

**VELOCITY DATA INC.**  
(formerly GTO Resources Inc.)  
(the “Company”)

**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEAR ENDED OCTOBER 31, 2015**

The following Management’s Discussion and Analysis (“MD&A”), prepared as of February 25, 2016, should be read together with the audited consolidated financial statements of the Company for the years ended October 31, 2015 and 2014 and the related notes attached thereto. These financial statements and MD&A include the results of operations and cash flows for the year ended October 31, 2015 and 2014 and the reader must be aware that historical results are not necessarily indicative of the future performance. All amounts are reported in U.S. dollars. The aforementioned documents can be accessed on the SEDAR web site [www.sedar.com](http://www.sedar.com).

Unless otherwise stated, financial results are being reported in accordance with International Financial Reporting Standards (“IFRS”).

The MD&A contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than, cash flows from operating activities as determined in accordance with IFRS as an indicator of the Company’s performance. The Company’s determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between profit or loss and cash flows from operating activities can be found in the consolidated statements of cash flows.

Certain statements contained in this MD&A may contain words such as “could”, “should”, “expect”, “believe”, “will” and similar expressions and statements relating to matters that are not historical facts but are forward-looking statements. Such forward-looking statements are subject to both known and unknown risks and uncertainties which may cause the actual results, performances or achievements of the Company to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the receipt of required regulatory approvals, the availability of sufficient capital, the estimated cost and availability of funding for development or maintenance/rehabilitation of the Company’s business lines, government IT budgets and economic conditions and other factors.

### **Description of Business**

The Company was incorporated as GTO Resources Inc. on May 10, 2011 under the *Business Corporations Act* (British Columbia). The common shares of the Company commenced trading on the TSX Venture Exchange under the symbol “GTR” effective July 28, 2011.

On July 22, 2014, the Company completed the acquisition of ACL Computers & Software, Inc. (“ACL”) pursuant to a share exchange agreement (the “Share Exchange Agreement”) with ACL and the holders of all the issued and outstanding common shares of ACL dated May 23, 2014. As a result of this transaction, the Company acquired 100% of the issued and outstanding common shares of ACL in exchange for the issuance of 72,000,000 common shares of the Company. As part of this transaction,

the Company spun out its interest in certain mineral properties through the distribution of shares of two former wholly owned subsidiaries of the Company to existing shareholders.

On July 25, 2014, the Company's common shares were listed for trading on the Canadian Securities Exchange and were delisted from the TSX Venture Exchange. On August 13, 2014, the Company changed its name to Velocity Data Inc. and its shares began trading under the symbol "VCT".

The Company's registered office is located at Suite 600 – 1285 West Broadway, Vancouver, BC V6H 3X8.

The Company's Board of Directors is comprised of Robert Bates, Carlo Argila and Adam Radly.

Founded in 1989, ACL is a leading reseller of computer hardware software and peripherals primarily to defense contractors and some United States federal government end-users. ACL is strategically located in close proximity to major government facilities in Maryland, Washington, D.C. and Virginia. Most of ACL's sales are made to the United States government through prime contractors such as Lockheed Martin, General Dynamics, Boeing, ManTech, Northrop, etc.; some sales are made directly to the government. ACL has excellent relations with its customer base, having earned their loyalty with consistently strong service. ACL's consistent and rapid response service has garnered the company numerous awards, including Lockheed Martin's Small Business of the Year Award three times and Boeing's Performance Excellence Award three times.

Sales are made pursuant to a variety of vehicles such as multi-year contracts, blanket purchase orders and individual orders from existing or new customers. ACL sells products from over 400 vendors and has valuable vendor partner relationships with many major vendors including Apple, Cisco, IBM, Intel, HP, McAfee, Microsoft, Sony, and Symantec. ACL purchases product for resale from one of three distributors with whom the company has long-term relationships or directly from the manufacturers themselves. In either instance, ACL's authorized reseller or partner status assures that it receives the best possible pricing. Virtually all sales are drop-shipped as ACL almost never touches the merchandise.

ACL's ability to provide its customers with computer products competitively, smoothly, and without delay has been the core of its success. The company is able to help its customers with all of their needs in the information technology space. ACL's hands-on professionals can help with any needs from peripherals to notebooks and custom configured personal computers to enterprise-wide network equipment and servers. ACL's staff is trained and certified by many leading manufacturers and is well-versed in both current and emerging technologies. ACL focuses on providing leading-edge technologies and excellent customer support for solutions that fit its clients' broad business objectives. The company is uniquely capable of understanding its customers' needs and is able to deliver high-performance, cost-effective solutions drawn from the full spectrum of products and services available. ACL is committed to its role as a resource and business partner.

In 2013, Apple Computers dramatically reduced its number of authorized Government Resellers of Apple products - from approximately 3500 to approximately 30. These 30 were given a new designation: "Tier 1 Government Resellers". Because of its excellent track record with Apple, ACL was one of the chosen 30. The 30 Tier 1 Government Resellers are now the only companies authorized to buy Apple products directly from the manufacturer or distributor and sell those products to the United States federal government. Additionally, Apple chose 50 resellers to be classified as Tier 2 Indirect Government Resellers. These resellers are authorized to sell to the federal government, but they are required to purchase directly from an Apple Tier 1 reseller such as ACL.

In late 2015, the Company, through ACL, incurred a significant loss as a result of fake orders (in the approximate amount of \$345,000) placed by a customer that was purporting to be an authorized purchasing agent of DLA (Defense Logistics Agency, a part of the United States military). The Company was alerted to this matter by law enforcement and has been advised that the transactions involving the Company were only a very small part of a much larger and highly sophisticated operation.

The Company believes that the shipper of the products (FedEx) and DLA were negligent in the manner in which they handled the fake orders. Therefore, the Company has filed a lawsuit against FedEx in the US Federal Court in California and filed a Claim with DLA. The Claim may take up to 6 months before receiving a response due to the waiting period afforded by the Federal Claims Torts Act. That Act also prevents additional action from being taken during the six-month period.

The Company has significantly tightened security procedures relating to how it accepts orders from its customers; however, such procedures cannot be 100% effective.

The Company has extremely low gross margins and this situation has caused a material drop in the Company's working capital so it is expected to negatively impact revenue. As a result the Company had to significantly reduce its number of employees and will attempt to restructure its trade and institutional debt. In the meantime, management is reviewing plans to accelerate the Company's transition away from reselling low margin IT hardware products and into selling higher margin proprietary products such as cyber security solutions and other similar opportunities.

As of October 31, 2015, the Company had an accumulated deficit of \$5,022,385 and limited liquidity. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon financial support from its stockholders, the ability of the Company to obtain necessary equity financing to continue operations, and the attainment of profitable operations.

Management anticipates that the Company will be dependent, for the near future, on additional investment capital to fund operating expenses. The Company intends to position itself so that it may be able to raise additional funds through the capital markets. In light of management's efforts, there are no assurances that the Company will be successful in this or any of its endeavors or become financially viable and continue as a going concern. Furthermore, the Company's recent limited employee count may impact viability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **Overall Performance and Results of Operations**

### *Three Months Ended October 31, 2015 Results of Operations*

The Company recorded revenues of \$8,995,677 and \$12,788,787 for the three months ended October 31, 2015 and 2014. The decrease in revenue is attributed to the Company attempting to raise its margins to a more sustainable level. The Company recorded net losses of \$2,392,576 and \$270,971 for the three months ended October 31, 2015 and October 31, 2014, respectively. In addition, the Company incurred a \$922,654 loss on impairment during the three months ended October 31, 2015. The increase in expenses is due to financing fees associated with increased borrowings, fraud loss that occurred during fiscal 2015, and development costs related to the Company's proprietary cyber-security product.

### *Overall Performance*

As at October 31, 2015, the Company reported total assets of \$3,213,804 (October 31, 2014 - \$5,864,346), including cash of \$1,163,281 (October 31, 2014 - \$1,026,125) and accounts receivable of \$1,875,820 (October 31, 2014 - \$3,475,320). The decrease in assets is attributed to the decrease in sales and associated accounts receivable, as well as the impairment of goodwill and intangibles.

As at October 31, 2015, the Company had liabilities of \$7,393,960 (October 31, 2014 - \$6,512,014), all of which were current liabilities. The increase is attributed to increased accounts payable and new borrowings during the year ended October 31, 2015.

### *Results of Operations*

The Company recorded net losses of \$4,529,713 and \$469,919 for the years ended October 31, 2015 and October 31, 2014, respectively. During the years ended October 31, 2015 and October 31, 2014, the Company incurred selling and general and administrative expenses of \$4,070,634 and \$2,160,415, respectively. The Company's largest non-cash or non-operating expenses were \$1,162,540 interest, \$711,225 stock compensation expense (primarily to non-management) and \$1,111,799 of impairment/amortization. The increase in operating expenses is due to financing fees associated with increased borrowings, fraud loss that occurred during fiscal 2015, management fees, and development costs related to the Company's proprietary cyber-security product. This product is called TASC and was recently written up extensively by the company's analyst. The product's website is [www.tasclabs.net](http://www.tasclabs.net) and TASC is available in the Google store in beta mode.

### **Liquidity and Capital Resources**

The Company's consolidated 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 of October 31, 2015, the Company had a cash balance of \$1,163,281, a working capital deficit of \$4,193,620 and an accumulated deficit of \$5,022,385. These factors raise doubt as to the Company's ability to continue as a going concern. Management's plans include (i) pursuing former employees through legal channels for violating non-compete agreements and stealing customers, (ii) pursuing prior lender for attempting to extort a material cancellation fee and cause other damages despite the fact that the lender requested ACL obtain new financing, and (iii) attempting to develop new business or product lines. However, as of the date of this report ACL has less than \$50,000 of cash, very limited supplier lines of credit, very low monthly sales levels and potential litigation from previous suppliers. The Company's consolidated financial statements do not include any adjustments, which could be material in nature, relating to the recoverability and classification of recorded asset amounts and the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

### **Selected Financial Information**

The following tables provide a brief summary of the Company's financial operations. For more detailed information, refer to the audited consolidated financial statements for the year ended

October 31, 2015, which can be found on SEDAR. This information has been prepared in accordance with IFRS and is presented in U.S. Dollars, which is the functional currency of the Company.

Management believes adjusted EBITDA provides a more useful measure of company performance. This is because there are several measures included in GAAP net income which are related to interest. We consider these items to be unrelated to operating income and performance.

However there is a limitation in using EBITDA; each company may use a different definition of EBITDA and therefore it is hard to compare them to each other. For example our company might use different add-backs to net income than our competitors, thus making it more difficult to compare the two entities to each other. We compensate for this by regularly including EBITDA in our filings so that our performance can be measured over time.

We therefore advise readers to refer to the audited consolidated financial statements as the format of those is standardized and uniform in comparison with any other audited company. In these we show net loss as (\$4,529,713) and (\$469,919) for the years ending October 31, 2015 and 2014, respectively. In addition, working capital ratios and other liquidity measures, total debt and debt/equity ratio are common measures used by companies to measure performance. EBITDA amounts are not opined to by the auditors but are a management tool.

EBDITA was (\$3,178,028) and \$348,068 for the years ending October 31, 2015 and 2014. EBITDA is Earnings before interest, tax, depreciation and amortization. Adjusted EBITDA was (\$1,199,428) and \$348,068 for the years ending October 31, 2015 and 2014, respectively. Adjusted EBITDA is Earnings before interest, tax, depreciation, amortization, other expense, goodwill impairment and stock compensation.

	Year ended October 31,		EBITDA Calculation	
	2015	2014	Year ended October 31,	
			2015	2014
Total Revenue	\$ 38,852,921	\$ 41,025,641	Net income (loss)	\$ (4,529,713) \$ (469,919)
Net income (loss) before other exp	(4,060,914)	(469,919)	+ Depr/Aport	189,145 142,420
Net income (loss) for the period	(4,529,713)	(469,919)	+ Interest	1,162,540 675,567
Basic and diluted (loss)	(0.04)	(0.00)	EBITDA	(3,178,028) 348,068
Total assets	3,213,804	5,864,346	+ Other Expense	344,721 -
Total liabilities	7,393,960	6,512,014	+ Impairment	922,654 -
EBITDA	(3,178,028)	348,068	Operating EBITDA	(1,910,653) 348,068
Operating EBITDA	(1,910,653)	348,068	+ Stock Compensation	711,225 -
Adjusted EBITDA	\$ (1,199,428)	\$ 348,068	Adjusted EBITDA	\$ (1,199,428) \$ 348,068

### Summary of Quarterly Results (unaudited)

### Summary of Quarterly Results

	<b>October 31, 2015</b>	<b>July 31, 2015</b>	<b>April 30, 2015</b>	<b>January 31, 2015</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	8,089,591	11,185,489	10,680,152	8,897,689
Net loss for the period	(3,367,933)	(373,000)	(470,333)	(318,447)
Basic and diluted loss per share	(0.04)	(0.00)	(0.01)	(0.00)
	<b>October 31, 2014</b>	<b>July 31, 2014</b>	<b>April 30, 2014</b>	<b>January 31, 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	12,788,797	11,247,775	8,519,073	8,470,006
Net loss for the period	(264,307)	(109,948)	(188,597)	92,993
Basic and diluted loss per share	(0.00)	(0.00)	(0.01)	0.00

### **Share Capital**

Authorized: Unlimited voting common shares without par value  
Unlimited preferred shares without par value

On May 23, 2014, the Company entered into the Share Exchange Agreement with ACL and the holders of all of the issued and outstanding common shares of ACL. On July 22, 2014, the Company completed the acquisition on ACL pursuant to the Share Exchange Agreement in exchange for the issuance of 72,000,000 common shares of the Company.

In October 2014, 4,200,000 warrants were exercised into common shares for \$210,000.

During the year ended October 31, 2015, the Company issued 6,800,000 common shares upon the exercise of warrants for net proceeds of \$322,000.

During the year ended October 31, 2015, the Company issued 6,803,670 common shares to a company controlled by a former director for consulting/advisory and financing services. The Company recorded stock-based compensation expense of \$486,069 based on the price of the shares at the respective issuance dates.

At October 31, 2015 the Company had 113,605,577 common shares outstanding.

### **Share Purchase Warrants**

During the year ended October 31, 2014, the Company issued 4,200,000 common shares upon the exercise of warrants for net proceeds of \$209,985, and 1,200,000 warrants expired unexercised.

During the year ended October 31, 2015, the Company issued 6,800,000 common shares upon the exercise of warrants for net proceeds of \$322,000, and 5,125,000 warrants expired.

The following table summarizes the continuity of share purchase warrants:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance, October 31, 2014	11,925,000	0.05
Exercised	(6,800,000)	0.05
Expired	(5,125,000)	0.05
Balance, October 31, 2015	-	-

## Stock Options

On January 30, 2015, the Company granted an aggregate of 4,272,076 fully vested stock options to certain officers and directors, exercisable at a price of \$0.10 per share until December 15, 2019.

During the year ended October 31, 2015, the Company incurred \$225,156 in stock-based compensation expense determined using the Black-Scholes model. Assumptions used in the valuations of the options were as follows:

- 4.49 periods, as calculated from the option grant date until the option expiration date
- 1.18% risk free interest rate
- 223% volatility, is the historical volatility of the Company's stock.

Summary of stock option activity for the year ended October 31, 2015 is as follows.

	<u>Number of stock options outstanding</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual terms (in years)</u>	<u>Aggregate intrinsic value</u>
<b>Balance at October 31, 2014</b>	-	-	-	-
<b>Granted</b>	4,272,076	0.10	4.49	0.07
<b>Exercised</b>	-	-	-	-
<b>Forfeited</b>	-	-	-	-
<b>Balance at October 31, 2015</b>	<b>4,272,076</b>	<b>0.10</b>	<b>3.66</b>	<b>0.07</b>

## Accounting Policies and Estimates

The significant accounting policies of the Company are disclosed in Note 2 to the audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, and revenues and expenses. Management reviews its estimates regularly.

### Revenue Recognition

Revenue from product sales is measured at the fair value, net of estimated customer returns and allowances at the time of recognition. The estimates of fair value are based on the Company's historical experience with each customer and the specifics of each arrangement.

Revenue from product sales is recognized when the risks and rewards of ownership have been transferred to the buyer (which generally occurs upon shipment) and collectability of the related receivables is reasonably assured. Revenue is recognized when (a) it can be measured reliably; (b) it

is probable that the economic benefits associated with the transaction will flow to the Company; and (c) the costs incurred or to be incurred can be measured reliably.

### Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. Goodwill is tested for impairment on an annual basis or whenever facts or circumstances indicate that the carrying amount may exceed its recoverable amount.

Intangible assets other than goodwill are amortized on a straight-line basis over a period of three years.

### Stock-Based Compensation

The Company measures compensation expense for all share-based payment awards, including stock options granted to employees, directors, and non-employees based on the estimated fair values on the date of each grant. The fair value of each stock option granted is estimated using the Black-Scholes-Merton option valuation model. Stock-based compensation is recognized on a straight-line basis over the requisite service period, net of estimated forfeitures.

## **Financial Instruments**

### *Fair Values*

The fair values of other financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and secured borrowings approximate their carrying values due to the relatively short-term maturity of these instruments.

### Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and, as a result create a financial loss for the Company. The Company establishes an allowance for doubtful accounts as determined by management based on its assessment of collection; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As of October 31, 2015 and 2014, the Company has determined that no allowance for doubtful accounts is required. The provision for doubtful accounts, if any, is included in selling, general and administrative expenses in the consolidated statements of earnings (loss), and is net of any recoveries that were provided for in prior years. Credit risks also exists in cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions.

### 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 debt or equity financing in a timely manner and by maintaining



sufficient cash in excess of anticipated needs.

### Market risk

Market risk is the risk that financial instruments fair values and the Company's future cash flows will fluctuate due to changes in market prices. The Company is exposed to currency risk but it does not have any significant foreign exchange rate risk.

### **Related Party Transactions**

In connection with the application of push down accounting, the Company recorded a liability to ACLH LLC, the former sole shareholder of ACL ("ACLH"), of \$485,941 of which \$247,260 was paid during the year ended October 31, 2014 and \$238,681 during the year ended October 31, 2015, to an entity related to the CEO of the Company. As of October 31, 2015, the amount outstanding from this liability amounted to \$Nil. ACLH is an entity controlled by the Company's CEO. ACLH is the holder of the 72,000,000 common shares of the Company issued pursuant to the share exchange transaction described above.

During the year ended October 31, 2015, the Company paid \$220,000 to an entity controlled by the Company's CFO in exchange for the provision of certain accounting services. Chief Financial Officer Mr. Bates worked for Velocity since July, 2014 as a contract CFO. HP Accounting Services, Inc. receives fees in connection with work performed by Mr. Bates and his staff for accounting, bookkeeping, regulatory filings, audit preparation, tax, mergers and acquisition due planning/due diligence, obtaining financing and other financial, lending, legal and regulatory responsibilities.

During the year ended October 31, 2015, the Company paid \$290,000 to an entity controlled by the Company's CEO in exchange for the provision of certain consulting services. Adam Radly has been the President and Chief Executive Officer, and Chairman of the Board of Directors since July 2014. Mr. Radly's fees are received by Inflexion for work performed by Radly and Inflexion staff related to IT development, digital marketing, strategic, mergers and acquisition planning, developing and executing business strategy for each subsidiary, managing senior management of subsidiaries, hiring and firing of senior management, reporting to the board of directors, reporting to major shareholders and other CEO responsibilities.

During the year ended October 31, 2015, the Company paid \$63,000 to an entity controlled by one of the Company's board of directors in exchange for consulting service.

### **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 cash and cash equivalents and equity comprised of issued share capital, share-based payment reserve, equity component of convertible debt, and deficit.

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 issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged during the years ended October 31, 2015 and 2014.

#### **Off Balance Sheet**

There were no off balance sheet arrangements as of October 31, 2015.

#### **Management's Report on Internal Controls over Financial Reporting**

In connection with National Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings* adopted in December 2008 by each of the securities commissions across Canada ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the Company's audited consolidated financial statements and this MD&A.

The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the aforementioned filings on SEDAR at [www.sedar.com](http://www.sedar.com).