

**VELOCITY MINERALS LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2009**

## AUDITORS' REPORT

To the Shareholders of  
Velocity Minerals Ltd.

We have audited the consolidated balance sheets of Velocity Minerals Ltd. as at June 30, 2009 and 2008 and the consolidated statements of operations and deficit and cash flows for the year ended June 30, 2009 and the period from inception on December 28, 2007 to June 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the year ended June 30, 2009 and the period from inception on December 28, 2007 to June 30, 2008 in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

September 24, 2009



**VELOCITY MINERALS LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT JUNE 30**

	2009	2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 3,525,014	\$ 5,955,896
Accounts receivable	25,658	45,622
Prepaid expenses	<u>22,170</u>	<u>2,000</u>
	3,572,842	6,003,518
<b>Equipment</b> (Note 7)	10,305	2,678
<b>Reclamation bonds</b> (Note 8)	32,000	7,000
<b>Mineral properties and deferred exploration costs</b> (Note 9)	<u>1,641,843</u>	<u>134,459</u>
	<u>\$ 5,256,990</u>	<u>\$ 6,147,655</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 126,091</u>	<u>\$ 243,849</u>
<b>Shareholders' equity</b>		
Share capital (Note 10)	5,537,997	6,032,670
Contributed surplus (Note 10)	952,683	952,683
Deficit	<u>(1,359,781)</u>	<u>(1,081,547)</u>
	<u>5,130,899</u>	<u>5,903,806</u>
	<u>\$ 5,256,990</u>	<u>\$ 6,147,655</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 AND DEFICIT**

	Year ended June 30, 2009	Period from inception on December 28, 2007 to June 30, 2008
<b>EXPENSES</b>		
Amortization	\$ 1,308	\$ -
Bank charges and interest	1,785	336
Consulting	13,018	23,420
Filing and transfer agent fees	36,498	58,336
Insurance	12,495	-
Interest	4,992	-
Investor relations and promotion	251,144	21,071
Management fees	294,667	62,600
Office and administration	37,659	8,596
Office rent	41,759	8,000
Professional fees	123,671	14,870
Property investigation	2,506	-
Shareholder costs	870	3,542
Stock-based compensation (Note 11)	-	859,355
Telephone	10,635	1,365
Travel and related	48,038	25,717
Website	<u>1,852</u>	<u>3,930</u>
<b>Loss before other item</b>	<b>(882,897)</b>	<b>(1,091,138)</b>
<b>OTHER ITEM</b>		
Interest income	<u>85,530</u>	<u>9,591</u>
<b>Loss before income tax</b>	<b>(797,367)</b>	<b>(1,081,547)</b>
<b>Future income tax recovery (Note 13)</b>	<u>519,133</u>	<u>-</u>
<b>Net loss for the period</b>	<b>(278,234)</b>	<b>(1,081,547)</b>
<b>Deficit, beginning of period</b>	<u>(1,081,547)</u>	<u>-</u>
<b>Deficit, end of period</b>	<b>\$ (1,359,781)</b>	<b>\$ (1,081,547)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.14)</b>
<b>Basic and diluted weighted average number of common shares outstanding</b>	<b>29,082,833</b>	<b>7,896,692</b>

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

**VELOCITY MINERALS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended June 30, 2009	Period from inception on December 28, 2007 to June 30, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (278,234)	\$ (1,081,547)
Items not affecting cash:		
Amortization	1,308	-
Stock-based compensation	-	859,355
Future income tax recovery	(519,133)	-
Changes in non-cash working capital items:		
(Increase) decrease in accounts receivable	19,964	(27,742)
(Increase) decrease in prepaid expenses	(20,170)	13,000
Increase (decrease) in accounts payable and accrued liabilities	<u>(155,660)</u>	<u>219,845</u>
Net cash used in operating activities	<u>(951,925)</u>	<u>(17,089)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock	-	6,699,750
Share issue costs (paid) refunded	<u>24,460</u>	<u>(618,335)</u>
Net cash provided by financing activities	<u>24,460</u>	<u>6,081,415</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment	(8,935)	(2,678)
Acquisition of reclamation bond	(25,000)	(7,000)
Mineral property deferred exploration costs	(1,469,482)	(104,259)
Cash acquired on acquisition of Velocity Exploration Ltd.	<u>-</u>	<u>5,507</u>
Net cash used in investing activities	<u>(1,503,417)</u>	<u>(108,430)</u>
<b>Change in cash for the period</b>	(2,430,882)	5,955,896
<b>Cash, beginning of period</b>	<u>5,955,896</u>	<u>-</u>
<b>Cash, end of period</b>	<u>\$ 3,525,014</u>	<u>\$ 5,955,896</u>
<b>Cash paid for interest</b>	\$ 4,992	\$ -
<b>Cash paid for income taxes</b>	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 15)

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.

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	2009	2008
Working capital	\$ 3,446,751	\$ 5,759,669
Deficit	(1,359,781)	(1,081,547)

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**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 subsidiary, Velocity Exploration Ltd. incorporated in the province of British Columbia on December 28, 2007. 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. 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 with original maturities of three months or less 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...)**

**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.

**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.

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

**Loss per share (cont'd...)**

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 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...)**

**Recent accounting pronouncements**

*Goodwill and Intangible Assets (Section 3064)*

This new standard replaces the current standard for goodwill and intangible assets, *Section 3062*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

The adoption of this new pronouncement is not expected to have a material effect on the Company's financial statements.

*Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

*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, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### **3. CHANGES IN ACCOUNTING POLICY**

Effective July 1, 2008, the Company adopted the following accounting standards updates issued by CICA:

**(i) Assessing going concern (Section 1400)**

The AcSB amended Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. The adoption of the standard did not have an impact on the financial statements.

**(ii) Capital disclosures (Section 1535)**

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences (see Note 4).

**(iii) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)**

These new standards require additional disclosures to enable users to evaluate the significance of financial instruments for an entity's financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments (See Note 5).

**(iv) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities – EIC 173**

The Accounting Standards Board ("AcSB") issued EIC-173 which requires the corporation to consider its own credit risk as well and the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. This new standard is effective for the Company's annual consolidated financial statements commencing for the year ended June 30, 2009. The Company has performed an assessment as of June 30, 2009 and believed there to be no impact on its financial statements.

**(v) Mining Exploration Costs – EIC 174**

The AcSB issued EIC-174 which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining exploration enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatment provided for in EIC-174 has been applied in the preparation of these financial statements and did not have an impact on the valuation of the Company's mineral properties.

### **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 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. 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. The Company is not exposed to externally imposed capital requirements.

## **5. FINANCIAL INSTRUMENTS**

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk and price risk.

### *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 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, 2009, the Company had a cash balance of \$3,525,014 to settle current liabilities of \$126,091. Management believes that it has sufficient funds to meet its current liabilities as they become due.

### *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.

#### 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.

#### 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.

**VELOCITY MINERALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**6. ACQUISITION**

During fiscal 2008, the Company acquired all of the issued and outstanding share capital of Velocity Exploration Ltd (“VEL”), a company incorporated on December 28, 2007. As consideration, the Company issued 12,000,000 common shares, of which 9,000,000 are held in escrow in accordance with the policies of the Toronto Stock Exchange.

Legally, the Company is the parent of VEL. However, as a result of the share exchange described above, control of the combined companies passed to the former shareholders of VEL. This type of share exchange, referred to as a “reverse takeover,” deems VEL to be the acquirer for accounting purposes. Accordingly the net assets of VEL are included in the balance sheet at book values and the deemed acquisition of the Company is accounted for by the purchase method with the net assets of the Company recorded at fair market value at the date of acquisition. The expenses, assets and liabilities subsequent to the date of acquisition include the accounts of the Company.

The total purchase price of \$44,583 was allocated as follows:

Cash	\$	5,507
Accounts receivable		17,880
Prepaid expenses		15,000
Mineral properties		20,000
Accounts payable		<u>(13,804)</u>
	<u>\$</u>	<u>44,583</u>

**7. EQUIPMENT**

	June 30, 2009			June 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 2,678	\$ 804	\$ 1,874	\$ 2,678	\$ -	\$ 2,678
Office furniture and fixtures	<u>8,935</u>	<u>504</u>	<u>8,431</u>	-	-	-
	<u>\$ 11,613</u>	<u>\$ 1,308</u>	<u>\$ 10,305</u>	<u>\$ 2,678</u>	<u>\$ -</u>	<u>\$ 2,678</u>

**8. RECLAMATION BONDS**

The Company has reclamation bonds in place for \$32,000 (2008 - \$7,000) posted with the Government of British Columbia relating to the exploration of the Mt. Haskin (\$7,000) (2008 - \$7,000) and Cassiar Moly (\$25,000) (2008 - \$Nil) properties.

**VELOCITY MINERALS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

**9. 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.

During the year ended June 30, 2009, the Company paid \$5,000 to a director for various mineral claims that lie adjacent to the Company's Mt. Haskin property..

**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.

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

<b>2009</b>	Mt. Haskin	Cassiar Moly	Total
Acquisition costs , June 30, 2008	\$ 45,100	\$ 45,100	\$ 90,200
Additions	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Acquisition costs , June 30, 2009	<u>50,100</u>	<u>45,100</u>	<u>95,200</u>
Deferred exploration costs			
Balance, June 30, 2008	<u>40,759</u>	<u>3,500</u>	<u>44,259</u>
Assays and lab tests	84,303	-	84,303
Camp geotech	111,098	26,896	137,994
Camp costs, room and board	45,661	14,854	60,515
Core storage	6,150	-	6,150
Drilling and related	539,833	-	539,833
Equipment rental	18,237	32,449	50,686
Exploration management	43,000	32,600	75,600
Filing and assessment	11,720	8,832	20,552
Fuel, travel and transportation	50,452	41,584	92,036
Geological consulting	93,770	37,852	131,622
Mapping and reproduction	31,898	10,068	41,966
Materials and supplies	31,905	5,754	37,659
Meals and lodging	13,369	10,117	23,486
Rock scaling	-	116,120	116,120
Site access	16,000	67,337	83,337
Telephone and communication	<u>525</u>	<u>-</u>	<u>525</u>
	<u>1,097,921</u>	<u>404,463</u>	<u>1,502,384</u>
Total deferred exploration costs, June 30, 2009	<u>1,138,680</u>	<u>407,963</u>	<u>1,546,643</u>
Total mineral property and deferred exploration costs	\$ 1,188,780	\$ 453,063	\$ 1,641,843

**VELOCITY MINERALS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

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

<b>2008</b>	Mt. Haskin	Cassiar Moly	Total
Acquisition costs , opening balance	\$ -	\$ -	\$ -
Additions	<u>45,100</u>	<u>45,100</u>	<u>90,200</u>
Acquisition costs, June 30, 2008	<u>45,100</u>	<u>45,100</u>	<u>90,200</u>
Deferred exploration costs			
Opening balance	-	-	-
Camp costs	10,000	-	10,000
Geological consulting	26,750	3,500	30,250
Materials and supplies	<u>4,009</u>	<u>-</u>	<u>4,009</u>
Total deferred exploration costs, June 30, 2008	<u>40,759</u>	<u>3,500</u>	<u>44,259</u>
Total mineral property and deferred exploration costs	<u>\$ 85,859</u>	<u>\$ 48,600</u>	<u>\$ 134,459</u>

**10. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance at June 30, 2007	4,300,000	\$ -	\$ -
Shares issued pursuant to acquisition (Note 6)	12,000,000	44,583	-
Private placements	12,732,833	6,699,750	74,147
Shares for corporate finance fees	50,000	25,000	-
Broker warrants	-	-	19,181
Stock-based compensation	-	-	859,355
Share issue costs	<u>-</u>	<u>(736,663)</u>	<u>-</u>
Balance at June 30, 2008	29,082,833	6,032,670	952,683
Share issue costs refunded	-	24,460	-
Renunciation of flow through shares	<u>-</u>	<u>(519,133)</u>	<u>-</u>
Balance at June 30, 2009	<u>29,082,833</u>	<u>\$ 5,537,997</u>	<u>\$ 952,683</u>

The Company did not issue any common shares during the year ended June 30, 2009. The Company received a refund of \$24,460 resulting from an overpayment of issue costs pursuant to the private placements completed during the prior year.

**10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

During the period from inception on December 28, 2007 to June 30, 2009, the Company completed the following private placements:

- i) A non-brokered private placement of 8,000,000 units at \$0.50 per unit, for gross proceeds of \$4,000,000. Each unit consists of one common share and one warrant exercisable at \$0.75 per share until May 9, 2009 or at \$1.00 until May 9, 2010. The Company paid \$200,000 in finders' fees with respect to the private placement.
- ii) A brokered private placement for 1,399,500 units at \$0.50 per unit for gross proceeds of \$699,750, each unit consisting of one common share and one warrant exercisable at \$0.75 per share until May 9, 2009 or at \$1.00 until May 9, 2010. The agent was paid a commission of 7% of the gross proceeds, cash fees of \$30,000 and was issued 50,000 common shares. In connection with the private placement, 97,965 broker warrants were issued, each exercisable to purchase one common share at a price of \$0.50 per share until May 9, 2009 (expired unexercised). The fair value of the broker warrants, being \$19,181, was determined using the Black-Scholes option pricing model with a volatility of 100%, risk free rate of 2.82%, expected life of 1 year and a dividend rate of 0%.
- iii) A private placement of 2,083,333 units, at a price of \$0.60 for gross proceeds of \$1,250,000, each unit consisting of a flow-through common share and a non flow-through warrant, exercisable at \$1.00 until May 20, 2009 or at \$1.50 until May 20, 2010. The Company paid a commission of \$75,000, an administration fee of \$12,500 and issued options to purchase 145,833 common shares, exercisable at \$0.50 per share until May 20, 2009 (expired unexercised). The fair value of the agents' options, being \$43,737, was determined using the Black-Scholes option pricing model.

Future income taxes of \$324,458 were applied against share capital in fiscal 2009 as the expenditures were renounced during fiscal 2009.

- iv) A 1,250,000 unit private placement at \$0.60 for gross proceeds of \$750,000 with each unit consisting of a flow-through common share and a non flow-through warrant, exercisable at \$1.00 until June 11, 2009 or at \$1.50 until June 11, 2010. The Company paid a commission of \$45,000, an administration fee of \$7,500 and issued options to purchase 87,500 common shares, exercisable at \$0.50 per share until June 11, 2009 (expired unexercised). The fair value of the agents options, being \$30,410, was determined using the Black-Scholes option pricing model.

Future income taxes of \$194,675 were applied against share capital in fiscal 2009 as the expenditures were renounced during fiscal 2009.

As at June 30, 2009, 3,000,000 (2008 – 9,000,000) common shares were held in escrow.

**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.

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**10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options (cont'd...)**

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

	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,533,333	\$ 0.52	-	\$ -
Exercised	-	-	-	-
Granted	-	-	2,533,333	0.52
Expired/cancelled	(233,333)	0.50	-	-
Outstanding, end of period	2,300,000	0.52	2,533,333	0.52
Options exercisable, end of period	2,300,000	0.52	2,533,333	\$ 0.52

Stock options outstanding at June 30, 2009 are as follows:

	Number Of Shares	Exercise Price	Expiry Date
Stock options	300,000	\$ 0.64	May 20, 2010
	2,000,000	0.50	March 19, 2013

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**10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

**Warrants**

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

	2009		2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	12,830,798	\$ 0.75	-	\$ -
Exercised	-	-	-	-
Granted	-	-	12,830,798	0.75
Expired/cancelled	<u>(97,965)</u>	0.50	<u>-</u>	-
Outstanding, end of period	12,732,833	1.13	12,830,798	0.75
Warrants exercisable, end of period	12,732,833	1.13	12,830,798	\$ 0.75

Warrants outstanding at June 30, 2009 are as follows:

Number of Shares	Exercise Price	Expiry Date
9,399,500 <sup>(1)</sup>	\$ 1.00	May 9, 2010
2,083,333 <sup>(2)</sup>	1.50	May 20, 2010
1,250,000 <sup>(3)</sup>	1.50	June 11, 2010

<sup>(1)</sup> Exercise price was \$0.75 until May 9, 2009

<sup>(2)</sup> Exercise price was \$1.00 until May 20, 2009

<sup>(3)</sup> Exercise price was \$1.00 until June 11, 2009

**11. STOCK-BASED COMPENSATION**

During the current year, the Company granted Nil (2008 - 2,300,000) stock options to acquire common shares with a weighted average fair value of \$Nil (2008 - \$0.37) per share, all of which are vested, resulting in stock-based compensation expense of \$Nil (2008 - \$859,355) and share issue costs of \$Nil (2008 - \$74,147) during the period under the Black-Scholes option pricing model.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and agents' options granted:

	Year ended June 30, 2009	Period from inception on December 28, 2007 to June 30, 2008
Risk-free interest rate	-	3.11%
Expected life of options	-	4.28 years
Annualized volatility	-	100.00%
Dividend rate	-	0.00%

**12. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$194,000 (2008 - \$24,000) in management fees to companies controlled by directors of the Company.
- b) Paid or accrued \$100,667 (2008 - \$38,600) in management fees to three directors of the Company.
- c) Paid or accrued \$Nil (2008 - \$1,800) in consulting fees to a director of the Company.
- d) Paid or accrued \$75,600 (2008 - \$Nil) in exploration management fees, \$19,500 (2008 - \$Nil) in equipment rental costs and \$44,500 (2008 - \$Nil) 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 9 of the consolidated financial statements.
- e) Paid \$Nil (2008 - \$90,200) in acquisition costs for mineral property claims to a company with a common director (Note 9).
- f) Paid \$5,000 (2008 - \$Nil) in acquisition costs for mineral property claims to a director of the Company (Note 9).

Included in accounts receivable is \$15,000 (2008 - \$15,000) due from a company controlled by a director of the Company and included in accounts payable is \$32,179 (2008 - \$13,469) 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.

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**13. INCOME TAXES**

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

	2009	2008
Loss before income taxes for the period	\$ (797,367)	\$ (1,081,547)
Expected tax recovery	\$ (241,204)	\$ (360,263)
Items not deductible for tax purposes	1,117	286,915
Deductible items	(35,560)	-
(Recognized) unrecognized benefits of non-capital losses	(243,486)	73,348
Total income tax recovery	\$ (519,133)	\$ -

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

	2009	2008
Future tax assets:		
Equipment	\$ 340	\$ -
Resource deductions	33,484	34,771
Share issuance costs	91,691	133,561
Non-capital loss carryforwards	272,372	197,526
	397,887	365,858
Valuation allowance	(397,887)	(365,858)
Net future tax assets	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$1,048,000. These losses, if not utilized, will expire through to 2029. 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.

**14. SEGMENT INFORMATION**

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

**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non-cash transaction during the year ended June 30, 2009 is \$48,102 of mineral properties and deferred exploration costs which are included in accounts payable and accrued liabilities.

The significant non-cash transactions during the period from December 28, 2007 to June 30, 2008 were as follows:

- a) Issuance of 12,000,000 common shares in exchange for all of the issued and outstanding common shares of VEL (Note 6).
- b) Issuance of 50,000 common shares in consideration for corporate finance fees pursuant to a brokered private placement (Note 10).
- c) Issuance of 97,965 brokers warrants and 233,333 agents' options with a fair value of \$19,181 and \$74,147, respectively, in connection with a private placement (Note 10).
- d) Included in mineral properties and deferred exploration costs is \$10,200 which relates to accounts payable and accrued liabilities.