

VELOCITY MINERALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Velocity Minerals Ltd.

We have audited the accompanying consolidated financial statements of Velocity Minerals Ltd. which comprise the consolidated balance sheets as at June 30, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, of the financial position of Velocity Minerals Ltd. as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

September 26, 2011

VELOCITY MINERALS LTD.
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30

	2011	2010
ASSETS		
Current		
Cash	\$ 702,442	\$ 1,893,323
Marketable securities (Note 3)	24,000	-
Accounts receivable	20,655	21,204
Prepaid expenses	<u>8,943</u>	<u>2,483</u>
	756,040	1,917,010
Equipment (Note 6)	6,314	8,057
Reclamation bonds (Note 7)	32,000	32,000
Mineral properties and deferred exploration costs (Note 8)	<u>2,933,078</u>	<u>2,502,671</u>
	<u>\$ 3,727,432</u>	<u>\$ 4,459,738</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 15,188</u>	<u>\$ 66,608</u>
Shareholders' equity		
Share capital (Note 9)	5,547,997	5,547,997
Contributed surplus (Note 9)	1,119,631	1,119,631
Deficit	<u>(2,955,384)</u>	<u>(2,274,498)</u>
	<u>3,712,244</u>	<u>4,393,130</u>
	<u>\$ 3,727,432</u>	<u>\$ 4,459,738</u>

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Kenneth Holmes" Director

"D. Barry Lee" Director

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

VELOCITY MINERALS LTD.**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED JUNE 30**

	2011	2010
EXPENSES		
Amortization	\$ 1,743	\$ 2,248
Bank charges and interest	870	1,101
Consulting	-	7,330
Filing and transfer agent fees	20,689	32,846
Insurance	9,750	11,313
Interest	-	9,162
Investor relations and promotion	155,272	180,109
Management fees	300,000	300,000
Office and administration	50,608	57,231
Office rent	27,150	28,519
Professional fees	24,121	55,501
Property investigation	6,088	24,497
Stock-based compensation (Note 10)	-	166,948
Telephone	5,900	6,891
Travel and related	17,381	44,185
Website	1,213	1,475
Loss before other items	(620,785)	(929,356)
OTHER ITEMS		
Interest income	8,462	14,639
Unrealized loss on marketable securities	(6,000)	-
Write-off of mineral properties	(62,563)	-
Net loss and comprehensive loss for the year	(680,886)	(914,717)
Deficit, beginning of year	(2,274,498)	(1,359,781)
Deficit, end of year	\$ (2,955,384)	\$ (2,274,498)
Basic and diluted loss per share	\$ (0.02)	\$ (0.03)
Basic and diluted weighted average number of common shares outstanding	29,132,833	29,087,765

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

VELOCITY MINERALS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (680,886)	\$ (914,717)
Items not affecting cash:		
Amortization	1,743	2,248
Stock-based compensation	-	166,948
Unrealized loss on marketable securities	6,000	-
Write-off of mineral properties	62,563	-
Changes in non-cash working capital items:		
Decrease in accounts receivable	549	4,454
(Increase) decrease in prepaid expenses	(6,460)	19,687
Decrease in accounts payable and accrued liabilities	<u>(56,564)</u>	<u>(16,237)</u>
Net cash used in operating activities	<u>(673,055)</u>	<u>(737,617)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property deferred exploration costs	<u>(517,826)</u>	<u>(894,074)</u>
Net cash used in investing activities	<u>(517,826)</u>	<u>(894,074)</u>
Change in cash for the year	<u>(1,190,881)</u>	<u>(1,631,691)</u>
Cash, beginning of year	<u>1,893,323</u>	<u>3,525,014</u>
Cash, end of year	<u>\$ 702,442</u>	<u>\$ 1,893,323</u>
Cash paid for interest	\$ -	\$ 9,162
Cash paid for income taxes	-	-

Supplemental disclosure with respect to cash flows (Note 14)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Velocity Minerals Ltd. (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 Company is in the process of exploring and developing its mineral properties and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of those mineral reserves and upon future profitable production.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to continue to raise adequate financing. Management is continually targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions to ensure continuation of the Company’s operations and exploration programs.

	2011	2010
Working capital	\$ 740,852	\$ 1,850,402
Deficit	(2,955,384)	(2,274,498)

Management believes the Company has sufficient working capital to maintain its operations for the next fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Velocity Exploration Ltd. incorporated in the province of British Columbia on December 28, 2007, and Velocity USA Ltd., a company incorporated under the laws of the state of Nevada, U.S.A, which was incorporated during the year ended June 30, 2010. All inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of estimates include inputs used in the calculation of stock-based compensation, impairment of long lived assets and valuation allowances applied to future income taxes. Actual results could differ from these estimates.

Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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

Marketable Securities

Marketable securities are classified as held-for-trading and measured at market value. Changes in fair value are recognized in the statement of operations in accordance with the Company's designation of marketable securities as held for trading financial instruments.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at the following annual rates:

Computer equipment	30%
Office furniture and fixtures	20%

Mineral properties and deferred exploration costs

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable mineral reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties and deferred exploration costs do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

The Company does not have any significant asset retirement obligations.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options.

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

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year and does not include outstanding options and warrants. Diluted loss per share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive for the periods presented.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Abstract EIC 146 "Flow-Through Shares" requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash and marketable securities as held-for-trading. Accounts receivable are classified as loans and receivables, and accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

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

Financial instruments (cont'd...)

The Company also provides the required disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

See Note 5 for relevant disclosures.

Recent accounting pronouncements

International Financial Reporting Standards (“IFRS”)

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. The Company has begun assessing the adoption of IFRS for 2011, and expects its detailed analysis to be completed by the end of its fiscal quarter ending September 30, 2011.

3. MARKETABLE SECURITIES

Marketable securities are valued at quoted market value. As at June 30, 2011, marketable securities consisted of equity securities listed on the TSX Venture Exchange.

4. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral 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, comprising issued capital and deficit. The Company is not exposed to any externally imposed capital requirements.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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 June 30, 2011.

5. FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgements, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value because of the short-term nature of these instruments. Cash and marketable securities have been valued based on level one of the fair value hierarchy.

Financial risk factors

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

Credit risk

Credit risk is the risk of loss associated with a payee's inability to fulfill its payment obligations to the Company. The Company's cash is held at a large Canadian financial institution in interest bearing accounts. The Company has no investments in asset-backed commercial paper. The primary receivables owed to the Company are owed from the Federal Government of Canada as a result of GST/HST refunds. The Company believes it has no significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2011, the Company had a cash balance of \$702,442 (2010 - \$1,893,323) to settle current liabilities of \$15,188 (2010 - \$66,608). Management believes that it has sufficient funds to meet its current liabilities as they become due. All of the Company's financial liabilities are subject to normal trade terms.

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 commodity and equity prices.

a) Interest rate risk:

The Company's interest rate risk is limited to the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result of changes in market prices. The Company's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The Company's investment policy focuses on the preservation of capital and limits investments of excess cash into high grade Canadian debt securities. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. As of June 30, 2011, the Company has \$610,000 (2010 - \$1,800,000) in guaranteed investment securities.

b) Price risk:

The Company is exposed to price risk with respect to commodity prices as it is in the resource industry. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations are affected by changes in the market prices for commodities. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

VELOCITY MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

5. FINANCIAL INSTRUMENTS (cont'd...)

b) Price risk: (cont'd...)

The Company holds investments in publicly traded securities. The Company closely monitors those prices to determine the appropriate course of action to be taken by the Company. However, there can be no assurance that the Company can exit these positions if required, resulting in proceeds approximating the carrying value of these securities.

c) Foreign exchange risk:

The Company principally operates in Canada and the majority of its transactions are incurred in Canada, and is therefore not exposed to currency fluctuations denominated in currencies other than the Canadian dollar, the Company's functional currency. The Company's cash, accounts receivables and accounts payable and accrued liabilities are held in Canadian dollars and are therefore not subject to foreign exchange fluctuations.

6. EQUIPMENT

	June 30, 2011			June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 2,678	\$ 1,760	\$ 918	\$ 2,678	\$ 1,366	\$ 1,312
Office furniture and fixtures	<u>8,935</u>	<u>3,539</u>	<u>5,396</u>	<u>8,935</u>	<u>2,190</u>	<u>6,745</u>
	\$ 11,613	\$ 5,299	\$ 6,314	\$ 11,613	\$ 3,556	\$ 8,057

7. RECLAMATION BONDS

The Company has reclamation bonds in place for \$32,000 (2010 - \$32,000) posted with the Government of British Columbia relating to the exploration of the Mt. Haskin (\$7,000) (2010 - \$7,000) and Cassiar Moly (\$25,000) (2010 - \$25,000) properties.

8. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Title to mineral property interests 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 mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing. The mineral property interests in which the Company has committed to earn an interest are located in Canada.

Mt. Haskin

The Company holds a 100% interest in the Mt. Haskin property, which is located in the Cassiar District of Liard Mining Division in northwestern British Columbia, Canada. The claims are subject to a 3% net smelter royalty ("NSR"), which may be acquired by the Company for a cash payment of \$1,500,000.

Cassiar Moly

The Company holds a 100% interest in the Cassiar Moly property, which is located in the Cassiar District of Liard Mining Division in northwestern British Columbia, Canada. Certain claims are subject to a 1.5% NSR, which may be acquired by the Company for a cash payment of \$1,500,000.

During the fiscal year ended June 30, 2011, the Company received regulatory approval for the sale of certain claims located within its Cassiar Moly property to Columbia Yukon Explorations Inc. ("Columbia Yukon"). The Company has retained a 15% Net Smelter Royalty with respect to these claims. In consideration for the claims the Company received \$25,000 and an additional 200,000 common shares of Columbia Yukon at a value of \$30,000.

Orogrande Mining District, Idaho

The Company has certain claims in the Orogrande Mining Division in Idaho County, Idaho State.

To date the Company has incurred \$52,171 in costs associated with the staking of these claims.

Keremeos

Pursuant to an agreement dated March 31, 2010 (the "Agreement"), the Company was granted an option (the "Option") to acquire a 100% interest, subject to a 1.5% net smelter return (the "NSR"), in a mineral property located near Keremeos in the Osoyoos Mining District of British Columbia, Canada (the "Property") in consideration for the following:

- (i) \$10,000 cash (paid) and 50,000 common shares (issued) upon receipt of regulatory approval of the Agreement;
- (ii) \$15,000 cash and 25,000 common shares on or before the first anniversary of the Agreement;
- (iii) \$15,000 cash and 25,000 common shares on or before the second anniversary of the Agreement;
- (iv) \$25,000 cash and 25,000 common shares on or before the third anniversary of the Agreement; and
- (v) \$35,000 cash and 25,000 common shares on or before the fourth anniversary of the Agreement.

It is also a term of the Option that the Company, on or before the first anniversary of the Agreement, conduct a work program on the Property at a cost of not less than \$50,000 and, on or before the fourth anniversary of the Agreement, conduct a work program at a cost of not less than \$300,000. The Company may repurchase two thirds of the NSR, (being equal to 1%), from the vendor at any time for \$1,000,000.

During the fiscal year ended June 30, 2011 management decided to abandon this property and a total of \$37,286 of acquisition costs and \$25,277 of exploration expenditures were written off to operations.

VELOCITY MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

8. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

The following mineral property and deferred exploration costs were incurred on the Company's mineral properties:

June 30, 2011	Orogrande	Keremeos	Mt. Haskin	Cassiar Moly	Total
Acquisition costs					
Opening balance, as at June 30, 2010	\$ -	\$ 22,354	\$ 50,100	\$ 45,100	\$ 117,554
Acquisition costs	-	10,000	-	-	10,000
Staking	52,171	4,932	-	-	57,103
Write-off acquisition costs	-	(37,286)	-	-	(37,286)
Total acquisition costs, as at June 30, 2011	<u>52,171</u>	<u>-</u>	<u>50,100</u>	<u>45,100</u>	<u>147,371</u>
Deferred exploration costs					
Opening balance, as at June 30, 2010	-	12,001	1,311,355	1,061,761	2,385,117
Assays and lab tests	13,765	664	-	14,005	28,434
Camp geotech	6,432	-	-	42,456	48,888
Camp costs, room and board	14,106	-	-	43,156	57,262
Core storage	-	-	337	4,188	4,525
Drilling and related	-	-	-	180,256	180,256
Equipment rental	-	-	-	5,400	5,400
Exploration management	37,744	4,000	1,744	9,744	53,232
Filing and assessment	7,159	880	2,505	-	10,544
Fuel, travel and transportation	12,215	2,279	-	126,400	140,894
Geological consulting	3,882	4,219	500	-	8,601
Materials and supplies	2,513	218	-	6,309	9,040
Meals and lodging	3,262	1,016	-	523	4,801
Telephone and communications	799	-	-	-	799
	<u>101,877</u>	<u>13,276</u>	<u>5,086</u>	<u>432,437</u>	<u>552,676</u>
Total deferred exploration costs, as at June 30, 2011	<u>101,877</u>	<u>25,277</u>	<u>1,316,441</u>	<u>1,494,198</u>	<u>2,937,793</u>
Exploration tax credits	-	-	-	(71,809)	(71,809)
Write-off deferred exploration costs	-	(25,277)	-	-	(25,277)
Recoveries	-	-	-	(55,000)	(55,000)
Total mineral property and deferred exploration costs, as at June 30, 2011	<u>\$ 154,048</u>	<u>\$ -</u>	<u>\$ 1,366,541</u>	<u>\$ 1,412,489</u>	<u>\$ 2,933,078</u>

VELOCITY MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

8. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

The following mineral property and deferred exploration costs were incurred on the Company's mineral properties:

June 30, 2010	Keremeos	Mt. Haskin	Cassiar Moly	Total
Acquisition costs				
Opening balance, as at June 30, 2009	\$ -	\$ 50,100	\$ 45,100	\$ 95,200
Staking	2,354	-	-	2,354
Acquisition costs	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total acquisition costs, as at June 30, 2010	<u>22,354</u>	<u>50,100</u>	<u>45,100</u>	<u>117,554</u>
Deferred exploration costs				
Opening balance, as at June 30, 2009	<u>-</u>	<u>1,138,680</u>	<u>407,963</u>	<u>1,546,643</u>
Assays and lab tests	290	11,622	6,885	18,797
Camp geotech	5,367	7,499	39,306	52,172
Camp costs, room and board	-	13,193	37,375	50,568
Core storage	-	19,688	-	19,688
Drilling and related	-	76,550	38,215	114,765
Equipment rental	-	3,150	13,716	16,866
Exploration management	-	11,500	36,500	48,000
Fuel, travel and transportation	142	15,534	92,940	108,616
Geological consulting	5,360	15,204	50,675	71,239
Materials and supplies	617	331	7,593	8,541
Meals and lodging	225	553	2,348	3,126
Mine entry access	-	-	313,026	313,026
Site access	-	5,060	11,710	16,770
Telephone and communication	-	943	4,209	5,152
Exploration tax credits	<u>-</u>	<u>(8,152)</u>	<u>(700)</u>	<u>(8,852)</u>
	<u>12,001</u>	<u>172,675</u>	<u>653,798</u>	<u>838,474</u>
Total deferred exploration costs, as at June 30, 2010	<u>12,001</u>	<u>1,311,355</u>	<u>1,061,761</u>	<u>2,385,117</u>
Total mineral property and deferred exploration costs, as at June 30, 2010	\$ 34,355	\$ 1,361,455	\$ 1,106,861	\$ 2,502,671

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance at June 30, 2009	29,082,833	\$ 5,537,997	\$ 952,683
Shares issued for mineral property acquisition (Note 8)	50,000	10,000	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>166,948</u>
Balance, as at June 30, 2011 and 2010	<u>29,132,833</u>	<u>\$ 5,547,997</u>	<u>\$ 1,119,631</u>

VELOCITY MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)

During the year ended June 30, 2010, the Company issued 50,000 shares at a value of \$10,000 with respect to mineral acquisition costs related to the Keremeos property (Note 8).

Stock options

The Company, in accordance with its stock option plan, is authorized to grant options to directors, employees and consultants, to acquire up to 10% of its issued and outstanding common stock. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options granted vest at the discretion of the board.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	June 30, 2011		June 30, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning year	2,900,000	\$ 0.22	2,300,000	\$ 0.22
Exercised	-	-	-	-
Granted	-	-	800,000	0.22
Expired/cancelled	-	-	(200,000)	0.50
Outstanding, end of year	2,900,000	0.22	2,900,000	0.22
Options exercisable, end of year	2,900,000	0.22	2,900,000	0.22

Stock options outstanding at June 30, 2011 are as follows:

Number of Options	Exercise Price	Expiry Date
300,000	\$ 0.22	May 31, 2012
1,800,000	0.22	March 19, 2013
800,000	0.22	September 15, 2014

VELOCITY MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	June 30, 2011		June 30, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	-	\$ -	12,732,833	\$ 1.13
Exercised	-	-	-	-
Granted	-	-	-	-
Expired/cancelled	-	-	<u>(12,732,833)</u>	1.13
Outstanding, end of year	-	\$ -	-	\$ -
Warrants exercisable, end of year	-	-	-	-

10. STOCK-BASED COMPENSATION

During the year ended June 30, 2010, the Company granted 800,000 stock options to acquire common shares with a weighted average fair value of \$0.17 per share, all of which vested during the year, resulting in stock-based compensation expense of \$138,440 recorded during the fiscal year under the Black-Scholes option pricing model.

During the year ended June 30, 2010, the Company re-priced 2,100,000 stock options to acquire common shares with a weighted average fair value of \$0.17 per share, all of which are vested, resulting in stock-based compensation expense of \$28,508 recorded during the fiscal year under the Black-Scholes option pricing model.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options for the year ended June 30, 2010:

Risk-free interest rate	2.18%
Expected life of options	2.25 years
Annualized volatility	116.63%
Dividend rate	0.00%

VELOCITY MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$204,000 (2010 - \$204,000) in management fees to companies controlled by directors of the Company.
- b) Paid or accrued \$96,000 (2010 - \$96,000) in management fees to directors of the Company.
- c) Paid or accrued \$36,000 (2010 - \$48,000) in exploration management fees, \$5,400 (2010 - \$13,800) in equipment rental costs and \$Nil (2010 - \$34,320) to two directors of the Company and a Company with common directors for construction services to facilitate site access. These costs are capitalized under mineral properties and deferred exploration costs and shown in Note 8 of the consolidated financial statements.
- d) Paid \$5,514 (2010 - \$2,254) in acquisition costs for mineral property claims to a director of the Company (Note 8).

Included in accounts payable is \$Nil (2010 - \$4,691) due to directors and a company controlled by a director.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. INCOME TAXES

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

	2011	2010
Loss before income taxes for the period	\$ (680,886)	\$ (914,717)
Expected tax recovery	\$ (187,244)	\$ (267,555)
Items not deductible for tax purposes	18,396	51,333
Deductible items	(7,700)	(34,384)
(Recognized) unrecognized benefits of non-capital losses	176,548	250,606
Total income tax recovery	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2011	2010
Future tax assets (liabilities):		
Equipment	\$ 1,325	\$ 889
Marketable securities	(6,000)	-
Resource deductions	(499,265)	(375,596)
Share issuance costs	7,000	14,000
Non-capital loss carry forwards	757,212	611,109
	266,272	250,402
Valuation allowance	(266,272)	(250,402)
Net future tax assets	\$ -	\$ -

12. INCOME TAXES (cont'd...)

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,444,000. These losses, if not utilized, will expire through to 2030. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

13. SEGMENT INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. The Company conducts substantially all of its operations in Canada, and all of the Company's properties and equipment are located in Canada.

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during the fiscal year ended June 30, 2011 were as follows:

- a) Included in accounts payable and accrued liabilities is \$10,000 in mineral properties and deferred exploration costs.
- b) Received 200,000 common shares of Columbia Yukon Explorations Inc. ("Columbia Yukon") at a value of \$30,000 as partial consideration for the sale of certain claims located within its Cassiar Moly property to Columbia Yukon.

The significant non-cash transactions during the year ended June 30, 2010 were as follows:

- a) Included in accounts payable and accrued liabilities is \$4,856 in mineral properties and deferred exploration costs.
- b) 50,000 common shares issued at a value of \$10,000 pursuant to the acquisition of mineral property (Note 8).