



CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of VersaPay Corporation

Opinion

We have audited the accompanying financial statements of VersaPay Corporation (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at end of December 31, 2018 and 2017, and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Emphasis of Matter

We draw attention to Note 3(a) to the financial statements which indicates that the Entity has changed its accounting policy for revenue, as a result of the adoption of IFRS 15, Revenue from Contracts with Customers, and has applied that change using the cumulative effect method.

Our opinion is not modified in respect of this matter.



Other Information

Management is responsible for the other information. Other information comprises:

- the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indicators that the other information appears to be materially misstated.

We obtained the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Lesley Bridget Luk.
Vaughan, Canada
April 1, 2019

VersaPay Corporation
Consolidated Statements of Financial Position
(Canadian dollars)

As at	Note	December 31 2018 \$	December 31 2017 * \$
Assets			
Cash and cash equivalents		11,119,966	15,830,487
Restricted cash	6	37,158	475,000
Funds held for merchants	7	16,624,969	15,839,730
Trade receivables	5	1,246,458	414,130
Other receivable	5,9	464,701	-
Unbilled revenue	19	55,508	-
Prepaid expenses and other		919,306	255,720
Current assets		30,468,066	32,815,067
Restricted cash - LC		-	111,474
Property and equipment	8	1,909,552	377,121
Contract asset	19	479,274	-
Non-current assets		2,388,826	488,595
Total assets		32,856,892	33,303,662
Liabilities			
Accounts payable and accrued liabilities	5, 19	2,494,107	1,251,310
Unearned revenue	19	920,278	84,370
Funds due to merchants	7	16,624,969	15,839,730
Current portion of obligations under finance lease	10	43,533	14,117
RSU, PSU and DSU obligation	12	520,010	542,234
Liabilities associated with previously-owned segment	18	794,299	974,299
Current liabilities		21,397,196	18,706,060
Lease incentive allowance	9	509,474	136,350
Deferred rent	9	157,944	134,693
Obligations under finance lease	10	94,879	2,448
Non-current liabilities		762,297	273,491
Total liabilities		22,159,493	18,979,551
Equity			
Share capital	12	46,063,483	37,443,841
Contributed surplus		3,692,872	3,185,953
Accumulated deficit		(39,237,120)	(26,438,372)
Accumulated other comprehensive income		178,164	132,689
Total equity		10,697,399	14,324,111
Total liabilities and equity		32,856,892	33,303,662

* The Company has applied IFRS 15 using the cumulative effect method as of January 1, 2018. Under this method, the comparative information is not restated. See note 19

* Commitments and contingencies (Note 11)

See accompanying notes to the consolidated financial statements.

Signed "Mark Kohler"

Director

Signed "Craig O'Neill"

Director

VersaPay Corporation
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Canadian dollars)

	Note	Years ended December 31	
		2018 \$	2017 * \$
Continuing operations			
Revenue	19	4,740,402	2,958,296
Cost of sales		1,209,368	983,326
Gross profit		3,531,034	1,974,970
General and administrative expenses	15	6,108,744	3,960,675
Research and development expenses	15	4,537,834	3,075,272
Sales and marketing expenses	15	5,913,919	3,096,384
Loss from continuing operations		(13,029,463)	(8,157,361)
Foreign exchange gain from operations	15	9,861	4,486
Finance income (expense), net	15	84,080	42,320
Net loss from continuing operations		(12,935,522)	(8,110,555)
Discontinued operations			
Net earnings from discontinued operations	18	-	8,516,851
Net income (loss) for the year		(12,935,522)	406,296
Other comprehensive income (loss)			
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences		45,475	(55,863)
Other comprehensive income (loss) for the year		45,475	(55,863)
Total comprehensive income (loss) for the year		(12,890,047)	350,433
Earnings (loss) per share			
Weighted average number of common shares outstanding			
Basic	17	39,057,694	32,397,457
Diluted	17	39,057,694	32,397,457
Earnings (loss) per share (\$ per share)			
Basic	17	(0.33)	0.01
Diluted	17	(0.33)	0.01
Earnings (loss) per share - continuing operations			
Earnings (loss) per share (\$ per share)			
Basic		(0.33)	(0.25)
Diluted		(0.33)	(0.25)

* The Company has applied IFRS 15 using the cumulative effect method as of January 1, 2018. Under this method, the comparative information is not restated. See note 19.

See accompanying notes to the consolidated financial statements.

VersaPay Corporation
Consolidated Statements of Changes in Equity
(Canadian dollars)

	Note	Number of Shares Outstanding	Share Capital \$	Contributed Surplus \$	Warrants Reserve \$	Accumulated Deficit \$	Accumulated Other Comprehensive Income \$	Total Equity \$
As at January 1, 2017		30,494,301	25,261,538	2,731,886	398,650	(26,844,668)	188,552	1,735,958
Net income for the year		-	-	-	-	406,296	-	406,296
Other comprehensive loss for the year		-	-	-	-	-	(55,863)	(55,863)
Shares issued net of share issuance costs	12	6,290,000	10,654,644	-	-	-	-	10,654,644
Exercise of options	12	1,038,174	1,527,659	(422,477)	-	-	-	1,105,182
Share based payments	12	-	-	477,894	-	-	-	477,894
Warrants expired	12	-	-	398,650	(398,650)	-	-	-
As of December 31, 2017		37,822,475	37,443,841	3,185,953	-	(26,438,372)	132,689	14,324,111

	Note	Number of Shares Outstanding	Share Capital \$	Contributed Surplus \$	Warrants Reserve \$	Accumulated Deficit \$	Accumulated Other Comprehensive Income \$	Total Equity * \$
As at December 31, 2017		37,822,475	37,443,841	3,185,953	-	(26,438,372)	132,689	14,324,111
IFRS 15 net opening adjustment	19	-	-	-	-	136,774	-	136,774
As at January 1, 2018		37,822,475	37,443,841	3,185,953	-	(26,301,598)	132,689	14,460,885
Net loss for the year		-	-	-	-	(12,935,522)	-	(12,935,522)
Other comprehensive income for the year		-	-	-	-	-	45,475	45,475
Shares issued net of share issuance costs	12	5,257,800	8,152,035	-	-	-	-	8,152,035
Exercise of options	12	260,576	467,607	(124,531)	-	-	-	343,076
Share based payments	12	-	-	631,450	-	-	-	631,450
As of December 31, 2018		43,340,851	46,063,483	3,692,872	-	(39,237,120)	178,164	10,697,399

* The Company has applied IFRS 15 using the cumulative effect method as of January 1, 2018. Under this method, the comparative information is not restated. See note 19.

See accompanying notes to the consolidated financial statements.

VersaPay Corporation
Consolidated Statements of Cash Flows
(Canadian dollars)

	Note	Years ended December 31	
		2018 \$	2017 * \$
Cash flows from operating activities			
Net loss from continuing operations		(12,935,522)	(8,110,555)
Items not affecting cash:			
Amortization of lease incentive allowance	9	(38,116)	(20,980)
Amortization	8	228,042	134,721
Deferred rent	9	23,251	19,045
Share based payments		631,450	477,892
RSU, PSU and DSU obligation	12	(22,224)	252,359
		(12,113,119)	(7,247,518)
Change in non-cash working capital items			
Trade receivables		(832,328)	(138,022)
Unbilled revenue		(55,508)	-
Prepaid expenses and other		(717,047)	(146,622)
Contract asset		(397,746)	-
Accounts payable and accrued liabilities		1,242,797	276,648
Unearned revenue		891,154	58,412
Cash used in operating activities		(11,981,797)	(7,197,102)
Cash flows from investing activities			
Restricted cash		549,316	(475,000)
Acquisition of property and equipment		(1,613,469)	(56,341)
Cash provided by and used in investing activities		(1,064,153)	(531,341)
Cash flows from financing activities			
Issuance of common shares, net of issuance costs		8,152,035	10,654,644
Exercise of stock options		343,076	1,105,182
Finance lease payments		(25,157)	(13,188)
Cash provided by financing activities		8,469,954	11,746,638
Net decrease in cash and cash equivalents from continuing operations		(4,575,996)	4,018,195
Net increase (decrease) in cash and cash equivalents from discontinued operation	18	(180,000)	9,114,075
Cash and cash equivalents, beginning of period		15,830,487	2,754,081
Exchange (loss) gain on cash and cash equivalents		45,475	(55,864)
Cash and cash equivalents, end of period		11,119,966	15,830,487

Cash and cash equivalents consist of the following:

	December 31	
	2018 \$	2017 \$
Cash at bank and in hand	4,000,342	11,241,443
Demand deposits	7,119,624	4,589,044
	11,119,966	15,830,487

* The Company has applied IFRS 15 using the cumulative effect method as of January 1, 2018. Under this method, the comparative information is not restated. See note 19.

See accompanying notes to the consolidated financial statements.

1. Nature of business

VersaPay Corporation ("the Company") is incorporated under the laws of British Columbia, Canada, and its principal place of business is Suite 1800, 18 King Street East, Toronto, Canada. The Company is a financial technology company that provides a cloud-based accounts receivable automation software and integrated payment solutions for businesses. Through its VersaPay Solutions segment ("Solutions"), the Company focuses on electronic invoice presentment with its ARC™ software ("ARC™") and develops value added payment technologies such as its PayPort™ (previously known as Electronic Money Transfer, or "EMT").

Through its Point of Sales Merchant Services segment ("POS"), the Company acts on behalf of financial institutions to provide merchants with the ability to process credit and debit card payments for card-not-present and card-present transactions, including internet businesses, mail-order/telephone-order merchants and retail point-of-sale merchants. On February 1, 2017, the Company sold 100% of its POS Merchant Services operations and is no longer operating this line of business. Accordingly, the financial statements have been adjusted to reflect the POS Merchant Services segment as discontinued operations.

The Company sells to customers in Canada and the United States ("U.S.").

2. Basis of preparation

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. The policies applied in these consolidated financial statements are based on IFRS issued and effective at April 1, 2019, the date the Board of Directors approved these consolidated financial statements.

These consolidated financial statements include the accounts of the Company's wholly-owned U.S. subsidiary, VersaPay Payment Technology Solutions, Inc. which was incorporated on May 17, 2012. Intercompany balances and transactions have been eliminated upon consolidation.

As of January 1, 2018 IFRS, 15, Revenue from Contracts with Customers ("IFRS 15") and IFRS 9, Financial Instruments ("IFRS 9") have been adopted. Changes to significant accounting policies are described in notes 3 and 19.

b) Basis of measurement

These consolidated financial statements have been prepared principally under the historical cost basis. Other measurement bases used are described in applicable notes.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other factors that management considers to be relevant. Actual results could differ from these estimates and assumptions.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting

estimates are recognized in the year in which the estimates are revised and in any future years affected.

In management's opinion, all adjustments considered necessary for fair presentation have been included in these financial statements. Historical results are not necessarily indicative of the results expected for the upcoming financial year. Annual results may differ from past estimates. The significant judgments are reviewed by Management throughout the year to ensure they remain applicable and have been applied in a consistent manner.

Significant management judgments

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements:

Revenue recognition

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the period of benefit for those costs to be longer than one year and those costs are expected to be recoverable under the expected term of the contract.

The Company uses judgment to assess whether multiple products and services sold in a contract are considered distinct and should be accounted as separate performance obligations or together. Judgments are required to determine the stand-alone selling price for each distinct performance obligation in order to allocate revenue where multiple performance obligations exist in a contract. Management exercises judgement in determining whether a contract's outcome can be estimated reliably. Management also applies judgment in the calculation of future contract costs, estimated life of a customer, and related profitability as it relates to labour hours and other considerations, which are used in determining the value of amounts recoverable on contracts and timing of revenue recognition. Management continually and routinely reviewed changes in the facts and macro environment to assess credit risks on trade receivables, other receivable and contract asset. Judgement is also needed in assessing the ability to collectability of trade receivables, separate from credit risks.

Capitalization of internally developed intangible assets

Distinguishing the research and development phases of a new customized software project and determining whether the recognition requirements for the capitalization of development costs are met requires judgment. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired. No research and development costs were capitalized during the year ended December 31, 2018 (December 31, 2017 – nil).

Functional currency

The functional currency for the Company and its subsidiary is the currency of the primary economic environment in which the entities operates in. The Company has determined it's functional currency to be Canadian dollars and the functional currency of its U.S. subsidiary is the U.S. dollar. Determination of functional currency required judgment to determine the primary economic environment. The Company periodically reviews the functional currency of both companies in light of any new events or changes in circumstances and at least annually.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment

In assessing impairment, when events or changes in circumstance indicates that the carrying amount of the asset or cash-generating unit may not be recoverable, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows. The determination of a cash-generating unit is based on management's judgment and is an assessment of the smallest group of assets that generate cash flows independently of other assets. Impairment tests are completed using the higher of fair value less costs to sell, where available, and value-in-use calculations, determined using management's best estimates of future cash flows, long-term growth rates and appropriate discount rates. Estimation uncertainty relates to assumptions about future operating results.

Valuation of accounts receivable

The Company reviews the accounts receivable balances on a regular basis and estimates the expected credit loss and the likelihood of collection, separate from credit risks, and records allowance for estimated losses. Management bases its estimates on historical experience and other relevant factors. See Note 5(b) for further details.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Share based payments, restricted stock units, performance share units and deferred share units

Management uses the Black-Scholes option-pricing model to calculate the fair value of stock options. Use of this method requires management to make assumptions and estimates about the expected life of options, warrants and units, the risk-free interest rate and the volatility of the Company's share price. In making these assumptions and estimates, management relies on historical market data. Estimation uncertainty relates to the fact that the Company is relatively thinly traded which may reduce the reliability of market data.

3. Changes in significant accounting policies

a) IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15, *Revenue from Contracts with Customers*, with an initial adoption date of January 1, 2018. The Company utilized the cumulative effect method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. See note 18 for further details related to impact of adoption. The Company's revenue recognition policy under IFRS 15 is described here below.

Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company derives revenue from the following categories:

- ARC™ Subscriptions:
 - Fix subscription fees and usage charges;
 - Incremental variable fees relating to when a customer exceeds their subscription limits;
 - Transaction fees associated with payments of invoices that occur on the ARC™ platform;
- PayPort™
 - Transaction fees associated with payments made through PayPort™.
- ARC™ Professional Services
 - Professional services fees relating to implementation services of ARC™.

Contracts with multiple products or services

Typically, the Company enters into contracts that contain services such as subscriptions, incremental variable fees, transaction fees and professional services. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the services are distinct from some or all of the other services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and VersaPay's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation. Where a contract consists of more than one performance obligation, revenue for each performance obligation is recognized primarily on the relative fair value basis for each performance obligation.

Nature of products and services

Revenue from software-as-a-service ("SaaS") arrangements, which allows customers to use hosted software over a term without taking possession of the software, are provided on subscription basis. Revenue from SaaS subscription, which includes the hosted software and maintenance is recognized rateably over the term of the subscription. Incremental variable fees are recognized in the month the customer uses the particular service and exceeds their subscription limits.

Revenue from the PayPort™ service is derived from fees earned from transaction service fees and non-sufficient funds ("NSF") fees. Transaction service fees are recognized in the period in which the transactions occur.

Professional services revenue including implementation, training and customization of the software is recognized by the stage of completion of the performance obligation determined using the percentage of completion method. The revenue and profit of fixed price contracts is recognized on a percentage of completion basis when the outcome of the contract can be estimated reliably. When the outcome of the contract cannot be estimated

reliably but the Company expects to recover its costs, the amount of expected costs is treated as variable consideration and the transaction price is updated as more information becomes known.

Contract costs, such as commissions or incremental costs of obtaining a contract with a customer, are recognized as an asset if we expect the period of benefit for those costs to be longer than one year and those costs are expected to be recoverable under the expected term of the contract. For a breakdown of revenue see Note 19.

b) IFRS 9 Financial Instruments

The Company adopted this standard on January 1, 2018 and it had a nominal impact on the Company's classification and disclosures. The Company's accounting policy for financial instruments under IFRS 9 is described here below.

Financial Instruments

Recognition, classification and measurement

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit and loss ("FVTPL"). Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial instruments are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its cash and cash equivalents, restricted cash, trade receivables, other receivable, funds held for merchants, accounts payable and accrued liabilities as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets and financial liabilities are offset and the net amount presented in the statements 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.

Impairment of financial instruments

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost and contract assets. Loss allowances for trade receivables and other receivable are measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid interest bearing term deposits that are readily convertible to known amounts of cash. The cash and cash equivalents act as the Company's primary source of cash and fluctuate directly as a result of its cash flows from operating, investing and financing activities.

Demand deposits are term deposits that are available on demand, readily convertible to known amounts of cash and subject to insignificant risk of changes in value. The purpose of the demand deposit is to keep funds available to meet short-term cash commitments.

b) Allowance for doubtful accounts

The recoverability of the trade receivable and other receivable balances is assessed at each reporting date and an allowance for doubtful accounts is deducted from the asset's carrying value if the amount is not considered fully recoverable. Any change in the allowance is recognized within general and administrative costs in the statements of income (loss) and comprehensive income (loss).

c) Property and equipment

Property and equipment is recorded at cost less accumulated depreciation and is depreciated over the estimated useful lives at the following annual rates and methods:

- Computer Equipment 30% declining balance basis
- Office Furniture and Equipment 20% declining balance basis
- Leasehold Improvements Straight-line over lesser of lease term and 5 years

The Company performs impairment tests on property and equipment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its recoverable amount, and is recorded in the statements of income (loss) and comprehensive income (loss).

d) Leases

Leases are classified as either finance or operating. Leases, which transfer substantially all of the benefits and risks of ownership, are accounted for as finance leases. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a finance lease, an asset and an obligation is recorded at an amount equal to the lesser of the present value of the future minimum lease payments and the asset's fair value at the beginning of such lease.

e) Income taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the statements of income (loss) and comprehensive income (loss), except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current income tax is expected income tax payable or receivable on the taxable income or loss for the year using income tax rates enacted or substantively enacted at the reporting date, and any adjustments to income tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered and settled. The effect on deferred income tax assets and liabilities of a change in income tax rate is recognized in the statements of comprehensive income (loss) in the year that includes the enactment or substantive enactment date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its tax liabilities for uncertain tax positions are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

f) Research and development

The Company incurs costs related to the development of internally produced, propriety software for its VersaPay Solutions segment. Research costs are expensed as incurred. Development costs are expensed as incurred unless a project meets certain criteria under IFRS for capitalization and amortization. In this case, the development costs are capitalized and amortized over the estimated useful life of the product developed. Amortization of capitalized costs commences when development of the software is complete and the product is available for sale to a customer. During the year ended December 31, 2018, there was no amortization of capitalized costs (2017 – nil).

g) Investment tax credits

The Company is entitled to certain refundable and non-refundable Canadian investment tax credits (“ITCs”) for qualifying research and development activities performed in Canada. The ITCs are accounted for as a reduction of the related expenditures for items expensed in the statements of income (loss) and comprehensive income (loss) or as a reduction of related asset’s cost for items capitalized in the statements of financial position when the amount is reliable estimable and realization is reasonably assured.

h) Foreign currency

The functional currency of the Company is the Canadian dollar and its subsidiary is the U.S. dollar. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the reporting date. Non-monetary items are translated at their historic exchange rates. Revenues and expenses are translated at annual average exchange rates. Foreign exchange gains or losses on translation are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

i) Share based payments, restricted share units and performance share units

Share-based payment plan

The Company has a share-based payment plan under which the Company issues stock options, which are settled with common shares. The Company records share based payments for the granting of stock options and direct awards of stock to employees using the fair value method whereby all awards to employees are recorded at the fair value of each stock option at the date of grant using the Black-Scholes option pricing model. The fair values of the options are amortized over the life of the vesting period with a corresponding increase to the contributed surplus. The amount recognized as an expense is adjusted to reflect the number of share options expected to eventually vest. Any consideration paid by the option holders to purchase shares is credited to share capital when options are exercised.

Restricted share units (“RSU”), performance share units (“PSU”) and Deferred share units (“DSU”)

The Company has a RSU and PSU plan under which the Company issues RSUs and PSUs for employees. The RSUs and PSUs are cash-settled units and meet the definition of a financial liability.

Effective April 12, 2018, the Company introduced a DSU Plan under which the Company issues DSUs for directors’ remuneration. These DSUs are cash-settled units and meet the definition of a financial liability. These DSUs are fully vested and are only settled when the board member is no longer rendering service to the Company.

The liability for RSUs, PSUs and DSUs intended to be settled in cash are measured based on the fair value of the RSU, PSU and DSU expected to vest at the reporting date and the change in the liability is recorded to the related expense line on the statement of income (loss) and comprehensive income (loss). Based on the expected timing of payment, a liability of \$520,010 was recorded on the consolidated statement of financial position as at December 31, 2018 (December 31, 2017 - \$542,234).

j) Earnings (loss) per share

The computation of basic earnings (loss) per share uses the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that would occur if warrants and stock options were exercised. The Company uses the treasury stock method for outstanding warrants and options which assumes that all outstanding warrants and stock options with an exercise price below the average market prices are exercised and assumed proceeds are used to purchase the Company’s common shares at the average market price during the year. Diluted earnings (loss) per share are not calculated if the result would be anti-dilutive, for example, if the Company had a net loss for the year.

k) Share capital:

Common shares are classified as shareholders’ equity. Incremental costs directly attributable to the issuance of common shares and share options are recognized as a deduction from shareholders’ equity, net of any tax effects.

l) Impairment of long-lived assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any

indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the consolidated statement of comprehensive income (loss).

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior periods may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized previously. Such reversal is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

m) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of comprehensive income (loss), net of any reimbursement.

n) Operating segments

Operating segments are reportable when separate financial information is available that is evaluated and in assessing the performance of their profit earning activities. The Company's chief operating decision maker is its CEO. Based on the criteria under IFRS 8, the Company has one operating segment.

o) Future accounting pronouncements

IFRS 16, Leases ("IFRS 16")

IFRS 16 Leases will replace *IAS 17 Leases*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor). All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and instead introduces a simple lessee accounting model. When applying that model, a lessee is required to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and depreciation of lease assets separately from interest on lease liabilities in the income statement. From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently. The IASB has an effective date to annual period beginning on or after January 1, 2019. Early adoption of the standard is permitted. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the Company's financial statements. The Company believes that on adoption of the standard there will be an increase to assets and liabilities, as the Company will be required to record a right-of-use asset and a corresponding lease liability on its Consolidated Statements of Financial Position, as well as a decrease

to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation (due to depreciation of the right-of-use asset).

5. Financial instruments

a) Accounting classifications and fair values

The Company adopts a three-level fair value hierarchy that reflects the significance of the inputs used to measure fair value. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e. unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date.

Financial assets and financial liabilities measured at fair value as at December 31, 2018 and December 31, 2017 in the consolidated financial statements are summarized below. The Company has no additional financial liabilities measured at fair value after initial recognition other than those recognized in connection with business combinations.

	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Demand deposits	7,119,624	-	-	7,119,624	4,589,044	-	-	4,589,044
Total fair value	7,119,624	-	-	7,119,624	4,589,044	-	-	4,589,044

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the years ended December 31, 2018 and December 31, 2017.

Financial instruments are classified into one of the following categories: financial assets and other financial liabilities measured at amortized costs. The following table summarizes information regarding the carrying values of the Company's financial instruments:

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	December 31, 2018		December 31, 2017	
	Carrying Value \$	Fair Value \$	Carrying Value \$	Fair Value \$
Financial assets at amortized cost:				
Cash and cash equivalents	11,119,966	11,119,966	15,830,487	15,830,487
Resitriced cash	37,158	37,158	475,000	475,000
Trade and other receivables				
Funds held for merchants	16,624,969	16,624,969	15,839,730	15,839,730
Trade receivables				
Continuing operations	1,246,458	1,246,458	414,130	414,130
Other receivable	464,701	464,701	-	-
Trade and other receivables	29,493,252	29,493,252	32,559,347	32,559,347
Other financial liabilities measured at amortized cost :				
Accounts payable and accrued liabilities				
Continuing operations	2,494,107	2,494,107	1,251,310	1,251,310
Previously-owned segment	794,299	794,299	974,299	974,299
Funds due to merchants	16,624,969	16,624,969	15,839,730	15,839,730
Trade payables and accrued liabilities	19,913,375	19,913,375	18,065,339	18,065,339

The carrying values of trade receivables, other receivable, funds held for merchants, accounts payable and accrued liabilities, and funds due to merchants approximate fair values because of the short-term nature of these financial instruments.

b) Financial instruments risk, exposure and management

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk.

Credit risk

The Company has limited credit risk since the Company does not extend credit to its customers. Further, the Company reduced its exposure to non-sufficient funds (“NSF”) by ensuring that funds are received before funds are transferred out. The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost and contract assets. Loss allowances for trade receivables and other receivable are measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Provisions for doubtful accounts, not due to credit loss, are made on an account by account basis.

The maximum exposure to credit risk in terms of accounts receivable as at December 31, 2018 and 2017 was:

	December 31, 2018	December 31, 2017
	\$	\$
Trade receivable - gross balance	1,265,175	431,201
Allowance for doubtful accounts	(18,717)	(17,071)
Trade receivable, net	1,246,458	414,130

The aging of the trade receivables as at December 31, 2018 and 2017 was:

	December 31, 2018	December 31, 2017
	\$	\$
Current	442,879	259,171
Past due 1-30 days	128,933	21,432
Past due 31-60 days	295,292	-
Past due more than 61 days	379,354	133,527
Accounts receivable - net balance	1,246,458	414,130

Of the total accounts receivable at year end, 86% have been collected subsequent to year end.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange and interest rates, will affect the fair value of future cash flows of financial instruments.

(i) Foreign currency risk

Foreign currency risk is the risk that the future cash flows or fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. As at December 31, 2018, approximately 35% (December 31, 2017 – 25.9%) of revenue is transacted in U.S. dollars and reflects the Company's exposure to foreign exchange risk thereon. If the Canadian dollar strengthened by 10% relative to the U.S. dollar, the Company's revenues would decline by approximately \$166,000 and net income would decline by \$60,000 for the year.

(ii) Interest rate risk

The Company is exposed to minimal interest rate cash flow risk as the interest rate from obligations under finance lease is fixed.

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's approach to managing liquidity risk is to ensure that it will have sufficient working capital and cash flow generated from operations to fund the operations and settle debt and liabilities when due. The Company holds \$7,119,624 (2017 - \$4,589,044) in investments, classified as cash equivalents that are immediately available for liquidation if required.

The table below provides a summary of the contractual obligations and payments related to financial liabilities due as at December 31, 2018. The amounts disclosed are the contractual undiscounted cash flows including interest:

Commitments and contractual obligation:	Payments due as at December 31, 2018			
	Total	Less than 1 year	1-4 years	Thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities			-	-
Continuing operations	2,494,107	2,494,107	-	-
Previously-owned segment	794,299	794,299	-	-
Funds due to merchants	16,624,969	16,624,969	-	-
Obligations under finance lease	153,100	43,540	109,560	-
Office lease (Includes sublet)	13,738,743	1,051,186	5,555,478	7,132,079

6. Restricted cash

As at December 31, 2018, the Company has restricted cash \$37,158 (2017 - \$111,474) related to cash held as collateral for a letter of credit for the office space in Toronto, opened in July 2014. In 2014, the Company provided \$185,790 for the letter of credit to be held over a 5 year period. Per the agreement, one fifth (1/5) or \$37,158 may be drawn down from the collateral on an annual basis. The letter of credit obligation will be reduced to zero over a five-year period from the inception of the Toronto lease.

The balance of the restricted cash in the prior year related to a net amount of \$475,000 placed in an escrow account to cover potential purchase price adjustments and other potential liabilities for which BluePay was indemnified. The balance related to amounts placed in an escrow account was released in 2018.

7. Funds held for merchants

The Company holds funds in trust for customers using PayPort™. In providing the money transfer services through PayPort™ to customers in Canada, the Company temporarily holds its customers' funds. The amount of funds held for merchants typically varies with the volume of transactions being processed. The funds are held at a Schedule A bank and recorded as a current asset. Because these are customer funds, there is an associated Funds Due to Merchants liability.

8. Property and equipment

	Computer Equipment \$	Office Furniture and Equipment \$	Leasehold Improvements \$	Total \$
COST				
Balance as at December 31, 2016	771,296	328,683	209,773	1,309,752
Additions	54,601	1,740	-	56,341
Balance as at December 31, 2017	825,897	330,423	209,773	1,366,093
Retirement	-	(27,911)	-	(27,911)
Additions	235,769	39,402	1,485,302	1,760,473
Balance as at December 31, 2018	1,061,666	341,914	1,695,075	3,098,655
ACCUMULATED DEPRECIATION				
Balance as at December 31, 2016	(559,264)	(190,101)	(104,886)	(854,251)
Depreciation for the year	(57,006)	(35,760)	(41,955)	(134,721)
Balance as at December 31, 2017	(616,270)	(225,861)	(146,841)	(988,972)
Retirement	-	27,911	-	27,911
Depreciation for the year	(67,009)	(35,182)	(125,851)	(228,042)
Balance as at December 31, 2018	(683,279)	(233,132)	(272,692)	(1,189,103)
NET BOOK VALUE				
As at December 31, 2017	209,627	104,562	62,932	377,121
As at December 31, 2018	378,387	108,782	1,422,383	1,909,552

9. Lease incentive allowance and deferred rent

In 2014, the Company received a lease incentive allowance of \$209,773 related to leasehold improvements as an inducement to enter into a 10-year lease term for the Toronto office. This amount is amortized over the term of the lease. The accumulated amortization as at December 31, 2018 was \$94,404 (2017- \$73,423).

In 2018, the Company accrued \$464,701(after tax) as other receivable related to a lease incentive allowance of \$411,240 (pre-tax) as an inducement to enter into a 10-year lease term for the new Toronto office location. The lease incentive allowance is amortized over the term of the lease. The accumulated amortization as at December 31, 2018 was \$17,135 (2017 – nil). The full amount of the other receivable has been received subsequent to year end.

	\$
Balance as at December 31, 2016	157,330
Amortization for the year	(20,980)
Balance as at December 31, 2017	136,350
Addition	411,240
Amortization for the year	(38,116)
Balance as at December 31, 2018	509,474

As per the rental lease agreements, the amount charged per square foot of the premises increases over the terms of the lease. As a result, a straight-line amount is calculated and charged to expense. Any difference is charged to a deferred rent account.

	\$
Balance as at December 31, 2016	115,648
Amounts deferred for the year	19,045
Balance as at December 31, 2017	134,693
Amounts deferred for the year	23,251
Balance as at December 31, 2018	157,944

10. Obligations under finance lease

The Company has finance leases outstanding as at December 31, 2018 that related to leased computer equipment. The lease terms range from 36 months to 48 months with interest rate in the range of 0.46% to 6.8%.

	December 31, 2018	December 31, 2017
Obligations under finance lease	138,412	16,565
Less: current portion	(43,533)	(14,117)
Non current	94,879	2,448

The Company has minimum lease payment commitments for the following amounts:

	\$
2019	43,540
2020	41,085
2021	41,085
2022	27,390
Total	153,100
Less: interest	(14,688)
Principal	138,412

11. Commitments and contingencies

The Company has operating lease commitments for office premise payments for the current and next four years and thereafter in the following amounts:

	2019	2020	2021	2022	2023	and thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Combined Leases	1,312,773	1,624,445	1,654,615	1,685,014	1,714,422	7,252,972	15,244,241
Less: Sublease	261,587	274,035	276,610	283,366	289,007	120,893	1,505,498
Total Commitments	1,051,186	1,350,410	1,378,005	1,401,648	1,425,415	7,132,079	13,738,743

During Q3 2018, the Company moved to a new office location under a 10-year lease agreement. The Company sublet its previous office space, resulting in a zero gain or loss, on the remaining term of that lease ending in 2024.

12. Share capital

a) Common shares

The Company is authorized to issue an unlimited number of common shares.

	Common shares	\$
Balance, January 1, 2016	30,494,301	25,261,538
Issued on exercise of options	1,038,174	1,105,182
Fair value of exercised stock options	-	422,477
Issued for cash	6,290,000	10,693,000
Issuance costs		(38,356)
Balance, December 31, 2017	37,822,475	37,443,841
Issued on exercise of options	-	-
Fair value of exercised stock options	260,576	467,607
Issued for cash	5,257,800	9,201,150
Issuance costs		(1,049,115)
Balance, December 31, 2018	43,340,851	46,063,483

On October 18, 2018, the Company completed a short form prospectus and closed the offering, issuing 5,257,800 common shares of the Company at a price of \$1.75 per common share, which included 685,800 common shares issued pursuant to the exercise of the over-allotment option in full, for aggregate gross proceeds of \$9,201,150. The Company paid underwriting and other offering costs totaled \$1,049,115, resulting in net cash raised of \$8,152,035.

On October 13, 2017 the Company completed a non-brokered private placement of 6,290,000 common shares at a price of \$1.70 per Common Share for gross proceeds of \$10,693,000. The Common Shares issued are subject to a statutory hold period of 4 months and one day and are eligible for trading on February 14, 2018.

b) Stock Options

The Company's Fixed Stock Option Plan ("the Plan") allows for 5,000,000 shares as at the date that the Company's plan was approved by the TSX Venture Exchange to be reserved for issuance to employees, officers, directors and consultants of the Company. The Board of Directors of the Company may terminate the Plan at any time provided that the termination does not alter the terms or conditions of any option or impair the right of any shareholder.

Stock options outstanding as at December 31, 2018 and 2017 are as follows:

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Stock Options outstanding	Number of options	Weighted Average		Fair value at grant (\$)
		Exercise price (\$)	Share price upon exercise (\$)	
Balance, December 31, 2016	3,988,678	1.22	N/A	N/A
Granted	1,400,000	1.76		0.77
Exercised	(1,038,174)	1.06	1.62	
Expired	(207,428)	1.40		
Forfeited	(450,000)	1.35		
Balance, December 31, 2017	3,693,076	\$1.44	N/A	N/A
Granted ⁽¹⁾	600,000	1.43		0.51
Exercised	(260,576)	1.32	2.35	
Expired	(420,000)	1.35		
Forfeited	-	-		
Balance, December 31, 2018	3,612,500	\$1.46	N/A	N/A

⁽¹⁾ On May 28, 2018, 100,000 stock options were granted to the Company's board of directors. These stock options are exercisable at a price of \$2.65 per share on or before May 28, 2023.

On November 30, 2018 450,000 stock options were granted to the Company's key employees. These stock options are exercisable at a price of \$1.19 per share on or before November 30, 2023.

On November 30, 2018 50,000 stock options were granted to a Company's board of director. These stock options are exercisable at a price of \$1.19 per share on or before November 30, 2023.

The following table summarizes information pertaining to the Company's stock options outstanding as at December 31, 2018:

Stock Options outstanding				Options exercisable	
Range of exercise prices	Awards Outstanding	Remaining contractual life (years)	Average exercise price	Number of options exercisable	Average exercise price
\$1.00 - \$1.19	1,400,000	2.56	\$1.14	866,667	\$1.11
\$1.20 - \$1.35	500,000	1.51	\$1.28	450,000	\$1.28
\$1.36 - \$1.40	562,500	2.46	\$1.40	439,165	\$1.40
\$1.41 - \$1.59	150,000	3.23	\$1.43	50,001	\$1.43
\$1.60 - \$2.00	650,000	3.67	\$1.82	216,666	\$1.82
\$2.01 - \$3.00	350,000	4.03	\$2.44	133,333	\$2.46
	3,612,500	2.77	\$1.46	2,155,832	\$1.36

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in subjective input assumptions can materially affect the fair value estimate and therefore the existing models may not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

The exercise price of all share purchase options granted during the year end is equal to or greater than the closing market price at the grant date. The fair value of stock options granted during the years ended December 31, 2018 and 2017 was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Years ended December 31	
	2018	2017
Options granted	600,000	1,400,000
Strike price	\$1.19 - \$2.65	\$1.30 - \$2.35
Risk free interest rate	1.99% - 2.16%	0.83% - 1.75%
Expected life (years)	2.73 - 2.79	2.64 - 4.72
Vesting period (years)	3	3
Expected volatility	52% - 53%	55% - 59%
Expected dividends	Nil	Nil

c) RSUs and PSUs

Effective January 1, 2015, the Company introduced an RSU and PSU Plan. Granted RSUs and PSUs under the plan entitles employees, management and directors to a cash payment equal to the fair market value of the Company's shares after the end of a performance period multiplied by the number of units that have vested.

Granted RSUs vest over a three year period and granted PSUs will cliff vest over a period of three years. The fair value of the RSU and PSU is based on a five-day average trading price of the Company's shares.

The Company has accounted for RSUs and PSUs as cash settled awards. As at December 31, 2018, the Company recognized a gain of \$122,994 (2017 – \$199,423 expense) in compensation expense relating to the issuance and remeasurement of RSUs. As at December 31, 2018, the Company recognized \$12,322 (2017 - \$52,936) in compensation relating to the issuance and remeasurement of PSUs.

The Company used a forfeiture rate of 16.90% in its calculation for expensing both RSUs and PSUs for the year ended December 31, 2018 (2017 – 16.90%).

Any subsequent changes in the fair market value of the RSUs and PSUs will be recognized as a gain or loss in the consolidated statements of income (loss) and comprehensive income (loss). A corresponding current liability is recognized for the accumulated RSU and PSU obligation.

	# of RSUs outstanding	# of PSUs outstanding
Balance, December 31, 2017	365,989	300,000
Granted	463,962	267,228
Redeemed	(62,892)	(79,818)
Forfeited	(94,475)	(120,182)
Balance, December 31, 2018	672,584	367,228

d) DSUs

Effective April 12, 2018, the Company introduced a DSU Plan. Granted DSUs under the plan entitles non-executive directors and designated management to a cash payment equal to the fair market value of the Company's shares after the end of a performance period multiplied by the number of units that have vested.

Granted DSUs vest upon grant but are only settled in cash when the participant ceases to be a director or employee of the company. The fair value of the DSU is based on a five-day average trading price of the Company's shares.

The Company has accounted for DSUs as a cash settled award . As at December 31, 2018, the Company recognized \$90,449 (2017 – \$nil) in consulting and director costs relating to the issuance of DSUs.

Any subsequent changes in the fair market value of the DSUs will be recognized as a gain or loss in the consolidated statements of income (loss) and comprehensive income (loss). A corresponding current liability is recognized for the accumulated DSU obligation.

	# of DSUs outstanding
Balance, December 31, 2017	-
Granted	88,703
Redeemed	-
Forfeited	-
Balance, December 31, 2018	88,703

13. Related party transactions

The following related party transactions were incurred:

	Years ended December 31	
	2018	2017
	\$	\$
Compensation of key management personnel		
Senior management compensation	2,690,590	2,192,839
Share based payments for key employees	310,373	271,754
Share based payments for directors	67,841	179,034
Compensation paid to directors	155,487	131,000
Service agreements		
Professional fees paid to a law firm in which a former director is a partner	-	191,808
	3,224,291	2,966,435

Included in accounts payable and accrued liabilities as of December 31, 2018 is \$nil (December 31, 2017 - \$154,685) owing to related parties for service agreements.

14. Capital management

The capital structure of the Company consists of equity. The total equity at December 31, 2018 is \$10,697,399 (December 31, 2017 - \$14,324,111).

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Board of Directors does not currently establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to enhance and sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size and stage of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year.

15. Reconciliation of expenses

The following table reconciles the Company's expenses by function:

	Years ended December 31	
	2018	2017 *
Expenses by nature	\$	\$
General and Administrative		
Depreciation and amortization	228,042	134,917
Consulting, investor relations and director	1,507,382	911,548
General and office expenses	579,408	483,847
Professional and consulting fees	797,977	609,599
Rent and office insurance	426,297	218,358
Bad Debt	40,133	114,579
Share based payments	631,450	477,894
Salaries and benefits	1,898,055	1,009,933
Total general and administrative expenses	6,108,744	3,960,675
Research and Development		
IT & Infrastructure	1,064,978	694,107
Salaries and benefits	3,472,856	2,381,165
Total research and development expenses	4,537,834	3,075,272
Sales and Marketing		
Marketing and promotion	946,355	470,361
Commission Expense	265,924	215,783
Salaries and benefits	4,701,640	2,410,240
Total sales and marketing expenses	5,913,919	3,096,384
Total Expenses	16,560,497	10,132,331
Foreign exchange gain from operations	9,861	4,486
Finance income	88,093	53,052
Finance expense	(4,013)	(10,732)
Net loss from continuing operations	(12,935,522)	(8,110,555)

* The Company has applied IFRS 15 using the cumulative effect method as of January 1, 2018. Under this method, the comparative information is not restated. See note 19.

16. Income taxes

At December 31, 2018, the Company has \$35,452,865 of non-capital loss carry forwards available to reduce future years' income for income tax purposes. Canadian non-capital losses of \$33,697,744 will expire between 2027 and 2039, and U.S. non-capital losses of \$1,755,121 will expire between 2032 and 2038

The Company's provision for income taxes is reconciled as follows:

CONTINUING OPERATIONS		
	2018	2017
	\$	\$
Net loss from continuing operations	(12,935,522)	(8,110,555)
Income tax provision at statutory rate	(3,395,575)	(2,149,297)
Earnings of subsidiaries taxed at other than statutory rate	(32,782)	37,838
Non-deductible stock based compensation	167,335	222,388
Other Non-Deductible expenses	16,490	9,293
True-ups	(122,617)	17,834
Change in unrecognized deferred tax assets	3,647,825	2,186,096
Other	(280,676)	(324,152)
Income tax provision at effective rate	-	-
DISCONTINUED OPERATIONS		
	2018	2017
	\$	\$
Net earnings from discontinuing operations	-	8,516,851
Income tax provision at statutory rate	-	2,256,966
Rate differences	-	(1,290,559)
Change in unrecognized deferred tax assets	-	(1,290,559)
Other	-	324,152
Income tax provision at effective rate	-	-

The following temporary differences have not been recognized in the Company's consolidated financial statements.

	2018	2017
	\$	\$
Property and equipment	687,447	480,030
Non-capital loss carry forwards	35,398,514	22,803,857
Financing costs and others	5,187,575	3,651,081
Unrecognized total deferred tax assets	41,273,536	26,934,968

Deferred tax assets and liabilities recognized in the statement of financial position relate to the following:

	2018	2017
	\$	\$
Book value in excess of tax costs: Contract assets	(14,403)	-
Non-capital loss carry forward	14,403	-
Net deferred tax assets/(liabilities)	-	-

17. Earnings (loss) per share

The following table sets forth the calculation of basic and diluted earnings (loss) per share:

	Years end December 31,	
	2018	2017
Basic earnings (loss) per share computation		
Numerator		
Net income (loss) for the year	(12,935,522)	406,296
Denominator		
Weighted average number of common shares (basic)	39,057,694	32,397,457
Basic earnings (loss) attributable to equity holders of the Company (\$ per share)	(0.33)	0.01

	Years end December 31,	
	2018	2017
Diluted earnings (loss) per share computation		
Numerator		
Net income (loss) for the year	(12,935,522)	406,296
Denominator		
Weighted average number of common shares (basic)	39,057,694	32,397,457
Dilutive effect of stock options	-	-
Weighted average number of common shares (diluted)	39,057,694	32,397,457
Diluted earnings (loss) attributable to equity holders of the Company per share (\$ per share)	(0.33)	0.01

18. Discontinued operations

On November 29, 2016, VersaPay announced in a press release that it had entered into the an asset purchase agreement (the "Asset Purchase Agreement") with BluePay Canada, ULC ("BluePay"), a wholly owned subsidiary of BluePay Processing, LLC ("BluePay LLC"), pursuant to which the Company has agreed to sell, and BluePay has agreed to purchase, all of the assets and property (the "POS Assets") used solely and exclusively in the Company's POS Merchant Services business, subject to the terms and conditions contained in the Asset Purchase Agreement as described hereinafter (the "Transaction").

Under the terms of the Transaction, VersaPay agreed to sell, free of any encumbrances, right, title and interest in and to the POS Assets for cash consideration of \$10,000,000, to be paid as follows: (i) \$9,500,000 payable upon closing of the Proposed Transaction, and (ii) \$500,000 of which will be deposited into escrow for a period of 12 months to cover potential purchase price adjustments and other liabilities of the Company for which BluePay is indemnified. An additional \$1,000,000 ("Earnout") will be payable to the Company 12 months following closing of the Transaction, conditional upon achievement of 5% growth in the POS Assets from newly acquired merchants over such 12-month period. In the first quarter of 2018, the Company initiated the request for the Earnout calculation to determine whether the achievement criteria were met. The Company last met with the Purchaser in late Q4 2018, and is actively working with the Purchaser to verify the calculations regarding the 5% growth criteria.

On February 1, 2017, the Company completed the sale of all assets, receivables and property related to the

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Company's POS Merchant Services business. The 2017 comparative consolidated statement of income (loss) and comprehensive income (loss) has been represented to show the discontinued operations separately from continuing operations.

Operating results of the POS Merchant Services segment are summarized below:

	Years ended December 31	
	2018	2017
	\$	\$
Results of discontinued operations		
Revenue	-	419,660
Cost of sales	-	160,410
Gross profit	-	259,250
General and administrative expenses	-	751,595
Sales and marketing expenses	-	65,434
Other expense	-	177
Results from operating activities	-	(557,956)
Gain on sale of discontinued operation ⁽¹⁾	-	9,074,807
Net earnings from discontinued operations for the period	-	8,516,851

⁽¹⁾ The gain on sale of discontinued operations excludes the earn-out as the likelihood of meeting future target cannot be determined as at December 31, 2018.

Proceeds	10,000,000
Less: January 2017 receivables	259,935
Less: severance	25,000
Less: transaction costs	640,258
Gain on sale of discontinued operation	9,074,807

Cash flows generated by the POS Merchant Services segment for the years ended December 31, 2018 and 2017 are as follows:

	Years ended December 31	
	2018	2017
	\$	\$
Proceeds from sale	-	9,074,807
Net cash from operating activities	(180,000)	39,267
Net cash used in investing activities	-	-
Net cash from financing activities	-	-
Net cash flow	(180,000)	9,114,074

At December 31, 2018 and December 31, 2017, the POS Merchant Services segment held the following assets and liabilities:

As at	December 31 2018 \$	December 31 2017* \$
Assets associated with discontinued operation		
Trade Receivables	-	-
Property and equipment	-	-
Liabilities associated with discontinued operation		
Liabilities associated with previously-owned segment	794,299	974,299
	794,299	974,299

* During 2018, the Company reclassified \$582,822 included in its accounts payable and accrued liabilities as at December 31, 2017 to liabilities associated with previously-owned segment.

In November, 2017 the Company received a formal assessment of GST/HST and QST taxes owing of \$1,700,000 by Revenu Quebec for Sales Taxes payable for the 4-year period ending June 30, 2017. The Company disagrees with the full assessment and is appealing against the assessment with Revenu Quebec. Included in liabilities associated with previously-owned segment as at December 31, 2018 is \$794,299 (December 31, 2017* - 974,299) related to the sales tax assessment which represents the assessed amount of \$1,700,000, less the Company's submission of investment tax credits paid or payable during the period, and including management's estimates of penalties and interest.

19. Explanation of adoption of IFRS 15 Revenue from contracts with customers

On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and timing of revenue recognized. The Company has adopted IFRS 15, effective January 1, 2018, using the cumulative effect method. Under the cumulative effect method, the Company has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of accumulated deficit as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

The details of the primary changes on adoption of IFRS 15 are set out below.

A. Software As A Service Subscription Agreements ("SaaS Subscriptions"):

Under the Company's previous revenue recognition policies, the Company would recognize professional services that were not essential to the functionality of the software as delivered to the customer and the subscription revenue was recognized rateably over the applicable customer contract term. In cases where professional services were essential to the functionality of the software, the professional services were recognized rateably over the applicable customer contract along with the subscription fees. Under IFRS 15, the Company has deemed the SaaS subscription to be a distinct performance as is professional services. The Company has assessed the stand-alone selling price for each of the components and has allocated the transaction price to the two performance obligations utilized the relative fair value approach.

B. Costs to Obtain a Contract

Under the Company's previous accounting policies, the Company generally expensed incremental commission costs paid to employees or third parties to obtain customer contracts as incurred. Under IFRS 15, commissions are deferred and amortized over the pattern of transfer of the related performance obligation. Capitalized costs to obtain contracts are included in non-current assets on the consolidated statement of financial position. The Company has estimated the amortization period to be three years and the deferred commissions are recognized as Contract Assets in the consolidated statement of financial position. The Company has considered expected renewals over the expected customer arrangement. The amortization period is expected to be 1 to 3 years.

The following table details the impact on our opening balance sheet as a result of adopting the new standard.

As at	January 1, 2018 after adoption of IFRS 15	Adjustments	January 1, 2018 prior to the adoption of IFRS 15
	\$	\$	\$
Assets			
Contract asset	81,527	81,527	-
Non-current assets	570,122	81,527	488,595
Total assets	33,385,189	81,527	33,303,662
Liabilities			
Unearned revenue	29,123	(55,247)	84,370
Current liabilities	18,650,813	(55,247)	18,706,060
Total liabilities	18,924,304	(55,247)	18,979,551
Equity			
Accumulated deficit	(26,301,598)	136,774	(26,438,372)
Total equity	14,460,885	136,774	14,324,111

The following tables summarizes the impact of adopting IFRS 15 on the consolidated financial statements for the year ended December 31, 2018:

	December 31, 2018 As reported, for the year ended	Adjustments	December 31, 2018 without adoption of IFRS 15
	\$	\$	\$
Revenue	4,740,402	374,620	4,365,782
Gross profit	3,531,034	374,620	3,156,414
Sales and marketing expenses	5,913,919	(176,796)	6,090,715
Net loss for the period	(12,935,522)	551,416	(13,486,938)
Total comprehensive loss for the period	(12,890,047)	551,416	(13,441,463)

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As at	December 31, 2018		December 31, 2018
	As reported	Adjustment	without adoption of IFRS 15
	\$	\$	\$
Assets			
Unbilled revenue	55,508	55,508	-
Current assets	30,468,066	55,508	30,412,558
Contract asset	479,274	479,274	-
Non-current assets	2,388,826	479,274	1,909,552
Total assets	32,856,892	534,782	32,322,110
Liabilities			
Unearned revenue	920,278	(374,358)	1,294,636
Contract liability	220,951	220,951	-
Current liabilities	21,397,196	(153,407)	21,550,603
Total liabilities	22,159,493	(153,407)	22,312,900
Equity			
Accumulated deficit	(39,237,120)	688,190	(39,925,310)
Total equity	10,697,399	688,190	10,009,209
Total liabilities and equity	32,856,892	534,783	32,322,109

The adoption of IFRS 15 had no impact to cash from or used in operating, financing, or investing activities on the consolidated statement of cash flows for the years ended December 31, 2018 and 2017.

The following tables provide the reconciliation of the contract asset and contract liability (included in accounts payable and accrued liabilities) related to costs to obtain customer contracts deferred under IFRS 15:

Contract asset

	2018		2017
	\$	\$	
Balance January 1,	81,527	-	-
Contract costs	575,560	-	-
Amortization	(177,813)	-	-
Balance December 31,	479,274	-	-

Contract liability

	2018		2017
	\$	\$	
Balance January 1,	-	-	-
Contract costs	575,560	-	-
Amortization	(354,609)	-	-
Balance December 31,	220,951	-	-

The following table provides a breakdown of revenue by type for the years ended December 31, 2018 and 2017:

	For the years ended December 31	
	2018	2017
	\$	\$
ARC Subscriptions	2,298,600	1,131,362
Payport	1,981,370	1,633,088
ARC Professional Services	460,432	193,846
Total Revenue	4,740,402	2,958,296

As at December 31, 2018, revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) was \$8.2 million.