

**VELOCITY DATA INC.**  
(the “Company”)

**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEAR ENDED OCTOBER 31, 2018 AND 2017**

The following Management’s Discussion and Analysis (“MD&A”), prepared as of February 28, 2019, should be read together with the consolidated financial statements of the Company for the year ended October 31, 2018 and 2017 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, 2018 and 2017 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 at [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 6,000,000 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 and Zhinan Liu.

Founded in 1989, ACL was a leading reseller of computer hardware software and peripherals primarily to defense contractors and some United States federal government end-users.

During the year ended October 31, 2015, the Company, through ACL, incurred a \$500,000 loss as a result of fake orders 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 in the US Federal Court in California and filed a Claim with DLA.

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.

As of October 31, 2018, the Company had an accumulated deficit of \$6,930,014 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 its viability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On February 28, 2018, the Company announced its intention to exit the Distribution business and initiated an active program to locate a buyer for the parent shell. The associated assets and liabilities were consequently presented as held for sale in the 2018 financial statements.

Once the buyer vendors in a new subsidiary ACL will be reported in the following period as a discontinued operation.

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

*Year Ended October 31, 2018*

### *Results of Operations*

The Company recorded revenues of \$0 and \$49,825 from continuing operations for the year ended October 31, 2018 and 2017, respectively. This is resulted in a gross profit of \$0 and \$49,825 for the years ended October 31, 2018 and 2017, respectively. The decrease in revenue is attributed to the loss of customers as a result of violations of the Company's non-solicit agreements.

The Company recorded comprehensive net loss for \$553,894 and \$774,250 for the year ended October 31, 2018 and 2017, respectively. The decrease in the net loss was due to the fact that the Company had a lower amount of operations in fiscal 2018 which resulted in lower overhead and general and administrative costs.

In addition to operating revenues and expenses, the Company recorded interest expense from continuing operations of \$13,631 and \$0 for the year ended October 31, 2018 and 2017, respectively. Overall the Company had increased expenses, including selling, general and administrative as well as the interest and other expenses.

### *Overall Performance*

As at October 31, 2018, the Company reported total assets of \$11,868 (October 31, 2017 - \$13,872), including cash of \$7,932 (October 31, 2017 - \$4,999) and accounts receivable of \$0 (October 31, 2017 - \$736). The decrease in assets is attributed to the decrease in cash during the year ended October 31, 2018.

As at October 31, 2018, the Company had liabilities of \$6,941,882 (October 31, 2017 - \$6,730,952), all of which were current liabilities. The increase is mainly attributed to the increase in loans for the year ended October 31, 2018.

### *Cash Flows*

During the year ended October 31, 2018, the Company used cash of \$90,395 for operating activities compared to receipt of \$12,845 during the year ended October 31, 2017. The Company had lower sales in 2018 which resulted in lower cash flows received from operating activities.

During the year ended October 31, 2018, the Company received \$76,423 from loan proceeds. In the year ended October 2017, the Company received \$3,292 of proceeds from financing activities relating to the issuance of 75,000 common shares at Cdn\$0.06 per share (Cdn\$4,500).

## **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, 2018, the Company had a cash balance of \$7,932, a working capital deficit of \$6,930,014 and an accumulated deficit of \$6,930,014. 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 \$10,000 of cash, very limited supplier lines of credit, very low monthly sales levels and 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. The company is attempting to pursue other options for the public shell.

## **Selected Financial Information**

The following tables provide a brief summary of the Company's financial operations. For more detailed information, refer to the condensed interim consolidated financial statements for the year ended October 31, 2018 and 2017, 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 or loss 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 loss 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 condensed interim consolidated financial statements as the format of those is standardized and uniform in comparison with any other company reportable under IFRS. In these financial statements, we show net losses of \$564,689 and \$712,012 for the year ended October 31, 2018 and 2017, 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.

## Summary of Quarterly and Annual Results

For the 3 months ended,	31-Oct 2018	July 31, 2018	April 30, 2018	January 31, 2018	October 31, 2017
	\$	\$	\$	\$	\$
Revenue	(197,770)	9,373	53,435	134,962	(28,659)
Net loss (gain) for the period	(551,760)	5,159	(1,240)	(6,053)	(532,087)
Basic and diluted loss per share	(0.05)	(0.00)	(0.00)	(0.00)	(0.03)
For the 3 months ended,	July 31, 2017	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016
	\$	\$	\$	\$	\$
Revenue	696,223	560,978	117,613	991,362	301,629
Net loss for the period	(29,224)	(77,752)	(105,239)	(765,553)	(101,364)
Basic and diluted loss per share	(0.02)	(0.00)	(0.02)	(0.08)	(0.18)

	Year ended		
	10/31/18	10/31/17	10/31/16
Total Revenue	\$ -	\$ 49,825	3,630,103
Net income (loss) before other expenses	(564,689)	(712,812)	(1,719,327)
Net income (loss) for the period	(553,894)	(774,250)	(1,719,327)
Basic and diluted (loss)	(0.05)	(0.07)	(0.18)
Total assets	11,868	11,868	1,021,533
Total liabilities	6,941,882	6,941,882	6,921,036

## Share Capital

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

- 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).
- 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.
- 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.
- During the three month period ended October 31, 2018, the Company issued 4,210,414 common shares for conversion of dues payable to the Chief Financial Officer of the Company in the amount of \$287,500
- During the year ended October 31, 2018, the Company issued 2,151,417 common shares for services to the Chief Financial Officer of the Company in the amount of \$115,304.

## **Share Purchase Warrants**

As of October 31, 2018, and 2017, the Company has no outstanding share purchase warrants. There has been no share purchase warrants issued as of February 28, 2019.

## **Stock Options**

As of October 31, 2018, and 2017, the Company has 356,006 outstanding stock options to certain officers and directors, exercisable at a price of \$1.20 per share until December 15, 2019. There were no stock options issuances, exercises, or cancellations during the years ended October 31, 2018 and 2017, nor have there been any additional stock options transactions as of February 28, 2019.

## **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.

### 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, 2018 and 2017, 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 exist 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**

During the year ended October 31, 2018 and 2017, the Company paid approximately \$156,252 and \$16,258, respectively, in professional and 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.

During the year ended October 31, 2018, the Company issued 4,210,414 common shares for conversion of dues payable to the Chief Financial Officer of the Company in the amount of \$287,500. In addition, during the year ended October 31, 2018, the Company issued 2,151,417 common shares for services to the Chief Financial Officer of the Company in the amount of \$120,479.

## **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 year ended October 31, 2018 and 2017.

### **Legal Proceedings**

Updates for ongoing legal proceedings are as follows for the three month period ended October 31, 2018:

In late 2015, the Company learned of former employees who violated their non-solicit and confidentiality agreements. ACL obtained a restraining order against those former employees and initiated a suit for damages. Two of their employers have been added to the suit. The non-competes were established years ago as a result of a former employee attempting to steal customers.

In late 2015, ACL initiated a suit pursuing a prior lender for attempting to extort a material cancellation fee and causing other damages despite the fact that the lender requested ACL obtain new financing.

In late 2015, the Company, through ACL, incurred a significant loss as a result of fake orders 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 believes that the shipper of the products (FedEx) and DLA were negligent in the manner in which they handled the fake orders. Thus, ACL filed an SF 95 Claim with DLA. ACL filed a lawsuit with the Military in March 2016. The total gross loss prior to any reimbursement is now in excess of \$500,000, including legal and other costs, since the vendors for the orders were paid in full. The FBI has located one of the perpetrators and extradited him from India and Nigeria to be incarcerated.

ACL has received notice of lawsuit from several suppliers in connection with overdue payables. Two of the suppliers obtained judgments against ACL for part of the \$5 million of payables previously recorded as liabilities.

ACL continued to devote resources to recovering the losses caused by its former employees (including their alleged negligence surrounding the previously disclosed Nigerian crime ring) and the CFAA and trade secret theft (potential criminal violations that ACL recently uncovered). ACL has been a value-added reseller or VAR for 28 years; in 2015, the Company attempted to pursue other lines of business, however, this was met with resistance from ACL's former sales people. The Company no longer has sufficient funds to develop new product lines and has begun to investigate various plans for the company since the cost of operating as a public company is greater than the Company's current financial situation can support.

### **Off-Balance Sheet Arrangements**

There were no off-balance sheet arrangements as of October 31, 2018.

### **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).