

HALLGARTEN & COMPANY

Initiation of Coverage

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Velocity Minerals

(TSX-V: VLC, FSE: A1437B, OTCQB: VLCJF)

Strategy: LONG

Key Metrics		
Price (CAD)	\$0.200	
12-Month Target Price (CAD)	\$0.92	
Upside to Target	360.0%	
12-mth hi-low (CAD)	\$0.13 to \$0.245	
Market Cap (CAD mn)	\$14.98	
	Current	Pro-forma
Shares Outstanding (mns)	74.88	93.49
Fully diluted (mns)	89.13	137.41

Velocity Minerals

Riding the Balkan Wave

- + After a long quiescence the extraordinarily geologically gifted Balkans are started to get their deserved recognition with stellar deals in nearby Serbia setting the pace
- + Bulgaria has shown itself to be a mining friendly jurisdiction for both local and foreign players operating there
- + Strategic investment of CAD\$9mn by Atlantic Gold is a strong endorsement and brings substantial funds to complete feasibility-level studies and other pre-construction decision exploratory work
- + Invaluable skills and connections are brought by having an experienced local operator as a partner. In addition they bring access to a CIL plant
- + Recently published PEA signals an after-tax NPV (at 5%) of \$129mn and an after-tax IRR of 33% for the Rozino project
- + CapEx of US\$97.6mn is relatively undemanding
- + Exceptionally low AISC of US\$543 per ounce gives a very healthy cushion with the reigning gold price
- + Recent drilling with perspective to expand mineralisation beyond the pitshell and potentially lower strip ratio returns positive near surface results and expands mineralized envelope
- + Gold price has perked up since December thus enhancing economics
- ✗ Financing is not easy despite the mining sector now being two years into its “recovery”

In a Region of Soaring Interest

The end of the Cold War came at different times for different states. It is true that the Iron Curtain fell rather swiftly all across Eastern Europe but shrugging off the burden of 40 years of oppressive state intervention and control occurred at different speeds in different countries. This led to a varied pace of integration into the EU, different speeds of economic evolution and inevitably mining evolving at a different pace depending upon the jurisdiction in which projects were located. Bulgaria was one of the late developers in many respects but is now getting traction as a mining destination.

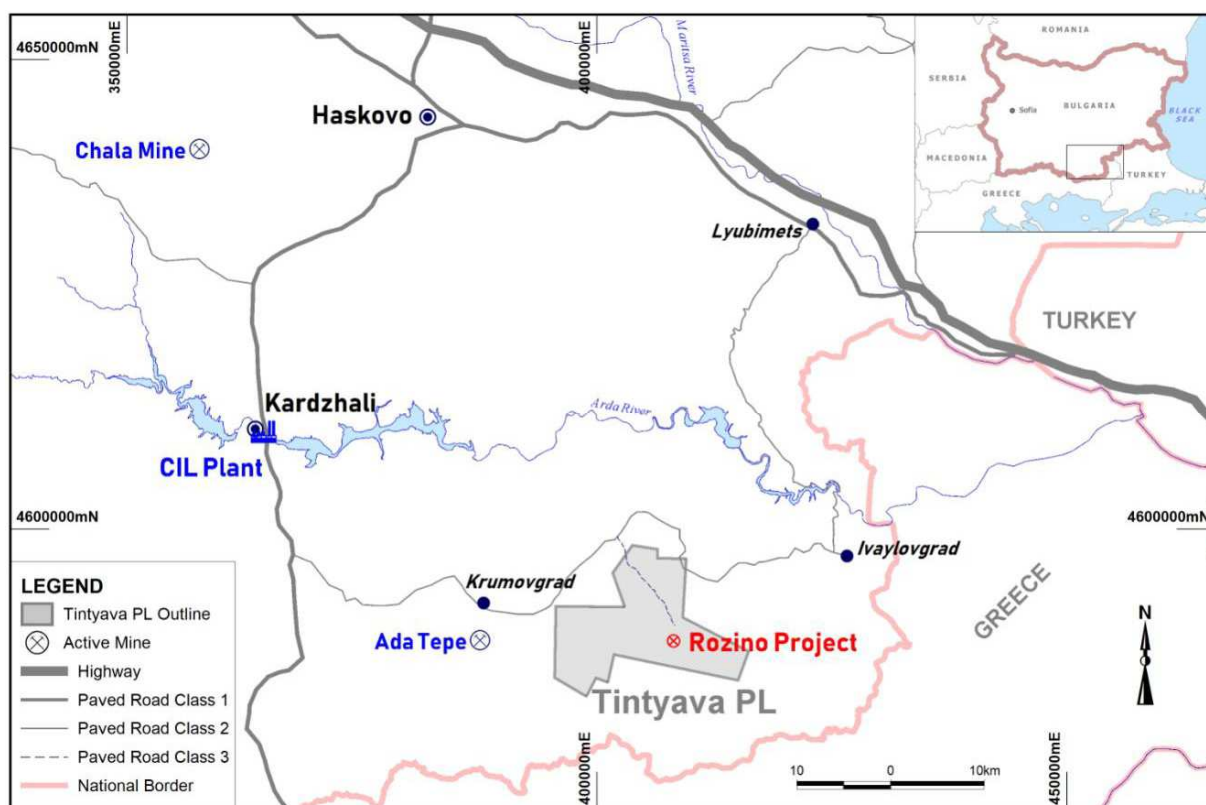
Velocity Minerals secured its foothold in Bulgaria in July 2017 when it closed a JV agreement transaction with a local investor. This deal brought on board the Rozino gold deposit and a number of other nearby prospects. Since then Velocity has undertaken work sufficient enough to produce the recently published PEA. The publication of this triggers the activation of Velocity's 70% stake in the JV for the Rozino asset.

In this initiation of coverage we shall examine the progress made by Velocity Minerals at Rozino, the recent strategic investment in the company, the potential to expand the currently envisioned mine and

the prospects with regard to the other projects in the immediate vicinity and how they might mesh with the initial project once it is producing.

Rozino

The Rozino project lies within the municipalities of Ivaylovgrad and Krumovgrad in southeast Bulgaria. The property is around 350 km by road east-southeast of Sofia. It is accessible year-round by sealed roads with forestry roads and historical drill tracks providing year-round access within the property by four-wheel drive vehicle.



For aficionados of closeology, the Rozino project is located 20 kilometres east of the 0.85mn oz Ada Tepe gold deposit, currently being developed by Dundee Precious Metals Inc. (TSX: DPM). Ada Tepe measured and indicated resource (2013); Upper Zone 5.0mn tonnes @ 2.99g/t gold (0.482mn oz, 0.6g/t COG) and Wall Zone 1.9mn tonnes @ 6.13g/t gold (0.377mn ozs at a 0.8g/t cut-off). Rozino is 85km southeast of the city of Kardzhali, which is host to tailings and gold processing facilities operated by Gorubso.

Some History

Modern exploration of the Tintyava Property was commenced by GeoService Engineering AD in the 1980s. Exploration activities since that time have included diamond core drilling, surface mapping,

trenching and rock chip sampling. Geoengineering drilled 86 vertical diamond holes for 14,289m. Geoengineering did not document its drilling, sampling and assaying protocols.

Hereward began exploration in 2001 and completed three phases of drilling between 2004 and 2007 totalling 7,995m, of which 2,733m was completed in joint venture with Asia Gold. Additional work completed during this time included surface mapping, trenching and metallurgical test-work.

In 2009, the original prospecting license containing the Rozino deposit was due for expiry and Hereward in JV with Caracal Gold LLC, through a local JV company, Cambridge Caracal Bulgaria EAD, submitted a so-called Technical and Economic Assessment report in order to maintain their rights for the deposit. Caracal submitted a small underground mine design in order to reduce environmental permitting. The application was rejected by the Bulgarian government, who considered that an open pit mine design was required and, despite extensive dialogue between the parties, in 2013 the original prospecting license was cancelled.

The Transaction

At the time that Velocity went through its corporate transformation in July 2017, it acquired an entity that held letter agreements with "Gorubso-Kardzhali" AD, a gold producer in the region, which provided for the grant by Gorubso, the underlying owner, of:

- (i) an option to acquire a 50% interest in the Ekuzya Property
- (ii) an option to acquire a 70% interest in the Tintyava property, which included the Rozino Gold Deposit

The Ekuzya option was terminated in Q4 2018. The terms of the letter agreement for Tintyava PL provide that Gorubso will grant an option to acquire a 70% interest in the property by paying to Gorubso the approximate amount of \$325,000 that Gorubso with which it shall pay a fee to the Ministry of Energy of the Republic of Bulgaria for an exploration license for Tintyava PL. Thereafter, the option will be exercisable for a period of six years by preparing a PEA. This condition has now been met and the Tintyava option has been exercised.

Velocity entered an Exploration and Mining Alliance with Gorubso in February 2018. The Alliance covers all existing and future Gorubso and Velocity projects within an area of 10,400km² covering the prospective Eastern Rhodope Gold Mining District in southeastern Bulgaria. Velocity will have the opportunity to complete option agreements on all Gorubso projects to earn a 70% interest in the projects on similar terms to the current option for Rozino. Gorubso will make its central gold processing plant available to all projects to process all future mined material as necessary.

Geology

Rozino is a low sulphidation epithermal ("LSE") gold deposit, predominantly hosted by Palaeogene

breccia and conglomerate sedimentary rocks. Mineralization includes disseminations, replacement and veins, with pyrite (with rare traces of base metals), and arsenopyrite, associated with gold present at sulphide mineral boundaries and to a lesser degree as free grains or encapsulated inclusions. The dominant mineralization trend is northwest parallel to the regional extensional fault regime, with local mineralization development controlled by the intersection of steep structures sub-parallel to the extensional faults, gently dipping bedding and the metamorphic basement-sediment unconformity contact.

Drilling has intersected mineralization over an area around 1,000 m by 800 m to a vertical depth of around 190 m. The mineralization is interpreted to be completely oxidized to average depth of around 8 m, with fresh rock occurring at an average depth of around 19 m.

Exploration

Velocity's exploration activities since 2017 have focused on drilling towards publication of a PEA. Between August 2017 and publication of the PEA, Velocity completed approximately 10,500m of diamond drilling. Additional exploration activities include surface mapping, 162 m of trenching and surface rock sampling.

The initial exploration focused on historical gold-in-soil anomalies generated by a regional 200 m spaced soil grid. Detailed soil sampling at Rozino and subsequent drilling has shown that soil anomalies are only generated where mineralization sub-crops and much of the Rozino deposit is overlain by barren sediments and is effectively geochemically blind. Therefore, soil sampling is a useful early stage tool in exploration but cannot be considered to be a screening tool.

The company has recently announced results of additional detailed soil sampling, which has implications for drill target generation and is described in more detail below.

Updated Mineral Resource Estimate

The former NI 43-101 resource for the project was issued in March 2018, then in September 2018 an updated mineral resource estimate using all of the relevant drill hole information to date. The updated mineral resource was reported for a range of cut-off grades returning an Inferred mineral resource of 13mn tonnes @ 1.37g/t gold at a 0.6 g/t gold cut-off grade, for total contained gold of 573,000 ounces. The estimates are based on

Rozino - Inferred Resource Estimate

Cut-off	Tonnes (mn)	GOLD Au (g/t)	Contained Au Ozs
0.2	50	0.59	948,000
0.5	17	1.17	639,000
0.6	13	1.37	573,000
0.7	9.7	1.57	490,000

2m down-hole composited gold assay grades from angled diamond drilling.

The Rozino sampling database is fairly massive and includes 197 diamond holes for 31,338m of drilling, of which 86 drill holes (14,289m) completed by Asenovgrad Geoengineering EAD are not included in the resource estimation dataset due to insufficient quality control data.

Drilling used in the previous March 2018 resource estimate totaled 90 drill holes (13,558m) and comprise 56 drill holes (9,055m) completed by Velocity, 28 drill holes (3,794m) completed by Hereward Ventures, and 6 drill holes (740m) completed by Asia Gold. The remaining angled drill holes from the database are located outside the mineralized envelope and did not inform the resource estimation. Relative to the dataset available for the March 2018 estimates, the current sampling database contains assay results for an additional 12 holes for 1,580m of drilling. The pitshell designs are shown below.



Estimated resources are constrained within a mineralized envelope interpreted from 2m down-hole composited gold grades and geological logging from diamond drilling and surface trenches. The envelope captures intervals of greater than 0.1 g/t, with the lower boundary reflecting the contact between variably mineralized sedimentary rocks and un-mineralized basement. It covers an area of approximately 780m by 600m.

Estimated resources extend to the base of mineralized drilling at approximately 190m of depth, with approximately 90% of estimates from depths of less than 105m and less than 1% from below 140m.

The PEA

The publication of an NI 43-101 PEA was the mechanism by which Velocity earned its 70% interest and the triggering of the report was driven by a desire to complete this earn-in rather than a completion of exploration.

The NI 43-101-compliant PEA was prepared by CSA Global, an international mining consultancy with experience in Bulgaria. We shall focus here upon the study's base case assessment for the development of an open-pit mine, with 0.6 g/t gold cut-off, a strip ratio of 2.5:1 and 1.51 g/t Life of Mine gold grade. From this scenario a steady state annual production is estimated at 65,000 ounces, while peak annual production would be 78,000 ounces.

Gold recovery will be via a combination of on-site pre-concentration to 30 g/t in a flotation plant. Then further processing is envisioned at the existing operating carbon-in-leach (CIL) plant owned by the local partners which is located in Kardzhali, 85km by road from Rozino. Saleable gold doré will be produced at Kardzhali.

The All-in Sustaining Cost was estimated at US\$543 per ounce. In the base case the consultant's assumed a gold price of US\$1,250 per ounce (being the three-year trailing average gold price) and an exchange rate of CAD\$1:US\$0.75. Using these parameters the PEA financial model returned an after-tax NPV (at 5% discount rate) of \$129mn and an after-tax IRR of 33.1%.

The PEA estimated total capital costs of CAD\$97.6 million (including contingency) with a relatively low estimated sustaining capital of \$6.3 million.

In addition to returning positive economic results, the PEA brings additional benefits in the form of shortened permitting timelines and capital cost reductions for the following reasons:

- the existing CIL Plant and tailing management facility (TMF) are fully permitted, currently operational, and have sufficient capacity to process concentrate from Rozino
- the use of the existing CIL Plant reduces total capital cost requirements
- development on-site at Rozino only requires permitting for mining, preconcentration and disposal of relatively benign waste products

Total undiscounted post-tax cash flow over the life of the Project is estimated to be \$182 million, with a return on capital expenditure of 3.3.

Mining

The PEA model used open pit contractor mining and a gold price of US\$1,250. Pit shells at this gold price returned 461,000 ounces of potentially mineable gold at the Rozino deposit, based on the updated mineral resource estimate.

Rozino - PEA - Mining Parameters

	UNITS	BASE CASE
Steady State Production Rate	Mt pa	1.75
Average Waste Mining Rate	Mt pa	4.5
Total Mineralization Mined	Mt	9.5
Total Waste Mined	Mt	23.7
Total Material Mined	Mt	33.2
LOM Average Strip Ratio	Wt : Ot	2.5
Average Mined Gold Grade	g/t Gold	1.5
Total Mined Gold	ozs	461,000
Cut-off Grade	g/t Gold	0.6 g/t
LOM	yrs	6
Mining Cost - OPEX	\$/t mined	\$3

Mining of the Rozino deposit would follow a conventional drill and blast, load and haul open-cut mining operation using contractor mining services. Mining would commence in 2022 and ramp-up to a maximum annual total mining tonnage of approximately 6.8mn tpa. The steady state feed rate to the flotation plant is 1.75mn tpa delivered by haul truck.

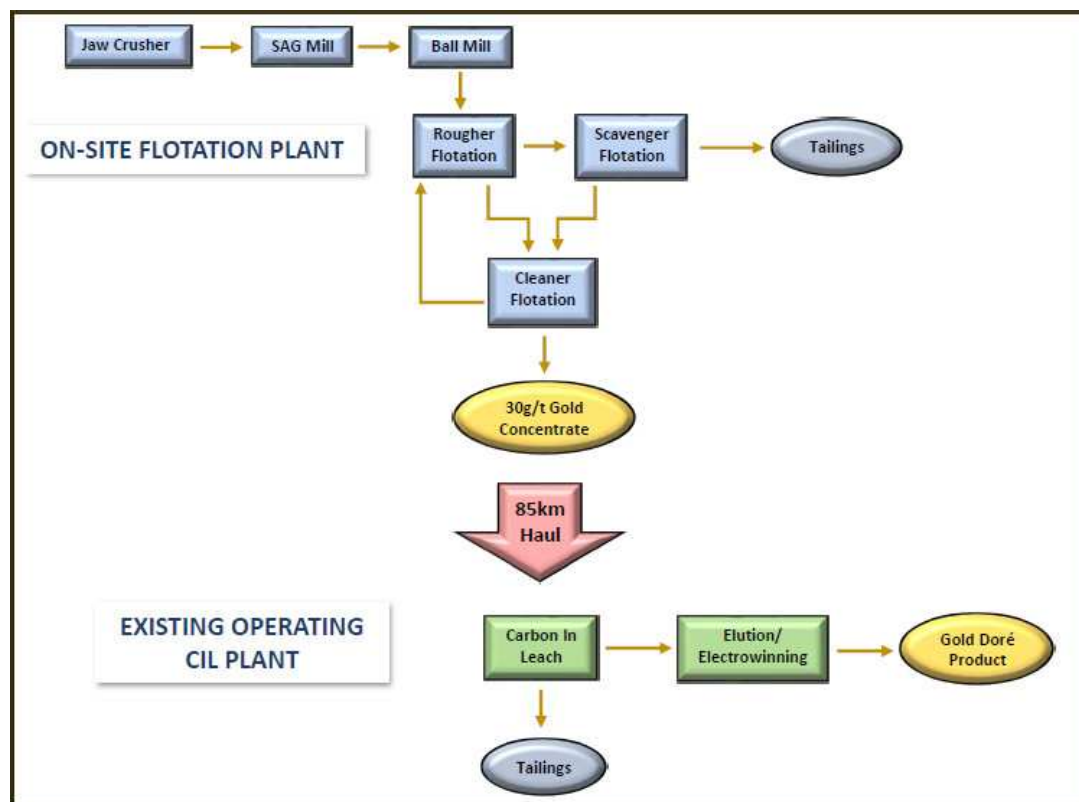
The mining operation requires a fleet of 90-tonne class excavators loading blasted and free-dig material into 45-tonne class articulated dump trucks. The planned mining operation is to be supported by a fleet of ancillary equipment including graders, dozer, bowzers, drill rigs and other support equipment. The mining costs also include grade control drilling, pit dewatering and monthly management fees.

Processing

The PEA is premised upon the project processing 1.75mn tpa through a conventional crushing, milling and flotation processing facility located at the Rozino mine site, with a LOM average grade of 1.5g/t gold to produce 436,000 tonnes of dry concentrate at 30 g/t gold, with a mass pull of approximately 4.5% by weight.

The Rozino mineralization contains less than 1% total sulphides of which 98% is expected to be recovered in the flotation circuit resulting in a very low-sulphide tailings, with no deleterious elements, that would be deposited in a tailings impoundment located to the south of the Flotation Plant. A waste rock and water storage dam would be located in the same catchment area in order to minimize the environmental footprint.

The flowchart for the processing is shown on the following page:



NB: CIL metallurgical recovery is calculated as the product of the leach recovery (87.5%) and the final gold recovery from on-site electrowinning (99%).

The resulting low volume concentrate would be trucked 85km on existing roads to the currently operating CIL Plant. The concentrate would be trucked utilizing a fleet of standard on-highway 20 tonne class trucks requiring approximately 11 trips per day.

New concentrate handling facilities would be constructed at the CIL Plant and would feed reconstituted slurry directly into a conventional carbon-in-leach circuit, elution and electrowinning facility to produce saleable gold doré.

A total of 365,000 ounces of gold doré would be produced as saleable gold product over the LOM. The tailings from the CIL Plant would be deposited in the existing and fully permitted TMF.



Operating Costs

Operating costs for mining have been developed from international benchmarked contractor mining rates based on similar sized mining operations utilizing similar mining equipment for drill and blast, load and haul, support equipment and incremental depth increases in cost. The mining costs also allow for dewatering, re-handle and grade control drilling. The unit costs have been developed in conjunction with the detailed bench mining schedule to develop a cost profile commensurate with the mining plan.

Rozino - Operating Costs	
	Milled
	\$ per tonne
Mining	14
Flotation Plant	5.8
CIL Plant	2.4
On-Mine ¹	4.1
Rehabilitation Provision	1
Sustaining Capital	0.6
All-In OPEX	27.9
All-In OPEX (AISC) - US\$/ozpayable	543.3

1. On-mine costs consist of labour, stores and equipment costs related to General and Administrative functions of the mining operation outside the mining and processing functions.

The Flotation Plant processing costs have been developed from international benchmarked operating costs based on similar sized processing plants and adjusted for local energy and reagent costs.

The CIL Plant processing costs have been developed from actual costs adjusted based on required throughput of concentrate.

On-mine costs largely consist of general and administrative costs and have been calculated from first principles based on local labour rates (derived from similar operations within the region) and include provision for stores and equipment.

A provision for sustaining capital has been allowed at 4% of the total operating cost. A provision of \$1.00/tonne mineralized material milled has been allowed for the rehabilitation of the site once mining ceases.

The operating costs have been used to determine the breakeven cut-off grade used to select the specific cut-off in the updated mineral resource model for use in the pit optimization study for the determination of the ultimate optimal pit-shell based on a gold price of US\$1,250/oz.

Capital Costs

Capital costs for mining have been calculated from international benchmarked contractor rates for mobilization of equipment and construction on a mine services area that includes heavy equipment workshops, stores and administrative structures.

The Flotation Plant capital cost estimate has been calculated from international benchmarked capital costs based on similar sized floatation processing plants. A capital allowance has been calculated for the TMF and water storage facilities at the Rozino site based on international benchmarking capital rates in conjunction with estimated dam wall volumes.

At the currently operating CIL Plant a \$0.7mn capital expenditure provision has been estimated for the construction of a truck off-load facility, concentrate storage, re-pulping facility, additional gold stripping vessel and electrowinning cell. The remaining equipment and facilities at the CIL Plant have been determined to be of adequate size and condition and would require no further capital expenditure.

The following capital ratios have been applied in the capital estimate:

- 1.5% capital allowance for project indirect costs
- 3.5% capital allowance for owners costs
- 12.5% capital fee for engineering, procurement and construction management (EPCM)
- 10% contingency for estimation inaccuracy and miscellaneous items

Rozino - CapEx as per PEA

	USD mn
Mine Infrastructure	6.3
Flotation Plant	55.2
TMF	13.7
CIL Plant Upgrades	0.7
Owners Cost	2.6
Indirect Costs	1.1
EPCM	9.1
Contingency	8.9
Total Project CAPEX	97.6

Going Forward

The delivery of the PEA triggered the formal creation of the joint venture between Velocity (70%) and Gorubso (30%) due to meeting the preconditions for its formation.

The next steps for the project include the advancement of the Rozino gold project towards feasibility and permitting, including resource expansion and definition drilling, engineering studies, and environmental monitoring and assessment. In addition, Velocity will proceed with exploration and assessment of satellite deposits where Velocity has negotiated option rights.

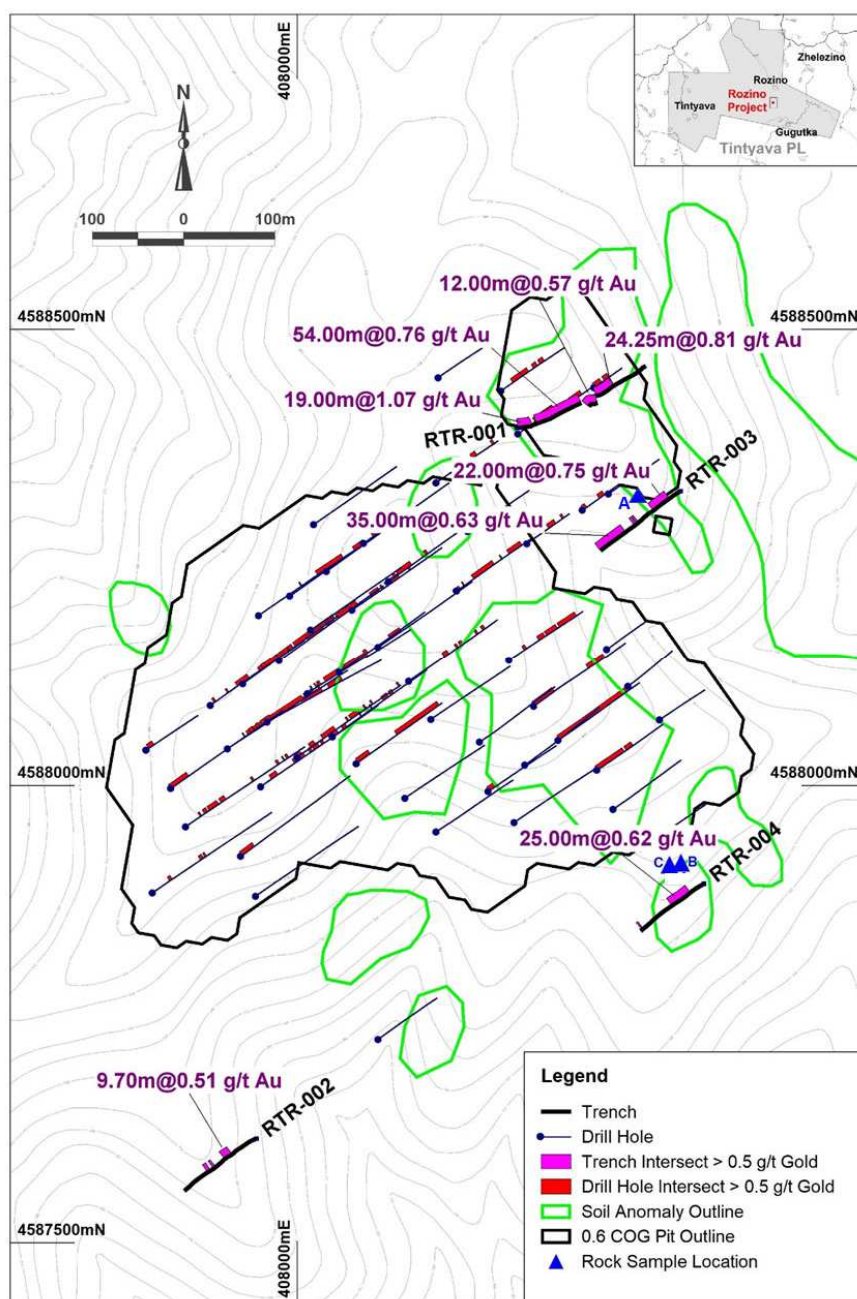
Short-Term Exploration

Very short term exploration efforts since the PEA involved the completion of 10 drill holes in December. The drill holes tested for depth extensions of mineralization intersected in recent trench sampling, the results of these having been released in late November. The most noteworthy of these were:

- Trench RTR-002; 9.7m @ 0.51 g/t gold
- Trench RTR-003; 35m @ 0.63 g/t gold including 9m @ 1.00g/t, 4m @ 1.05g/t
- Trench RTR-004; 22m @ 0.75g/t gold including 4m @ 1.50g/t and 3m @ 0.99g/t

It is notable that the sample results from trenches RTR-002, -003 and -004 are exclusively located outside of the pit limits established in the recently released NI 43-101 preliminary economic assessment, providing evidence that mineralization extends beyond the areas of previous drilling.

The company's qualified person observed that the presence of subcrop and float adjacent to new trenches at Rozino are coincident with untested gold in soil anomalies and significant trench

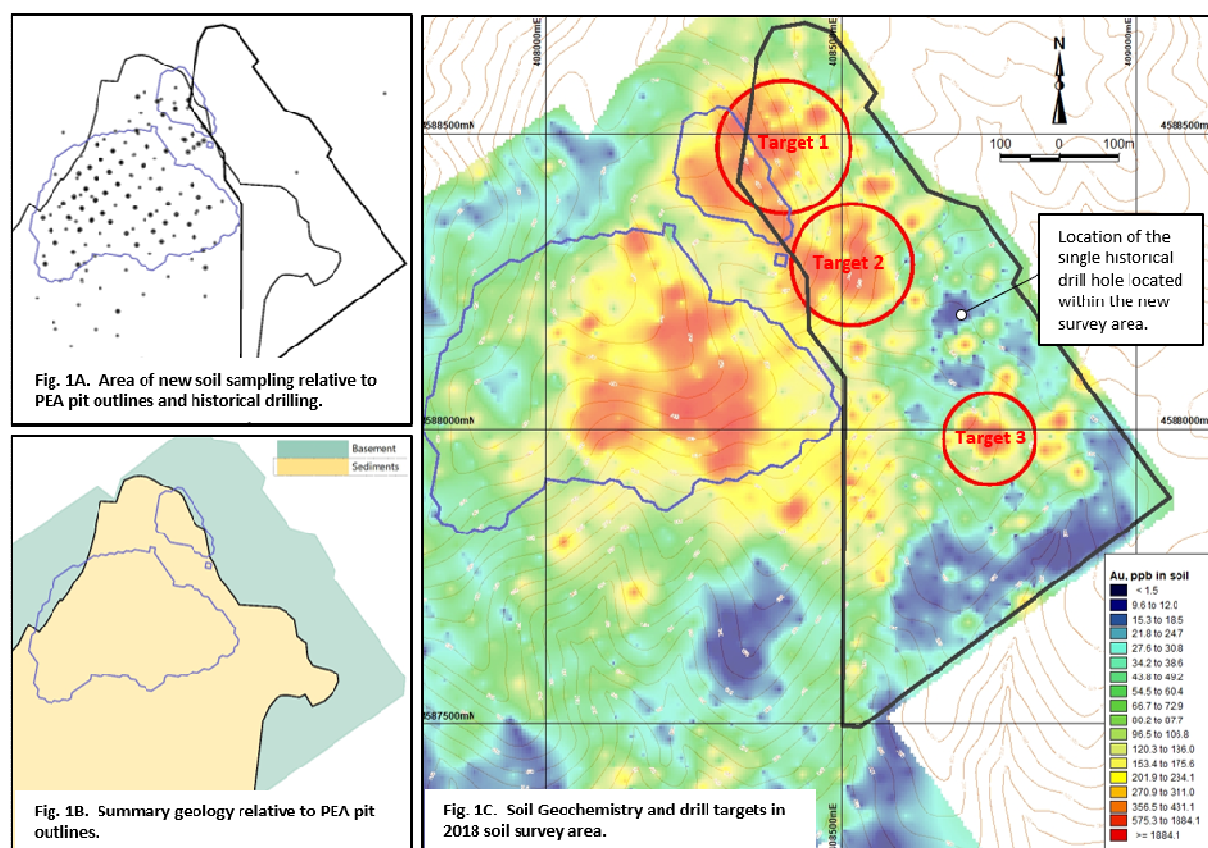


intercepts. The style of mineralization and presence of silicified breccias in subcrop and float is in accord with the Rozino deposit and demonstrates that mineralization extends outside of the existing mineral resource.

New Drill Targets

In December 2018 the company announced positive results from detailed soil sampling undertaken at Rozino (shown on the map below).

Soil sampling results defined three new high priority drill targets located adjacent to the pits outlined in the Rozino PEA. Prior to this work, the entire sampled area was only drill tested by a single vertical drill hole completed by the Bulgarian state during the 1980's. This historical drill hole was collared in what was a geochemically dead zone located between three very compelling soil anomalies.



In the latest drill campaign, the results for drill holes RDD-057 to RDD-061, collared outside of the PEA's base case open pit design, all returned gold intersections. As hoped for the addition of near-surface gold intersections in several drill holes potentially expands the mineralized envelope and is of additional importance as the mineralized drill intersections correspond closely with mineralization intersected in recent surface trenching at Rozino.

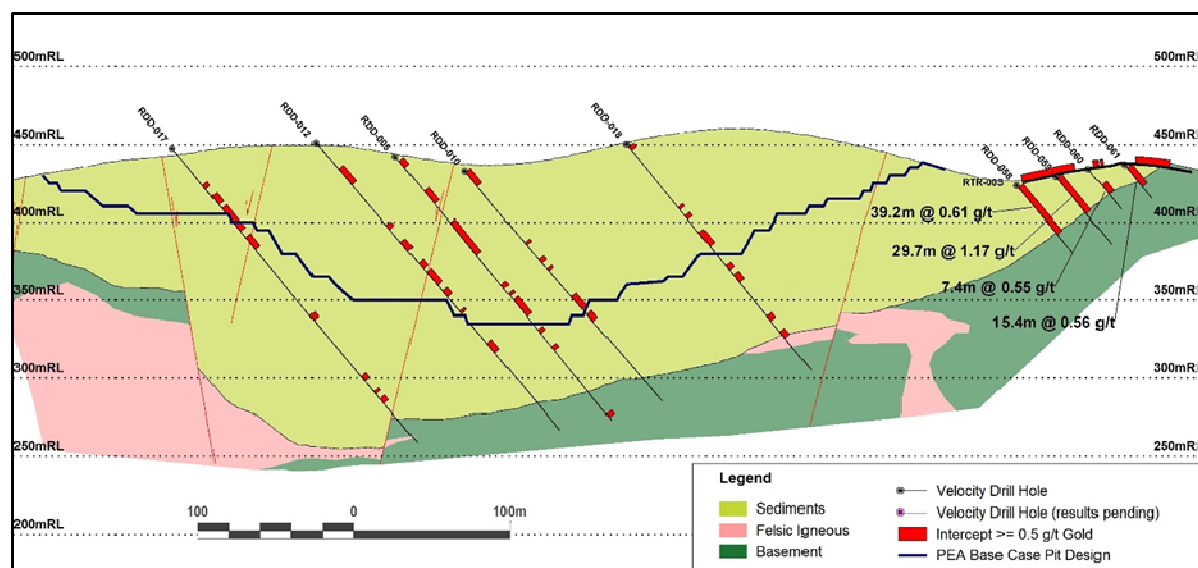
Trench RTR-003 (reported back in November) intersected mineralization over much of its 93m length, including 35m grading 0.63g/t gold.

Drill holes RDD-058 to RDD-061 followed up on this trench and results were positive with drill holes generally intersecting mineralization from surface to top of basement.

The latest results have been received for six drill holes (shown at right):

The correlation between surface trench results and mineralization at depth can be seen on the cross section below:

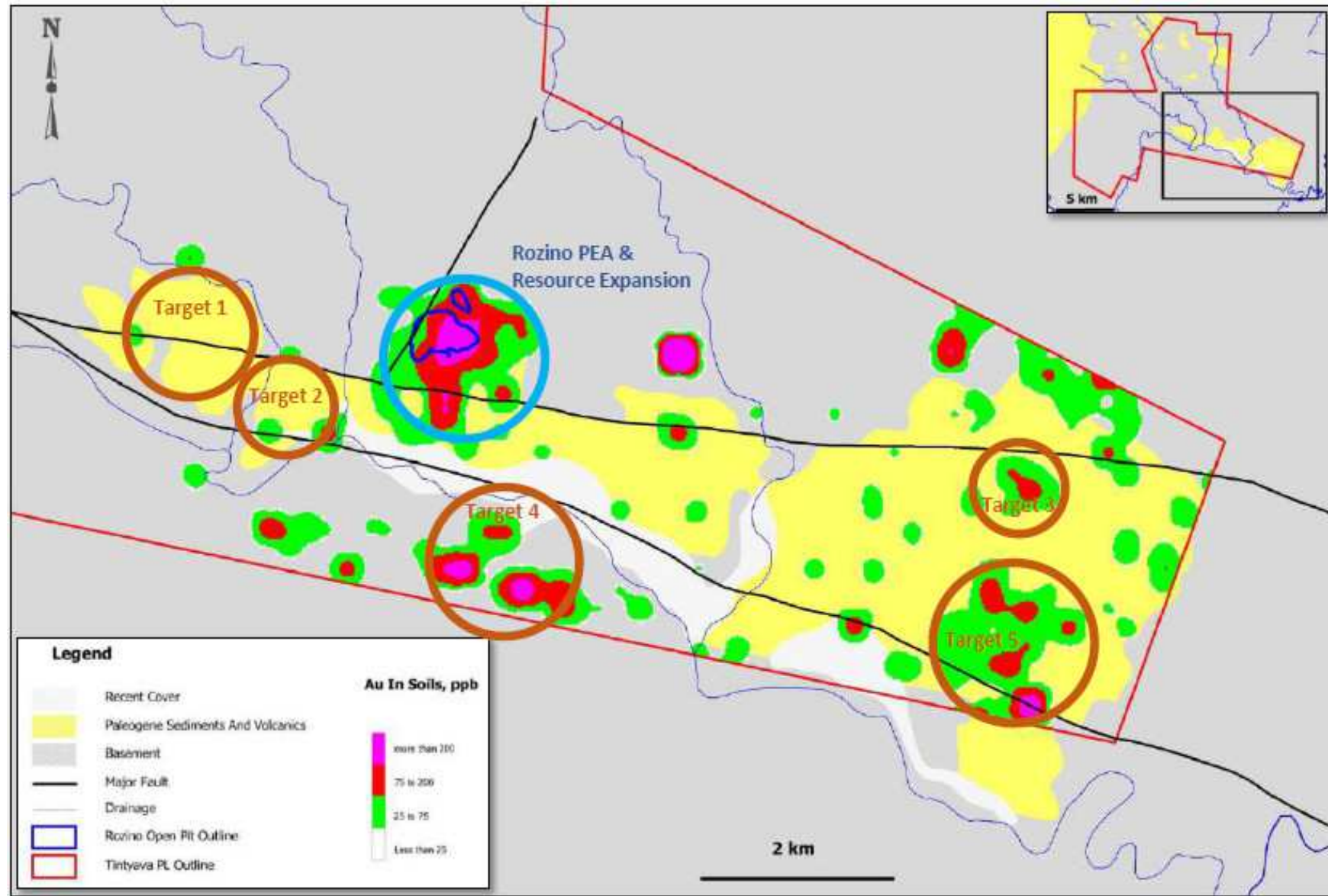
Drill hole	From (m)	To (m)	Thickness (m)	Gold (g/t)
RDD-057	1.4	4.4	3	1.03
and	131	146	15	1.16
RDD-058	1.8	41	39.2	0.61
including	1.8	17	16.2	1
RDD-059	1	30.7	29.7	1.17
RDD-060	13	20.4	7.4	0.55
RDD-061	0.8	16.2	15.4	0.56
including	9.6	14.2	4.6	1.01
RDD-062	1	32	31	0.51
	105	114	9	0.56



This mineralization remains open to the south and will require further drill testing in the future.

The Other Targets

Velocity's geological team have five priority targets (shown on the map on the following page) based on the regional soil sampling have been defined over a total area of 160 km². Four of the targets are present within Palaeogene basins akin to the basin at Rozino and form a series of discrete pull-apart basins related to the Bjala Reka Fault Zone; a regionally trending dextral strike slip fault.

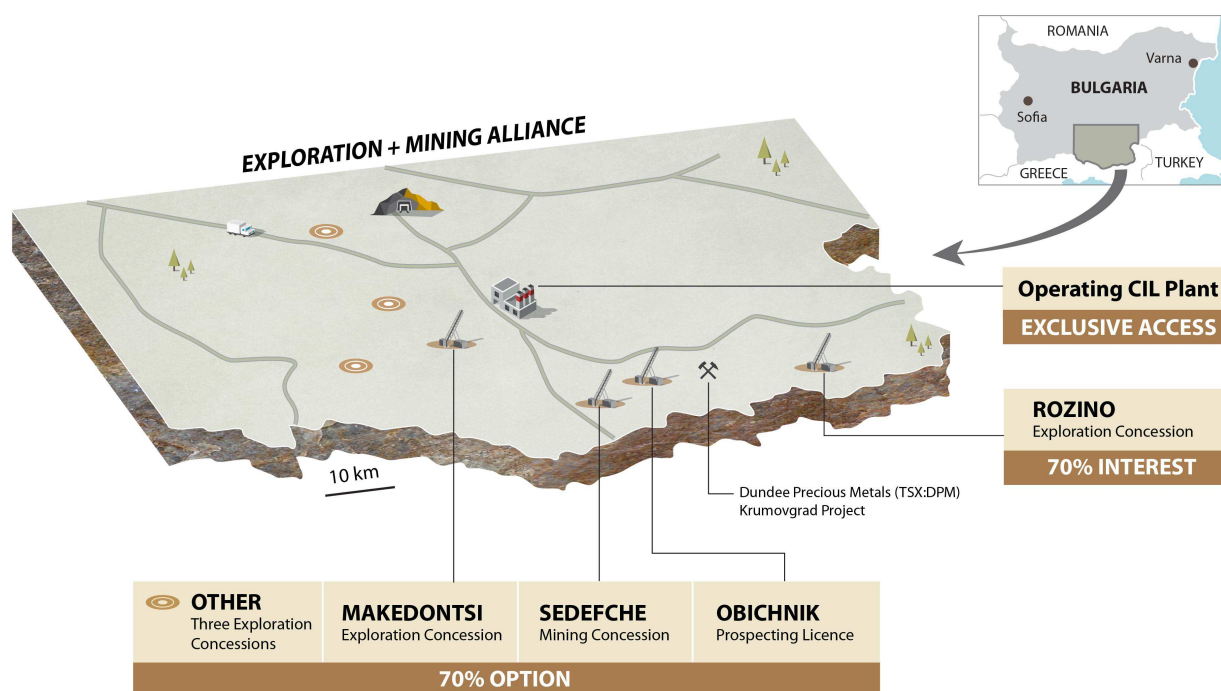


One of the targets is associated with high gold-in-soils anomalism hosted in metamorphic basement within the Bjala Reka Fault Zone. The other targets show soil anomalies only present where mineralization comes to surface.

The idea here is to potentially develop satellite pits that could utilize the proposed Rozino flotation plant and infrastructure. Targets 1 & 2 are within 2 kilometres of the proposed flotation plant site.

Other Projects within the Alliance Area

In addition to these relatively close targets, Velocity has negotiated options to explore six other gold properties with Gorubso. Each option is for 70%-interest triggered by the delivery of individual NI 43-101 reports, ranging from Resource Estimates through to Feasibility Study. Two of these, Makedontsi and Sefedche are actually located closer to the CIL plant than Rozino. Sefedche is a mining concession and has an extant Feasibility Study. Makedontsi is an exploration concession.



Major Funding Boost

In mid-January of 2019 the company received a strong vote of support (and injection of funds) when it entered into a strategic investment agreement with mid-tier producer Atlantic Gold Corporation (TSXV: AGB). The new investor is putting up CAD\$9mn through the purchase 18,600,000 units of Velocity in a private placement at a price of C\$0.21 per unit for total gross proceeds of approximately CAD\$3.9mn. In addition, Velocity has agreed to issue to Atlantic Gold approximately CAD\$5.1mn (principal amount) of

secured convertible debentures. Upon closing of the investment, Atlantic Gold will own 19.9% of the outstanding common shares of Velocity on a non-diluted basis and 39.2% on a partially-diluted basis.

Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant entitling Atlantic Gold to acquire one common share at CAD\$0.25 for a period of 36 months following the closing of the placement.

The convertible issue consists of CAD\$5,094,000 principal amount of secured convertible debentures issued to Atlantic Gold. The Convertible Debentures will carry an 8.5% coupon over a five year term. Velocity can elect to pay any interest due in cash or shares while Atlantic Gold can, at its option, convert into common shares of Velocity at a conversion price of CAD\$0.25 per share.

In addition, pursuant to the terms of the Agreement, Atlantic Gold will be granted:

- the right to appoint one director to Velocity's Board of Directors upon the closing of the Equity Placement, and increasing to two out of five directors upon Atlantic Gold holding over 30% of the issued and outstanding shares
- the right to participate in any future equity issuances to maintain its pro rata ownership in Velocity

Upon closing of the placement, Atlantic Gold will be subject to a one-year standstill limiting it from acquiring additional common shares. Furthermore, Atlantic Gold has agreed to vote with Velocity management and not to sell any of its Velocity securities for a one-year period.

This removes any need for further financing at Velocity out to the production decision as it should be sufficient to carry the company through to completion of the Feasibility Study stage. This is a significant endorsement of the company's strategy.

Atlantic's motivation for investing in Velocity was stated to be the similarity of many of the key characteristics of its Moose River Consolidated Mine in Velocity's properties.

Mining in Bulgaria

Bulgaria was a member of the Communist bloc until 1989 but since that time has been inserting itself into the Western sphere becoming a member of NATO in 2004 and a member of the European Union in 2007. The local currency (BGN) has been tied to the Euro since 1999 (1.956 BGN/EUR).

Like much of the former Eastern Bloc mining in Bulgaria is a mere shadow of its days of glory but the situation is slowly turning but with more focus on precious metals than existed in the Communist days, for obvious reasons. The country's mining law was established in 1999 and updated in 2011. Foreign mining companies are successfully operating in Bulgaria. Mining royalties are low and compare favourably with more established mining countries.

The latest report, by the usually reliable USGS, dates from 2010 when the Service reported that there were 403 registered mining and quarrying enterprises in Bulgaria. Of these, 269 enterprises had no more than nine employees; 90 enterprises had 10 to 49 employees; 26 enterprises had 50 to 249 employees; and 18 enterprises had more than 250 employees. The 18 enterprises that had 250 or more employees accounted for 78% of the 24,788 workers employed in mining and quarrying and 80% of the total \$1.4 billion of revenue earned by all mining and quarrying enterprises.

The country is served by substantial infrastructure, including an extensive network of paved roads. Bulgaria also has an exceptionally low corporate tax rate of only 10%. The country has a good availability of experienced mining professionals in a favourable cost environment.

Directors & Management

Keith Henderson is an executive director and the CEO. He has 25 years' global experience in the mineral exploration industry throughout Africa, Europe, and North and South America. He graduated with B.Sc. (Hons) from Queens University Belfast and M.Sc. in geology from University College Dublin and has extensive experience in multiple mineral deposit types and commodities. He worked with Anglo American Exploration in Europe and North America, leading a number of exploration projects and ultimately, he was appointed project manager for Anglo Coal as the company made its first entry into Canada. In 2007, he joined Cardero Resource Corp. as Executive Vice-President, where he played a critical role in advancing the Pampa de Pongo through a positive scoping study and ultimate sale for US\$100mn. He was formerly President & CEO at Dorato Resources and is currently President & CEO at Centenera Mining, focused on project acquisition and exploration in Argentina.

Dr. Mark Cruise is a non-executive director. His career in mineral exploration and mine development spans 25 years. He is currently President & CEO at Trevali Mining (TSX: TV), a zinc-miner with operations in Peru, Canada, Namibia and Burkino Faso. He co-founded the company in 2007 and managed development projects in Peru and Canada through discovery, resource definition, mine design, finance, and mine construction. He has worked with Anglo American, Pasminco and junior TSX-listed companies. He was formerly part of Anglo's feasibility team for the Lisheen Zinc-Lead Mine in Ireland before taking up the role of Exploration Manager North America for Anglo American. He was later VP Business Development for Cardero Resource Corp and was co-founder at International Tower Hill Mines.

Daniel Marinov is a non-executive director. He has 25 years of international experience in the mining and mineral exploration industry including 5 years in an underground production environment. He holds a Master of Science degree in mineral exploration from the University of Mining and Geology of Sofia, Bulgaria. He has extensive experience in precious, base metal and industrial minerals exploration having worked throughout Eastern Europe, Asia, Australia, as well as Central and South America. Daniel is currently Vice President Exploration at Trevali Mining where he is focused on rapidly expanding resources at Trevali's four operations where he has a strong discovery track record. In his career, Daniel has undertaken senior geological and managerial roles with Anglo American and Rio Tinto. Prior to joining Trevali, he was the project exploration manager at Anglo's Michiquillay porphyry copper-gold-

molybdenum deposit in Peru.

Gord Doerksen is an independent director. He has more than 25 years of operational and mine engineering in Canada, USA and throughout Africa. He is currently Vice-President Technical Services at JDS Energy and Mining and he is a professional mining engineer. At JDS, he has technical oversight on engineering work and NI 43-101 reports from due diligence to scoping and feasibility. His engineering experience includes mine planning, project engineering and senior management at mines throughout North America and Africa, working with Konkola Copper Mines (Anglo American), Sandvik, FMC Corporation and Giant Yellowknife Mines. Prior to joining JDS early in 2012, he worked at SRK Consulting for six years where he was a Principal and lead project teams.

Stuart Mills is vice president exploration. He has 30 years' experience working in minerals exploration and advanced feasibility projects. Past significant discoveries include the Galat Sufar gold deposit in Sudan of Canaco Resources. His early career was with Anglo American, working as Senior Geologist in Bulgaria, Turkey, Yemen, Iran, and Ireland and he was ultimately appointed Principal Geologist Asia-Pacific, having responsibility for exploration in China, India and Australia. In Australia, he was responsible for Anglo's Myrtle zinc discovery in the Batten Trough. Later, he worked with Lundin Mining as Regional Exploration Manager Africa-Eurasia where he had exploration responsibility for Lundin's Ozerne zinc – lead deposit in Siberia. He was also part of the Lundin M&A team and Lundin's exploration representative on the Tenke Fungurume ownership team. He was later Exploration Manager with technical responsibilities on all of Red Back Mining's projects. Most recently, he was country manager for Orca Gold in Sudan.

Risks

The risks multiply with the more countries or metals one is involved in.

- ✗ Gold price weakness
- ✗ Local political difficulties
- ✗ Financing difficulties
- ✗ Atlantic Gold stake gives another company a significant position that potentially blocks the interest of other acquirers or makes it easier for the investor to deliver control to another group after the standstill period ends

For Velocity Minerals the risk is currently mainly with the gold price, as it is for most gold miners. Our premise is for gold to stay roughly unchanged in the \$1200-\$1300 range for several years to come. Gold has shown in recent times that it has lost its traditional safe haven status in times of international strife and neither is it the inflation-hedge it once was. Whenever interest rates are mooted to rise there is perceived to be a danger of weakness due to higher carrying costs for those funding gold positions on credit. We do not regard this latter premise as credible as most gold holdings are not funded by loans. Indeed the opposite becomes true as gold becomes more expensive for Shorts to fund their borrowings of the metal.

Bulgaria has long had its own mining industry but as a space for international miners to operate it is still relatively early days. That said Velocity has a veteran local partner already operating in the space to steer it through the process.

Standstill is only for one year and company might find itself with a very substantial new shareholder putting the company “in play”. However it should be noted that Atlantic’s voting rights in Velocity are to be limited to 35% of Velocity’s outstanding shares, other than, among other things, in the context of a change of control of Velocity, if Velocity is in default under the agreements related to the financing, or with approval of Velocity

Conclusion

The Balkans has become one of the hottest “new” mining provinces on the planet in the last couple of years. Of course mining is not new here but largely since the fall of the Iron Curtain the area was in the too-hard basket with the break-up of Yugoslavia then the accession of Romania and Bulgaria to the EU providing negatives and positives. With other areas of the world looking more prospective the Balkans became an area of niche interest. However, the successes of Reservoir Minerals, RTZ and the recent massive takeout of Nevsun have made the region a prime prospecting zone with majors afraid they are missing out on something.

Velocity Minerals has been beaver away at the Rozino project for surprisingly little time, in mining years, and yet has made startling progress. A key component is not just the project they chose to advance but the partner they chose to advance it with. The Balkans remain an area where it is best to have a local partner to guide one through the local bureaucracies. That the local partner also has a CIL plant which can be exploited as part of Rozino’s processing flowsheet means a significant saving in CapEx at a time when capital is a scarce commodity again.

The strategic investment by Atlantic Gold comes with its risks but also removes any need that the company might have for extra financing through to the construction decision. The injection is a ringing endorsement of the potential of Rozino.

The outlook is for further expansion of resources by potentially joining (and expanding) the pitshells that already have been identified. Further work at nearby deposits could provide feeder pits for the main processing operating, expanding minelife even further.

Therefore we Rate Velocity Minerals as a **Long** position with a 12-month target price of CAD\$0.92.

Wednesday, January 30, 2019



Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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