

1077076 B.C. LTD.

Financial Statements

Period Ended June 30, 2016

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of 1077076 B.C. Ltd.

We have audited the accompanying financial statements of 1077076 B.C. Ltd. which comprise the statement of financial position as at June 30, 2016, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the period from May 26, 2016 (date of incorporation) to June 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of 1077076 B.C. Ltd. as at June 30, 2016 and its financial performance and its cash flows for the period from May 26, 2016 (date of incorporation) to June 30, 2016, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of 1077076 B.C. Ltd. to continue as a going concern.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

February 20, 2017

1077076 B.C. LTD.Statement of financial position
(expressed in Canadian dollars)

	June 30, 2016 \$
<hr/> Total assets	–
Liabilities and shareholder's deficit	
Current liabilities	
Accounts payable and accrued liabilities	19,099
Due to related party (Note 4)	1,599
<hr/> Total liabilities	20,698
Shareholder's deficit	
Share capital	1
Deficit	(20,699)
<hr/> Total shareholder's deficit	(20,698)
<hr/> Total liabilities and shareholder's deficit	–

Nature of operations and continuance of business (Note 1)
Subsequent events (Note 9)

Approved and authorized for issuance by the Board of Directors on February 20, 2017:

/s/ "Keith Henderson"

Keith Henderson, Director

/s/ "Mark Cruise"

Mark Cruise, Director

(The accompanying notes are an integral part of these financial statements)

1077076 B.C. LTD.

Statement of operations and comprehensive loss
(expressed in Canadian dollars)

	Period from May 26, 2016 (date of incorporation) to June 30, 2016 \$
<hr/>	
Expenses	
Professional fees	13,580
Property investigation costs	7,119
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Total expenses	20,699
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Net loss and comprehensive loss	(20,699)
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(The accompanying notes are an integral part of these financial statements)

1077076 B.C. LTD.Statement of changes in equity
(expressed in Canadian dollars)

	Share capital		Deficit \$	Total \$
	Shares #	Amount \$		
Balance, May 26, 2016 (date of incorporation)	100	1	–	1
Net loss for the period	–	–	(20,699)	(20,699)
Balance, June 30, 2016	100	1	(20,699)	(20,698)

(The accompanying notes are an integral part of these financial statements)

1077076 B.C. LTD.Statement of cash flows
(expressed in Canadian dollars)

	Period from May 26, 2016 (date of incorporation) to June 30, 2016 \$
Operating activities	
Net loss	(20,699)
Changes in non-cash working capital items:	
Accounts payable and accrued liabilities	19,099
Due to related party	1,599
Net cash used in operating activities	(1)
Financing activities	
Proceeds from issuance of common shares	1
Net cash provided by financing activities	1
Change in cash	-
Cash, beginning of period	-
Cash, end of period	-
Supplemental disclosures:	
Interest paid	-
Income tax paid	-

(The accompanying notes are an integral part of these financial statements)

1077076 B.C. LTD.

Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

1. Nature of Operations and Continuance of Business

1077076 B.C. Ltd. (the "Company") was incorporated on May 26, 2016 pursuant to the British Columbia Business Corporations Act. The Company's head office address is located at Suite 2300, 1177 West Hastings Street, Vancouver, BC, V6E 2K3. The Company is in the business of acquiring, exploring, and developing mineral properties.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2016, the Company has not generated any revenues from operations, has a working capital deficit of \$20,698, and has an accumulated deficit of \$20,699. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is pursuing equity financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board on a going concern basis.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(b) Use of Estimates and Judgements

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include unrecognized deferred income tax assets.

There are no judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current period.

The application of the going concern assumption requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

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Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(d) Exploration and Evaluation Assets

Exploration and evaluation assets include the costs of acquiring licences, and costs associated with exploration and evaluation activity. All costs related to the acquisition, exploration, and development of exploration and evaluation assets are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are expensed through the statement of operations.

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

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to development assets as a component of property, plant and equipment.

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

(e) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. The Company does not have any assets classified as fair value through profit or loss.

1077076 B.C. LTD.

Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of operations. The Company does not have any assets classified as available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company does not have any assets classified as loans and receivables.

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations.

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Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the statement of operations are not reversed through the statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, and amounts due to a related party.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(f) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the statement of operations.

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Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(f) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(g) Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the statement of operations.

(h) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2016, and have not been applied in preparing these financial statements.

New standard IFRS 9, "Financial Instruments"

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

1077076 B.C. LTD.

Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

3. Exploration and Evaluation Assets

Tintyava Property – Bulgaria

On June 8, 2016, the Company entered into a letter agreement under which Company has been granted an option by Gorubso-Kardzhali AD (“Gorubso”) to acquire an undivided 70% legal and beneficial interest in the Tintyava Property (the “Tintyava Option”) located in the Ivaylovgrad and Krumovgrad municipalities, respectively in the Haskovo and Kurdzhali Provinces, southeastern Bulgaria. The Tintyava Property has been awarded to Gorubso following a public tender process but has not yet been issued. In order for the Company to exercise the Tintyava Option, it will be responsible for the following:

- payment of a tender fee of 360,000 BGN (\$257,040);
- preparation of a preliminary economic assessment on the Tintyava Property; and
- all exploration costs during the option period.

The Tintyava Option period commences on the date Gorubso receives legal and beneficial ownership of the Tintyava Property and ends on the earlier of six years after option commencement date or until the Company abandons the property. Upon exercising its option, the Company will form a joint venture with Gorubso and the Company will become the operator. The initial interests of the Company and Gorubso in the joint venture shall be 70% and 30% respectively provided that:

- if the Company abandons the Tintyava Property after exercising the option and dissolves the joint venture, then the Tintyava Property shall revert back to Gorubso, subject to a 1% net smelter return that the Company shall retain in the Tintyava Property;
- if the Company decides to continue with the development of the Tintyava Property and funding of its 70% interest in the joint venture, then Gorubso shall have the right to continue with the joint venture and fund its 30% interest in the joint venture; and
- if either part does not contribute its portion of an approved work program for the Tintyava Property then that party’s interest in the joint venture shall be diluted in accordance with industry practice, including the automatic conversion thereof when a party’s interest in the joint venture is reduced to a percentage of less than 10% to a 1% net smelter return interest in the Tintyava Property.

The purpose of the agreement is to set the terms and conditions of the transaction. A more definitive agreement is to be executed by both parties which will supersede this letter agreement.

4. Related Party Transactions

As at June 30, 2016, the amount of \$1,599 is owed to the President of the Company which is non-interest bearing, unsecured, and due on demand.

5. Share Capital

Authorized: Unlimited number of common shares without par value

On May 26, 2016, the Company issued 100 common shares to the President of the Company for proceeds of \$1.

1077076 B.C. LTD.

Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

6. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity comprised of issued share capital.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

7. Financial Instruments and Risks

(a) Fair Values

The Company does not have any assets and liabilities measured at fair value on a recurring basis.

The fair values of other financial instruments, which include accounts payable and accrued liabilities, and amounts due to a related party, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

The Company is not exposed to any significant credit risk.

(c) Foreign Exchange Rate and Interest Rate Risk

The Company is not exposed to any significant foreign exchange rate or interest rate risk.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

8. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2016 \$
Canadian statutory income tax rate	26%
Income tax recovery at statutory rate	(5,382)
Tax effect of:	
Change in unrecognized deferred income tax assets	5,382
Income tax provision	—

1077076 B.C. LTD.

Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

8. Income Taxes (continued)

The significant components of deferred income tax assets and liabilities are as follows:

	2016 \$
Deferred income tax assets	
Non-capital loss carried forward	5,382
Unrecognized deferred income tax assets	(5,382)
Net deferred income tax asset	–

As at June 30, 2016, the Company has a non-capital loss carried forward of \$20,699 available to offset future years' taxable income which expires in fiscal 2036.

9. Subsequent Events

- (a) On September 13, 2016, the Company issued 300 common shares to three directors of the Company for proceeds of \$3.
- (b) On December 8, 2016, the Company entered into a binding letter agreement with Gorubso to acquire a 50% undivided interest in the Ekuzya Property (the "Ekuzya Option") located in the southeastern Rhodopean Region of Bulgaria. In order for the Company to exercise the Ekuzya Option, it must incur US\$1,000,000 in exploration expenditures ("Expenditure Commitment") over a two year period as follows;
- US\$500,000 on or before the day which is one year after the closing of a transaction with Velocity Minerals Ltd. (the "Effective Date"); and
 - US\$500,000 on or before the day which is two years after the Effective Date.

Upon the Company giving an exercise notice to Gorubso, the Company shall have earned a 50% legal and beneficial interest in the Ekuzya Property and shall be deemed to have formed a joint venture with Gorubso. Closing of the transaction will occur when Gorubso delivers the following;

- Gorubso incorporating a new Bulgarian joint-stock company, as a wholly-owned subsidiary of Gorubso ("NewCo").
- Gorubso assigning and transferring all legal and beneficial interest in the Ekuzya Property to NewCo.
- Gorubso delivering to the Company share certificates representing 50% of the issued and outstanding shares of NewCo, together with duly executed instruments of transfer, in connection with the transfer of said shares to the Company.

If the closing does not occur within 180 days following delivery by the Company to Gorubso of the exercise notice, then the Company's interest in the Ekuzya Property shall automatically be converted into a 5% gross smelter return interest on all metals discovered on the Ekuzya Property.

After completing the Expenditure Commitment and prior to the closing date, the Company may in its sole discretion elect to convert the option into a royalty interest. In which case Gorubso shall grant the Company a 5% gross smelter return interest.

A definitive agreement is to be executed by both parties which will supersede the letter agreement.

1077076 B.C. LTD.

Notes to the financial statements

Period ended June 30, 2016

(expressed in Canadian dollars)

9. Subsequent Events (continued)

- (c) On January 24, 2017, the Company and its shareholders entered into a share purchase and sale agreement with Velocity Minerals Ltd. ("Velocity") whereby the shareholders of the Company will sell their shares to Velocity in exchange for 18,000,000 common shares of Velocity. In addition, the current holders of 14,000,000 outstanding share purchase warrants of Velocity have agreed to transfer such warrants to the shareholders of the Company. In conjunction with this transaction, Velocity will undertake, subject to TSX Venture Exchange acceptance, a private placement of at least \$1,500,000 in gross proceeds.