



VELOCITY
MINERALS LTD.

Consolidated Financial Statements

December 31, 2021 and 2020

(Expressed in Canadian dollars)

<u>INDEX</u>	<u>Page</u>
Independent Auditors' Report	
Consolidated Statements of Financial Position	1
Consolidated Statements of Loss and Comprehensive Loss	2
Consolidated Statements of Changes in Shareholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-25

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Velocity Minerals Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Velocity Minerals Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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.



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.

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 Erez Bahar.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 25, 2022

VELOCITY MINERALS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
As at December 31,

	2021	2020
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 4,676,562	\$ 10,543,821
Receivables (Note 4)	303,006	262,743
Prepaid expenses	53,667	152,253
	5,033,235	10,958,817
Property and equipment (Note 5)	244,223	150,241
Exploration and evaluation assets (Note 6)	23,203,534	17,901,671
	\$ 28,480,992	\$ 29,010,729
LIABILITIES AND EQUITY		
Current		
Trade and other payables (Note 7 and 12)	\$ 368,479	\$ 904,189
Lease liabilities, current (Note 8)	61,147	26,413
	429,626	930,602
Lease liabilities, long term (Note 8)	44,776	42,207
Convertible debenture (Note 9)	-	4,209,589
	474,402	5,182,398
Shareholders' equity		
Share capital (Note 10)	40,309,367	33,738,027
Reserves (Note 10)	1,711,765	1,601,716
Equity component of convertible debenture (Note 9)	-	1,106,812
Deficit	(18,473,479)	(15,983,513)
	23,547,653	20,463,042
Non-controlling interest (Note 11)	4,458,937	3,365,289
	28,006,590	23,828,331
	\$ 28,480,992	\$ 29,010,729

Nature and continuance of operations (Note 1)

Subsequent events (Note 10)

On behalf of the Board on April 22, 2022

"Keith Henderson"

Director

"Michael Hoffman"

Director

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

VELOCITY MINERALS LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
For the years ended December 31,

	2021	2020
EXPENSES		
Consulting	\$ 71,408	\$ 83,839
Depreciation (Note 5)	11,244	-
Investor relations	120,893	182,758
Office	188,428	143,185
Professional fees	399,772	314,394
Property investigation (Note 12)	246,079	100,093
Regulatory and transfer agent fees	65,294	52,564
Salaries and benefits (Note 12)	859,118	627,361
Share-based compensation (Note 10 and 12)	143,932	125,578
Travel	71,802	32,539
	(2,177,970)	(1,662,311)
OTHER INCOME (EXPENSES)		
Accretion expense (Note 9)	(49,294)	(206,656)
Foreign exchange gain (loss)	(140,720)	51,800
Interest expense (Note 9)	(103,900)	(432,991)
Interest income	22,400	44,520
Impairment of exploration and evaluation assets (Note 6)	-	(32,829)
Other expense	(58,123)	-
	(329,637)	(576,156)
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(2,507,607)	(2,238,467)
Loss and comprehensive loss attributable to:		
Owners of the Company	(2,489,966)	(2,065,739)
Non-controlling interest	(17,641)	(172,728)
	(2,507,607)	(2,238,467)
Loss per common share		
-Basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding		
-Basic and diluted	153,434,269	114,769,920

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

VELOCITY MINERALS LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

	<u>Share capital</u>		Reserves	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	32,361,687	14,734,075	-	-	-	-	14,734,075
Share issuance costs – cash	-	(345,600)	-	-	-	-	(345,600)
Share issuance costs – finder's warrants	-	(24,000)	24,000	-	-	-	-
Shares issued for interest on convertible debenture	1,227,599	432,991	-	-	-	-	432,991
Warrants exercise	642,500	128,500	-	-	-	-	128,500
Stock options exercise	3,350,000	1,028,878	(382,378)	-	-	-	646,500
Share-based compensation	-	-	256,137	-	-	-	256,137
Change in net assets of Tintyava							
Exploration AD	-	-	-	-	1,053,156	-	1,053,156
Loss and comprehensive loss	-	-	-	-	(172,728)	(2,065,739)	(2,238,467)
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	21,211,136	5,574,477	-	(1,106,812)	-	-	4,467,665
Stock option exercises	775,000	347,365	(125,865)	-	-	-	221,500
Warrant exercises	2,918,768	649,498	(23,533)	-	-	-	625,965
Share-based compensation	-	-	259,447	-	-	-	259,447
Change in net assets of Tintyava	-	-	-	-	1,111,289	-	1,111,289
Exploration AD							
Loss and comprehensive loss	-	-	-	-	(17,641)	(2,489,966)	(2,507,607)
Balance, December 31, 2021	160,278,919	\$ 40,309,367	\$ 1,711,765	\$ -	\$ 4,458,937	\$ (18,473,479)	\$ 28,006,590

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

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

	Year ended December 31, 2021	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (2,507,607)	\$ (2,238,467)
Adjustments for:		
Accretion expense	49,294	206,656
Depreciation	11,244	-
Interest expense, non-cash	100,536	432,991
Share-based compensation	143,932	125,578
Impairment of exploration and evaluation assets	-	32,829
Interest paid on leases	2,797	6,546
Interest income	(22,400)	-
Changes in non-cash working capital items:		
Receivables	(41,002)	(186,620)
Prepaid expenses	98,586	(109,616)
Trade and other payables	(163,631)	(24,182)
Net cash used in operating activities	(2,328,251)	(1,754,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	847,465	15,163,475
Non-controlling interest – equity contributions	1,111,289	1,053,156
Lease payments	(56,300)	(49,369)
Net cash provided by financing activities	1,902,454	16,167,262
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	23,139	-
Exploration and evaluation assets	(5,405,872)	(7,005,767)
Acquisition of property and equipment	(58,729)	(80,808)
Net cash used in investing activities	(5,441,462)	(7,086,575)
Change in cash and cash equivalents during the year	(5,867,259)	7,326,402
Cash and cash equivalents, beginning of year	10,543,821	3,217,419
Cash and cash equivalents, end of year	\$ 4,676,562	\$ 10,543,821
Cash	\$ 848,395	\$ 1,743,821
Cash equivalents	3,766,575	8,800,000
Restricted cash	61,592	-
	\$ 4,676,562	\$ 10,543,821

Supplemental disclosure with respect to cash flows (Note 13)

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

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 890 - 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 December 31, 2021, the Company has working capital of \$4,603,609 (2020 - \$10,028,215), including restricted cash of \$61,592 (December 31, 2020 - \$nil) and an accumulated deficit of \$18,473,479 (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 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 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

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of presentation

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

Certain comparative figures have been reclassified to conform with presentation adopted for the current period.

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
Velocity Exploration Ltd.	Canada	100%
Kibela Minerals AD (“Kibela”)	Bulgaria	100%
Kabiri Minerals EOOD (“Kabiri”)	Bulgaria	100%
Tintyava Exploration AD (“Tintyava”)	Bulgaria	70%
Tintyava AgriBio EOOD (“Tintyava AgriBio”)	Bulgaria	70%
Tethyan Exploration EOOD (“Tethyan”)	Bulgaria	100%
Balkan Minerals Development EOOD (“BMD”)	Bulgaria	100%
Velocity Minerals Holdings Ltd.	Malta	100%
Velocity Minerals Malta Ltd.	Malta	100%

The Company established its subsidiary Tethyan in 2020 and Tintyava AgriBio in 2021; effective March 2, 2021, the Company acquired 100% of BMD, which holds the exploration and evaluation permit for Iglıka property (Note 6 (e)). Velocity Minerals Holding Ltd, and Velocity Minerals Malta Ltd. were wound up on February 10, 2022.

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.

Foreign currency transactions

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, “*The Effects of Changes in Foreign Exchange Rates*” (“IAS 21”). The functional currency of the Company and its subsidiaries is the Canadian dollar.

Translation of foreign transactions and balances into the functional currency

Foreign currency transactions are translated into the functional currency of the entity at rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, all monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency of the Company at the rates prevailing at the date of the statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

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

Cash and cash equivalents

Cash and cash equivalents consist of restricted cash and highly liquid short-term investments that are readily convertible to cash and have maturities with terms of less than ninety days and/or with original maturities over ninety days but redeemable on demand without penalty.

Property and equipment

Property and equipment are recorded at cost less depreciation, depletion and accumulated impairment losses, if any. Where significant components of buildings and equipment have different useful lives, the components are accounted for as separate items. Expenditures incurred to replace a component that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects are capitalized until the asset is brought to a working condition for its intended use.

These costs include dismantling and site restoration costs to the extent these are recognized as a provision. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of normal overhead. The costs of day-to-day servicing are recognized in expenses as incurred, as “maintenance and repairs.”

The Company depreciates its assets, less their estimated residual values, as follows:

Category	Method	Useful life
Equipment and vehicles	Straight-line	3-5 years
Computers and software	Straight-line	1-3 years
Right-of-use asset	Straight-line	Earlier of useful life of term of lease

The depreciation method, useful life and residual values are assessed annually.

Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, and costs associated with exploration and evaluation activity. All costs related to the acquisition, exploration and evaluation of mineral resource properties are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area, including professional fees incurred in connection with executing an option agreement, are expensed through profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable and the Company’s board of directors have approved a construction decision, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to development assets within equipment.

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

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

Decommissioning and Restoration Provisions

Decommissioning and restoration provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Decommissioning and restoration provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized in profit or loss.

Decommissioning and restoration provisions are recognized at the present value of management's best estimate of fair value of the expenditures required to settle the present obligation at the reporting date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion whereas increases/decreases due to changes in the estimated future cash flows are added to or deducted from the related asset. Actual costs incurred upon settlement of decommissioning and restoration provisions are charged against the provision to the extent the provisions were established.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably. Changes in reclamation estimates are accounted for prospectively as a change in the corresponding capitalized cost.

The Company did not have any decommissioning and restoration provisions for the years presented.

Impairment of long-lived assets

At the end of each reporting period the carrying amounts of the Company's long-lived 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 to sell 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash in flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

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

Leases

The Company assesses whether a contract is, or contains, a lease, at the inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets such as office printers. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets, which are included in property and equipment, are recognized at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs and decommissioning and restoration costs, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise of the following:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as part of private placement units. The residual value method first allocates value to common shares issued in the private placements at their fair value, as determined by the closing quoted bid price on the issuance date. The balance, if any, is allocated to the warrants. Any fair value attributed to the warrants is recorded as reserves within shareholders' equity.

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

Financial instruments

Financial assets are classified according to their contractual cash flow characteristics and the business models under which they are held. On initial recognition, a financial asset is classified as: amortized cost, fair value through profit and loss ("FVPL"), or fair value through other comprehensive income ("FVOCI").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVPL:

- it is held with the objective of collecting contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis.

All financial assets not classified as amortized cost or FVOCI are classified as and measured at FVPL. This includes all derivative assets. On initial recognition, a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI may be irrevocably designated as FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as FVPL, directly attributable transaction costs. Measurement of financial assets in subsequent periods depends on whether the financial asset has been classified as amortized cost, FVPL or FVOCI. Measurement of financial liabilities subsequent to initial recognition depends on whether they are classified as amortized cost or FVPL. Financial assets and financial liabilities classified as amortized cost are measured subsequent to initial recognition using the effective interest method.

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVTPL, are measured at amortized cost using the effective interest method. These liabilities are initially recognised as fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortised cost using the effective interest rate method.

Accounts payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period, which are unpaid. Accounts payable and accrued liabilities are unsecured and are usually paid within 45 days of recognition.

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

Financial instruments (cont'd...)

Compound financial instruments issued by the Company comprise convertible notes denominated in Canadian dollar that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognised.

The Company has classified and measured its financial instruments as described below:

- Cash and cash equivalents are classified as FVPL.
- Receivables are classified as and measured at amortized cost.
- Trade and other payables are classified as and measured at amortized cost.
- Convertible debenture is classified as and measured at amortized cost.

Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

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

Critical accounting estimates and judgements

The preparation of these consolidated financial statements requires management to make certain estimates, judgements and assumptions 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.

The information about significant areas of judgement considered by management in preparing these consolidated financial statements is as follows:

Going concern

The preparation of these consolidated financial statements requires management to make judgements regarding the going concern of the Company as previously discussed in Note 1.

Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Management determines whether assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Management determines whether assets acquired and liabilities assumed constitute a business. In examining processes and potential outputs, management considers the ability of the acquired and existing processes to adequately be capable of producing the potential outputs; where the processes are insufficient and/or incomplete to produce potential outputs, the Company considers the acquisition to be an asset acquisition. The acquisition of Balkan Minerals Development OOD (Note 6 (e)) was an asset acquisition.

The information about significant areas of estimation uncertainty considered by management in preparing these consolidated financial statements is as follows:

Income taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred income tax provisions or recoveries could be affected.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, profit or loss and cash flows.

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of the Company's exploration and evaluation assets does not necessarily represent present or future values, and these assets have been accounted for under the assumption that the carrying value will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development, and upon future profitable production or proceeds from the disposition of the exploration and evaluation assets themselves.

COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during the year.

Due to the uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position, and operating results in the future.

VELOCITY MINERALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2021 and 2020

3. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash and cash equivalents held with banks in Canadian dollars	\$ 3,879,495	\$ 9,646,079
Cash and restricted cash held with banks in foreign currencies	797,067	897,742
Total	\$ 4,676,562	\$ 10,543,821

4. RECEIVABLES

	December 31, 2021	December 31, 2020
Trade receivables	\$ 819	\$ 76,853
Value added taxes receivable	302,187	185,890
Total	\$ 303,006	\$ 262,743

5. PROPERTY AND EQUIPMENT

	Right-of-use assets	Equipment and vehicles	Computers and software	Total
Costs				
Balance at December 31, 2019	\$ 51,192	\$ 20,684	\$ 35,920	\$ 107,796
Additions	66,631	33,994	46,814	147,439
Balance at December 31, 2020	117,823	54,678	82,734	255,235
Additions	96,168	28,779	29,950	154,897
Balance at December 31, 2021	213,991	83,457	112,684	410,132
Accumulated depreciation				
Balance at December 31, 2019	\$ (2,154)	\$ (3,724)	\$ (18,269)	\$ (24,147)
Additions	(44,623)	(17,307)	(18,917)	(80,847)
Balance at December 31, 2020	(46,777)	(21,031)	(37,186)	(104,994)
Additions	(17,476)	(5,665)	(37,774)	(60,915)
Balance at December 31, 2021	(64,253)	(26,696)	(74,960)	(165,909)
Book value, December 31, 2020	\$ 71,046	\$ 33,647	\$ 45,548	\$ 150,241
Book value, December 31, 2021	149,738	56,761	37,724	244,223

During the year ended December 31, 2021, the Company capitalized \$49,671 (2020 - \$80,847) of depreciation to exploration and evaluation assets.

6. 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 was been granted an option by Gorubso-Kardzhali AD (“Gorubso”) to acquire an undivided 70% legal and beneficial interest in Tintyava, 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 make the payment of a tender fee of 360,000 BGN (\$266,760) to the Ministry of Energy of the Republic of Bulgaria and deliver an NI 43-101 preliminary economic assessment on the Tintyava Property. During 2019, the Company met the obligations of the Option Agreement and exercised its option to acquire an undivided 70% interest in the Tintyava property. As a result, on March 1, 2019, shares of Tintyava, representing 70% ownership by the Company, were 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 Makedonski 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.

On November 16, 2021, the Company announced that it had met its obligation under the option agreement and had exercised its option and is deemed to have earned a 70% interest in the Nadezhda project and to be in joint venture with Gorubso for the further development of the Nadezhda project. As at December 31, 2021 the joint venture entity had not been formed.

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 Momchil 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 agreement is six years.

On June 23, 2021, the Company announced that it had met its obligation under the option agreement and had exercised its option and is deemed to have earned a 70% interest in the Momchil project and to be in joint venture with Gorubso for the further development of the Momchil project. As at December 31, 2021 the joint venture entity had not been formed.

6. 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”) with Gorubso. The Company could have earned 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 Sedefche.

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 the Iglika gold-copper property (“Iglika”) through acquiring all of the issued and outstanding shares of BMD.

Under the terms of the Letter agreement, the Company could have acquired 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.

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, other than the mineral property.

VELOCITY MINERALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the years ended December 31, 2021 and 2020

6. 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 – legal and claim fees	57,487	5,251	-	39,180	101,918
Balance, December 31, 2021	2,097,757	6,635	1,384	146,132	2,251,908
Exploration and evaluation					
Balance, December 31, 2020	9,997,944	402,984	4,690,197	660,556	15,751,681
Community relations	18,129	-	-	24,610	42,739
Drilling and assays	1,951,090	131,903	469,382	4,926	2,557,301
Feasibility study	79,865	12,684	27,931	-	120,480
Field and vehicles	281,409	15,646	45,003	96,619	438,677
Geological	247,645	32,148	73,662	308,676	662,131
Geochemistry	61,949	-	20,296	67,367	149,612
Geophysics	1,740	-	-	101,043	102,783
Reclamation	46,782	-	-	-	46,782
Salaries	595,750	59,368	135,751	173,056	963,925
Share-based compensation	25,305	632	632	88,946	115,515
	3,309,664	252,381	772,657	865,243	5,199,945
Balance, December 31, 2021	13,307,608	655,365	5,462,854	1,525,799	20,951,626
Balance, December 31, 2021	15,405,365	662,000	5,464,238	1,671,931	23,203,534

	Tintyava	Nadezhda	Momchil	Sedefche	Iglika	Total
	\$	\$	\$	\$	\$	\$
Acquisition costs						
Balance, December 31, 2019	2,005,136	-	-	-	-	2,005,136
Additions – legal and claim fees	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	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

7. TRADE AND OTHER PAYABLES

	December 31, 2021	December 31, 2020
Trade payables	\$ 368,479	\$ 795,941
Accrued interest payable (Note 9)	-	108,248
	\$ 368,479	\$ 904,189

8. LEASE LIABILITY

The Company leases vehicles in Bulgaria to support exploration and evaluation activities on its properties and has identified these leases to have ROU assets (Note 5). In addition, the Company recognized ROU assets in respect to long-term site office lease in Bulgaria (Note 5). As at December 31, 2021 and 2020 these are the only leases identified to have ROU assets. The Company is utilizing an incremental borrowing rate of 5% for calculating site office lease liabilities and ROU assets and implicit interest rates in the range of 2.22%-2.90% for vehicles lease liabilities and ROU assets.

	December 31, 2021	December 31, 2020
Lease liabilities		
Opening balance	\$ 68,620	\$ 44,812
Additions	96,168	66,631
Lease payments	(56,300)	(49,369)
Lease interest	2,797	6,546
Foreign exchange	(5,362)	-
Ending balance	\$ 105,923	\$ 68,620

	December 31, 2021	December 31, 2020
Lease liabilities		
<i>Contractual undiscounted cash flows:</i>		
Less than one year	\$ 62,675	\$ 29,454
One to five years	57,043	50,249
Total undiscounted lease liabilities	\$ 119,718	\$ 79,703

During the year ended December 31, 2021, the Company expensed \$55,696 (2020 - \$45,523) in short term and low value leases.

9. 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.

9. CONVERTIBLE DEBENTURE (cont'd...)

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>

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

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 \$208,782 for the period October 1, 2020 to March 26, 2021, were converted to 21,211,136 common shares of the Company.

10. SHARE CAPITAL AND RESERVES

Authorized share capital

Unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Issued share capital

Year ended December 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 \$208,782.

During the year ended December 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 2,918,768 shares for gross proceeds of \$625,965 pursuant to warrants exercises and in connection with this, the Company transferred \$23,533 from reserves to share capital.

Year ended December 31, 2020

On November 24, 2020, the Company closed a non-brokered private placement of 17,894,000 common shares for gross proceeds of \$8,947,000 or \$0.50 per common share. ("November 2020 financing").

In connection with the November 2020 financing, the Company incurred \$173,339 in legal and regulatory fees.

On February 12, 2020, the Company closed a non-brokered private placement of 14,467,687 units for gross proceeds of \$5,787,075 ("February 2020 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.

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

Issued share capital (cont'd...)

Year ended December 31, 2020 (cont'd...)

In connection with the February 2020 financing, the Company paid aggregate finder's fees consisting of \$92,260 in cash and issued 215,250 non-transferrable finder's warrants valued at \$0.11 ("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 February 2020 financing.

During the year ended December 31, 2020, the Company issued 1,227,599 common shares for the semi-annual interest of \$432,991 on the convertible debenture. The interest was for the period October 1, 2019 to September 30, 2020.

During the year ended December 31, 2020 the Company issued 3,350,000 common shares pursuant to stock options exercises for aggregate gross proceeds of \$646,500, and in connection with this, the Company transferred \$382,378 from reserves to share capital. In addition, the Company issued 642,500 shares for gross proceeds of \$128,500 pursuant to warrants exercises.

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 December 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
2,500,000	2,500,000	\$0.31	July 31, 2022	0.6
300,000	300,000	\$0.35	September 26, 2022	0.7
250,000	250,000	\$0.31	November 14, 2022	0.9
1,500,000	1,500,000	\$0.34	April 7, 2022	0.3
900,000	298,800	\$0.48	August 11, 2025	3.6
1,204,000	199,864	\$0.45	May 12, 2026	4.4
6,654,000	5,048,664	\$0.37		1.6

VELOCITY MINERALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2021 and 2020

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

Stock options (cont'd...)

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
Expired	(550,000)	0.32
As at December 31, 2020	7,580,000	\$ 0.35
Granted	1,204,000	0.45
Cancelled	(200,000)	0.35
Exercised	(775,000)	0.29
Expired	(1,150,000)	0.42
Forfeited	(5,000)	0.48
As at December 31, 2021	6,654,000	\$ 0.37
Number of options currently exercisable	5,048,664	\$ 0.34

Subsequent to December 31, 2021, 1,500,000 stock options exercisable at \$0.34 expired unexercised.

The Company recognized share-based compensation as follows:

	December 31, 2021	December 31, 2021
Included in statement of loss and comprehensive loss	\$ 143,932	\$ 122,242
Included in exploration and evaluation assets	115,515	133,895
Total share-based compensation expense	\$ 259,447	\$ 256,137

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

	December 31, 2021	December 31, 2020
Expected life of options (years)	4.00	2.75
Annualized volatility	93%	77%
Dividend rate	-	-
Risk-free rate	0.79%	0.39%
Forfeiture rate	0%	0%
Weighted average fair value per option granted	\$ 0.30	\$ 0.18

10. 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	12,650,218	\$ 0.24
Issued	7,449,094	0.53
Exercised	(642,500)	0.20
As at December 31, 2020	19,456,812	\$ 0.36
Exercised	(2,918,768)	0.21
Expired	(7,238,044)	0.55
As at December 31, 2021	9,300,000	\$ 0.25

The remaining warrants outstanding and exercisable at December 31, 2021 have a weighted average contractual life of 0.2 years (2020 – 1.0 years), an exercise price of \$0.25 and an expiry date of March 14, 2022. Subsequent to December 31, 2021, the warrants expired unexercised.

The following assumptions were used for the Black-Scholes option pricing model valuation of 215,250 finders' warrants issued in connection with the February 2020 financing:

	February 12, 2020
Expected life of warrants (years)	1.0
Annualized volatility	62%
Dividend rate	-
Discount rate	1.54%
Weighted average fair value per warrant granted	\$ 0.11

11. NON-CONTROLLING INTEREST

Non-controlling interest ("NCI") in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Total comprehensive loss of the Company's subsidiary is attributed to the equity holders of the Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance. For the year ended December 31, 2021 and 2020, 30% of the net assets of the Company's consolidated subsidiary, Tintyava, which holds the Tintyava mineral property, were attributable to its non-controlling interest.

The following is summarized financial information of the consolidated subsidiary Tintyava, prepared in accordance with IFRS, modified for fair value adjustments on acquisition and differences in the Company's accounting policies. The information is before inter-company eliminations.

	December 31, 2021	December 31, 2020
Total loss and comprehensive loss	\$ (58,803)	\$ (575,760)
Total loss and comprehensive loss allocated to NCI	(17,641)	(172,728)
	December 31, 2021	December 31, 2020
Current assets	\$ 381,613	\$ 695,256
Non-current assets	15,023,645	11,835,141
Current liabilities	(517,992)	(1,270,560)
Non-current liabilities	(24,143)	(42,207)
Net assets	14,863,123	11,217,630
Net assets attributable to NCI	4,458,937	3,365,289

12. 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 years ended December 31, 2021 and 2020 and, were:

	December 31, 2021	December 31, 2020
Short-term benefits paid or accrued:		
Consulting fees ¹	\$ 470,799	\$ 530,300
Salaries and directors' fees	573,822	458,167
	1,044,621	988,467
Share-based payments:		
Share-based payments	114,831	155,485
Total remuneration	\$ 1,159,452	\$ 1,143,952

¹\$342,673 of consulting fees was included in exploration and evaluation assets (Note 6 (f)) and \$128,126 in property investigation (2020 - \$411,807 and \$75,312 respectively).

As at December 31, 2021, the Company had \$21,490 included in trade and other payables due to key management personnel (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 years ended December 31, 2021 and 2020.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	December 31, 2021	December 31, 2020
Acquisition of right-of-use asset	\$ 96,168	\$ 66,631
Depreciation capitalized to exploration and evaluation assets	49,671	80,847
Exploration and evaluation assets included in trade and other payables	229,677	498,872
Finder's warrants and shares	-	24,000
Share-based compensation included in exploration and evaluation assets	115,515	130,559
Shares issued for interest	208,782	432,991
Interest paid	2,797	6,546
Income taxes paid	-	-

VELOCITY MINERALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2021 and 2020

14. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

		December 31, 2021	December 31, 2020
Loss for the year	\$	(2,507,607)	\$ (2,238,467)
Expected income tax expense (recovery)	\$	(677,000)	\$ (631,000)
Change in statutory tax rates and other		(146,000)	228,000
Permanent differences		272,000	25,000
Share issue costs		-	(100,000)
Adjustment to prior years provisions versus statutory tax returns and expiry of non-capital losses		(31,000)	(262,000)
Change in unrecognized deductible temporary differences		582,000	740,000
Total income tax expense (recovery)	\$	-	\$ -

Significant components of deductible temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statements of financial position are as follows:

	2021	Expiry dates	2020	Expiry dates
Exploration and evaluation assets	\$ -	No expiry date	\$ 242,000	No expiry date
Investment tax credit	64,000	2027 to 2031	64,000	2027 to 2032
Property and equipment	21,000	No expiry date	14,000	No expiry date
Share issue costs	519,000	2042 to 2044	807,000	2041 to 2044
Non-capital losses	16,974,000	2022 to 2039	13,712,000	2022 to 2039
Canada	12,234,000	2022 to 2041	9,912,000	2022 to 2040
Bulgaria	4,740,000	2022 to 2026	3,800,000	2022 to 2025

Tax attributes are subject to review and potential adjustment by tax authorities.

15. FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments consist of cash and cash equivalents, receivables, trade and other payables.

As at December 31, 2021, the carrying values of receivables and trade and other payables approximate their fair values due to their short terms to maturity. The Company's cash and cash equivalents under the fair value hierarchy is based on level 1 quoted prices in active markets for identical assets or liabilities.

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

Credit risk

The Company's credit risk is attributable to cash and cash equivalents and receivables. Cash and cash equivalents consist of balances held at reputable financial institutions, from which management believes the risk of loss to be remote. Federal deposit insurance covers balances up to \$100,000 in Canada. Management believes that the credit risk concentration with respect to receivables is equal to its carrying value. Receivables comprises amounts due from the Government of Canada and Bulgaria. As at December 31, 2021, the Company's exposure to credit risk is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

As at December 31, 2021, the Company had a cash and cash equivalents balance of \$4,676,562 (2020- \$10,543,821) to settle current liabilities of \$429,626 (2020- \$930,602). All the Company's trade and other payables are subject to normal trade terms.

Historically, the Company's sole source of funding has been issuance of shares or convertible debenture. The Company's access to financing is always uncertain. There can be no assurance of continued access to funding. The Company will seek to complete further equity financing to continue its programs on its exploration and evaluation assets.

15. FINANCIAL RISK MANAGEMENT (cont'd...)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and price risk.

a) Interest risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market prices. The Company has cash balances, which are exposed to interest rate fluctuations and convertible debentures with fixed interest rate. The Company is not subject to significant exposure to interest rate risk.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in United States dollars and Bulgarian Lev. As at December 31, 2021, the Company had cash funds denominated in either the United States dollars, or the Bulgarian Lev. A 10% fluctuation between the Canadian dollar against the Bulgarian Lev or United States dollar, would result in \$60,700 decrease or increase in profit or loss.

d) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss and the ability to obtain financing, due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

16. CAPITAL MANAGEMENT

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition, exploration and evaluation of its mineral resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The capital structure of the Company consists of shareholders' equity. The Company is not exposed to any externally imposed capital requirements.

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 were no changes in the Company's approach to capital management during the year ended December 31, 2021.

17. SEGMENT INFORMATION

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