

# **Vela Minerals Ltd.**

## **Consolidated Condensed Interim Financial Statements**

**For the three months ended January 31, 2017 and 2016**

**(Expressed in Canadian Dollars)**

# Vela Minerals Ltd.

## Consolidated Condensed Interim Statements of Financial Position

| As at,                                                | January 31,<br>2017 | October 31,<br>2016 |
|-------------------------------------------------------|---------------------|---------------------|
| <b>Assets</b>                                         |                     |                     |
| <b>Current</b>                                        |                     |                     |
| Cash                                                  | \$ 17,514           | \$ 22,807           |
| GST/HST receivable                                    | 2,347               | 1,218               |
|                                                       | 19,861              | 25,025              |
| <b>Exploration and evaluation properties</b> (note 7) | 194,177             | 194,177             |
|                                                       | \$ 214,038          | \$ 219,202          |
| <b>Liabilities</b>                                    |                     |                     |
| <b>Current</b>                                        |                     |                     |
| Trade and other accounts payable (note 10)            | \$ 8,500            | \$ 9,545            |
| <b>Shareholders' equity</b>                           |                     |                     |
| Share capital (note 8)                                | 896,891             | 896,891             |
| Share option reserve                                  | 171,923             | 171,923             |
| Deficit                                               | (863,276)           | (859,157)           |
|                                                       | 205,538             | 209,657             |
|                                                       | \$ 214,038          | \$ 219,202          |

Going concern (note 2)

Approved by the Board of Directors on September 25, 2015:

"Derrick Strickland" Director

"Charles Chebry" Director

# Vela Minerals Ltd.

## Consolidated Condensed Interim Statements of Loss and Comprehensive Loss

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|                                                      | Three months ended |            |
|------------------------------------------------------|--------------------|------------|
|                                                      | January 31,        |            |
|                                                      | 2017               | 2016       |
| <b>Expenses</b>                                      |                    |            |
| Professional fees                                    | \$ 1,500           | \$ 2,500   |
| Office and administration                            | 2,619              | 4,142      |
|                                                      | 4,119              | 6,642      |
| <b>Net and comprehensive loss for the period</b>     | \$ (4,119)         | \$ (6,642) |
| <b>Weighted average number of shares outstanding</b> | 10,574,711         | 10,574,711 |
| Basic and diluted net loss per common share          | \$ -               | \$ -       |

# Vela Minerals Ltd.

## Consolidated Condensed Interim Statements of Cash Flows

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|                                          | Three months ended<br>January 31, |                  |
|------------------------------------------|-----------------------------------|------------------|
|                                          | 2017                              | 2016             |
| Cash provided by (used in)               |                                   |                  |
| <b>Operating activities</b>              |                                   |                  |
| Net loss                                 | \$ (4,119)                        | \$ (6,642)       |
| Change in non-cash working capital items |                                   |                  |
| GST / HST receivable                     | (129)                             | (206)            |
| Trade and other accounts payable         | (2,545)                           | 2,493            |
| Accrued liabilities                      | 1,500                             | 2,500            |
|                                          | (5,293)                           | (1,855)          |
| <b>Decrease in cash</b>                  | (5,293)                           | (1,855)          |
| Cash - beginning of year                 | 22,807                            | 33,965           |
| <b>Cash - end of year</b>                | <b>\$ 17,514</b>                  | <b>\$ 32,110</b> |

# Vela Minerals Ltd.

## Consolidated Condensed Interim Statements of Changes in Equity

|                                       | Common Shares       |            | Share<br>Option<br>Reserve | Deficit                                                                                          | Total Equity |
|---------------------------------------|---------------------|------------|----------------------------|--------------------------------------------------------------------------------------------------|--------------|
|                                       | Number of<br>Shares | Amount     |                            |                                                                                                  |              |
| <b>Balance as at October 31, 2015</b> | 10,574,711          | \$ 896,891 | \$ 171,923                 | \$ (827,956)  | \$ 240,858   |
| Net loss for the period               | -                   | -          | -                          | (6,642)                                                                                          | (6,642)      |
| <b>Balance as at January 31, 2016</b> | 10,574,711          | \$ 896,891 | \$ 171,923                 | \$ (834,598)                                                                                     | \$ 234,216   |
| <b>Balance as at October 31, 2016</b> | 10,574,711          | \$ 896,891 | \$ 171,923                 | \$ (859,157)  | \$ 209,657   |
| Net loss for the period               | -                   | -          | -                          | (4,119)                                                                                          | (4,119)      |
| <b>Balance as at January 31, 2017</b> | 10,574,711          | \$ 896,891 | \$ 171,923                 | \$ (863,276)                                                                                     | \$ 205,538   |

## **1. Description of business**

Vela Minerals Ltd. (“the Company”) was incorporated in Canada with limited liability under the legislation of the Province of British Columbia on May 19, 2011. The registered and records office is located at 2500, 700 – West Georgia Street, Vancouver, British Columbia, V7Y 1B3.

The Company is in the business of acquiring and exploring mineral properties. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The Company plans are to carry out active exploration efforts on its mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to conduct operations, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

The Company’s common shares trade on the TSX Venture Exchange under the symbol “VLA”.

## **2. Going concern**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern.

The Company’s ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

## **3. Basis of presentation**

### Statement of compliance

These unaudited consolidated condensed interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” using accounting principles consistent with IFRS as published by the IASB and the International Financial Reporting Interpretations Committee (IFRIC). These unaudited consolidated condensed interim financial statements, do not include all disclosure required by IFRS for annual financial statements and accordingly should be read in conjunction with the Company’s audited annual financial statements for the year ended October 31, 2015.

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**Notes to the Consolidated Condensed Interim Financial Statements**  
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Basis of measurement and consolidation

The unaudited consolidated condensed interim financial statements have been prepared on the historical cost basis as set out in the accounting policies referred to below, except for the measurement of financial instruments at fair value through profit or loss.

The Company's financial statements are presented in its functional currency, Canadian dollars ("C\$").

These financial statements include the accounts of the Company and its wholly owned subsidiary Rio Minerals Jamaica Limited.

Use of estimates and judgments

The preparation of the Company's unaudited consolidated condensed interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

*Judgments:*

Exploration and evaluation properties: The Company is required to make significant judgments regarding the capitalization of exploration and evaluation properties expenditures. The Company is also required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation properties should be impaired.

Business combinations: The Company makes significant judgments regarding the determination of whether a set of assets acquired and liabilities assumed constitute a business, taking into account all facts and circumstances. Upon acquisition of a set of assets and liabilities, the Company examines the criteria set forth in IFRS 3, *Business Combinations*. If a transaction does not meet the definition of a business, as defined in IFRS 3, it is accounted for as an asset acquisition.

*Estimates and assumptions:*

Share-based payments: Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility, forfeiture rate and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Deferred taxes: The Company recognizes the deferred tax benefit related to deferred losses and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

The Company recognizes deferred tax liabilities when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow, the expected settlement amount, and future changes in tax laws.

#### **4. Significant accounting policies**

The accounting policies applied in preparation of the unaudited consolidated condensed interim financial statements are consistent with those applied and disclosed in the Company's annual financial statements for the year ended October 31, 2016.

#### **5. Accounting standards issued but not yet effective**

The IASB has issued a number of new standards, amendments to standards and interpretations that are not yet effective as of January 31, 2017, and have not been applied in preparing these statements. The Company is currently assessing the impact of these new standards; however it anticipates that these new standards will not have a material impact on the Company's financial statements.

##### Amendment of IFRS 10 "Consolidated Financial Statements"

The amendments to IAS 10 Consolidated financial statements deal with the circumstances where the assets being sold or contributed by an investor to its associate or joint venture constitutes a subsidiary and the transaction results in the investor losing control of the subsidiary. If the subsidiary does not constitute a business a partial gain or loss is recognized. The remaining part of the gain is eliminated against the carrying amount of the investment in the associate or joint venture. If the parent retains an investment in the former subsidiary that investment is re-measured to fair value. The accounting for any gain or loss resulting for the re-measurement depends on whether the investment retained is accounted for as an associate or a joint venture or a financial asset. IFRS 10 is effective for annual periods beginning on or after January 1, 2016. During 2015 the IASB released an exposure draft that proposed to defer the amendments described above until such time as the IASB has the results of its research project on the equity method.

##### Amendment of IFRS 15 "Revenue Recognition"

The IASB has issued IFRS 15 Revenue from contracts with customers which will replace the current revenue guidance on revenue and construction contracts. The expectation is that IFRS 15 provides a recognition standard that can be applied consistently across various transactions, industries and capital markets. The standard specifies the five steps that an organization would apply to recognize revenue; identifying the contract with the customer, identifying the performance obligations to transfer distinct goods or services within the contract, determining the transaction price, allocating the transaction price to each separate performance obligation on the basis of relative stand-alone selling prices, and recognizing revenue when or as the performance obligation is satisfied. An organization will be considered to have satisfied a performance obligation by transferring a promised good or service to a customer with a transfer being defined in terms of when the customer obtains control of the promised good or service. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Amendment of IFRS 9 “Financial instruments”

IFRS 9 Financial instruments simplifies existing standards for the recognition and measurement of financial instruments. It will replace IAS 39 Financial instruments: recognition and measurement. Under IFRS 9 all financial instruments would be classified into one of two basic categories; those measured at amortized cost or those measured at fair value. The classification of financial assets is based on both the characteristics of the instrument and the business model under which it is managed. As a result, whether a financial instrument such as an interest-bearing investment certificate is measured using the amortized cost method or the fair value method will be determined by whether it is managed to collect contractual cash flows or whether it is managed more speculatively. At initial recognition, an organization may irrevocably designate a financial asset as measured at fair value through profit or loss ("FVTPL"). This is effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRS 2 “Share-based payments”

The amendments address considerations of vesting considerations for cash-settled share-based payments, classification considerations related to settling a portion of an award in cash, and accounting for modification in terms of a payment that results in a change of the classification of the transaction from cash-settled to equity-settled. The amendments are effective years beginning on or after January 1, 2018.

**6. Mineral exploration tax credits**

Qualifying exploration expenditures in British Columbia are subject to a 20% refundable provincial tax credit provided that these costs are not incurred by the Company to meet an expenditure obligation arising pursuant to an agreement to issue flow-through shares. In addition, costs incurred on the Company's Rossland property are subject to an additional 10% refundable tax credit because the Company's properties are located within an area prescribed by the British Columbia government as being significantly impacted by the Mountain Pine Beetle. There were no qualifying expenditures in the the current period or the year ended October 31, 2016.

**7. Exploration and evaluation properties**

**Rossland property**

On June 30, 2011, the Company signed an option agreement to acquire a 100% interest in certain mineral claims located in the Trail and Rossland area of southern British Columbia. Under the terms of the Purchase Option Agreement, the Company paid cash consideration of \$70,000 and issued an aggregate of 500,000 shares in the Company. Additionally, the Company agrees to pay a royalty in an amount equal to 2% of net proceeds on all minerals produced from the Rossland property and sold by the Company. In April 2016, the vendor of the Rossland property agreed to relinquish their 2% NSR as part of the transaction described below regarding the Jamaican properties.

**Jamaican properties**

During the year ended October 31, 2013, the Company acquired Rio Minerals Jamaica Limited, a company which holds 100% interest in Mavis Bank and Port Antonio Special Exclusive Prospecting Licenses ("SEPL") in Jamaica, which total 126 square kilometres (the "Property"). The Company paid \$140,000US to acquire a 100% undivided interest in the Mavis Bank and Port Antonio Properties.

The Jamaican properties required and increasing commitment level of exploration expenditure in order to retain right of ownership. Due to constrained financial resources, the Company decided that it did not

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want to continue with these exploration expenditure obligations and wrote the properties down to their estimated fair value less cost to sell of \$20,000 during the year ended October 31, 2015. In April 2016, the Company sold the Jamaican subsidiary and properties held therein for proceeds of \$19,000 and a loss on disposal of mineral properties was recorded in the amount of \$1,000. The purchaser also relinquished its 2% net smelter royalty interest in the Company's Rossland properties.

|                             | <b>Canada<br/>Rossland</b> | <b>Jamaica<br/>Properties</b> | <b>Total</b> |
|-----------------------------|----------------------------|-------------------------------|--------------|
| Balance at October 31, 2015 | \$ 194,204                 | \$ 306,256                    | \$ 500,460   |
| Additions:                  |                            |                               |              |
| Proceeds on disposal        |                            | (19,000)                      | (19,000)     |
| Write down                  |                            | (1,000)                       | (1,000)      |
| Mineral tax credit          | (27)                       |                               | (27)         |
| Balance at October 31, 2016 | \$ 194,177                 | \$ 286,256                    | \$ 480,433   |
| Additions:                  |                            |                               |              |
| None                        |                            |                               | -            |
| Balance at January 31, 2017 | \$ 194,177                 | \$ 286,256                    | \$ 480,433   |

**Summary**

|                               |          |           |           |
|-------------------------------|----------|-----------|-----------|
| Acquisition & option payments | 95,203   | 143,430   | 238,633   |
| Exploration                   | 135,000  | 193,129   | 328,129   |
| Mineral tax credits           | (36,026) | -         | (36,026)  |
| Write down                    | -        | (317,559) | (317,559) |
| Proceeds on disposal          | -        | (19,000)  | (19,000)  |
| Balance at October 31, 2016   | 194,177  | -         | 194,177   |

**Summary**

|                               |          |           |           |
|-------------------------------|----------|-----------|-----------|
| Acquisition & option payments | 95,203   | 143,430   | 238,633   |
| Exploration                   | 135,000  | 193,129   | 328,129   |
| Mineral tax credits           | (36,026) | -         | (36,026)  |
| Write down                    | -        | (317,559) | (317,559) |
| Proceeds on disposal          | -        | (19,000)  | (19,000)  |
| Balance at January 31, 2017   | 194,177  | -         | 194,177   |

## **8. Share capital**

### Authorized

Unlimited number of common shares

### Issued

Shares issued and outstanding as at January 31, 2017 are 10,574,711 (October 31, 2016 – 10,574,711).

There have been no share transactions in the current period.

### Share based compensation

Pursuant to a stock option plan (the “Plan”) for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 30 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the final anniversary of the date the option was granted which concludes the option term. Options granted under the plan may not exceed ten years and vest at the discretion of the board of directors, and shall not be exercisable at less than the price determined by policy or policies of the stock exchange(s) on which the Company’s common shares are then listed. Notwithstanding the foregoing, options issued to consultants performing investor relations activities vest over 12 months with no more than 25% of the options vesting in any three month period. Occasionally, the Company issues stock options to agents which do not fall under the plan.

No options have been granted in the current period nor during the year ended October 31, 2016.

The following table summarizes activity related to stock options

|                         | <b>Options</b> | <b>Exercise Price</b> |
|-------------------------|----------------|-----------------------|
| October 31, 2015        | 860,000        | \$ 0.158              |
| Issued                  | -              | -                     |
| Cancelled               | -              | -                     |
| October 31, 2016        | 860,000        | \$ 0.158              |
| Expired                 | (450,000)      | \$ 0.150              |
| <b>January 31, 2017</b> | <b>410,000</b> | <b>\$ 0.166</b>       |

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The Company had the following stock options outstanding:

| January 31, 2017  |                                 |                |                                                     | October 31, 2016  |                                 |                |                                                     |
|-------------------|---------------------------------|----------------|-----------------------------------------------------|-------------------|---------------------------------|----------------|-----------------------------------------------------|
| Number of options | Weighted average exercise price | Year of expiry | Weighted average remaining contractual life (years) | Number of options | Weighted average exercise price | Year of expiry | Weighted average remaining contractual life (years) |
| 150,000           | \$ 0.150                        | 2017           | 0.61                                                | 450,000           | \$ 0.150                        | 2017           | 0.08                                                |
| 260,000           | \$ 0.175                        | 2018           | 0.92                                                | 150,000           | \$ 0.150                        | 2017           | 0.86                                                |
| 860,000           | \$ 0.158                        |                | 0.81                                                | 260,000           | \$ 0.175                        | 2018           | 1.18                                                |
|                   |                                 |                |                                                     | 860,000           | \$ 0.158                        |                | 1.55                                                |

Subsequent to January 31, 2017, 150,000 options with an exercise price of \$0.150 and 130,000 options with an exercise price of \$0.175 expired unexercised.

## 9. Related party transactions

### Key management compensation

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President, and Chief Executive Officer, Directors, and Chief Financial Officer. There were no salaries or fees paid to management in the current period or the prior year.

## 10. Trade and other accounts payable

|                       | January 31, 2017 | October 31, 2016 |
|-----------------------|------------------|------------------|
| Financial Liabilities |                  |                  |
| Trade Payables        | \$ -             | \$ 2,545         |
| Accrued Liabilities   | 8,500            | 7,000            |
|                       | <u>\$ 8,500</u>  | <u>\$ 9,545</u>  |

## 11. Financial instruments, capital management, and risk management

### Financial instrument fair value

The Company's financial instruments recognized on the statement of financial position consist of cash and trade and other accounts payable. Cash is carried at fair value. Due to their short-term nature, the carrying values of trade and other accounts payable approximate fair value.

### Capital management

The Company considers its capital to be the total shareholders' equity which at quarter end was \$205,538.

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The Company's objectives in managing its capital are: to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. The Company is not subject to any externally imposed capital requirements. Funds are secured, when necessary, through equity capital raised through sale of common shares.

Market risks

*Interest risk*

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company had \$17,514 in cash as at January 31, 2017, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is considered by management to be immaterial.

*Credit risk*

Credit risk is the risk of potential loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. The Company's receivable balances are from tax authorities; therefore, the Company is not subject to significant credit risk.

*Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. As at January 31, 2017, the Company had a working capital balance of \$11,361 which included a cash balance of \$17,514 which is more than sufficient to pay its current liabilities of \$8,500. In order for the Company to perform an exploration program on its properties, and to continue operations, beyond what is currently anticipated it will require additional equity financing.