



VELOCITY
MINERALS LTD.

Condensed Interim Consolidated Financial Statements

**For the three months ended March 31, 2021 and 2020
Unaudited – Prepared by Management**

(Expressed in Canadian dollars)

NOTICE TO READER

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

The condensed interim consolidated financial statements of the Company for the quarter ended March 31, 2021 have been prepared by and are the responsibility of the Company's management.

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

VELOCITY MINERALS LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
As at

	March 31, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 9,421,947	\$ 10,543,821
Restricted cash (Note 4)	99,230	-
Receivables	244,428	262,743
Prepaid expenses	83,414	152,253
	<u>9,849,019</u>	<u>10,958,817</u>
Property and equipment	223,937	150,241
Exploration and evaluation assets (Note 5)	<u>19,862,629</u>	<u>17,901,671</u>
	<u>\$ 29,935,585</u>	<u>\$ 29,010,729</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade and other payables	\$ 1,017,102	\$ 904,189
Lease liabilities, current	45,506	26,413
	<u>1,062,608</u>	<u>930,602</u>
Lease liabilities, long term	40,519	42,207
Convertible debenture (Note 6)	-	4,209,589
	<u>40,519</u>	<u>5,182,398</u>
Shareholders' equity		
Share capital (Note 7)	39,760,957	33,738,027
Reserves (Note 7)	1,513,962	1,601,716
Equity component of convertible debenture (Note 6)	-	1,106,812
Non-controlling interest	4,163,664	3,365,289
Deficit	(16,606,125)	(15,983,513)
	<u>28,832,458</u>	<u>23,828,331</u>
	<u>\$ 29,935,585</u>	<u>\$ 29,010,729</u>

Nature and continuance of operations (Note 1)

Subsequent event (Note 11)

On behalf of the Board on May 25, 2021

"Keith Henderson"

Director

"Michael Hoffman"

Director

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

VELOCITY MINERALS LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian dollars)

	Three months ended March 31, 2021	Three months ended March 31, 2020
EXPENSES		
Consulting (Note 8)	\$ 9,866	\$ 11,600
Investor relations	34,435	44,792
Office	25,019	27,783
Professional fees	48,880	43,742
Property investigation	36,701	-
Regulatory fees	22,588	14,278
Rent	7,413	19,097
Salaries, benefits and directors' fees (Note 8)	200,113	161,098
Share-based payments (Note 6, 7)	25,056	-
Travel	21,106	19,555
OPERATING LOSS	431,177	341,945
OTHER (INCOME) EXPENSES		
Accretion expense (Note 6)	49,294	50,074
Foreign exchange	100,963	(103,884)
Interest income	(7,815)	(54,482)
Interest expense (Note 6)	100,536	107,358
Total other (income) / loss	242,978	(934)
Loss and comprehensive loss for the period	\$ 674,155	\$ 341,011
Loss and comprehensive loss attributed to:		
Owners of the Company	622,612	266,679
Non-controlling interests	51,543	74,332
	\$ 674,155	\$ 341,011
Loss per common share		
-Basic and diluted	\$ 0.00	\$ 0.00
Weighted average number of common shares outstanding		
-Basic and diluted	137,071,806	105,423,536

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

VELOCITY MINERALS LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

	Share capital		Reserves	Shares issuable	Equity component of convertible debenture	Non-controlling interest	Deficit	Total
	Number of common shares	Amount						
Balance, December 31, 2019	97,792,229	\$ 17,783,183	\$ 1,703,957	\$ -	1,106,812	\$ 2,484,861	\$ (13,917,774)	\$ 9,161,039
Private placement	14,467,687	5,787,075	-	-	-	-	-	5,787,075
Share issuance costs – cash	-	(172,261)	-	-	-	-	-	(172,261)
Share issuance costs – Finder's warrants	-	(24,000)	24,000	-	-	-	-	-
Shares issuable for interest on convertible debenture	-	-	-	216,495	-	-	-	216,495
Change in net assets of Tintyava Exploration AD	-	-	-	-	-	457,590	-	457,590
Loss and comprehensive loss	-	-	-	-	-	(74,332)	(266,679)	(341,011)
Balance, March 31, 2020	112,259,916	\$ 23,373,997	\$ 1,727,957	\$ 216,495	1,106,812	\$ 2,868,119	\$ (14,184,453)	\$ 15,108,927
Balance, December 31, 2020	135,374,015	\$ 33,738,027	\$ 1,601,716	\$ -	1,106,812	\$ 3,365,289	\$ (15,983,513)	\$ 23,828,331
Shares issued on conversion of debentures – principal and interest (Note 6, 7)	21,211,136	5,574,478	-	-	(1,106,812)	-	-	4,467,666
Stock option exercises	775,000	347,365	(125,865)	-	-	-	-	221,500
Warrant exercises	294,384	101,087	-	-	-	-	-	101,087
Share-based payments	-	-	38,111	-	-	-	-	38,111
Change in net assets of Tintyava Exploration AD	-	-	-	-	-	849,918	-	849,918
Loss and comprehensive loss	-	-	-	-	-	(51,543)	(622,612)	(674,155)
Balance, March 31, 2021	157,654,535	\$ 39,760,957	\$ 1,513,962	\$ -	-	\$ 4,163,664	\$ (16,606,125)	\$ 28,832,458

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

VELOCITY MINERALS LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Three months ended March 31, 2021	Three months ended March 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (674,155)	\$ (341,011)
Adjustments for:		
Accretion expense	49,294	50,074
Interest expense, non-cash	100,536	107,358
Share-based payments	25,056	-
Interest paid on leases	2,075	1,383
Interest income	(1,207)	(11,881)
Changes in non-cash working capital items:		
Receivables	19,522	5,521
Prepaid expenses	68,839	(44,946)
Trade and other payables	(102,808)	(192,320)
Net cash used in operating activities	<u>(512,848)</u>	<u>(425,822)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	322,587	5,614,814
Non-controlling interest – equity contributions	849,918	457,590
Lease payments	(13,667)	(11,224)
Net cash provided by financing activities	<u>1,158,838</u>	<u>6,061,180</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(1,609,335)	(1,721,006)
Acquisition of property and equipment	(59,299)	(4,472)
Net cash used in investing activities	<u>(1,668,634)</u>	<u>(1,725,478)</u>
Change in cash, cash equivalents and restricted cash during the period	(1,022,644)	3,909,880
Cash and cash equivalents, beginning of period	10,543,821	3,217,419
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 9,521,177</u>	<u>\$ 7,127,299</u>
Cash and cash equivalents, end of period	\$ 9,421,947	\$ 7,127,299
Restricted cash, end of period	99,230	-
	<u>\$ 9,521,177</u>	<u>\$ 7,127,299</u>

Supplemental disclosure with respect to cash flows (Note 9)

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

VELOCITY MINERALS LTD.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

1. NATURE AND CONTINUANCE OF OPERATIONS

Velocity Minerals Ltd. (“Velocity” or, the “Company”) was incorporated under the laws of the province of Alberta on September 22, 2000 and was continued into British Columbia on December 2, 2004. The head office and principal address of the Company is Suite 850 - 999 West Hastings Street, Vancouver, BC V7L 2B3. The common shares of the Company trade on the TSX Venture Exchange (“TSX-V”) with the symbol “VLC.V”. The Company is in the business of acquiring, exploring, and evaluating mineral resource properties in Bulgaria.

The Company is in the process of exploring its mineral resource properties and evaluating new properties for potential acquisition. The Company has determined that it has one mineral reserve but has not yet determined whether its other properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and upon future profitable production.

As at March 31, 2021, the Company has working capital of \$8,687,181 (December 31, 2020 - \$10,028,215), excluding restricted cash of \$99,230 (December 31, 2020 - \$nil) and an accumulated deficit of \$16,606,125 (December 31, 2020 - \$15,983,513). The Company expects to incur further losses in the development of its business. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing to successfully explore and evaluate its mineral properties and, ultimately, to achieve profitable operations. Management estimates that the Company will be able to meet its obligations and to sustain operations for at least the next twelve months.

These condensed interim consolidated financial statements have been prepared based on accounting principles applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal courses of business rather than through a process of forced liquidation. These condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset and amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB. In the opinion of management, all adjustments considered necessary for fair presentation of the Company’s financial position, results of operations and cash flows have been included. Operating results for the three-month period ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit and loss, which are stated at their fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting. These condensed interim consolidated financial statements are prepared in Canadian dollars.

VELOCITY MINERALS LTD.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Basis of consolidation**

These consolidated financial statements represent the results of the Company and its subsidiaries. Amounts are reported in Canadian dollars, unless otherwise indicated.

Subsidiary	Location	Ownership Interest
1077076 B.C. Ltd. ("7076 Ltd")	Canada	100%
Kibela Minerals AD ("Kibela")	Bulgaria	100%
Kabiri Minerals EOOD ("Kabiri")	Bulgaria	100%
Tintyava Exploration AD ("Tintyava")	Bulgaria	70%
Tethyan Exploration EOOD ("Tethyan")	Bulgaria	100%
Balkan Minerals Development ("BMD")	Bulgaria	100%
Velocity Minerals Holdings Ltd.	Malta	100%
Velocity Minerals Malta Ltd.	Malta	100%

The Company established its subsidiaries Kibela and Kabiri in 2017 and 2018 respectively, and effective March 1, 2019, acquired 70% of Tintyava Exploration AD. The Company established its subsidiary Tethyan in 2020, and effective March 2, 2021, acquired 100% of Balkan Minerals Development. Velocity Minerals Holding Ltd, and Velocity Minerals Malta Ltd. are in the process of being wound up.

The Company consolidates its subsidiaries on the basis that it controls the subsidiaries through its ability to govern their financial and operating policies. The Company attributes total comprehensive loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consists of the following:

	March 31, 2021	December 31, 2020
Cash	\$ 4,721,947	\$ 1,743,821
Cash equivalents	4,700,000	8,800,000
Total	\$ 9,421,947	\$ 10,543,821

	March 31, 2021	December 31, 2020
Cash and cash equivalents held with banks in Canadian dollars	\$ 6,233,967	\$ 9,646,079
Cash held with banks in foreign currencies	3,187,980	897,742
Total	\$ 9,421,947	\$ 10,543,821

VELOCITY MINERALS LTD.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

4. RESTRICTED CASH

Restricted cash consists of cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements. As at March 31, 2021, restricted cash included performance bank guarantees in relation to Exploration agreements for Iglika project (Note 5 (d)) between the Company and the Ministry of Energy of Bulgaria. The bank guarantees are with expiry dates between April 28, 2021 and April 12, 2023.

5. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to all its exploration and evaluation assets and, to the best of its knowledge, title to all of its properties are in good standing.

a) Tintyava Property – Bulgaria

On July 19, 2017, the Company, through its subsidiary Kibela, entered into an Option Agreement whereby the Company has been granted an option by Gorubso-Kardzhali AD (“Gorubso”) to acquire an undivided 70% legal and beneficial interest in Tintyava Exploration EAD, an entity owned by Gorubso that holds a 100% interest in a prospecting and exploration permit (the “Option”) located in south-eastern Bulgaria (the “Tintyava Option”).

For the Company to exercise the Tintyava Option, it had to complete the following:

- i. Payment of a tender fee of 360,000 BGN (\$266,760) to the Ministry of Energy of the Republic of Bulgaria (paid, during the six months ended June 30, 2017); and
- ii. Deliver an NI 43-101 preliminary economic assessment on the Tintyava Property. The results of the preliminary economic assessment were disclosed on September 17, 2018. The preliminary economic assessment report was filed on SEDAR on October 31, 2018.

During 2019, the Company exercised its option to acquire an undivided 70% interest in the Tintyava property. As a result, on March 1, 2019, shares of Tintyava Exploration EAD (“Tintyava”), representing 70% ownership by the Company, have been registered in the name of Kibela.

The change in control was recorded as an asset acquisition, and on consolidation, the Company’s investment in Tintyava is eliminated. On consolidation, the carrying value of the net assets of Tintyava are combined with the accounts of the Company.

b) Nadezhda Property – Bulgaria

On March 5, 2019, the Company entered into an option agreement for the Nadezhda project, which is centered on the Makedontsi deposit. Under the terms of the option agreement, the Company can earn a 70% interest in the Nadezhda project by delivering certain data and reports including a mineral resource estimate prepared under National Instrument 43-101 of the Canadian Securities Administrators. The term of the option agreement is six years.

c) Momchil Property – Bulgaria

On March 5, 2019, the Company entered into an option agreement for the Momchil project, which is centered on the Obichnik deposit. Under the terms of the option agreement, the Company can earn a 70% interest in the Momechill project by delivering certain data and reports including a mineral resource estimate prepared under National Instrument 43-101 of the Canadian Securities Administrators. The term of the option agreement is six years.

VELOCITY MINERALS LTD.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

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

d) Sedefche Property – Bulgaria

On September 25, 2019, the Company entered into an option agreement for the Sedefche project (“Sedefche” or the “Project”) with Gorubso. The Company can earn a 70% interest in Sedefche by completing 5,000 m of drilling prior to March 31, 2020 (the “Initial Drilling”). The Initial Drilling was completed as at March 31, 2020. Pursuant to the option agreement, the Company made the election to complete an additional drill program (the “Additional Drilling”) by September 25, 2020.

On September 25, 2020, the parties amended the terms of the option agreement to extend the term of the option period to October 25, 2020 for the purpose of providing additional time for the parties to negotiate and enter into a relinquishment agreement, whereby the Optionor – Gorubso - shall reimburse the Company for the exploration and evaluation work carried out in the Sedefche property from the commencement of the option agreement to September 24, 2020. On receipt of the reimbursement, the Company shall agree not to exercise and to relinquish the option and all right, title and interest in and to the Sedefche project. In addition, the Company shall provide to Gorubso all of the data related to the project.

On October 22, 2020, the Company executed a relinquishment agreement and received the reimbursement amount of 1,938,931 Bulgarian lev or \$1,523,880, and the Company relinquished its interest in Sedefche property. In connection with the relinquishment of Sedefche, the Company recorded recoveries of \$1,523,880 to exploration and evaluation assets, and an impairment loss of \$32,829.

e) Iglika Property – Bulgaria

On June 26, 2020, the Company entered into a Letter Agreement with Balkan Minerals Development OOD (“BMD”), a Bulgarian private company, and its shareholders, for an exclusive option to acquire a 100% interest in Iglika gold-copper property (“Iglika” or the “Project”) through acquiring all of the issued and outstanding shares of BMD.

Under the terms of the Letter agreement, the Company can acquire an initial 51% of BMD shares by completing the following: (i) pay BGN 62,500 to BMD on signing of the Letter Agreement and (ii) incur exploration expenditures in the amount of EUR 300,000 by December 31, 2020. The Company could earn the remaining 49% of BMD shares by incurring additional exploration expenditures in the amount of EUR 500,000 by December 31, 2021.

BMD will retain a 2.0% net smelter returns royalty (“Option Royalty”), which will be capped at US\$5,000,000. At any time, 1.0% of the Option Royalty can be purchased for €500,000 and an additional 0.5% of the Option Royalty can be purchased for €1,000,000. Notwithstanding the option terms above, the Company can purchase a 100% interest (the “Purchase Option”) for US\$250,000 until December 31, 2021 or for US\$500,000 until June 30, 2022, either of which payments can be paid in cash or 50% cash and 50% Velocity shares. If the Purchase Option is exercised, BMD will instead retain a 0.5% Royalty (“Purchase Royalty”), capped at US\$5,000,000. 100% of the Purchase Royalty may be purchased for US\$500,000.

On February 19, 2021, the parties entered into a definitive agreement, which amended the terms of the Letter agreement. Pursuant to the terms of the definitive agreement, the Company could acquire 100% of BMD shares by incurring EUR 300,000 in exploration and evaluation by December 31, 2021. On March 2, 2021, the Company acquired 100% of BMD shares. BMD former shareholders have retained a 2% net smelter returns royalty capped at US\$5,000,000. At any time, 1.5% of the royalty can be purchased for EUR 1,500,000.

The acquisition was accounted for as an asset acquisition. No value was ascribed to the Option Royalty due to the early stage of exploration. There were insignificant assets or liabilities transferred.

VELOCITY MINERALS LTD.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

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

 f) Exploration and evaluation assets continuity

	Tintyava	Nadezhda	Momchil	Iglika	Total
	\$	\$	\$	\$	\$
Acquisition costs					
Balance, December 31, 2020	2,040,270	1,384	1,384	106,952	2,149,990
Additions	-	-	-	21,776	21,776
Balance, March 31, 2021	2,040,270	1,384	1,384	128,728	2,171,766
Exploration and evaluation					
Balance, December 31, 2020	9,997,944	402,984	4,690,197	660,556	15,751,681
Drilling and assays	512,407	135,800	471,485	4,845	1,124,537
Geological and studies	53,869	17,620	72,631	61,496	205,616
Geochemistry	31,908	-	-	3,074	34,982
Geophysics	-	-	-	68,209	68,209
Field and vehicles	74,458	15,152	25,140	49,243	163,993
Salaries and travel	140,931	42,766	91,496	53,597	328,790
Share-based compensation	632	632	632	11,159	13,055
	814,205	211,970	661,384	251,623	1,939,182
Balance, March 31, 2021	10,812,149	614,954	5,351,581	912,179	17,690,863
Balance, March 31, 2021	12,852,419	616,338	5,352,965	1,040,907	19,862,629

	Tintyava	Nadezhda	Momchil	Sedefche	Iglika	Total
	\$	\$	\$	\$	\$	\$
Acquisition costs						
Balance, December 31, 2019	2,005,136	-	-	-	-	2,005,136
Additions	35,134	1,384	1,384	-	106,952	144,854
Balance, December 31, 2020	2,040,270	1,384	1,384	-	106,952	2,149,990
Exploration and evaluation						
Balance, December 31, 2019	6,380,152	137,440	1,669,925	412,699	-	8,600,216
Drilling and assays	1,331,164	29,646	2,167,370	734,777	40,137	4,303,094
Geological and studies	1,446,977	130,649	200,996	159,952	120,810	2,059,384
Geochemistry	66,874	-	1,079	-	41,098	109,051
Geophysics	14,563	42,027	90,609	-	282,056	429,255
Field and vehicles	220,484	19,512	90,468	45,636	42,925	419,025
Salaries and travel	482,264	38,708	420,770	182,534	133,530	1,257,806
Share-based compensation	55,466	5,002	48,980	21,111	-	130,559
	3,617,792	265,544	3,020,272	1,144,010	660,556	8,708,174
Balance, December 31, 2020	9,997,944	402,984	4,690,197	1,556,709	660,556	17,308,390
Cash proceeds	-	-	-	(1,523,880)	-	(1,523,880)
Impairment	-	-	-	(32,829)	-	(32,829)
Balance, December 31, 2020	12,038,214	404,368	4,691,581	-	767,508	17,901,671

VELOCITY MINERALS LTD.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

6. CONVERTIBLE DEBENTURE

On March 14, 2019, the Company issued a convertible debenture valued at \$5,094,000 with an interest rate of 8.5% per annum compounded semi-annual, convertible into common shares at \$0.25 per share, with a maturity date of March 14, 2024. For accounting purposes, the convertible debenture is separated into a liability and equity component by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the convertible debenture assuming an 15% discount rate, which was the estimated rate for a similar debenture without a conversion feature.

Transaction costs of \$132,555, were incurred and have been recorded pro rata against the liability and equity components. The liability balance of the transaction costs will be amortized over the life of the debenture.

The Company's convertible debenture is broken down as follows:

Proceeds received	\$	5,094,000
Transaction costs		(132,555)
Proceeds received, net	\$	<u>4,961,445</u>
Net proceeds allocated to equity portion	\$	1,106,812
Net proceeds allocated to liability portion		3,854,633
	\$	<u>4,961,445</u>

	March 31, 2021	December 31, 2020
Opening balance	\$ 4,209,589	\$ 4,002,933
Accretion	49,294	206,656
Conversion	(4,258,883)	-
Ending balance	\$ -	\$ 4,209,589

On March 26, 2021, all of the Company's Convertible Debentures with a carrying value of \$4,258,883 (aggregate principal of \$5,094,000) and accrued interest of \$208,784 for the period October 1, 2020 to March 26, 2021, were converted to 21,211,136 common shares of the Company.

7. SHARE CAPITAL AND RESERVES**Authorized share capital**

Unlimited number of common shares without par value.

Issued share capitalThree months ended March 31, 2021:

On March 26, 2021, the Company issued 21,211,136 common shares of the Company on the conversion of Convertible Debentures with a carrying value of \$4,258,883 (aggregate principal of \$5,094,000) and accrued interest of \$208,784.

During the three months ended March 31, 2021 the Company issued 775,000 common shares pursuant to stock options exercises for aggregate gross proceeds of \$221,500, and in connection with this, the Company transferred \$125,865 from reserves to share capital. In addition, the Company issued 294,384 shares for gross proceeds of \$101,087 pursuant to warrants exercises.

VELOCITY MINERALS LTD.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

7. SHARE CAPITAL AND RESERVES (cont'd...)Three months ended March 31, 2020:

On February 12, 2020, the Company closed a non-brokered private placement of 14,467,687 units for gross proceeds of \$5,787,075 ("the Financing"). Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share at a price of \$0.55 per common share for a period of 18 months from the issue date.

In connection with the Financing, the Company paid aggregate finder's fees consisting of \$92,260 in cash and issued 215,250 non-transferable finder's warrants ("Finder's Warrant"). Each Finder's Warrant entitles the holder to purchase one common share at a price of \$0.40 per common share for a period of 12 months from the issue date. The Company incurred \$80,001 in legal and regulatory fees in connection with the Financing.

Stock options

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time-to-time, at its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed a rolling 10% of the Company's issued and outstanding common shares at the time the options are granted. Vesting of stock options is at the discretion of the Board of Directors. Stock options are exercisable for a maximum of 10 years, and the exercise price of the stock options is set in accordance with the policies of the TSX-V.

As at March 31, 2021, the Company had stock options outstanding and exercisable enabling the holder to acquire common shares as follows:

Number of Stock options Outstanding	Number of Stock options Exercisable	Exercise Price	Expiry Date	Remaining life in years
2,700,000	2,700,000	\$0.31	July 31, 2022	1.3
500,000	500,000	\$0.35	September 26, 2022	1.5
50,000	50,000	\$0.31	November 14, 2022	1.6
150,000	150,000	\$0.28	May 1, 2021	0.1
900,000	900,000	\$0.46	November 19, 2021	0.6
1,500,000	1,500,000	\$0.34	April 7, 2022	1.0
905,000	150,230	\$0.48	August 11, 2025	4.3
6,705,000	5,950,230	\$0.36		1.6

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2019	9,075,000	\$ 0.28
Granted	2,405,000	0.39
Exercised	(3,350,000)	0.19
Forfeited	(550,000)	0.32
As at December 31, 2020	7,580,000	\$ 0.35
Exercised	(775,000)	0.29
Forfeited	(100,000)	0.28
As at March 31, 2021	6,705,000	\$ 0.36
Number of options currently exercisable	5,950,230	\$ 0.35

During the three months ended March 31, 2021, the Company recognized share-based payments expense of \$25,056 (March 31, 2020 - \$Nil) in respect to the vesting of stock options granted. The weighted average remaining contractual life of options outstanding at March 31, 2021 was 1.6 (December 31, 2020 - 1.5) years. There were no new stock option grants during the three months ended March 31, 2021 and March 31, 2020.

VELOCITY MINERALS LTD.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

7. SHARE CAPITAL AND RESERVES (cont'd...)**Warrants**

The following common share purchase warrants entitle the holder thereof to purchase one common share for each warrant. Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2019	12,650,217	\$ 0.24
Issued	7,449,094	0.53
Exercised	(642,500)	0.20
As at December 31, 2020	19,456,811	\$ 0.36
Exercised	(294,383)	0.34
Expired	(4,200)	0.40
As at March 31, 2021	19,158,228	\$ 0.36

The weighted average remaining contractual life of warrants outstanding and exercisable at March 31, 2021 was 0.7 (December 31, 2020 – 1.0) year.

Warrants outstanding are as follows:

Number of Warrants	Exercise Price	Expiry Date
2,624,384	\$0.20	October 12, 2021
9,300,000	\$0.25	March 14, 2022
7,233,844	\$0.55	August 12, 2021
19,158,228		

8. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Key management personnel compensation for the three months ended March 31, 2021 and 2020 were:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Short-term benefits paid or accrued:		
Consulting fees ¹	\$ 140,500	\$ 138,799
Salaries and directors' fees	117,000	121,500
	257,500	260,299
Share-based payments:		
Share-based payments	24,214	-
Total remuneration	\$ 281,714	\$ 260,299

¹Consulting fees of \$100,631 (2020 - \$124,899) are included in exploration and evaluation assets and \$24,269 (2020 - \$nil) in Project investigation costs.

As at March 31, 2021, the Company had accrued liabilities to key management personnel of \$45,786 included in trade payables (December 31, 2020- \$21,885).

No post-employment benefits, termination benefits, or other long-term benefits were paid to or recorded for key management personnel during the three months ended March 31, 2021 and 2020.

VELOCITY MINERALS LTD.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the three months ended March 31, 2021 and 2020

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three months ended March 31, 2021	Three months ended March 31, 2020
Depreciation included in exploration and evaluation assets	\$ 14,600	\$ 12,411
Exploration and evaluation assets included in trade and other payables	822,840	965,067
Finder's warrants	-	24,000
Share-based compensation included in exploration and evaluation assets	11,159	-

10. SEGMENT INFORMATION

The Company operates in one reportable segment being the exploration and evaluation of mineral resource properties in Bulgaria. The Company's exploration and evaluation assets are in Bulgaria.

11. SUBSEQUENT EVENTS

On May 12, 2021, the Company granted 1,204,000 common share stock options to various directors, officers, employees and consultants of the company and its affiliates. The options entitle the holder to purchase shares at a price of \$0.45 per share for a period of 5 years from the issue date and vest 16.6% every six months from the date of issuance.