



VELOCITY
MINERALS LTD.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 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 three and nine months ended September 30, 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.

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

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

(Expressed in Canadian dollars)

As at

	September 30, 2020	December 31, 2019
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 3,043,932	\$ 3,217,419
Receivables (Note 4)	1,646,023	76,123
Prepaid expenses	60,834	42,637
	4,750,789	3,336,179
Property and equipment (Note 5)	164,163	83,649
Exploration and evaluation assets (Note 6)	15,594,943	10,605,352
	\$ 20,509,895	\$ 14,025,180
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade and other payables	\$ 1,081,497	\$ 816,396
Lease liabilities, current	26,114	22,889
	1,107,611	839,285
Lease liabilities, long term	46,552	21,923
Convertible debenture (Note 7)	4,157,395	4,002,933
	5,311,558	4,864,141
Shareholders' equity		
Share capital (Note 8)	24,393,058	17,783,183
Reserves (Note 8)	1,674,792	1,703,957
Equity component of convertible debenture (Note 7)	1,106,812	1,106,812
Shares issuable (Note 7)	216,496	-
Non-controlling interest	3,189,520	2,484,861
Deficit	(15,382,341)	(13,917,774)
	15,198,337	9,161,039
	\$ 20,509,895	\$ 14,025,180

Nature and continuance of operations (Note 1)**Subsequent events** (Note 4, 12)**On behalf of the Board on November 24, 2020***"Keith Henderson"*

Director

"Michael Hoffman"

Director

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

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

(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
EXPENSES				
Consulting (Note 9)	\$ 27,554	\$ 69,783	\$ 49,534	\$ 154,383
Investor relations	71,938	19,189	170,989	187,842
Office	20,049	12,055	66,665	56,016
Professional fees	146,407	95,818	326,909	555,748
Property investigation	49,193	56,343	49,193	90,332
Regulatory and transfer agent fees	13,798	5,461	29,938	100,933
Rent	8,323	6,994	37,828	18,533
Salaries (Note 9)	190,960	110,505	482,973	308,304
Share-based compensation (Note 8 and 9)	27,815	-	92,878	154,000
Travel	3,457	64,601	23,570	136,250
OPERATING LOSS	(559,512)	(440,749)	(1,330,477)	(1,762,341)
OTHER INCOME (EXPENSES)				
Accretion expense (Note 7)	(52,194)	(41,704)	(154,462)	(90,814)
Bulgarian tax	-	1,338	-	(161,184)
Foreign exchange gain (loss)	67,237	57,792	91,332	(29,582)
Interest expense	(108,248)	-	(323,854)	-
Interest income	21,164	13,921	94,306	15,145
Other income	46,773	-	46,773	-
Total other income (expenses)	(25,268)	31,347	(245,905)	(266,435)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(584,780)	(409,402)	(1,576,382)	(2,028,776)
Loss and comprehensive loss attributable to:				
Owners of the Company	(557,489)	(409,402)	(1,464,567)	(2,028,776)
Non-controlling interest	(27,291)	-	(111,815)	-
	(584,780)	(409,402)	(1,576,382)	(2,028,776)
Loss per common share				
-Basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding				
-Basic and diluted	115,569,600	96,923,313	111,760,140	90,476,236

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		Shares issuable	Reserves	Equity component of convertible debenture	Non- controlling interest	Deficit	Total
	Number of common shares	Amount						
Balance, December 31, 2019	97,792,229	\$ 17,783,183	\$ -	\$ 1,703,957	\$ 1,106,812	\$ 2,484,861	\$ (13,917,774)	\$ 9,161,039
Private placement	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 issued for interest on convertible debenture	742,184	216,495	216,496	-	-	-	-	432,991
Warrants exercise	642,500	128,500	-	-	-	-	-	128,500
Stock options exercise	2,050,000	674,066	-	(259,566)	-	-	-	414,500
Share-based payments	-	-	-	206,401	-	-	-	206,401
Change in net assets of Tintyava Exploration AD	-	-	-	-	-	816,474	-	816,474
Loss and comprehensive loss	-	-	-	-	-	(111,815)	(1,464,567)	(1,576,382)
Balance, September 30, 2020	115,649,600	\$ 24,393,058	\$ 216,496	\$ 1,674,792	\$ 1,106,812	\$ 3,189,520	\$ (15,382,341)	\$ 15,198,337
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)	-	-	-	-	-	(360,000)
Share issuance costs – common shares	459,418	133,231	-	(133,231)	-	-	-	-
Warrants exercise	3,350,536	859,710	-	(37,200)	-	-	-	918,583
Convertible debenture, equity portion	-	-	-	-	1,109,923	-	-	1,109,923
Share-based payments	-	-	-	154,000	-	-	-	154,000
Acquisition of 70% of Tintyava Exploration AD	-	-	-	-	-	912,614	-	912,614
Change in net assets of Tintyava Exploration AD	-	-	-	-	-	1,023,054	-	1,023,054
Loss and comprehensive loss	-	-	-	-	-	-	(2,028,776)	(2,028,776)
Balance, September 30, 2019	97,296,713	\$ 17,516,402	\$ -	\$ 1,670,188	\$ 1,109,932	\$ 1,935,668	\$ (13,410,524)	\$ 8,821,666

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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (584,780)	\$ (409,402)	\$ (1,576,382)	\$ (2,028,776)
Adjustments for:				
Accretion expense	52,194	41,5704	154,462	90,814
Depreciation expense included in office expenses	-	11,541	-	18,861
Interest expense, non-cash	108,248	-	323,854	-
Share-based payments				
Share-based payments	27,815	-	92,878	154,000
Share-based payments				
Interest paid on leases	2,424	-	5,517	-
Interest income	(21,104)	-	(51,246)	-
Changes in non-cash working capital items:				
Advances	-	(35,580)	-	(35,580)
Receivables	17,238	(185,730)	(9,291)	(380,158)
Prepaid expenses	34,438	33,140	(18,197)	21,359
Share-based payments				
Trade and other payables	59,008	(217,884)	(99,462)	78,134
Net cash used in operating activities	(304,519)	(762,211)	(1,177,867)	(2,081,346)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of common shares	149,500	96,072	6,157,814	4,464,583
Non-controlling interest – equity contributions	358,884	375,680	816,474	1,100,599
Proceeds from issuance of convertible debenture	-	-	-	5,094,000
Lease payments	(1,595)	-	(39,851)	-
Net cash provided by financing activities	506,789	471,751	6,934,437	10,659,181
CASH FLOWS FROM INVESTING ACTIVITIES				
Exploration and evaluation assets	(1,932,010)	(2,128,745)	(5,859,885)	(3,536,653)
Cash acquired on acquisition of 70% of Tintyava Exploration EAD	-	-	-	89,367
Acquisition of property and equipment	(38,089)	(45,189)	(70,172)	(45,189)
Net cash used in investing activities	(1,970,099)	(2,173,934)	(5,930,057)	(3,492,475)
Change in cash and cash equivalents during the period	(1,767,829)	(2,464,394)	(173,487)	5,085,360
Cash and cash equivalents, beginning of period	4,811,761	7,792,774	3,217,419	243,020
Cash and cash equivalents, end of period	\$ 3,043,932	\$ 5,328,380	\$ 3,043,932	\$ 5,328,380

Supplemental disclosure with respect to cash flows (Note 10)

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 and nine months ended September 30, 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.

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 AD (“Tintyava”), representing 70% ownership of the Company, have been registered in the name of the Company’s subsidiary Kibela Minerals AD (Note 6 (a)).

As at September 30, 2020, the Company had working capital of \$3,643,178 (December 31, 2019 - \$2,496,894) and an accumulated deficit of \$15,382,341 (December 31, 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 nine-month period ended September 30, 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 and nine months ended September 30, 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
Velocity Exploration Ltd. ("Velocity Exploration")	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 6 (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 and nine months ended September 30, 2020.

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

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2020 and 2019

3. CASH AND CASH EQUIVALENTS

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

	September 30, 2020	December 31, 2019
Cash	\$ 1,193,932	\$ 1,167,419
Cash equivalents	1,850,000	2,050,000
Total	\$ 3,043,932	\$ 3,217,419

	September 30, 2020	December 31, 2019
Cash and cash equivalents held with banks in Canadian dollars	\$ 2,185,241	\$ 2,222,783
Cash held with banks in foreign currencies	858,691	994,636
Total	\$ 3,043,932	\$ 3,217,419

4. RECEIVABLES

At September 30, 2020, the Company recognized a receivable amount of \$1,547,849 (1,938,931 Bulgarian lev), pursuant to an Amendment to the Sedefche Option Agreement dated September 25, 2020 (Note 6 (d)). The Company received the funds subsequently to September 30, 2020.

	September 30, 2020	December 31, 2019
Receivable – reimbursement for exploration costs	\$ 1,547,894	\$ -
VAT / GST receivable	60,173	39,606
Other receivable	37,956	36,517
Total	\$ 1,646,023	\$ 76,123

5. PROPERTY AND EQUIPMENT

	Right-of-use assets	Equipment and vehicles	Computers	Total
Costs				
Balance, December 31, 2019	\$ 51,192	\$ 20,684	\$ 35,920	\$ 107,796
Additions	62,188	26,048	44,124	132,260
Balance, September 30, 2020	113,380	46,732	80,044	240,156
Accumulated depreciation				
Balance, December 31, 2019	(3,724)	(2,154)	(18,269)	(24,147)
Additions	(37,267)	(3,126)	(11,453)	(51,846)
Balance, September 30, 2020	(40,991)	(5,280)	(29,722)	(75,993)
Book value, December 31, 2019	\$ 47,468	\$ 18,530	\$ 17,651	\$ 83,649
Book value, September 30, 2020	\$ 72,389	\$ 41,452	\$ 50,322	\$ 164,163

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

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2020 and 2019

6. EXPLORATION AND EVALUATION ASSETS

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

a) Tintyava Property – Bulgaria

On July 19, 2017, the Company, through its subsidiary Kibela, entered into an Option Agreement whereby the Company 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.

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.

VELOCITY MINERALS LTD.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2020 and 2019

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

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.

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

Subsequent to September 30, 2020, the Company executed a relinquishment agreement and received the reimbursement amount of 1,938,931 Bulgarian lev or \$1,547,894, and with that the Company relinquished its interest in Sedefche property. In connection with the relinquishment of Sedefche, as at September 30, 2020, the Company recorded recoveries of \$1,509,363 to exploration and evaluation assets, which was the cumulative amount of exploration and evaluation costs incurred on Sedefche property.

e) Iglika Property – Bulgaria

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

Under the terms of the Letter agreement to acquire 51% of BMD shares, the Company must (i) pay EUR 31,956 (BGN 62,500) to BMD on signing of the Letter Agreement and (ii) incur exploration expenditures in the amount of EUR 300,000 by December 31, 2020. The company can earn the remaining 49% of BMD shares by incurring additional exploration expenditures in the amount of EUR 500,000 by December 31, 2021.

BMD will retain a 2.0% net smelter returns royalty (“Option Royalty”), which will be capped at \$6,700,000. At any time, 1.0% of the Option Royalty can be purchased for \$750,000 and an additional 0.5% of the Option Royalty can be purchased for \$1,500,000. Notwithstanding the option terms above, the Company can purchase a 100% interest (the “Purchase Option”) for \$340,000 until December 31, 2021 or for \$750,000 until December 31, 2022, either of which payments can be paid in cash or 50% cash and 50% Velocity shares. If the Purchase Option is exercised, BMD will instead retain a 0.5% Royalty (“Purchase Royalty”), capped at \$6,700,000. 100% of the Purchase Royalty may be purchased for \$750,000, after which the property would be royalty free.

VELOCITY MINERALS LTD.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2020 and 2019

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

 f) Exploration and evaluation assets of the Company as of September 30, 2020 and December 31, 2019:

	Tintyava	Nadezhda	Momchil	Sedefche	Iglika	Total
	\$	\$	\$	\$	\$	\$
Acquisition costs						
Balance, December 31, 2019	2,005,136	-	-	-	-	2,005,136
Additions	-	-	-	-	49,280	49,280
Balance, September 30, 2020	2,005,136	-	-	-	49,280	2,054,416
Exploration and evaluation						
Balance, December 31, 2019	6,380,152	137,440	1,669,925	412,699	-	8,600,216
Drilling and assays	916,440	22,651	1,592,294	721,189	-	3,252,574
Geological	929,858	53,466	93,357	69,810	52,154	1,198,645
Geochemistry	51,872	-	-	-	39,979	91,851
Geophysics	1,571	42,358	91,950	-	-	135,879
Field and vehicles	168,757	12,985	60,318	41,077	15,027	298,164
Salaries and travel	672,470	36,199	323,168	243,477	83,724	1,359,038
Share-based compensation	55,466	3,298	33,648	21,111	-	113,523
	2,796,434	170,957	2,194,735	1,096,664	190,884	6,449,674
Balance, September 30, 2020	9,176,586	308,397	3,864,660	1,509,363	190,884	15,049,890
Recoveries	-	-	-	(1,509,363)	-	(1,509,363)
Balance, September 30, 2020	11,181,722	308,397	3,864,660	-	240,164	15,594,943
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 and assays	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 and nine months ended September 30, 2020 and 2019

7. CONVERTIBLE DEBENTURE

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

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

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

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

	September 30, 2020	December 31, 2019
Opening balance	\$ 4,002,933	\$ -
Additions	-	3,854,633
Accretion	154,462	148,300
Ending balance	<u>\$ 4,157,395</u>	<u>\$ 4,002,933</u>

During the nine months ended September 30, 2020, the Company issued 742,184 common shares as payment for \$216,495 of semi-annual interest for the period October 1, 2019 to March 31, 2020.

As of September 30, 2020, the Company accrued interest expense on convertible debenture in the amount of \$216,496 for interest for the period April 1, 2020 to September 30, 2020. Subsequent to September 30, 2020, the Company issued 485,415 common shares as payment for the accrued semi-annual interest for the period April 1, 2020 to September 30, 2020.

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

Unlimited number of common shares without par value.

Issued share capital**Nine months ended September 30, 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 and nine months ended September 30, 2020 and 2019

8. SHARE CAPITAL AND RESERVES (cont'd...)*Issued share capital (cont'd...)*Nine months ended September 30, 2020 (cont'd...):

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.

During the nine months ended September 30, 2020 the Company issued 2,050,000 common shares pursuant to stock options exercises for aggregate gross proceeds of \$414,500. In addition, the Company issued 642,500 shares for gross proceeds of \$128,500 pursuant to warrants exercises.

Nine months ended September 30, 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 3,350,5360 common shares for gross proceeds of \$918,583 pursuant to warrants exercises.

Stock options

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

As at September 30, 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
1,200,000	\$0.17	November 5, 2020	0.1
2,850,000	\$0.31	July 31, 2022	1.8
500,000	\$0.35	September 26, 2022	2.0
50,000	\$0.31	November 14, 2022	2.1
825,000	\$0.28	March 29, 2021	0.5
150,000	\$0.28	May 1, 2021	0.6
900,000	\$0.46	November 19, 2021	1.1
1,500,000	\$0.34	April 7, 2022	1.5
905,000	\$0.48	August 11, 2025	4.9
8,880,000	\$0.39		1.7

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

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2020 and 2019

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

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2018	7,100,000	\$ 0.26
Granted	1,975,000	\$ 0.36
As at December 31, 2019	9,075,000	\$ 0.28
Granted	2,405,000	\$ 0.39
Exercised	(2,050,000)	\$ 0.20
Forfeited	(550,000)	\$ 0.32
As at September 30, 2020	8,880,000	\$ 0.33
Number of options currently exercisable	7,975,000	\$ 0.31

The weighted average remaining contractual life of options outstanding at September 30, 2020 was 1.7 (December 31, 2019 – 1.8) years.

During the three and nine months ended September 30, 2020, the Company recognized share-based payments expense of \$43,743 and \$206,401 respectively (three months ended September 30, 2019 - \$nil; nine month ended September 30, 2019 - \$154,000) in respect to the vesting of stock options granted. The Company capitalized \$15,928 and \$113,523 of the share-based compensation expense to exploration and evaluation assets for the three and nine months ended September 30, 2020 respectively (three and nine months ended September 30, 2019 - \$nil).

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

	September 30, 2020	September 30, 2019
Expected life of options (years)	2.75	2.0
Annualized volatility	77%	100%
Dividend rate	-	-
Risk-free rate	0.40%	1.56%
Weighted average fair value per option granted	\$ 0.18	\$ 0.14

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	12,650,216	\$ 0.24
Issued	7,449,094	0.53
Exercised	(642,500)	0.20
As at September 30, 2020	19,456,810	\$ 0.36

The weighted average remaining contractual life of warrants outstanding and exercisable at September 30, 2020 was 1.2 (December 31, 2019 – 2.09) years.

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

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2020 and 2019

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

Warrants outstanding are as follows:

Number of Warrants	Exercise Price	Expiry Date
2,707,716	\$ 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
19,456,810		

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)	1.0
Annualized volatility	62%
Dividend rate	-
Discount rate	1.54%
Weighted average fair value per warrant granted	\$ 0.11

9. 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 and nine months ended September 30, 2020 and 2019 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Short-term benefits paid or accrued:				
Consulting fees ¹	\$ 140,500	\$ 40,156	\$ 400,600	\$ 284,750
Salaries and directors' fees	123,500	112,000	336,667	326,100
	264,000	152,156	737,267	610,850
Share-based payments:				
Share-based payments	28,414	-	120,587	75,486
Total remuneration	\$ 292,414	\$ 152,156	\$ 857,854	\$ 686,336

¹Consulting fees of \$124,900 and \$362,220 are included in exploration and evaluation assets for the three and nine months ended September 30, 2020 respectively (\$22,156 and \$209,950 for the three and nine months ended September 30, 2019 respectively).

As at September 30, 2020, \$21,875 due to key management personnel were included in trade payables (December 31, 2019- \$204,481). These amounts were unsecured, non-interest bearing and due within 30 days.

No post-employment benefits, termination benefits, or other long-term benefits were paid to or recorded for key management personnel during the three and nine months ended September 30, 2020 and 2019.

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

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2020 and 2019

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three months ended		Nine months ended	
	2020	September 30, 2019	2020	September 30, 2019
Acquisition of Tintyava included in exploration and evaluation assets	\$ -	\$ -	\$ -	\$ 912,614
Advances reclassified to exploration and evaluation assets	-	-	-	297,510
Change in trade payables included in exploration and evaluation assets	(426,088)	(293,999)	(473,700)	168,050
Depreciation included in exploration and evaluation assets	26,161	-	51,846	-
Finder's warrants	-	-	24,000	-
Share-based compensation included in exploration and evaluation assets	15,928	-	113,523	-

11. 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.

12. SUBSEQUENT EVENTS

Subsequent to September 30, 2020, the Company issued 485,415 common shares as payment for the accrued semi-annual interest on its convertible debenture for the period April 1, 2020 to September 30, 2020.

On November 24, 2020, the Company closed a 9.99% strategic investment with Dundee Precious Metals Inc. ("DPM") whereby the Company has issued and sold 13,394,000 common shares to DPM for an aggregate purchase price of \$6,697,000 (the "Strategic Investment") on a private placement basis. In connection with the Strategic Investment, Velocity issued to Artemis Gold Inc. ("ARTG") 4,000,000 common shares at a price of \$0.50 per share for gross proceeds of \$2,000,000, in connection with the exercise by ARTG of its participation right to maintain its shareholdings of Velocity at approximately 22% on an issued and outstanding basis. In addition, an existing joint venture partner of the Company, Gorubso Kardzhali AD ("Gorubso"), subscribed for 500,000 common shares at a price of \$0.50 per share for gross proceeds of \$250,000.