

VELOCITY DATA INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2018 AND 2017

(Expressed in United States dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Velocity Data Inc.

We have audited the accompanying consolidated financial statements of Velocity Data Inc., which comprise the consolidated statements of financial position as at October 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Velocity Data Inc. as at October 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

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



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

February 28, 2019

VELOCITY DATA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States dollars)

ASSETS	Note	October 31, 2018 \$	October 31, 2017 \$
Current assets			
Cash		7,932	4,999
Accounts and other receivables		-	736
Assets held for sale	12	3,936	8,137
Total assets		11,868	13,872
Current liabilities			
Accounts payable and accrued liabilities		12,002	917
Loans payable	4	482,385	399,756
Due to related party	5	7,099	7,229
Liabilities held for sale	12	6,440,396	6,323,050
Total liabilities		6,941,882	6,730,952
SHAREHOLDERS' DEFICIT			
Share capital		1,194,765	853,805
Accumulated other comprehensive loss		(32,284)	(43,079)
Deficit		(8,092,495)	(7,527,806)
Total shareholders' deficit		(6,930,014)	(6,717,080)
Total liabilities and shareholders' deficit		11,868	13,872

Nature of operations and going concern (Note 1)
Contingencies (Note 9)

Approved and authorized for issuance by the Board of Directors on February 28, 2019:

/s/ "Zhinan Liu"
Zhinan Liu, Director

/s/ "Robert Bates"
Robert Bates, Director

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

VELOCITY DATA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in United States dollars)

	Note	For the year ended October 31, 2018 \$	For the year ended October 31, 2017 \$
Revenue		-	49,825
Cost of sales		-	-
Gross profit		-	49,825
Expenses			
Bad debts		736	-
Selling, general, and administrative expenses	5	203,300	146,518
Total expenses		204,036	146,518
Loss from operations		(204,036)	(96,693)
Other income (expense)			
Gain on settlement of related party debt	6	61,844	-
Interest expense		(13,631)	-
Other income		130	37,152
Total other income (expense)		48,343	37,152
Net loss from continuing operations		(155,693)	(59,541)
Net loss from discontinued operations	12	(408,996)	(652,471)
Net loss for the year		(564,689)	(712,012)
Other comprehensive income			
Foreign currency translation income (loss)		10,795	(62,238)
Comprehensive loss for the year		(553,894)	(774,250)
Net loss per share – basic and diluted		(0.05)	(0.07)
Weighted average number of common shares outstanding		11,184,233	9,615,981

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

VELOCITY DATA INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in United States dollars)

	<u>Share capital</u>		<u>Accumulated other comprehensive income (loss)</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number of shares</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance, October 31, 2016	9,467,137	842,229	19,159	(6,815,794)	(5,954,406)
Shares issued for cash	75,000	3,292	-	-	3,292
Shares issued for services	178,003	8,284	-	-	8,284
Foreign exchange translation loss	-	-	(62,238)	-	(62,238)
Net loss for the year	-	-	-	(712,012)	(712,012)
Balance, October 31, 2017	9,720,140	853,805	(43,079)	(7,527,806)	(6,717,080)
Shares issued for settlement of related party debt	4,210,414	225,656	-	-	225,656
Shares issued for services	2,151,417	115,304	-	-	115,304
Foreign exchange translation gain	-	-	10,795	-	10,795
Net loss for the year	-	-	-	(564,689)	(564,689)
Balance, October 31, 2018	16,081,971	1,194,765	(32,284)	(8,092,495)	(6,930,014)

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

VELOCITY DATA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)

	For the year ended October 31, 2018 \$	For the year ended October 31, 2017 \$
Operating activities		
Net loss from continuing operations	(155,693)	(59,541)
Items not affecting cash:		
Bad debts	736	-
Gain on settlement of debt	(61,844)	-
Shares issued for services	115,304	8,284
Changes in non-cash operating working capital:		
Accounts and other receivables	-	(736)
Prepaid expenses	-	3,731
Accounts payable and accrued liabilities	11,102	(28,188)
Due to related party	-	7,229
Net cash used in operating activities	(90,395)	(69,221)
Financing activities		
Proceeds from loans payable	76,423	3,292
Net cash provided by financing activities	76,423	3,292
Net cash used in continuing activities	(13,972)	(65,929)
Cash flow from discontinued operations		
Net cash provided by (used in) operating activities	(181)	117,653
Net cash provided by (used in) discontinued operations	(181)	117,653
Effect of foreign exchange rate changes on cash	17,086	(73,496)
Net change in cash	2,933	(21,772)
Cash - beginning of year	4,999	26,771
Cash - end of year	7,932	4,999
Non-cash investing and financing activities:		
Settlement of loans payable from third party collection of accounts receivable	-	786,222
Shares issued for settlement of related party debt	225,656	-

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

VELOCITY DATA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2017
(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 was engaged in the business of selling computer systems and related components, particularly to government contractors and federal government end-users until February 28, 2018. Refer to Note 11.

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

During the year ended October 31, 2018, the Company recorded a net loss of \$564,689. As at October 31, 2018, the Company has an accumulated deficit of \$8,092,495 and a working capital deficit of \$6,930,014. These consolidated 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. The continuation of the Company as a going concern is dependent upon financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations, and the attainment of future profitable operations.

Management believes 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. These factors may cast significant doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of the 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

(b) Basis of Presentation and Principles of Consolidation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments, which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and presented are in United States dollars. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, ACL Computers and Software, Inc. (“ACL”), which was discontinued on February 28, 2018. Refer to Note 11. All intercompany transactions and balances have been eliminated.

VELOCITY DATA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant Accounting Policies

(c) Use of Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- (i) fair value of share-based compensation; and
- (ii) unrecognized deferred income tax assets.

Accounts payable and accrued liabilities include amounts that have been the subject of summary judgment decisions in various states in the United States. The Company has assessed potential interest liability of all summary judgment amounts at the maximum allowable interest rate under the respective states for which the Company has summary judgments against them.

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

(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 comprised of amounts due from customers for the sale of computer systems and related components and are recorded net of allowance for doubtful accounts. The allowance for doubtful accounts is estimated from current economic conditions, historical information, and projections of trends. Management closely monitors outstanding balances and writes off all balances that are not expected to be collected by the time the consolidated financial statements are issued.

(f) Property and Equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation of leasehold improvement and furniture 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 on the consolidated statement of financial position. Expenditures for maintenance and repairs are charged to the consolidated statement of operations as incurred.

VELOCITY DATA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2017
(Expressed in United States dollars)

2. Significant Accounting Policies (continued)

(g) 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 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.

(h) 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 consolidated 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 the consolidated statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Cash is classified as fair value through profit or loss.

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2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

i. *Non-derivative financial assets* (continued)

Held-to-maturity investments

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

Available-for-sale financial assets

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

Impairment of financial assets

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

- 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 the consolidated statement of operations.

VELOCITY DATA INC.
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2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

i. Non-derivative financial assets (continued)

Impairment of financial assets (continued)

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

ii. Non-derivative financial liabilities

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

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

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

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, loans payable, liabilities held for sale, and amount due to a related party.

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 the consolidated statement of operations.

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.

(i) 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 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 the consolidated statement of operations. 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.

VELOCITY DATA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in United States dollars)

2. Significant Accounting Policies (continued)

(i) Foreign Currency Translation (continued)

These consolidated financial statements are prepared in United States 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 United States dollar. The exchange differences resulting from the translation of the Company's consolidated financial statements from its functional currency to its reporting currency are included in other comprehensive income (loss).

(j) Stock-Based Compensation

The grant date fair value of share-based payment awards granted to employees is recognized as stock-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in contributed surplus, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

(k) Revenue Recognition

Revenue is derived from product sales of computer systems and related components and 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.

(l) 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 the consolidated statement of operations. 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.

VELOCITY DATA INC.
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(Expressed in United States dollars)

2. Significant Accounting Policies (continued)

(l) Income Taxes (continued)

Deferred income tax

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

(m) Comprehensive Income (Loss)

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

(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 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 share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at October 31, 2018 and 2017, the Company had 356,006 potentially dilutive shares outstanding.

(o) Reclassifications

Certain of the figures presented for comparative purposes have been reclassified to conform to the presentation adopted in the current period.

(p) New Accounting Standards and Interpretations

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended October 31, 2018, and have not been applied in preparing these consolidated financial statements.

- New standard IFRS 9, "Financial Instruments"
- New standards IFRS 15, "Revenue from Contracts with Customers"
- New standard IFRS 16, "Leases"

The Company has not early adopted these revised standards and management expects that the future adoption of these standards will not have a material impact on the Company's consolidated financial statements. Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

VELOCITY DATA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Segmented Information

The Company operates in Canada for purposes of its incorporation location, and was engaged in the business of selling computer systems and related components in the United States of America until February 28, 2018 when the Company discontinued its operations. Refer to Note 11.

4. Loans Payable

- (a) As at October 31, 2018, the Company owes \$405,980 (2017 - \$399,756) to a non-related company. The amount owing is unsecured, bears interest at prime plus 3% per annum compounded semi-annually, and is due on demand. The amounts are convertible into common shares of the Company subject to a weighted average closing price of the first ten trading days of the Company.
- (b) As at October 31, 2018, the Company owes \$76,405 (2017 - \$nil) to a non-related party which is non-interest bearing, unsecured, and due on demand.
- (c) On December 14, 2015 (as amended on March 28, 2016), the Company entered into an agreement pursuant to which the Company would sell up to \$2,500,000 of its accounts receivable balance to the lender. 85% of the net face amount of the accounts receivable collected by the lender will be netted against the outstanding loan payable while the remaining 15% will be retained by the lender as payment for the lender's services. As of October 31, 2018, the amount outstanding under this financing agreement was \$nil (2017 - \$728).

5. Related Party Transactions

- (a) As at October 31, 2018, the Company owed \$7,099 (2017 - \$7,229) to the Chief Financial Officer of the Company and a company associated with the Chief Financial Officer of the Company, which is non-interest bearing, secured against the assets of the Company, and is due on demand.
- (b) During the year ended October 31, 2018, the Company incurred \$156,252 (2017 - \$16,258) in professional fees and \$nil (2017 - \$15,288) in consulting fees to the Chief Financial Officer of the Company and a company controlled by the Chief Financial Officer of the Company, which have been recorded in selling, general, and administrative expenses.

6. Share Capital

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

- (a) On April 27, 2017, the Company issued 75,000 common shares at Cdn\$0.06 per share for proceeds of \$3,292 (Cdn\$4,500).
- (b) Effective May 3, 2017, the Company completed a share consolidation on the basis of 1 new common share for 12 old common shares. All common shares and per common share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidation.
- (c) On July 7, 2017, the Company issued 178,003 common shares with a fair value of \$8,284 for services incurred to the Chief Financial Officer of the Company.
- (d) On August 8, 2018, the Company issued 4,210,414 common shares with a fair value of \$225,656 to settle accounts payable of \$287,500 owing to the Chief Financial Officer of the Company, resulting in a gain on settlement of debt of \$61,844.
- (e) On August 8, 2018, the Company issued 2,151,417 common shares with a fair value of \$115,304 for services incurred to the Chief Financial Officer of the Company.

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6. Share Capital (continued)

Stock Options

	Number of options	Weighted average exercise price \$
Outstanding, October 31, 2016, 2017, and 2018	356,006	1.20

Additional information regarding stock options outstanding as at October 31, 2018 is as follows:

Range of exercise prices \$	Outstanding and Exercisable		
	Number of options	Weighted average contractual life (years)	Weighted average exercise price \$
1.20	356,006	1.1	1.20

7. 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

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

	Fair Value Measurements Using			Balance as at October 31, 2018 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Cash	7,932	-	-	7,932

The carrying values of other financial instruments, which includes accounts and other receivables, assets held for sale, accounts payables and accrued liabilities, liabilities held for sale, amounts due to related parties, and loans payable, approximate their fair values due to the short-term nature of those instruments.

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7. Financial Instruments and Risk Management (continued)

(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 minimizes its credit risk associated with its cash balance by dealing with major financial institutions in the United States. Accounts and other receivables are comprised of trade receivables from customers. The carrying amount of financial assets represents the maximum credit exposure.

(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) Foreign exchange and interest rate 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 related to the fluctuation of foreign exchange rates. The Company has not entered into any derivative contracts or hedged its exposure to foreign currency fluctuations, as it is not exposed to any significant foreign interest rate risk.

8. 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 equity comprised of issued share capital and contributed surplus.

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 from the year ended October 31, 2017.

9. Contingencies

- (a) 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, 2018, these lawsuits 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, as the outcome is uncertain and the amount of recovery is not determinable.
- (b) The Company has had various outstanding legal claims from its suppliers to demand payment of the overdue balances and interest recorded in accounts payable and accrued liabilities and loans payable, which includes summary judgments in various jurisdictions. The Company has recorded all demand notices and default judgements entered into against the Company.

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10. Income Taxes

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

	2018 \$	2017 \$
Canadian statutory income tax rate	26.83%	26%
Income tax recovery at statutory rate	(151,525)	(185,123)
Tax effect of:		
Permanent differences and other	-	3,084
Changes in enacted tax rates	320,577	(22,363)
Foreign tax rate differences	24,540	(58,691)
Change in unrecognized deferred income tax assets	(193,592)	263,093
Income tax provision	-	-

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

	2018 \$	2017 \$
Deferred income tax assets		
Non-capital losses carried forward	1,361,936	1,555,528
Resource pools	39,643	39,643
Total gross deferred income tax assets	1,401,579	1,595,171
Unrecognized deferred income tax assets	(1,401,579)	(1,595,171)
Net deferred income tax asset	-	-

As at October 31, 2018, the Company has non-capital losses carried forward of \$5,645,442, which are available to offset future years' taxable income. These losses expire as follows:

	\$
2032	131,294
2033	260,995
2034	512,857
2035	1,777,155
2036	1,725,022
2037	673,430
2038	564,689
	5,645,442

The Company also had \$146,825 of exploration and development costs which are available for deduction against future income for tax purposes.

As at October 31, 2018 and 2017, 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.

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11. Discontinued Operations

On February 28, 2018, the Company announced its intention to exit its business of selling computer systems and related components and focus on new investments and projects. As such, the financial information for ACL, the Company's wholly-owned subsidiary, has been reclassified as discontinued operations as at and for the years ended October 31, 2018 and 2017.

Statement of Financial Position – Discontinued Operations

	October 31, 2018 \$	October 31, 2017 \$
Cash	21	4,222
Accounts and other receivables	3,915	3,915
Total assets of discontinued operations	3,936	8,137
Accounts payable and accrued liabilities	6,383,288	5,993,675
Loans payable	42,108	41,875
Due to related parties	15,000	287,500
Total liabilities of discontinued operations	6,440,396	6,323,050

Statement of Operations – Discontinued Operations

	Year ended October 31, 2018 \$	Year ended October 31, 2017 \$
Revenue	150,863	1,296,330
Cost of goods sold	144,599	1,188,236
Gross profit	6,264	108,094
Expenses		
Selling, general, and administrative expenses	213,259	484,073
Net loss before other expense	(206,995)	(375,979)
Other income (expense)		
Interest expense	(204,316)	(146,415)
Other income	2,315	-
Write-off of accounts receivable	-	(130,077)
Total other income (expense)	(202,001)	(276,492)
Net loss from discontinued operations	(408,996)	(652,471)