

VELOCITY DATA INC.

(FORMERLY GTO RESOURCES INC.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2016 AND 2015

(Expressed in United States dollars)

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A CHAN AND COMPANY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To: the Shareholders of
Velocity Data Inc. (formerly, GTO Resources Inc.)

We have audited the accompanying consolidated financial statements of Velocity Data Inc. (formerly, GTO Resources Inc.) (the "Company"), which comprise the consolidated statement of financial position as at October 31, 2016, and the consolidated statement of loss and comprehensive loss, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year ended October 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2016, and its consolidated financial performance and its consolidated cash flow for the year ended October 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has incurred losses to date. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of the Company for the year ended October 31, 2015, were audited by another auditor who expressed an unmodified opinion on those consolidated statements on February 25, 2016.

Burnaby, British Columbia
February 14, 2017

Chartered Professional Accountants

VELOCITY DATA INC.
(FORMERLY GTO RESOURCES INC.)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Expressed in United States dollars)

	October 31, 2016 \$	October 31, 2015 \$
Assets		
Current assets		
Cash and cash equivalents	65,712	1,163,281
Accounts receivable	948,196	1,875,820
Inventory	-	157,434
Prepayments and other current assets	7,645	3,805
Total current assets	1,021,553	3,200,340
Non-current assets		
Property and equipment (Note 4)	-	13,464
Total assets	1,021,553	3,213,804
Liabilities and shareholders' deficit		
Current liabilities and total liabilities		
Accounts payable and accrued liabilities	6,092,939	5,120,851
Secured Borrowings (Note 7)	828,097	2,273,109
Current liabilities and total liabilities	6,921,036	7,393,960
Shareholders' deficit		
Share capital (Note 9)	842,229	842,229
Accumulated other comprehensive income	19,159	-
Accumulated Deficit	(6,760,871)	(5,022,385)
Total shareholder's deficit	(5,899,483)	(4,180,156)
Total liabilities and shareholder's deficit	1,021,553	3,213,804

The accompanying notes are an integral part of these audited consolidated financial statements

Approved and authorized for issue by the Board of Directors on February 15, 2017

/s/ "Adam Radly"
Adam Radly, Director

/s/ "Robert Bates"
Robert Bates, Director

VELOCITY DATA INC.
(FORMERLY GTO RESOURCES INC.)
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS
(Expressed in United States dollars)

	For the year ended,	
	October 31, 2016	October 31, 2015
	\$	\$
Revenues	3,630,103	38,852,921
Cost of sales	3,331,769	36,758,007
Gross Profit	298,334	2,094,914
Selling, general and administrative expenses	1,644,521	4,070,634
Gain on settlements of debts (Note 7)	(286,486)	-
Write-off of inventory	24,450	-
Loss on impairment	13,135	922,654
Operating earnings (loss)	(1,097,286)	(2,898,374)
Financial expenses		
Interest income (expense), net	(639,343)	(1,162,540)
Other income (expense), net	-	(344,721)
Foreign currency loss	(1,857)	(124,078)
Net loss for the year	(1,738,486)	(4,529,713)
Other comprehensive income - foreign exchange translation	19,159	-
Comprehensive loss for the year	(1,719,327)	(4,529,713)
Basic and diluted loss per share	(0.02)	(0.04)
Weighted average shares outstanding	113,605,577	111,232,708

The accompanying notes are an integral part of these audited consolidated financial statements

VELOCITY DATA INC.
(FORMERLY GTO RESOURCES INC.)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT
(Expressed in United States dollars)

	<u>Share Capital</u>		<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Number of</u>	<u>Amount</u>	<u>other comprehensive</u>	<u>deficit</u>	<u>shareholders'</u>
	<u>shares</u>	<u>\$</u>	<u>income</u>	<u>\$</u>	<u>deficit</u>
			<u>\$</u>		<u>\$</u>
Balance, October 31, 2014	100,001,907	(154,996)	-	(492,672)	(647,668)
Shares issued due to exercise of warrants	6,800,000	286,000	-	-	286,000
Shares issued for services	6,803,670	486,069	-	-	486,069
Options expense	-	225,156	-	-	225,156
Net loss for the year	-	-	-	(4,529,713)	(4,529,713)
Balance October 31, 2015	113,605,577	842,229	-	(5,022,385)	(4,180,156)
Foreign exchange translation gain	-	-	19,159	-	19,159
Net loss for the year	-	-	-	(1,738,486)	(1,738,486)
Balance October 31, 2016	113,605,577	842,229	19,159	(6,760,871)	(5,899,483)

The accompanying notes are an integral part of these audited consolidated financial statements

VELOCITY DATA INC.
(FORMERLY GTO RESOURCES INC.)
CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in United States dollars)

	Year ended October 31, 2016 \$	Year ended October 31, 2015 \$
Operating activities		
Net loss for the year	(1,738,486)	(4,529,713)
Adjustments to reconcile net earnings (loss) to cash flows		
Depreciation	329	1,463
Amortization of intangible asset	-	187,682
Stock-based compensation	-	711,225
Loss on impairment	13,135	922,654
Gain on settlements of debts	(286,486)	-
Write-off of inventory	24,450	-
Changes in working capital items		
Accounts receivable	927,624	1,599,500
Inventory	132,984	(34,890)
Prepaid expenses and other current assets	(3,840)	111,289
Accounts payable and accrued expenses	972,088	940,273
Net cash flows from (used in) operating activities	41,798	(90,517)
Financing activities		
Secured borrowings	(1,158,526)	180,354
Repayments of related party debt	-	(238,681)
Proceeds from exercise of warrants	-	286,000
Net cash flows from financing activities	(1,158,526)	227,673
Effect of foreign exchange rate	19,159	-
Net increase (decrease) in cash during the year	(1,097,569)	137,156
Cash, beginning of year	1,163,281	1,026,125
Cash, end of year	65,712	1,163,281
Supplemental cash flow information		
Interest paid during the year	639,343	1,162,540
Income taxes paid during the year	-	-
Supplemental noncash investing and financing activities		
None	-	-

The accompanying notes are an integral part of these audited consolidated financial statements

VELOCITY DATA INC.
(FORMERLY GTO RESOURCES INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2016 and 2015
(Expressed in United States dollars)

1. Nature of Operations and Going Concern

Velocity Data Inc. (the "Company") was incorporated as GTO Resources Inc. on May 10, 2011 under the Business Corporations Act (British Columbia). The Company changed its name to Velocity Data Inc. on August 7, 2014 and is engaged in the business of selling computer systems and related components, particularly to government contractors and federal government end-users.

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

On May 23, 2014, the Company entered into a share exchange agreement with ACL Computers and Software, Inc. ("ACL") and the sole shareholder of ACL to acquire all of the issued and outstanding common shares of ACL in exchange for 72,000,000 common shares of the Company. The agreement closed on July 22, 2014, at which time ACL became a wholly-owned subsidiary of the Company.

On February 2, 2014, ACL entered into a stock purchase agreement with ACLH, LLC ("ACLH") wherein the latter acquired a 100% interest in ACL for an initial purchase price of \$2,256,181. Of the total purchase price, \$2,006,181 was paid in cash and the balance of \$250,000 through the issuance of a note by ACLH to the sole shareholder of ACL. The note was fully settled during the year ended October 31, 2014.

For accounting purposes, this transaction was accounted for as a reverse merger and has been treated as a recapitalization of the Company, where ACL is considered the accounting acquirer, and the financial statements of the accounting acquirer became the financial statements of the legal acquirer. The historical consolidated financial statements include the operations of the accounting acquirer for all periods presented.

For the year ended October 31, 2016, the Company has reported net losses of \$1,738,486, accumulated deficit of \$6,760,871 and working capital deficit of \$5,899,483. These financial statements have been prepared on a going concern basis, which implies that the Company will continue to meet its obligations and continue its operations for the next fiscal year. These factors casts significant doubt about 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. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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2. Significant Accounting Policies

The principal accounting policies applied in the preparation of the audited consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Statement of Compliance

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

(b) Basis of Presentation and Principles of Consolidation

These consolidated financial statements have been prepared on an historical cost basis, modified where applicable. These consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in US dollars, unless otherwise specified. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, ACL Computers and Software, Inc. All intercompany transactions and balances have been eliminated.

(c) Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance.

Critical Judgments

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1, the functional currency of its subsidiary and the classification of the Company’s financial instruments.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

Share-based compensation

Share-based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Deferred tax assets and liabilities

The measurement of deferred tax provision is subject to uncertainty associated with the timing

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of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

(d) Cash and Cash Equivalents

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

(e) Accounts Receivable

Accounts receivable is recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends. Management closely monitors outstanding balances and writes off, as of year-end, all balances that are not expected to be collected by the time the financial statements are issued.

(f) Inventory

Inventory for resale are stated at the lower of cost or market, cost being determined on a first-in, first-out basis.

(g) Property and Equipment, net

Depreciation of property and equipment is provided using the straight-line and accelerated methods over the estimated useful lives ranging from 5 to 15 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

(h) 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.

(i) Impairment of Non-Financial Assets

Impairment of goodwill

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows. As a result, some assets are tested individually for

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impairment and some are tested at the cash-generating unit (“CGU”) level. Goodwill is allocated to CGUs or groups of CGUs for impairment testing purposes based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those CGUs or group of CGUs that are expected to benefit from synergies of the related business combination in which the goodwill arises.

Impairment of other non-financial assets

Non-financial assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

(i) Financial Instruments

i. Non-derivative financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Financial assets classified as fair value through profit or loss is stated at fair value with any gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Cash and cash equivalents are classified as fair value through profit or loss.

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Held-to-maturity investments

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

Available-for-sale financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

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

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have

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been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

ii. Non-derivative financial liabilities

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

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

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

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, unsecured borrowings and secured borrowings.

Financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, which are carried subsequently at fair value with gains or losses recognized in net earnings (loss).

iii. Share capital

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

(j) Foreign Currency Translation

Foreign currency transactions are accounted for at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at the rate in effect at each period end. Gains and losses arising on settlement of such transactions and from the translation of foreign currency monetary assets and liabilities are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates prevailing at the dates the fair value was determined.

These consolidated financial statements are prepared in US dollars which is the Company's reporting currency. The functional currency of the Company is the Canadian dollar and the functional currency of ACL is the US dollar. The exchange differences resulting from the translation of the Company's financial statements from its functional currency to its reporting currency are included in other comprehensive income.

(k) 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

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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.

(l) 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 occurs either upon shipment or delivery depending on the terms of the sale) 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.

(m) Income Taxes

Current income tax

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

Deferred income tax

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

(n) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per

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share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

(o) Recent Accounting Pronouncements

The International Accounting Standards Board (“IASB”) issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company’s financial year beginning on or after November 1, 2016. Many are not applicable or do not have a significant impact on the Company and so have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

(a) IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

(b) In May 2014, the IASB issued IFRS 15 which replaces IAS 18 – Revenues, and covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017.

(c) In January 2016, the IASB issued IFRS 16 which replaces IAS 17 – Leases, and specifies how to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2018.

3. Segment Information

The Company operates in Canada for purposes of its incorporation location, and is engaged in the business of selling computer systems and related components in USA.

4. Property and Equipment, Net

Property and equipment consists of:

	October 31, 2016	October 31, 2015
Furniture and equipment	\$ 67,871	\$ 67,871
Leasehold improvements	10,427	23,562
	78,298	91,433
Less - accumulated depreciation	(78,298)	(77,969)
Net value	\$ -	\$ 13,464

Depreciation expense for the years ended October 31, 2016 and 2015 was \$329 and \$1,463, respectively.

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5. Intangible Asset, Net

During the year ended October 31, 2015, the Company had a finite-lived intangible asset pertaining to a customer list which was amortized using a straight-line method over its estimated useful life of three years. During the year ended October 31, 2015, the Company recognized amortization expense of \$187,682, which is included in selling, general and administrative expenses. During the Company's annual assessment for impairment of intangible assets in 2015, the Company's projections indicated a decrease in the value of the intangible asset, thus resulting in an impairment loss of \$234,602 and an intangible asset balance of \$Nil as of October 31, 2015.

6. Goodwill

During the year ended October 31, 2015, as part of the Company's annual assessment for impairment of goodwill, the Company's projections indicated a decrease in the value of goodwill, and thus recognized an impairment loss on goodwill of \$688,052 and a goodwill balance of \$Nil as of October 31, 2015.

7. Secured Borrowings

During the year ended October 31, 2016, the Company has secured the following financing facilities:

Facility A - on December 14, 2015 and amended on March 28, 2016, the Company and a lender (the "lender A") entered into an agreement for purchase of accounts from the Company by the lender A up to \$2.5 million. The lender A shall advance 85% of the net face amount of purchased accounts of the Company, as stated on an invoice, and shall retain 15% of the net face amount in fee escrow for payment of fees by the Company for the lender A's services. As of October 31, 2016, the amount outstanding under this financing agreement was \$782,204.

Facility B - PO finance company (the "lender B") established a \$500,000 facility. As of October 31, 2016, the amount outstanding under this financing agreement was \$4,745.

On January 20, 2015, the Company fully paid off its financing agreement with a third party. The Company received net proceeds of \$1,912,424 under that financing agreement for the year ended October 31, 2015.

During the year ended October 31, 2015, the Company entered into a \$7,250,000 line of credit with a third party, wherein the third party agreed to advance 85% of the net face amount of ACL's trade receivables. The borrowing carries a 0.699% interest rate for the first 25 days. Two additional 25 day periods are allowed at a rate of .699 % for each period, for a maximum of 75 days. As of October 31, 2016 and 2015, the amount outstanding under this financing agreement was \$Nil and \$1,622,049, respectively.

In July 2015, the Company entered into financing agreements with third parties for periods of between 6-12 months, wherein the third parties agreed to advance an aggregate of \$977,795 to the Company. These advances are not characterized as loans by the third parties but if they were would carry interest of 48% on an annual basis. As of October 31, 2016 and 2015, the amount outstanding under these financing agreements was \$41,148 and \$651,060, respectively.

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During the year-ended October 31, 2016, the Company settled a total debt of \$575,986 with three lenders for total cash of \$307,500, and realized a gain of \$268,486, which was recorded on a consolidated statement of loss.

8. Related Party Transactions

During the year ended October 31, 2016 and 2015, the Company paid approximately \$167,000 and \$290,000, respectively, 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 for work performed by Radly and his firm's 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 years ended October 31, 2016 and 2015, the Company paid approximately \$102,000 and \$220,000, respectively, to an entity controlled by the Company's CFO in exchange for the provision of certain accounting services. Chief Financial Officer Mr. Bates has worked for Velocity since July, 2014 as a contract CFO. His firm receives fees in connection with the services provided by Mr. Bates and his staff for accounting, bookkeeping, Securities/CSE 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, 2016 and 2015, the Company paid \$13,000 and \$63,000, respectively, to an entity controlled by one of the Company's board of directors for the provision of certain consulting service.

9. Share Capital

Authorized: Unlimited number of voting common shares
 Unlimited number of preferred shares

During the year ended October 31, 2015, the Company issued 6,800,000 common shares upon the exercise of warrants for net proceeds of \$286,000.

During the year ended October 31, 2015, the Company issued 6,803,670 common shares to a former director of the Company 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.

During the year ended October 31, 2016, no common or preferred shares were issued.

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. No options were exercised.

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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 based on the historical volatility of the Company's stock.

Summary of stock option activity for the years ended October 31, 2016 and 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>Average intrinsic value</u>
Balance, October 31, 2014	-	-	-	-
Granted	4,272,076	0.10	4.49	0.07
Exercised	-			
Forfeited	-			
Balance, October 31, 2015	4,272,076	0.10	3.66	0.07
Granted	-			
Exercised	-			
Forfeited	-			
Balance, October 31, 2016	4,272,076	0.10	2.66	0.07

10. Share Purchase Warrants

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	-	
Exercised	-	N/A
Expired	-	N/A
Balance, October 31, 2016	-	

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11. Income Taxes

The income taxes shown in the Statements of Operations differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

	2016	2015
	26.0%	26.0%
Loss for the year	\$ (1,738,486)	\$ (4,529,713)
Expected income tax recovery	\$ (452,006)	\$ (1,177,725)
Items deductible and not deductible for income tax purposes	(66,319)	277,672
Current and prior tax attributes not recognized	518,325	900,053
	\$ -	\$ -

Details of deferred tax assets are as follows:

	2016	2015
Non-capital loss and capital loss carryforwards	\$ 1,293,903	\$ 1,128,286
Resource property	38,175	38,175
Unrecognized deferred tax assets	(1,332,078)	(1,166,461)
	\$ -	\$ -

As at October 31, 2016, the Company had approximately \$4,400,000 of non-capital losses available, which will expire through to 2036 and may be applied against future taxable income. The Company also had approximately \$147,000 of exploration and development costs which are available for deduction against future income for tax purposes.

At October 31, 2016, the net amount which would give rise to a deferred income tax asset has not been recognized as it is not probable that such benefit will be utilized in the future years

12. Financial Instruments and Risk Management

(a) Risk management overview

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

(b) Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payables and accrued liabilities and secured borrowings approximate fair value due to the short term nature of those instruments. Cash is classified as Level 1.

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Financial assets included in the statement of financial position are as follows:

	October 31, 2016	October 31, 2015
	\$	\$
FVTPL:		
Cash	65,712	1,163,281
Loans and receivables:		
Accounts receivables	948,196	1,875,820
	1,013,908	3,039,101

(c) 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, 2016 and 2015, 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.

(d) Liquidity risk

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

(e) 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.

13. 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, 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, 2016 and 2015.

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14. Contingencies

During the year ended October 31, 2015, the Company incurred a significant amount of loss in relation to orders placed by a fictitious customer. The Company has filed suits against various parties to recover these losses. As at October 31, 2016, these law suits are still outstanding. Any settlement will be reflected as income to operations in the year occurred. No provision for possible gain has been included in these consolidated financial statements.

During the year ended October 31, 2016, the Company had various outstanding legal claims from its suppliers to demand payments of the overdue payable balances and interests. Results of these legal claims cannot be reasonably determined. As at October 31, 2016, the entire amounts in dispute have all been accounted or accrued for in the Company's books.