



VELOCITY
MINERALS LTD.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019
Unaudited – Prepared by Management

(Expressed in Canadian dollars)

NOTICE TO READER

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

The condensed interim consolidated financial statements of the Company for the quarter ended March 31, 2020 have been prepared by and are the responsibility of the Company's management.

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

VELOCITY MINERALS LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian dollars)

As at

	March 31, 2020	December 31, 2019
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 7,127,299	\$ 3,217,419
Receivables	82,483	76,123
Prepaid expenses	87,583	42,637
	<u>7,297,365</u>	<u>3,336,179</u>
Property and equipment	75,710	83,649
Exploration and evaluation assets (Note 4)	<u>12,916,939</u>	<u>10,605,352</u>
	<u>\$ 20,290,014</u>	<u>\$ 14,025,180</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade and other payables	\$ 1,093,109	\$ 816,396
Lease liabilities, current	19,814	22,889
	<u>1,112,923</u>	<u>839,285</u>
Lease liabilities, long term	15,157	21,923
Convertible debenture (Note 5)	<u>4,053,007</u>	<u>4,002,933</u>
	<u>5,181,087</u>	<u>4,864,141</u>
Shareholders' equity		
Share capital (Note 6)	23,373,997	17,783,183
Shares issuable (Note 6, 10)	216,495	-
Reserves (Note 6)	1,727,957	1,703,957
Equity component of convertible debenture (Note 5)	1,106,812	1,106,812
Non-controlling interest	2,868,119	2,484,861
Deficit	<u>(14,184,453)</u>	<u>(13,917,774)</u>
	<u>15,108,927</u>	<u>9,161,039</u>
	<u>\$ 20,290,014</u>	<u>\$ 14,025,180</u>

Nature and continuance of operations (Note 1)**Subsequent events** (Note 10)**On behalf of the Board on May 20, 2020**"Keith Henderson"

Director

"Gord Doerkson"

Director

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

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

(Expressed in Canadian dollars)

	Three months ended March 31, 2020	Three months ended March 31, 2019
EXPENSES		
Consulting (Note 7)	\$ 11,600	\$ 133,903
Investor relations	44,792	95,035
Office	27,783	20,551
Professional fees	43,742	365,129
Property investigation	-	25,489
Regulatory fees	14,278	58,893
Rent	19,097	5,571
Salaries (Note 7)	161,098	98,022
Share-based payments (Note 6, 7)	-	133,000
Travel	19,555	62,624
OPERATING LOSS	341,945	998,217
OTHER (INCOME) EXPENSES		
Accretion expense (Note 5)	50,074	7,541
Bulgarian tax (Note 4 (a))	-	162,522
Foreign exchange	(103,884)	145,193
Interest income	(54,482)	-
Interest expense (Note 5)	107,358	-
Total other (income) / loss	(934)	315,256
Loss and comprehensive loss for the period	\$ 341,011	\$ 1,313,473
Loss and comprehensive loss attributed to:		
Owners of the Company	266,679	1,313,473
Non-controlling interests	74,332	-
	\$ 341,011	\$ 1,313,473
Loss per common share		
-Basic and diluted	\$ 0.00	\$ 0.02
Weighted average number of common shares outstanding		
-Basic and diluted	105,423,536	78,490,371

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

VELOCITY MINERALS LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

	Share capital		Reserves	Shares issuable	Equity component of convertible debenture	Non- controlling interest	Deficit	Total
	Number of common shares	Amount						
Balance, December 31, 2018	74,886,759	\$ 12,954,048	\$ 1,613,959	\$ -	-	\$ -	\$ (11,381,748)	\$ 3,186,259
Private placement	18,600,000	3,906,000	-	-	-	-	-	3,906,000
Share issuance costs – cash	-	(360,000)	-	-	-	-	-	(463,705)
Share issuance costs – common shares	459,418	133,231	(133,231)	-	-	-	-	-
Warrant exercise	52,500	13,327	(2,827)	-	-	-	-	10,500
Shares issued for interest on convertible debenture	495,516	237,255	-	-	-	-	-	237,255
Convertible debenture	-	-	-	-	1,109,923	-	-	1,109,923
Share-based payments	-	-	133,000	-	-	-	-	133,000
Acquisition of 70% of Tintyava Exploration EAD	-	-	-	-	-	942,607	-	942,607
Loss and comprehensive loss	-	-	-	-	-	-	(1,313,473)	(1,313,473)
Balance, March 31, 2019	93,998,677	\$ 16,646,606	\$ 1,601,901	\$ -	1,109,932	\$ 942,607	\$ (12,695,221)	\$ 7,614,825
Balance, December 31, 2019	97,792,229	\$ 17,783,183	\$ 1,703,957	\$ -	1,106,812	\$ 2,484,861	\$ (13,917,774)	\$ 9,161,039
Private placement	14,467,687	5,787,075	-	-	-	-	-	5,787,075
Share issuance costs – cash	-	(172,261)	-	-	-	-	-	(172,261)
Share issuance costs – Finder's warrants	-	(24,000)	24,000	-	-	-	-	-
Shares issuable for interest on convertible debenture (Note 5, 10)	-	-	-	216,495	-	-	-	216,495
Change in net assets of Tintyava Exploration AD	-	-	-	-	-	457,590	-	457,590
Loss and comprehensive loss	-	-	-	-	-	(74,332)	(266,679)	(341,011)
Balance, March 31, 2020	112,259,916	\$ 23,373,997	\$ 1,727,957	\$ 216,495	1,106,812	\$ 2,868,119	\$ (14,184,453)	\$ 15,108,927

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

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (341,011)	\$ (1,313,473)
Adjustments for:		
Accretion expense	50,074	7,541
Interest expense, non-cash	107,358	-
Share-based payments	-	133,000
Interest paid on leases	1,383	-
Interest income	(11,881)	-
Changes in non-cash working capital items:		
Receivables	5,521	(56,932)
Prepaid expenses	(44,946)	30,276
Trade and other payables	(192,320)	254,413
Net cash used in operating activities	<u>(425,822)</u>	<u>(935,784)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	5,614,814	3,556,500
Non-controlling interest – equity contributions	457,590	-
Proceeds from issuance of convertible debenture	-	5,094,000
Lease payments	(11,224)	-
Net cash provided by financing activities	<u>6,061,180</u>	<u>8,650,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(1,721,006)	(147,143)
Cash acquired on acquisition of 70% of Tintyava Exploration EAD	-	89,367
Acquisition of property and equipment	(4,472)	-
Net cash used in investing activities	<u>(1,725,478)</u>	<u>(57,767)</u>
Change in cash and cash equivalents during the period	3,909,880	7,647,558
Cash and cash equivalents, beginning of period	<u>3,217,419</u>	<u>243,020</u>
Cash and cash equivalents, end of period	<u>\$ 7,127,299</u>	<u>\$ 7,890,578</u>

Supplemental disclosure with respect to cash flows (Note 8)

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

VELOCITY MINERALS LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended March 31, 2020 and 2019

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 2300 - 1177 West Hastings Street, Vancouver, BC V6E 2K3. 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 not yet determined whether its 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.

During 2019, the Company exercised its option to acquire an undivided 70% interest in the Tintyava property, and as a result, on March 1, 2019, shares of Tintyava Exploration EAD (“Tintyava”), representing 70% ownership of the Company, have been registered in the name of the Company’s subsidiary Kibela Minerals AD (Note 4 (a)).

As at March 31, 2020, the Company has working capital of \$6,184,442 (2019 - \$2,496,894) and an accumulated deficit of \$14,184,453 (2019 - \$13,917,774). 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.

On March 11, 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB. In the opinion of management, all adjustments considered necessary for fair presentation of the Company’s financial position, results of operations and cash flows have been included. Operating results for the three-month period ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

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

(Expressed in Canadian dollars)

For the three months ended March 31, 2020 and 2019

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

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

Basis of consolidation

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

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

The Company established its subsidiaries Kibela and Kabiri in 2017 and 2018 respectively, and effective March 1, 2019, acquired 70% of Tintyava Exploration AD (Note 4 (a)).

The Company consolidates its subsidiaries on the basis that it controls the subsidiaries through its ability to govern its 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.

These condensed interim consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements, and therefore should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2019. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Critical accounting estimates are estimates, and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and/or liabilities within the financial year and are disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2019. There have been no changes to the Company's critical accounting estimates and judgments during the three months ended March 31, 2020.

3. CASH AND CASH EQUIVALENTS

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

	March 31, 2020	December 31, 2019
Cash	\$ 5,277,299	\$ 1,167,419
Cash equivalents	1,850,000	2,050,000
Total	\$ 7,127,299	\$ 3,217,419

	March 31, 2020	December 31, 2019
Cash and cash equivalents held with banks in Canadian dollars	\$ 5,472,917	\$ 2,222,783
Cash held with banks in foreign currencies	1,654,382	994,636
Total	\$ 7,127,299	\$ 3,217,419

4. EXPLORATION AND EVALUATION ASSETS

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

a) Tintyava Property – Bulgaria

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

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

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

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

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

The non-controlling interest in the fair value of Tintyava's net assets on consolidation was calculated to be \$946,215. The consolidated statement of loss and comprehensive loss includes only the profit and loss of Tintyava subsequent to March 1, 2019.

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

A summary of the transaction related to the purchase and final purchase price and purchase price allocation is as follows:

Forgiveness of debt ¹	\$	3,602,362
Acquisition costs		159,898
Total purchase price:	\$	3,762,260
Purchase price allocation		
Cash	\$	89,367
Advances		16,543
Exploration and evaluation assets		4,612,173
Equipment		24,937
Trade and other payables		(34,545)
Non-controlling interest		(946,215)
Total purchase price allocated	\$	3,762,260

¹ Debt to Tintyava was accounted for as acquisition of exploration and evaluation assets prior to March 1, 2019.

During the fourth quarter of 2019, the Company made an adjustment to the purchase price previously reported by reclassifying the amount of Bulgarian tax paid of \$159,898 to increase the purchase price (acquisition costs). In addition, the Company made adjustments to the purchase price allocation by decreasing purchase price allocated to receivables and trade and other payables by \$41,851 and \$53,878 respectively, and increasing purchase price allocated to exploration and evaluation assets and non-controlling interest by \$151,479 and \$3,608 respectively. The purchase price allocation has been finalized as at December 31, 2019.

b) Nadezhda Property – Bulgaria

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

c) Momchil Property – Bulgaria

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

d) Sedefche Property – Bulgaria

On September 25, 2019, the Company entered into an option agreement for the Sedefche project (“Sedefche” or the “Project”) with Gorubso. The Company can earn a 70% interest in Sedefche by completing 5,000 m of drilling prior to March 31, 2020 (the “Initial Drilling”). The Initial Drilling was completed as at March 31, 2020. Pursuant to the option agreement, the Company made the election to complete an additional drill program (the “Additional Drilling”) by September 25, 2020, before the Company reaches a decision to exercise the Option to earn 70% interest in Sedefche. There is not a requirement for a minimum meters drilling completed for the Additional Drilling.

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

d) Sedefche Property – Bulgaria (cont'd...)

If the Company elects not to exercise the Option, it will be entitled to a 1% Net Smelter Returns (“NSR”) royalty on any gold and silver mined from Sedefche in excess of that set out in the historical geological resources and reserves registered with the Bulgarian Ministry of Energy as of July 6, 2016 (the “Historical Bulgarian Resources”), that are identified or estimated as a result of the Initial Drilling and, if applicable, or the Additional Drilling at the Project. Subject to the Company’s acceptance, half of the 1% NSR royalty (being 0.5%) can be purchased from the Company for US\$1,000,000.

Upon the exercise of the Option, the Company will be deemed to have entered a joint venture (the “Joint Venture”), at which time a joint venture company (“JVCo”) will be established. The Company will be required to make the following payments upon the exercise of the Option:

- (i) a fee of US\$800,000 payable to Gorubso, on entering the Joint Venture. The Company shall pay the fee in common shares in the capital of the Company (the “Velocity Shares”) at a deemed value per Velocity Share equal to the market price of the Velocity Shares on the TSXV”) on the date of incorporation of JVCo.
- (ii) a second US\$800,000 to Gorubso, will be payable in Velocity Shares upon the production of the first doré from ore extracted from the Project. The deemed value per Velocity Share shall be equal to the market price of the Velocity Shares on the TSXV on the date of the initial doré production.

Upon the formation of the Joint Venture, a 2% NSR royalty will deem to have been granted to Gorubso on products from the Project, which will be limited to the Historical Bulgarian Resources. The Company, with approval from Gorubso, will have the ability to purchase 50% (being 1%) of the NSR royalty for US\$2,000,000. Gorubso may opt to continue mine site preparation during the term of the Option at its expense, provided that upon the Company’s exercise of the Option and the formation of the Joint Venture, the Company will be responsible for covering 70% of up to BGN 500,000 in site preparation costs incurred by Gorubso.

If Velocity elects to abandon its interest in the Joint Venture following the formation of the Joint Venture and the acquisition of a 70% interest therein, Velocity will be entitled to a 1% NSR royalty on:

- (iii) all gold and silver mined from the Project in excess of that set out in the Bulgarian Historical Estimate that is identified or estimated as a result of the Initial Drilling and, if applicable, the Additional Drilling, at the Project or
- (iv) all mineral resources and reserves discovered at the Project, if two years have passed from the formation of the Joint Venture and if Velocity completes BGN 2,000,000 in aggregate expenditures on the Project prior to termination.

VELOCITY MINERALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the three months ended March 31, 2020 and 2019

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

Exploration and evaluation assets of the Company as at March 31, 2020 and December 31, 2019 are as follows:

	Tintyava	Nadezhda	Momchil	Sedefche	Total
	\$	\$	\$	\$	\$
Acquisition costs					
Balance, December 31, 2019 and March 31, 2020	2,005,136	-	-	-	2,005,136
Exploration and evaluation					
Balance, December 31, 2019	6,380,152	137,440	1,669,925	412,699	8,600,216
Drilling	19,096	4,487	677,608	549,443	1,250,634
Geological	445,201	7,815	5,291	19,209	477,516
Geophysics	-	41,434	1,768	-	43,202
Salaries and travel	228,257	6,449	88,985	123,385	447,076
Field and vehicles	42,242	9,555	23,285	18,077	93,159
	734,796	69,740	796,937	710,114	2,311,587
Balance, March 31, 2020	7,114,948	207,180	2,466,862	1,122,813	10,911,803
Balance, March 31, 2020	9,120,084	207,180	2,466,862	1,122,813	12,916,939

	Tintyava	Nadezhda	Momchil	Sedefche	Total
	\$	\$	\$	\$	\$
Acquisition costs					
Balance, December 31, 2018	450,712	-	-	-	450,712
Acquisition of Tintyava	1,554,424	-	-	-	1,554,424
Balance, December 31, 2019	2,005,136	-	-	-	2,005,136
Exploration and evaluation					
Balance, December 31, 2018	2,463,203	-	-	-	2,463,203
Drilling	1,618,787	52,105	1,051,098	309,449	3,031,439
Geological	1,234,643	12,559	46,834	-	1,294,036
Geochemistry	60,803	-	16,397	5,432	82,632
Salaries and field	1,002,716	72,776	555,596	97,818	1,728,906
	3,916,949	137,440	1,669,925	412,699	6,137,013
Balance, December 31, 2019	6,380,152	137,440	1,669,925	412,699	8,600,216
Balance, December 31, 2019	8,385,288	137,440	1,669,925	412,699	10,605,352

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

(Expressed in Canadian dollars)

For the three months ended March 31, 2020 and 2019

5. CONVERTIBLE DEBENTURE

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

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

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

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

	March 31, 2020	December 31, 2019
Opening balance	\$ 4,002,933	\$ -
Additions	-	3,854,633
Accretion	50,074	148,300
Ending balance	<u>\$ 4,053,007</u>	<u>\$ 4,002,933</u>

As at March 31, 2020, the Company had accrued interest expense on convertible debenture in the amount of \$216,495 for semi-annual interest for the period October 1, 2019 to March 31, 2020. The interest was paid in shares on April 1, 2020 (Note 10).

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

Unlimited number of common shares without par value.

Issued share capital**Three months ended March 31, 2020:**

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

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

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

(Expressed in Canadian dollars)

For the three months ended March 31, 2020 and 2019

6. SHARE CAPITAL AND RESERVES (cont'd...)*Issued share capital* (cont'd...)Three months ended March 31, 2019:

On March 14, 2019, the Company completed a non-brokered private placement of 18,600,000 units issued at \$0.21 per unit for gross proceeds of \$3,906,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant will entitle the holder thereof to purchase one common share of the Company at an exercise price of \$0.25 until March 14, 2022. Cash finder's fees in the amount of \$360,000 were paid, and 459,418 common shares with a fair value of \$133,231 were issued as advisory fees.

During the period, the Company issued 52,500 common shares for gross proceeds of \$10,500 pursuant to a warrants exercise.

Stock options

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

As at March 31, 2020, the Company had stock options outstanding and exercisable enabling the holder to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Remaining life in years
1,300,000	\$0.18	May 3, 2020	0.09
1,550,000	\$0.17	November 5, 2020	0.60
3,300,000	\$0.31	July 31, 2022	2.33
500,000	\$0.35	September 26, 2022	2.49
250,000	\$0.31	November 14, 2022	2.62
925,000	\$0.28	March 29, 2021	0.99
150,000	\$0.28	May 1, 2021	1.08
900,000	\$0.46	November 19, 2021	1.64
8,875,000	\$0.28		1.49

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2018	7,100,000	\$ 0.26
Granted	1,975,000	\$ 0.36
As at December 31, 2019	9,075,000	\$ 0.28
Cancelled	(200,000)	\$ 0.36
As at March 31, 2020	8,875,000	\$ 0.28
Number of options currently exercisable	8,875,000	\$ 0.28

During the three months ended March 31, 2020, the Company recognized share-based payments expense of \$Nil (March 31, 2019 - \$133,000) in respect to the vesting of stock options granted. The weighted average remaining contractual life of options outstanding at March 31, 2020 was 1.49 (December 31, 2019 - 1.76) years.

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

(Expressed in Canadian dollars)

For the three months ended March 31, 2020 and 2019

6. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options (cont'd...)**

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

	March 31, 2020	March 31, 2019
Expected life of options (years)	-	2.00
Annualized volatility	-	100%
Dividend rate	-	-
Risk-free rate	-	1.56%
Weighted average fair value per option granted	-	\$ 0.14

There were no new stock option grants during the three months ended March 31, 2020.

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, 2018	7,525,753	0.24
Issued	9,300,000	0.25
Exercised	(3,350,536)	0.27
Expired	(825,000)	0.30
As at December 31, 2019	12,650,217	\$ 0.24
Issued	7,449,094	0.53
As at December 31, 2019	20,099,311	\$ 0.35

The weighted average remaining contractual life of warrants outstanding and exercisable at March 31, 2020 was 2.65 (December 31, 2019 – 2.09) years.

Warrants outstanding are as follows:

Number of Warrants	Exercise Price	Expiry Date
3,350,217	\$ 0.20	October 12, 2021
9,300,000	\$0.25	March 14, 2022
7,233,844	\$0.55	August 12, 2021
215,250	\$0.40	February 12, 2021
20,099,310		

The 215,250 finders' warrants issued in connection with the February 12, 2020 Financing were valued using weighted average Black-Scholes inputs as follows:

	February 12, 2020
Expected life of warrants (years)	1
Annualized volatility	62.12%
Dividend rate	-
Discount rate	1.54%
Weighted average fair value per warrant granted	\$ 0.11

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

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For the three months ended March 31, 2020 and 2019

7. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Key management personnel compensation for the three months ended March 31, 2020 and 2019 were:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Short-term benefits paid or accrued:		
Consulting fees ¹	\$ 138,799	\$ 81,020
Salaries and directors' fees	121,500	103,000
	260,299	184,020
Share-based payments:		
Share-based payments	-	75,486
Total remuneration	\$ 260,299	\$ 259,506

¹Consulting fees of \$124,899 (2019 - \$41,600) are included in exploration and evaluation assets.

As at March 31, 2020, the Company had accrued liabilities to key management personnel of \$4,095 included in trade payables (December 31, 2019- \$204,481).

No post-employment benefits, termination benefits, or other long-term benefits were paid to or recorded for key management personnel during the three months ended March 31, 2020 and 2019.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three months ended March 31, 2020	Three months ended March 31, 2019
Depreciation included in exploration and evaluation assets	\$ 12,411	\$ -
Exploration and evaluation assets included in accounts payable	965,067	-
Finder's warrants	24,000	-
Advances reclassified to exploration and evaluation assets	-	224,172

9. SEGMENT INFORMATION

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

10. SUBSEQUENT EVENTS

- a) On April 1, 2020, the Company issued 742,184 common shares for the semi-annual interest of \$216,495 on the convertible debenture. The interest was for the period October 1, 2019 to March 31, 2020.
- b) On April 7, 2020, the Company announced it had granted 1,500,000 common share stock options to various employees and consultants of the company and its affiliates. The options entitle the holder to purchase shares at a price of \$0.34 per share for a period of 24 months from the issue date.
- c) Subsequent to March 31, 2020, the Company received gross proceeds of \$315,700 in aggregate from the exercise of 408,500 warrants at \$0.20 and 1,300,000 stock options at \$0.18.