuant to the Business Corporation Act (Ontario) and is classified as a Capital Pool Corporation ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange Inc. ("the Exchange") Corporate Finance Manual. The Company was inactive from the date of incorporation until May 2016. The Company has no significant assets other than cash and proposes to identify and evaluate potential acquisitions or business with a view to completing a Qualifying Transaction, as defined in Exchange Policy 2.4. The Company will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction.

On November 24, 2020, the Company entered into a letter of intent (the "LOI") with Acapulco Gold Corporation ("Acapulco"). Pursuant to the LOI, the Company and Acapulco will negotiate and enter into a definitive agreement (the "Definitive Agreement"), pursuant to which it is anticipated that the Company will acquire all of the issued and outstanding securities of Acapulco at an exchange ratio to be determined in accordance with the Definitive Agreement, resulting in the reverse takeover of the Company by Acapulco (the "Proposed Transaction").

On February 5, 2021, the Company and 1287878 B.C. Ltd., a wholly-owned subsidiary of Victory, which was incorporated on February 5, 2021, entered into a binding merger agreement with Acapulco, in respect of the completion of an arm's length reverse-takeover transaction of Acapulco by Victory, which will constitute the completion of Victory's Qualifying Transaction. (See Note 10)

There is no assurance that the Company will identify a Qualifying Transaction within the time limitations permissible under the policies of the Exchange, at which time the Exchange may suspend or delist the Company's shares from trading.

Subsequent to 2019 year-end and currently, there is a global outbreak of COVID-19 (coronavirus), which has a significant impact on businesses through restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolations/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate that this outbreak may negatively impact the Company's business and financial condition.

The Company's principal place of business is 333 Bay Street, Suite 1700, Toronto, Ontario, M5H 2R2.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

2. Significant Accounting Policies

a) Statement of Compliance

The significant accounting policies applied in the Company's financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective as of December 31, 2020.

These financial statements were authorized for issuance by the Board of Directors of the Company on March 2, 2021.

b) Basis of Presentation

The financial statements of the Company are prepared on a going concern basis. The Company's functional and presentation currency is Canadian dollars.

c) Foreign Currency Translation

Monetary assets and liabilities of the Company denominated in a foreign currency are translated at the rate of exchange prevailing at the date of the statements of financial position and revenues and expenses are translated at the rate of exchange prevailing on the day of the transaction. Gains and losses on translation of these items are included in the statements of loss and comprehensive loss.

d) Cash

Cash includes bank deposits at a reputable financial institution in Canada.

e) Financial Instruments

IFRS 9 includes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. Financial assets within the scope of IFRS 9 are classified in the following measurement categories: amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI"). Financial liabilities are classified in the following measurement categories: fair value through profit or loss, or amortized cost.

Financial assets

The Company's financial assets consist of cash and loan receivable. Cash is measured at FVTPL and loan receivable is measured at amortized cost.

Amortized Cost

Financial assets classified as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

2. Significant Accounting Policies (continued)

Fair value through profit or loss

Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in net profit or loss.

Classification

The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus or minus, in the case of financial assets not classified as FVTPL, directly attributable transaction costs.

Impairment of Financial Assets

Financial assets not measured at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

Financial Liabilities

The Company's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable and accrued liabilities are measured at amortized cost.

Amortized Cost

Financial liabilities measured at amortized cost, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or to the net carrying amount on initial recognition.

Derecognition of Financial Liabilities

The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

2. Significant Accounting Policies (continued)

f) Deferred Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance and are measured at the fair value.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

2. Significant Accounting Policies (continued)

i) Loss per Share

Per IAS 33 "Earnings per Share" applies to a company whose common shares or potential common shares are traded in a public market or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing common shares in a public market. Loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. In order to calculate loss per share in these financial statements, the Company has calculated the weighted average number of shares outstanding for the years ended December 31, 2020 and 2019. During the years ended December 31, 2020 and 2019, the Company's outstanding stock options and agent's warrants were anti-dilutive.

j) Share-Based Payments

The Company offers a share option plan for its directors, officers, employees and selected consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest.

The Company may, from time to time, issue warrants to agents in connection with raising capital for the Company. The fair value of each warrant is measured using the Black-Scholes option pricing model. The resulting expense is recognized in equity as a reduction of the proceeds from the capital raise.

Any consideration paid on exercise of share options and warrants is credited to share capital. The contributed surplus resulting from share-based compensation is transferred to share capital when the options and warrants are exercised.

Share-based payments granted to non-employees are measured at the fair value of goods received unless that cannot be reasonably estimated in which case the fair value of the equity instrument is used.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

2. Significant Accounting Policies (continued)

k) New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning on or after December 31, 2020, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IAS 1, Presentation of Financial Statements (Amendments)

Amendments to IAS 1, Presentation of Financial Statements clarifies the presentation of liabilities in the statement of financial position. The classification of liabilities as current or noncurrent is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendment also introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company does not expect the adoption of this standard to have a significant impact on the Company’s financial statements.

l) Significant Accounting Judgments and Estimates

The preparation of financial statements in conformity with IFRS requires management to make certain judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. These financial statements include estimates, that, by their nature, are uncertain. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The most significant judgments, estimates and assumptions include those related to the fair value of stock-based compensation and warrants, the recognition of deferred tax assets. Management has determined that judgments, estimates and assumptions reflected in these financial statements are reasonable.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

3. Cash Restriction

The proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the issuance of shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under the Exchange Policy 2.4.

4. Issued Capital

The Company is authorized to issue an unlimited number of common shares. As of December 31, 2020 and 2019, there was 5,088,750 common shares outstanding.

During the year ended December 31, 2017, the Company issued 3,888,750 common shares for gross proceeds of \$777,750 pursuant to its initial public offering (the "Offering"). In connection with the issuance of the common shares, the Company paid commissions and other expenses of \$130,171 and issued 388,875 agent's warrants with a fair value of \$40,969 (see note 5).

During the year ended December 31, 2016, the Company issued 1,200,000 common shares for gross proceeds of \$120,000. Upon closing of the Offering, the 1,200,000 issued common shares of the Company outstanding as of December 31, 2016 became subject to a CPC Escrow Agreement. Under the CPC Escrow Agreement, 10% of the escrowed common shares will be released from escrow on the issuance of the Final Exchange Bulletin (the "Initial Release") and an additional 15% will be released on the dates that are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release.

5. Agent's Warrants

During the year ended December 31, 2017, and in connection with the Offering, the Company granted 388,875 agent's warrants pursuant to an Agency Agreement. Each agent warrant entitles the holder to acquire one common share of the Company at a price of \$0.20 per share for a period of 24 months from the date of listing of the common shares on the Exchange. During the year ended December 31, 2019, 388,875 agent's warrants expired.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

6. Stock Options

During the year ended December 31, 2017, the Company granted 508,875 stock options under the Company's Stock Option Plan. During the year ended December 31, 2019, the Company granted 101,775 stock options under the Company's Stock Option Plan.

Each option entitles the holder to acquire one common share of the Company at a price of \$0.20 per share. Each option expires on the later of (i) twelve months following the completion of a Qualifying Transaction; and (ii) 90 days following cessation of the Optionee's position with the Company, provided that if cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, provided that no options may expire later than five years from date such options are granted.

The fair value of the options was estimated at the grant date based on the Black-Scholes pricing model, using the following inputs and assumptions:

| | |
|--------------------------|---------|
| Expected forfeiture rate | Nil |
| Expected dividend yield | Nil |
| Risk-free interest rate | 1.38% |
| Expected life | 5 years |
| Expected volatility | 100% |
| Share price | \$0.20 |

During the year ended December 31, 2019, 203,550 stock options expired due to a resignation of two directors of the Company.

As of December 31, 2020 and 2019, there were 407,100 outstanding and exercisable at the exercise price of \$0.20 with expiry date of December 13, 2022.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

7. Financial Instruments and Other Risks

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

- Level 1 quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. from derived prices); and
- Level 3 inputs for the asset or liability that are not based upon observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at December 31, 2020, the Company's cash was classified as Level 1 measurement. As at December 31, 2020, the Company had no financial instruments classified at Level 2 and Level 3.

Fair Values

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

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

Market Risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign exchange rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in a change in the fair value of a financial instrument. The Company's financial instruments are designated as held for trading, fair value through profit or loss, available for sale, amortized cost or loans and receivables. Therefore, changes in fair value or permanent impairment, if any, affect reported earnings as they occur, except for amortized cost.

The Company separates market risk into two categories: interest rate risk and foreign exchange risk.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company does not hedge its exposure to interest rate risk as such risk is minimal. None of the Company's cash balances are subject to variable interest rates.

Foreign Exchange Risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in changes in carrying value. The Company does not hold any assets denominated in currencies other than the Canadian dollar and is not subject to foreign currency risk.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

7. Financial Instruments and Other Risks (continued)

Credit Risk

As at December 31, 2020, the Company's maximum exposure to credit risk was the book value of cash and loan receivable. The Company limits its credit exposure on cash and cash equivalents by holding its deposits mainly with high credit quality financial institution as determined by credit rating agencies.

Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The majority of current assets reflected on the statements of financial position are highly liquid. As at December 31, 2020, the Company had current assets of \$441,329 (2019 - \$524,218) to settle current liabilities of \$33,631 (2019 - \$16,028).

8. Capital Disclosures

As at December 31, 2020, the Company was not subject to any regulatory capital requirements. The Company's capital is composed of equity, including shareholder's equity and deficit.

The Company's objectives when managing capital include:

- (a) ensuring that the Company meets relevant regulatory capital requirements when applicable,
- (b) ensuring that the Company is able to meet its financial obligations as they become due; and
- (c) ensuring that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There has been no change with respect to the overall capital risk management strategy for the year ended December 31, 2020.

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

9. Deferred Taxes

a) Income Tax Expense

The reconciliation of the combined federal and provincial statutory income tax rate of 26.5% (2019 - 26.5%) is as follows:

| | 2020 | 2019 |
|--|--------------|-------------|
| Loss before income taxes | \$ (100,492) | \$ (67,164) |
| Statutory rate | 26.5% | 26.5% |
| Expected income tax recovery at statutory rate | (26,630) | (17,798) |
| Share based compensation | - | 1,327 |
| Book to filing adjustments | - | 5,740 |
| Change in deferred tax benefits not recognized | 26,630 | 10,731 |
| Income tax (recovery) expense | \$ - | \$ - |

b) Unrecognized Deductible Temporary Differences

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | 2020 | 2019 |
|---|------------|------------|
| Share issuance costs | \$ 30,100 | \$ 71,220 |
| Non-capital losses carried forward – Canada | \$ 438,300 | \$ 296,708 |

c) Non-Capital Losses

The non-capital losses expire as noted in the table below:

| | |
|-------------|----------------|
| 2036 | \$ 26,500 |
| 2037 | 69,500 |
| 2038 | 97,400 |
| 2039 | 103,300 |
| <u>2040</u> | <u>141,600</u> |
| | \$ 438,300 |

Victory Capital Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

Stated in Canadian Dollars

10. Related Party Transactions

During the year ended December 31, 2020, the Company incurred consulting fees of totaling \$9,450 (2019 – \$Nil) payable to Pan-Pacific Supreme Enterprises Ltd., a company related to one of the Company's directors. At December 31, 2020, this amount was outstanding and included in accounts payable and accrued liabilities.

11. Proposed Qualifying Transaction and Subsequent Event

On November 24, 2020, the Company entered into a letter of intent (the "LOI") with Acapulco Gold Corporation ("Acapulco"). Pursuant to the LOI, the Company and Acapulco will negotiate and enter into a definitive agreement on or before December 30, 2020 (the "Definitive Agreement"), pursuant to which it is anticipated that the Company will acquire all of the issued and outstanding securities of Acapulco at an exchange ratio to be determined in accordance with the Definitive Agreement, resulting in the reverse takeover of the Company by Acapulco (the "Proposed Transaction").

Subsequent to the execution of the LOI and the approval of the TSXV, the Company will provide Acapulco with a bridge loan in the amount of up to \$100,000 (the "Loan") for working capital purposes, of which \$25,000 may be immediately advanced to Acapulco pursuant section 8.5(b) of Policy 2.4 of the policies of the TSXV.

On November 27, 2020, the Company issued a promissory note of \$25,000 to Acapulco. The promissory note bears an interest of 6% per annum, and the outstanding principal plus accrued interest shall be repaid the earlier of: (i) receipt of final approval of the TSXV for the Proposed Transaction; and (ii) June 30, 2021. As of December 31, 2020, the Company had advanced \$15,000 to Acapulco.

On February 5, 2021, the Company and 1287878 B.C. Ltd., a wholly-owned subsidiary of Victory, which was incorporated on February 5, 2021, entered into a binding merger agreement with Acapulco, in respect of the completion of an arm's length reverse-takeover transaction of Acapulco by Victory, which will constitute the completion of Victory's Qualifying Transaction.

The completion of the Proposed Transaction is subject to the satisfaction of various conditions that are customary for a transaction of this nature, including but not limited to: (i) the completion of a concurrent financing for gross proceeds of a minimum of \$2,000,000 (the "Private Placement") through the issuance of subscription receipts of Acapulco (the "Subscription Receipts"); (ii) the approval by the directors of Victory and Acapulco of the Proposed Transaction and the matters related therein; and (iii) the receipt of all requisite regulatory, stock exchange, or governmental authorizations and consents, including the Exchange.