MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2019

Management's discussion & analysis

This Management's Discussion and Analysis ("MD&A") dated as of May 21, 2019 for VersaPay Corporation ("VersaPay" or the "Company") should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes for the three months ended March 31, 2019. The condensed interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with our annual MD&A and audited financial statements for the years ended December 31, 2018 and 2017, which were prepared in accordance with IFRS and available on SEDAR at www.sedar.com. Additional information relating to the Company is available under the Company's profile on SEDAR as well.

All dollar amounts in this MD&A are in Canadian dollars unless otherwise specified.

Non-IFRS Measures

This MD&A contains references to certain financial measures, including Adjusted Earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), Monthly Recurring Revenue ("MRR"), and Annual Recurring Revenue ("ARR") that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other entities. These non-IFRS measures should be viewed as a supplement to, and not a substitute for the Company's results of operations reported under IFRS.

Adjusted EBITDA is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. Management believes Adjusted EBITDA provides useful information to users as it reflects the net earnings adjusted for the effect of non-operating expenses, share-based compensation (which includes share-based payments, restricted share units, performance share units, and deferred share units), and unusual items such as discontinued operations and sales tax accrual. Management uses Adjusted EBITDA in measuring the financial performance of the Company as this measure reflects results that are controllable by management in day-to-day operations. Management monitors Adjusted EBITDA against budget and past results on a regular basis.

The term Other non-operating expenses is a non-IFRS measure and is connected to the Company's non-recurring exploratory mergers and acquisitions ("M&A") and non-recurring restructuring activities that are included in expenses.

The term Total Operating expenses is the aggregation of general and administrative expenses, research and development expenses, and sales and marketing expenses.

The term Monthly Recurring Revenue ("MRR") is a non-IFRS measure and includes revenues earned in a given month relating to monthly fixed subscription fee, monthly transaction fees, ARC Lite™ revenue, and PayPort™ revenue. MRR is a common metric used in Software as a Service ("SaaS") companies and its definition is not guided by IFRS standards. Accordingly, MRR is unlikely to be comparable to similar measures presented by other issuers.

The term Annualized Recurring Revenue ("ARR") is a non-IFRS measure and refers to multiplying the MRR value defined above by 12 to represent management's best estimate of forward looking 12 months of recurring revenues that the Company would earn based on the current MRR.

The term Suppliers refers to VersaPay's customers and the term end-users refers to customers of our Suppliers.

The term Backlog for ARC™ Subscriptions represents the annual recurring amount that customers have contractually committed to but have not yet been billed. The term Backlog for ARC™ Professional Services

represents revenue expected to be recognized in the future related to contracted non-recurring implementation services that are yet to be performed.

We believe that Adjusted EBITDA, MRR ARR and Backlog are useful supplemental information as they provide an indication of the results of the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration share-based payments expenses, results from discontinued operations and other items listed above. Accordingly, we believe that these measurements may be useful to investors in enhancing their understanding of the Company's operating performance.

Cautionary note regarding forward-looking information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information typically contains statements including words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, expectations regarding future revenues, earnings, capital expenditures, operating and other costs; business strategy and objectives; market trends; acquisition and disposition plans; the sufficiency of cash and working capital for future operations; and the timing and the completion of various development projects.

Forward-looking information is based on a number of assumptions, which may prove to be incorrect. In addition to other assumptions identified in this MD&A, assumptions have been made regarding, among other things, the Company's transition to new products and releases; a continuing increase in the number of customer relationships; the length of the sales cycles; the competitive environment; the ability to maintain or accurately forecast revenue from the Company's products or services; the ability of the Company to identify, hire, train, motivate and retain qualified personnel; the ability of the Company to develop, introduce and implement new products as well as enhancements or improvements for existing products that respond, in a timely fashion, to customer/product requirements and rapid technological change; risks associated with operations; the impact of any changes in the laws and regulations in the jurisdictions in which the Company operates; and the effect of new accounting pronouncements or guidance.

Although the Company believes that the expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. The forward-looking information contained herein is based on VersaPay's current expectations, estimates and projections, and is subject to a number of significant risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks and uncertainties include, among others, general business and economic conditions; the overall performance of stock markets; actions of competitors and partners; the regulatory environment; the corporate governance environment and regulatory reporting requirements for VersaPay's Suppliers; product capability and acceptance; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; and the Company's ability to access external sources of financing, if required. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations is contained in the Risk Factors section of this MD&A. The foregoing list is not exhaustive and other risks are detailed from time to time in other continuous disclosure filings of the Company. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking information prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Forward-looking information contained herein is based on estimates and opinions of management at the date the statements are made. Except as required by law, VersaPay does not undertake any obligation to update forward-looking information even if management's estimates or opinions should change. The Company uses future-oriented financial information for budgeting and planning purposes and the information may not be appropriate for other purposes. Future-oriented financial information and financial outlooks, as with forward-

looking information generally, are, without limitation, based on the assumptions and subject to the risks set out above.

Internal controls over financial reporting

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so appropriate decisions can be made regarding public disclosure.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's financial reporting framework.

Overview

VersaPay is a financial technology company that specializes in developing innovative cloud-based solutions that leverage the Company's payments expertise (the "Software business"). VersaPay focuses solely on the business of providing cloud-based invoicing, accounts receivable ("A/R") management and payment solutions.

The Software business is a single platform that has two products currently in market: ARC™ and PayPort™.

ARC™, the Company's flagship product, is a cloud-based software solution designed for mid-sized and larger businesses ("Suppliers"). ARC™ is a business-to-business ("B2B") solution that reinvents the A/R process by automating many of the manual steps in the process and by empowering our Suppliers' customers ("Customers") with convenient, easy-to-use self-service tools. Our current offering delivers market-leading capabilities in the following five areas:

1) **Invoice presentment.** ARC™ integrates with and receives invoices from billing systems and Enterprise Resource Planning ("ERP") systems and delivers them electronically via tracked emails or through its online portal, guaranteeing that our Suppliers' invoices are received by Customers in a timely fashion. ARC™ also provides Customers with supporting documentation such as bills of lading, advertising tear sheet, etc., ensuring Customers have everything they need to pay their invoices.

2) **Collaboration and collection.** Once invoices are received by the Customers, ARC™ makes it easy for Suppliers and Customers to communicate to resolve disputes and address questions that may be delaying payment. Furthermore, ARC™ provides our Suppliers' A/R teams with powerful tools to manage overdue accounts proactively and to perform collections efficiently, with a high degree of automation.

3) **Electronic payment.** Customers can pay their invoices using ARC™'s online payment tools that have been designed for B2B transactions. Customers can select from a variety of payment methods, pay one or multiple invoices, short pay at the invoice or line payments and will soon have access to cross border payments including foreign exchange services. ARC™ is PCI Level 1 compliant, so Suppliers and Customers can be confident their payments are secure.

4) **Cash application.** When a payment is made on ARC™, the system automatically matches and reconciles payment data with invoice data and sends the resulting cash application data back to the Suppliers' ERP. If a payment is made outside of ARC™, ARC™ can import data about that payment, and likewise match and reconcile. In addition, ARC™ provides tools for Suppliers and/or Customers' staff to augment or correct the data to facilitate matching.

5) **A/R insight**. ARC™ provides a wealth of analytic data and dashboards so Suppliers can better understand their A/R and their Customers. Analytics are available at various levels – from an individual Customer through divisions or regions, right up to fully consolidated corporation-wide information.

ARC™ is sold directly to businesses across North America using full-time sales staff and partners. The Company has developed channel partnerships in Canada and the United States ("U.S.") and is working on launching additional channels over time. Management expects to deliver a material portion of new sales through channels over the next two to three years.

PayPort™ is a cloud-based credit card and electronic funds transfer service designed primarily for smaller businesses and individuals. PayPort™ users can make and receive payments quickly and securely.

The Company's primary revenue is earned on a recurring basis through subscriptions and usage charges. VersaPay also participates in the transaction fees associated with payments of invoices that occur on the ARC™ platform and payments made through PayPort™. In addition, the Company provides Suppliers with professional services related to the integration of ARC™ into a Client's ERP system, platform customizations, and consulting services for which the company receives one-time payments for work performed.

Operational highlights for Q1 2019

- **Strong quarter for ARC™ sales:** 10 new ARC™ contracts were signed during the quarter that represented $0.90 million in new ARR, with about 41% of sales coming through channel partners. From a geographic standpoint, 100% of sales came from the U.S. which marked the first quarter that all sales are concentrated in the U.S. Moreover, the Company signed professional services contracts worth approximately $0.31 million in the quarter representing the highest quarter of such sales to-date.

- **High conversion of backlog to ARC™ Revenue:** The Company converted approximately 89% of its ARC™ subscription backlog (which are contractually signed but unbilled clients) as of December 31, 2018 to revenue in the quarter. With this high backlog conversion rate, the subscription backlog at the end of Q1 2019 was $1.10 million.

- **New ARC™ module released:** During the quarter, the Company launched a new module on the ARC™ platform that offers enhanced cash application and bank reconciliation capabilities powered by Cashbook. With the introduction of this new module, ARC™ provides a true end-to-end solution for invoice-to-cash, automating all steps in the process for all types of payments, including gathering remittance data from customers' emails and vendor websites, and reconciling bank statements with accounting books and records.

- **Continued growth in ARC™ usage metrics:** The usage of ARC™ is an important indicator of the value clients are receiving from the platform and a good predictor of continued sales and revenue growth.

As at the end of the quarter, 162,560 end-customers were using ARC™ compared to 106,746 at the end of Q1 2018, and approximately 545,000 invoices were delivered to end-customers during the quarter compared to 393,000 invoices in Q1 2018. 247,000 invoices worth $222 million were paid on ARC™ in Q1 2019, compared to 198,000 invoices worth $157 million in Q1 2018.

Financial hIghlights for Q1 2019:

- **Continued investment in ARC™:** Consistent with its growth strategy, the Company continued to invest in ARC**™** to establish itself as the leader in the emerging AR Automation market. The continued investment in Research and Development ("R&D") and Sales & Marketing during the quarter contributed to the Company's continued net loss for the quarter.

- **Revenue in Q1 2019 increased by 90% year over year:** Revenue for the quarter increased year over year by 90% to $ 1.95 million (Q1 2018: $1.03 million). Total ARC™ revenue, which has higher margins than the Company's other product, PayPort™, grew to $1.46 million as at the end of Q1 2019, compared to $0.88 million at Q4 2018 (growth of 67% quarter over quarter), and $0.53 million at Q1 2018 (growth of 175% year over year).

- **Total Operating expenses for Q1 2019 increased by 27% year over year:** Operating expenses increased by $0.91 million to $4.32 million (Q1 2018: $3.41 million), an increase of 27% year over year. Forty-three percent (43%) or $0.39 million of the overall increase is primarily driven by non-cash mark-to-market adjustment for share-based compensation and non-cash amortization of right-of-use assets related to the new IFRS 16 – Leases accounting standard implementation[1]. Total salaries and benefits for the Company was approximately $2.43 million in Q1 2019, an increase of $0.46 million from Q1 2018. The increase is consistent with the growth of headcount between the two periods and consistent with the growing revenue trend of the Company. IT &Infrastructure increased by $0.11 million in relation to the Company's investment in research and development activities. Offsetting the increase in the above costs is a decrease in Sales and Marketing expenses by $0.21 million due to timing. Marketing and promotion activities are expected to pick up in Q2 2019.

- **ARC™ ARR for Q1 2019 increased by 138% year over year:** ARC™ ARR increased to $4.57 million compared to $1.92 million in Q1 2018 and $3.30 million in Q4 2018. This represents an increase of 138% year over year and an increase of 38% sequential quarter over quarter. The increase in ARR is directly related to focused efforts in the U.S. expansion plan.

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1 See further details on the new IFRS 16 – Leases accounting standard implementation in the "Financial highlights" session.

Key metrics

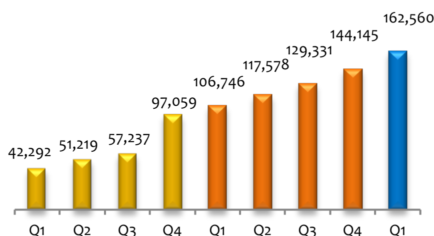
The use of ARC™'s platform by Suppliers and their end-customers can be measured through growth in Invoices sent by suppliers, the number of their end-customers that receive these invoices ("Adoption"), and the payments the end-customers make to their invoices using ARC™.

Customer Adoption, or the number of end-customers on the ARC™ platform were 162,560 businesses at the end of March 31, 2019, compared to 106,746 at the end of March 31, 2018, an increase of 55,814 businesses. VersaPay Suppliers presented 5.2 million invoices to date using the ARC™ platform, in comparison to a cumulative 3.1 million as of Q1 2018. These invoices totaled $9.9 billion by the end of Q1 2019. End-customers paid $222 million of their invoices through ARC™, an increase of 42% or $66 million compared to Q1 2018.

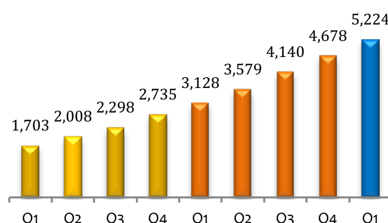
The following unaudited table and accompanying graphs are presented as cumulative values:

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Customer Adoption	42,292	51,219	57,237	97,059	106,746	117,578	129,331	144,145	162,560
Invoices Presented	1,703,058	2,007,532	2,298,103	2,734,628	3,127,639	3,579,137	4,140,163	4,678,383	5,223,527
Invoices Paid	300,033	365,037	437,150	595,523	793,340	995,912	1,209,177	1,451,298	1,698,687
Invoiced Amount ($M)	$2,064	$2,605	$3,128	$3,956	$4,754	$5,793	$7,702	$8,676	$9,891
Payment Volumes ($M)	$166	$217	$269	$371	$527	$676	$855	$1,068	$1,290
Total signed up clients	95	107	116	124	136	150	162	174	183

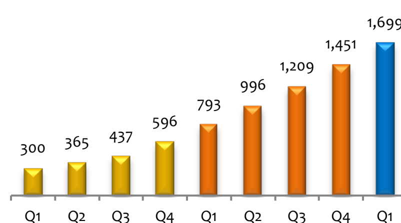
Customer Adoption



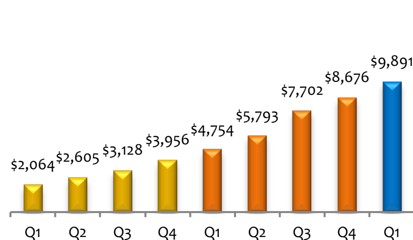
Invoices Presented ('000)



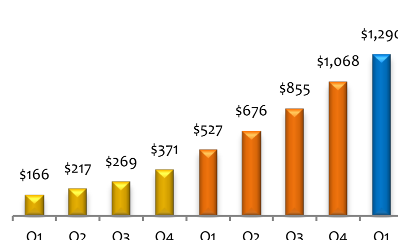
Invoices Paid ('000)



Invoices Amount ($M)



Payment Volumes ($M)



2017 2018 2019

Financial highlights: three months ended March 31, 2019 and 2018

Comparative information

Certain comparative figures have been adjusted (recast) for the three months ended March 31, 2019 as a result of adjustments identified in connection with completion of the Company's consolidated financial statements for the year ended December 31, 2018. The identified adjustments impacted intra-period revenue, cost of sales and cash and cash equivalents throughout 2018. These comparative figure adjustments were not considered material and did not affect the Company's consolidated revenue or consolidated net loss for the full year.

Certain comparative figures have also been reclassified to conform with current year presentation.

IFRS 16 - Leases

IFRS 16 introduced a single on-balance sheet accounting model for lessees, requiring the recognition of right-of-use assets and lease liabilities representing the Company's obligation to make lease payments.

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at January 1, 2019. The comparative figures (2018) has not been restated.

The application of IFRS 16 to leases, previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets, lease liabilities and lease receivables.

As a result of applying IFRS 16, the Company has recognized depreciation, interest expenses and interest income, instead of rent expense. During the three months ended March 31, 2019, the Company recognized $215K of depreciation expense and $142K interest expense and $17K interest income (net interest expense of $125K) from these leases.

Summary of results

The following unaudited tables set out selected financial information for the Company for the three months ended March 31, 2019 and 2018 on a consolidated basis:

	For the three months ended	
	March 31	March 31
	2019	2018
	$	$
		Recast
Revenue	1,950,938	1,028,341
Gross profit	1,536,278	732,185
Gross profit margin	78.7%	71.2%
Net (loss) for the period	(2,870,431)	(2,662,563)
Total comprehensive (loss) income	(2,890,132)	(2,657,513)
Adjusted EBITDA [1]	(2,019,048)	(2,265,905)
Net loss per share	(0.07)	(0.07)

	March 31	December 31
	2019	2018
Total assets	34,648,893	32,856,892
Total long-term liabilities	9,853,286	762,297

[(1)] Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted EBITDA provides useful information to users as it reflects the net earnings before interest, taxes, depreciation and amortization and adjusted for the effect of non-operating expenses (including M&A and non-recurring restructuring activities), share-based compensation (which includes share-based payments, restricted share units, performance share units, and deferred share units), and unusual items such as discontinued operations and sales tax accrual. Management uses Adjusted EBITDA in measuring the financial performance of the Company as this measure reflects results that are controllable by management in day-to-day operations. Management monitors Adjusted EBITDA against budget and past results on a regular basis.

The following is a reconciliation of Adjusted EBITDA to total comprehensive (loss) income:

	For the three months ended March 31	
	2019	**2018**
	$	**$**
		Recast
Adjusted EBITDA [1]	(2,019,048)	(2,265,905)
Share based compensation [2]	(420,240)	(326,852)
Net finance expense (IFRS 16) [4]	(124,500)	-
Other finance income (costs)	23,639	17,959
Amortization - RoU assets (IFRS 16) [4]	(215,359)	-
Amortization - other assets	(114,923)	(32,765)
Other non-operating expenses [3]	-	(55,000)
Foreign currency translation differences	(19,701)	5,050
Total comprehensive (loss) income	**(2,890,132)**	**(2,657,513)**

(1) Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted EBITDA provides useful information to users as it reflects the net earnings before interest, taxes, depreciation and amortization and adjusted for the effect of non-operating expenses (including M&A and non-recurring restructuring activities), share-based compensation (which includes share-based payments, restricted share units, performance share units, and deferred share units), and unusual items such as discontinued operations and sales tax accrual. Management uses Adjusted EBITDA in measuring the inancial performance of the Company as this measure reflects results that are controllable by management in day-to-day operations. Management monitors Adjusted EBITDA against budget and past results on a regular basis.

(2) Share-based compensation includes share-based payments, restricted share units, performance share units, and deferred share units.

(3) Other non-operating expenses are connected to the Company's non-recurring exploratory M&A and non-recurring restructuring activities that are included in General and Administrative expenses.

(4) Amortization and net finance expense related to IFRS 16 have been separately presented for greater clarity. See further details on the new IFRS 16 – Leases accounting standard implementation in the "Financial highlights" session.

	Three months ended March 31,	
	2019	**2018 ***
	$	**$**
		(Recast - Note 2)
Revenue	1,950,938	1,028,341
Cost of sales	414,660	296,156
Gross profit	**1,536,278**	**732,185**
General and administrative expenses	2,089,139	1,238,034
Research and development expenses	1,174,205	902,827
Sales and marketing expenses	1,056,086	1,270,649
Loss from operations	**(2,783,152)**	**(2,679,325)**
Foreign exchange gain (loss) from operations	13,582	(1,197)
Finance income	43,223	18,598
Finance expense - Lease liabilities	(144,084)	-
Other Finance expense	-	(639)
Net (loss) for the period	**(2,870,431)**	**(2,662,563)**

Revenue

Revenues from operations for the three months ended March 31, 2019 were $1.95 million versus $1.03 million for the three months ended March 31, 2018, an increase of 90%. Revenue increased primarily as a result of growth in Suppliers on the ARC™ platform paying subscriptions. Total ARC™ revenue, which has higher margins than the Company's other product, PayPort™, grew to $1.46 million as at the end of Q1 2019, compared to $ 0.86 million at Q4 2018 and $0.53 million at Q1 2018, representing growth of 67% quarter over quarter and 175% year over year, respectively.

At March 31, 2019, ARR was $6.56 million, compared to $3.72 million at the end of the comparative period in 2018, representing an increase of 76%.

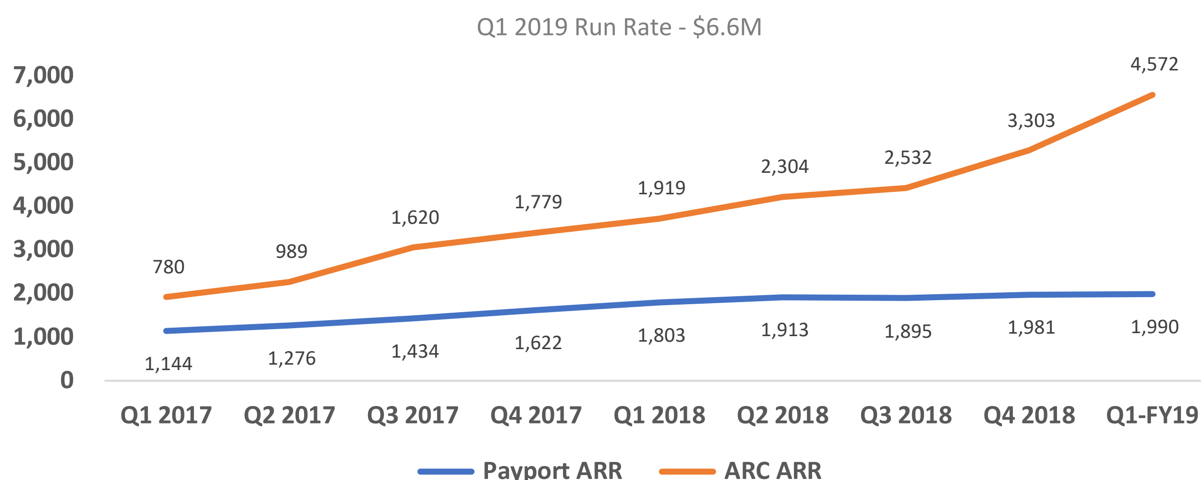
The following table provides a breakdown of Total ARR by product and region:

	As of March 31, 2019		As of March 31, 2018		Year over Year
	Total		Total		Growth
ARC ARR	4,571,721	70%	1,918,974	52%	138%
Payport ARR	1,990,145	30%	1,802,648	48%	10%
Total ARR	6,561,866	100%	3,721,622	100%	76%

	As of March 31, 2019		As of March 31, 2018		
	Total		Total		Growth
ARC Canada	1,577,159	34%	1,011,850	53%	56%
ARC USA	2,994,562	66%	907,124	47%	230%
Combined	4,571,721	100%	1,918,974	100%	138%

The term Annualized Recurring Revenue ("ARR") is a non-IFRS measure and refers to multiplying the MRR value defined above by 12 to represent management's estimate of forward looking 12 months of recurring revenues that the Company would earn based on the current Monthly Recurring Revenue.

The following table shows the quarterly growth in ARR:



The term Annualized Recurring Revenue ("ARR") is a non-IFRS measure and refers to multiplying the MRR value defined above by 12 to represent management's estimate of forward looking 12 months of recurring revenues that the Company would earn based on the current Monthly Recurring Revenue.

Cost of sales

Cost of sales consists of fees paid to credit card associations such as Amex, Visa and MasterCard, fees paid to our automated clearing house provider in the U.S., professional services costs, and bank fees directly related to the products and services. These costs also include commissions paid to third party sales organizations and marketing partners, which are primarily incurred to generate PayPort™ revenues. The Company also records employee costs related to professional services in Cost of Sales. Cost of sales for the three months ended March 31, 2019 were $0.41 million (three months ended March 31, 2018 $0.30 million, an increase of 37%). See further analysis in gross margin section below.

Gross margin

For the three months ended March 31, 2019, overall gross margin was $1.54 million or 79% of revenue (three months ended March 31, 2018 was $0.73 million or 71% of revenue). The improvement in gross margin is mainly due to a greater percentage of higher margin ARC™ revenues as compared to PayPort™ revenues.

Expenses

Operating expenses increased by $0.91 million to $4.32 million (Q1 2018: $3.41 million), an increase of 27% year over year. Forty-three percent (43%) of the overall increase ($0.39 million) is primarily driven by non-cash mark-to-market adjustment for share-based compensation, and non-cash amortization of right-of-use assets related to the new IFRS 16 – Leases accounting standard implementation. In 2019, more granular departments were created internally which resulted in some reallocation of headcounts within the three functions of Sales and Marketing, General and Administrative, and Research and Development. Total salaries and benefits for the Company as a whole was approximately $2.43 million in Q1 2019, an increase of $0.46 million from Q1 2018. The increase is consistent with the growth of headcount between the two periods and consistent with the growing revenue trend of the Company. IT &Infrastructure increased by $0.11 million in relation to the Company's investment in research and development activities. Sales and Marketing decreased by $0.21 million mainly due to timing, as marketing and promotion activities are expected to pick up in Q2 2019.

	Three months ended March 31,	
	2019	2018 *
	$	$
Expenses by nature		Recast
General and Administrative		
Depreciation and amortization	330,282	32,765
Consulting, investor relations and director	280,696	208,298
General and office expenses	84,182	99,495
Professional and consulting fees	146,180	119,946
Rent and office insurance	-	67,416
Bad Debt	8,578	11,817
Cash-settled share-based compensation	309,603	170,284
Share based payments	110,637	156,568
Salaries and benefits	818,981	371,445
Total general and administrative expenses	**2,089,139**	**1,238,034**
Research and Development		
IT & Infrastructure	326,274	213,321
Salaries and benefits	847,931	689,506
Total research and development expenses	**1,174,205**	**902,827**
Sales and Marketing		
Marketing and promotion	190,982	342,515
Commission Expense	98,131	20,047
Salaries and benefits	766,973	908,087
Total sales and marketing expenses	**1,056,086**	**1,270,649**
Total Expenses	**4,319,430**	**3,411,510**
Foreign exchange gain (loss) from operations	13,582	(1,197)
Finance income	43,223	18,598
Finance expense - Lease liabilities	(144,084)	-
Other Finance expense	-	(639)
Net (loss) for the period	**(2,870,431)**	**(2,662,563)**

At March 31, 2019, the Company has 76 full time equivalent employees compared to 72 employees at March 31, 2018. The total salaries and benefits expenses represent 56% of the total operating expenses for the three months ended March 31, 2019 (three months ended March 31, 2018: 58%).

- *General and administrative* ("G&A") expenses for the three months ended March 31, 2019 were $2.09 million (three months ended March 31, 2018 $1.24 million, an increase of 69%). The largest contributor to this increase is Depreciation and Amortization in relation to the right-of-use assets set up as a result of the new IFRS 16 – Leases accounting standard implementation as of January 1, 2019. The increase in amortization is offset by decrease in rent as the payment of rental properties is treated as a charge to interest and a reduction in the lease obligation. During the three months

ended March 31, 2019, the Company recognized $215K of depreciation expense and $142K interest expense and $17K interest income (net interest expense of $125K) from these leases.

During the quarter, the Company provided more granular disclosure (in the table above) of the salaries and benefits expense by separately presenting the cash-settled share-based compensation. These costs were previously included in salaries and benefits of each function. The Company further structured the departments with more granularity in the current year. This resulted in additional departments being created. Some of these additional departments now roll up into the General and Administrative function, driving up salaries and benefits costs from prior year. It is important to note that total salaries and benefits for the Company as a whole was approximately $2.43 million in Q1 2019, an increase of $0.46 million from Q1 2018. The increase is consistent with the growth of headcount between the two periods and consistent with the growing revenue trend of the Company.

- *Research and development* ("R&D") expense increase is related to direct costs and compensation paid to new staff. R&D expenses for the three months ended March 31, 2019 were $1.17 million (three months ended March 31, 2018, $0.90 million), an increase of 30%. The increase relates to additional headcount added for product development and implementation. The Company has also engaged external development to compliment the Company's development team.

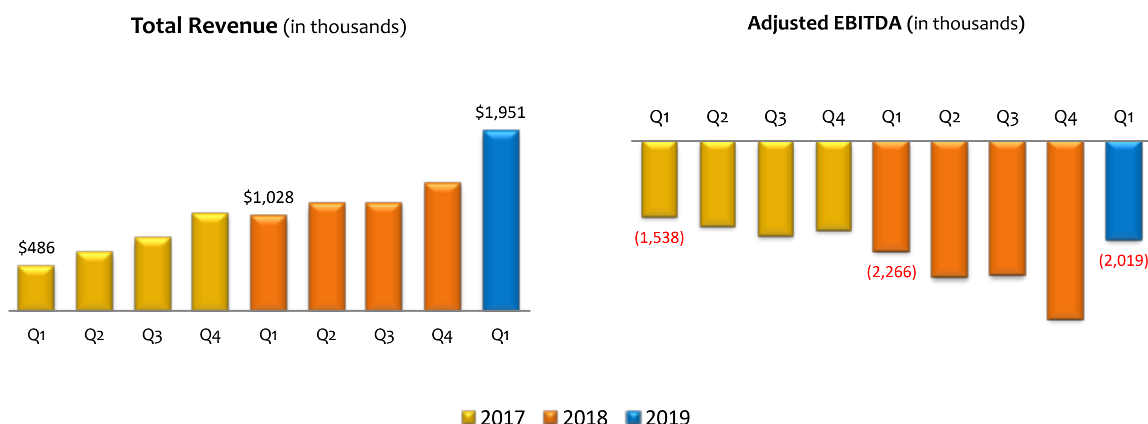
- *Sales and marketing* expenses for the three months ended March 31, 2019 were $1.06 million (three months ended March 31, 2018, $1.27 million), a decrease of 17%. The decrease is partly due to timing of marketing and promotion activities that are expected to pick up in Q2 2019 and also partly due to the new department structure with some headcount now allocated to general and administrative.

Summary of quarterly results

The following unaudited tables set out selected financial information for the Company on a consolidated basis:

in thousands, except for net income (loss) per share	2017				2018 (Recast)				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue from continuing operation	$486	$631	$781	$1,060	1,028	1,156	$1,172	1,384	$1,951
Total comprehensive (loss) income	$7,013	($1,953)	($2,189)	($2,521)	(2,658)	(3,605)	(2,895)	(3,733)	(2,890)
Adjusted EBITDA (1)	($1,538)	($1,737)	($1,941)	($1,817)	(2,266)	(2,805)	(2,773)	(3,673)	(2,019)
Net (loss) income per share	0.23	(0.06)	(0.07)	(0.07)	(0.07)	(0.09)	($0.08)	(0.09)	(0.07)
Total weighted average shares outstanding	30,624	30,816	31,285	36,817	37,898	37,949	38,035	42,406	43,341

(1) Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted EBITDA provides useful information to users as it reflects the net earnings before interest, taxes, depreciation and amortization and adjusted for the effect of non-operating expenses (including M&A and non-recurring restructuring activities), share-based compensation (which includes share-based payments, restricted share units, performance share units, and deferred share units), and unusual items such as discontinued operations and sales tax accrual. Management uses Adjusted EBITDA in measuring the financial performance of the Company as this measure reflects results that are controllable by management in day-to-day operations. Management monitors Adjusted EBITDA against budget and past results on a regular basis.



The following is a reconciliation of Adjusted EBITDA to total comprehensive (loss) income:

	2017				2018 (Recast)				2019
in thousands	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Adjusted EBITDA [1]	(1,538)	(1,737)	(1,941)	(1,817)	(2,266)	(2,805)	(2,772)	(3,674)	(2,019)
Share based compensation [2]	(172)	(163)	(225)	(279)	(327)	(686)	(81)	277	(420)
Net finance expense (IFRS 16) [4]	-	-	-	-	-	-	-	-	(125)
Other finance income (costs)	(6)	8	25	15	18	20	19	27	24
Amortization - RoU assets (IFRS 16) [4]	-	-	-	-	-	-	-	-	(215)
Amortization - other assets	(39)	(34)	(33)	(29)	(33)	(29)	(47)	(119)	(115)
Sales tax accrual	(146)	-	-	-	-	-	-	-	-
Other non-operating expenses [3]	-	-	-	-	(55)	(100)	-	(303)	-
Foreign currency translation differences	(11)	(18)	(15)	(12)	5	(5)	(14)	59	(20)
Total comprehensive (loss) income	$7,013	($1,953)	($2,189)	($2,521)	(2,658)	(3,605)	(2,895)	(3,733)	(2,890)

(1) Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted EBITDA provides useful information to users as it reflects the net earnings before interest, taxes, depreciation and amortization and adjusted for the effect of non-operating expenses (including M&A and non-recurring restructuring activities), share-based compensation (which includes share-based payments, restricted share units, performance share units, and deferred share units), and unusual items such as discontinued operations and sales tax accrual. Management uses Adjusted EBITDA in measuring the financial performance of the Company as this measure reflects results that are controllable by management in day-to-day operations. Management monitors Adjusted EBITDA against budget and past results on a regular basis.

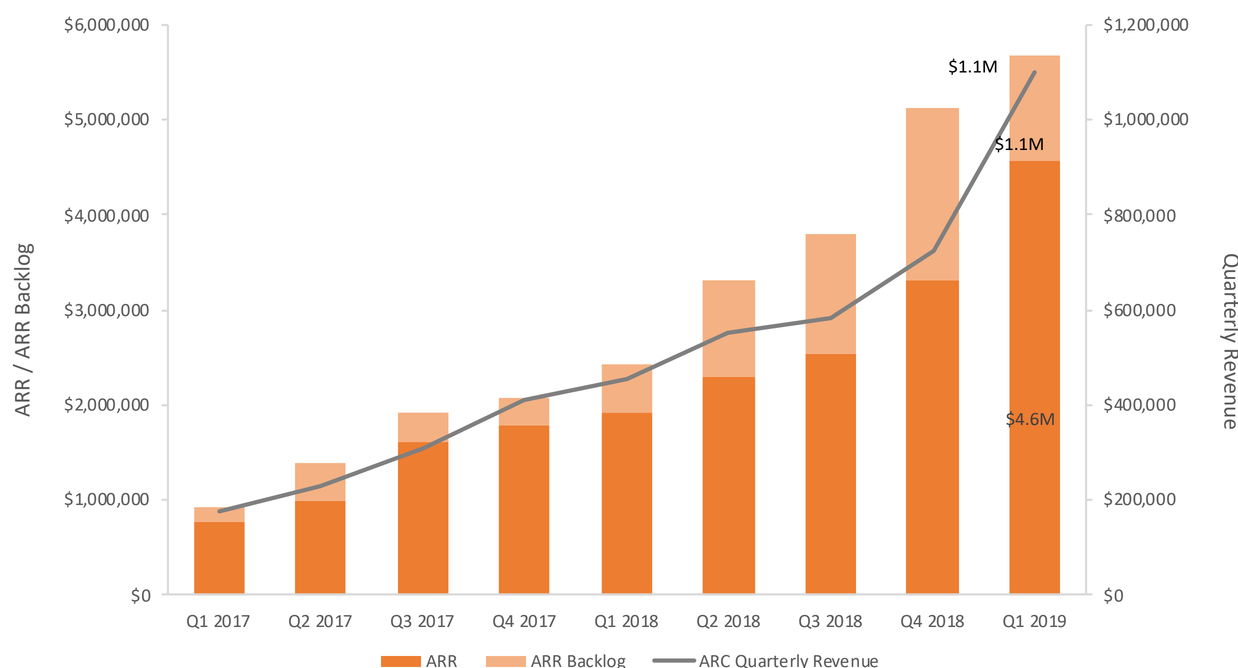
(2) Share-based compensation includes share-based payments, restricted share units, performance share units, and deferred share units

(3) Other non-operating expenses are connected to the Company's non-recurring exploratory M&A activities that are included in General and Administrative expenses.

(4) Amortization and net finance expense related to IFRS 16 have been separately presented for greater clarity. See further details on the new IFRS 16 – Leases accounting standard implementation in the "Financial highlights" session.

ARC™ Subscription Backlog

ARC™ subscription backlog represents the ARR value of ARC™ subscriptions contractually committed to by the customer but have not yet been billed. Therefore, the sum of ARR and ARR backlog is indicative of future recurring revenue growth as can be seen by the chart below. As at March 31, 2019, the ARC™ subscription backlog was $1.10 million compared to $0.50 million at March 31, 2018.



The above figures only represent the total ARC™ subscription backlog. Total professional services backlog at the end of the quarter was approximately $0.47 million.

Liquidity

The Company's cash on hand totalled $8.59 million as at March 31, 2019.

In October 2017, the Company raised approximately $10.65 million from the non-brokered private placement of 6,290,000 common shares of the Company at a price of $1.70 per common share.

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 $9.20 million. Total share issuance costs (underwriting and other direct incremental costs related to the offering) amounted to $1.05 million. Total cash generated from share issuance, net of share issuance costs, was $8.15 million.

These cash-flow activities provide the Company with the resources to grow the Software business and to fully exploit the market opportunity for ARC™.

- *Operating activities* used cash of $2.50 million during the three months ended March 31, 2019 ($3.00 million of cash used during the three months ended March 31, 2018). This decrease in cash used in operating activities was driven primarily by the decrease in net loss after adjusting for the items not affecting cash.
- *Investing activities* used cash of $0.02 million as compared with $0.45 million cash provided in the same period in the prior year. The use of cash in the current year was mainly related to property and

equipment purchases. The cash inflow from the prior year related to the restricted funds released from the sale of a previously-owned segment.

- *Financing activities* generated cash of $0.10 million for the three months ended March 31, 2019 (three months ended March 31, 2018 generated cash of $0.14 million).
- Overall, VersaPay showed a net decrease in cash and equivalents for the three months ended March 31, 2019 of $2.43 million ($2.42 million for the three months ended March 31, 2018) .

The Company has incurred losses from operations since its inception however, management has been able to finance operations through equity financings and will continue, as appropriate, to seek additional financing. The ability of the Company to continue operations is dependent upon its ability to obtain financing, successfully execute its business plan, generate sufficient cash flows and, ultimately, achieve profitable operations. In addition, the Software business is at an early stage of development. The Company is investing a significant amount of its resources to pursue its business strategy.

The Company had an average operational cash burn rate of $0.81 million per month for the three months ended March 31, 2019 and $0.81 million for the three months ended March 31, 2018. Operational cash burn is expected to improve throughout 2019 with increase in budgeted revenue. The Company's cash balance at March 31, 2019 was $8.59 million. Management has discretion over certain future expenditures and believes the Company has sufficient cash reserves to fund operations and will continue to grow its revenues to cover working capital requirements throughout 2019.

Outlook

The Company is an early stage pure-play fintech business with tremendous potential for long term growth and profitability. VersaPay's immediate focus is on the development and marketing of ARC™ and growth of its customer base. Management expects ARC™'s revenue growth will continue to build steadily through 2019 and beyond. The Company's sales strategy is to sell directly and through channel partners, and to begin to generate revenues through online or "in-app" sales to end-customers:

1) **Direct Sales**. The Company has expanded its business development and sales team in the U.S. and Canada to increase its direct reach to companies across North America. With proven product leadership, strong client references and increasing number of large prospects in the direct sales pipeline, the Company is seeing an acceleration of sales results and expects this trend to continue in the coming quarters.

2) **Channel Partners**. The Company has eighteen channel partners in the U.S. and Canada and expects to continue to sign new channel partners through 2019. It expects to see partners contributing a material portion of new revenues by late in the year.

The Company expects revenues of PayPort™ to organically grow moderately year over year.

Transactions with related parties

The following table lists the Company's related party transactions:

	3 months ended March 31	
	2019	**2018**
	$	$
Compensation of key management personnel		
Senior management compensation	591,170	431,635
Directors compensation	82,500	-
	673,670	**431,635**

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.

(a) 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 trade receivables as at March 31, 2019 and December 31, 2018 was:

	March 31, 2019	**December 31, 2018**
	$	$
Trade receivable - gross balance	1,263,714	1,265,175
Allowance for doubtful accounts	(18,613)	(18,717)
Trade receivable, net	**1,245,101**	1,246,458

The aging of the accounts receivable as at March 31, 2019 and December 31, 2018 was:

	March 31, 2019	**December 31, 2018**
	$	$
Current	672,682	442,879
Past due 1-30 days	340,041	128,933
Past due 31-60 days	55,354	295,292
Past due more than 61 days	177,024	379,354
Accounts receivable - net balance	**1,245,101**	1,246,458

Of the accounts receivable at March 31, 2019, 53% were collected subsequent to quarter end.

(b) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates 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. For the three months ended March 31, 2019, approximately 52% of revenue is transacted in U.S. dollars (2018 – 27%) and the Company is exposed to foreign exchange risk thereon.

If the Canadian dollar weakened by 10% relative to the U.S. dollar, the Company's revenues would increase by approximately $0.1 million and net income would increase by $0.07 million for the quarter.

(ii) Interest rate risk

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

(c) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet its financial commitments or can only do so at excessive cost. The Company ensures there is sufficient liquidity to meet its short-term business requirements, taking into account the need for cash to continue operations and execute future plans, its current holdings of cash and the ability to raise additional funds from external shareholders. With the exception of obligations under finance lease, all of the Company's financial liabilities have contractual maturities of less than 45 days.

Significant accounting policies

Except for the adoption of IFRS 16 - Leases on January 1, 2019, the significant accounting policies are unchanged and have been applied consistently to all periods presented.

The changes in accounting policies are reflected in the Company's condensed interim consolidated financial statements as at and for the three months ending March 31, 2019.

The Company's accounting policy under IFRS 16 is as follows:

(a) Definition of lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to grandfather the lease definition for existing contracts on transition. It applied the definition of a lease under IFRS 16 to existing contracts as of January 1, 2019.

(b) Lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, based on the initial amount of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability, if the case may be.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

(c) Sub-lease

When the Company is an intermediate lessor, it determines at lease inception date whether each sub-lease is a finance lease or an operating lease based on whether the contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the sub-lease is a finance lease; if not, then it is an operating lease.

For finance leases, and when the Company acts as intermediate lessor, it recognizes a sublease receivable and derecognizes the right-of-use assets relating to the head lease that it transfers to the sub lessees. Right-of-use assets and lease receivables relating to the sub leases are measured in the same way as the right- of-use assets and lease liabilities for the head lease, using the same discount rate to measure the present value of the future payments to be received.

The Company presents accretion expense in the head lease separate from the accretion income from the sub-leases.

Risk Factors

A full description of the risk factors can be found in the Company's MD&A for the year ended December 31, 2018 under the section entitled "Risk Factors".

Outstanding share data

The Company is authorized to issue an unlimited number of Common Shares. As at the date of this MD&A, there were 43,340,851 Common Shares outstanding.

Employees, directors, officers and consultants have been granted options to purchase common shares under the Company's stock option plan. As at the date of this MD&A, there were 3,512,500 options outstanding to purchase 3,512,500 Common Shares.