versapay

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three and Nine months ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

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Three and Nine months ended September 30, 2019 and 2018

(Canadian dollars)

As at	Note	September 30 2019 $	December 31 2018 * $ (Recast - Note 2)
Assets			
Cash and cash equivalents	6	4,816,352	11,119,966
Restricted cash		37,158	37,158
Funds held for merchants	4,6	8,338,080	16,624,969
Trade receivables	6	2,129,362	1,246,458
Other receivable		243,918	464,701
Unbilled revenue		126,931	55,508
Current portion of lease receivable	3,6	250,430	-
Prepaid expenses and other	3	844,940	919,306
Current assets		16,787,171	30,468,066
Lease receivable	3,6	806,773	-
Property and equipment	3	1,495,831	1,909,552
Right-of-use asset	3	9,325,250	-
Contract asset		643,103	479,274
Non-current assets		12,270,957	2,388,826
Total assets		**29,058,128**	**32,856,892**
Liabilities			
Accounts payable and accrued liabilities	6	1,972,402	2,494,107
Unearned revenue		2,859,654	920,278
Funds due to merchants	4,6	8,338,080	16,624,969
Current portion of lease liabilities	3,6	1,706,949	43,533
Cash-settled share-based compensation liabilities		1,212,068	520,010
Liabilities associated with previously-owned segment		704,299	794,299
Current liabilities		16,793,452	21,397,196
Lease incentive allowance	3	-	509,474
Deferred rent	3	-	157,944
Lease liabilities	3,6	9,356,394	94,879
Non-current liabilities		9,356,394	762,297
Total liabilities		**26,149,846**	**22,159,493**
Equity			
Share capital		47,053,109	46,063,483
Contributed surplus		3,562,855	3,692,872
Accumulated deficit		(47,845,031)	(39,237,120)
Accumulated other comprehensive income		137,349	178,164
Total equity		**2,908,282**	**10,697,399**
Total liabilities and equity		**29,058,128**	**32,856,892**

* The Company has applied IFRS 16 using the cumulative effect method as of January 1, 2019. Under this method, the comparative information is not restated. See note 3.

See accompanying notes to condensed interim consolidated financial statements.

(Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018 *	2019	2018 *
		$	$	$	$
			(Recast - Note 2)		(Recast - Note 2)
Revenue	8	2,227,919	1,172,648	6,355,092	3,356,831
Cost of sales		376,391	280,726	1,202,539	863,621
Gross profit		**1,851,528**	**891,922**	**5,152,553**	**2,493,210**
General and administrative expenses	3	1,741,961	1,204,762	6,084,363	4,483,279
Research and development expenses		1,287,649	1,124,327	3,591,037	3,035,536
Sales and marketing expenses		1,249,700	1,481,633	3,952,529	4,200,716
Loss from operations		**(2,427,782)**	**(2,918,800)**	**(8,475,376)**	**(9,226,321)**
Foreign exchange gain (loss) from operations		(6,893)	18,182	(233)	24,689
Finance income (expense)	3	36,594	19,067	122,248	57,386
Finance (expense) - Lease liabilities	3	(166,470)	-	(479,850)	-
Net (loss) for the period		**(2,564,551)**	**(2,881,551)**	**(8,833,211)**	**(9,144,246)**
Other comprehensive income (loss)					
Items that will be reclassified subsequently to profit or loss					
Foreign currency translation differences		33,910	(13,557)	(40,815)	(13,200)
Other comprehensive income (loss) for the period		**33,910**	**(13,557)**	**(40,815)**	**(13,200)**
Total comprehensive income (loss) for the period		**(2,530,641)**	**(2,895,108)**	**(8,874,026)**	**(9,157,446)**
Earnings (loss) per share					
Weighted average number of common shares outstanding					
Basic	5	43,940,851	38,035,275	43,609,969	37,961,462
Diluted	5	43,940,851	38,035,275	43,609,969	37,961,462
Earnings (loss) per share ($ per share)					
Basic	5	(0.06)	(0.08)	(0.20)	(0.24)
Diluted	5	(0.06)	(0.08)	(0.20)	(0.24)

* The Company has applied IFRS 16 using the cumulative effect method as of January 1, 2019. Under this method, the comparative information is not restated. See note 3.

See accompanying notes to the condensed interim consolidated financial statements.

(Canadian dollars)

	Note	Number of Shares Outstanding	Share Capital $	Contributed Surplus $	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					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 period (Recast)	2	-	-	-	(2,662,563)	-	(2,662,563)
Other comprehensive loss for the period		-	-	-	-	5,050	5,050
Exercise of options		100,000	227,000	(86,000)	-	-	141,000
Share based payments		-	-	156,569	-	-	156,569
As of March 31, 2018		37,922,475	37,670,841	3,256,522	(28,964,161)	137,739	12,100,941
Net loss for the period (Recast)	2	-	-	-	(3,600,132)	-	(3,600,132)
Other comprehensive loss for the period		-	-	-	-	(4,693)	(4,693)
Exercise of options		60,576	66,345	9,981	-	-	76,326
Share based payments		-	-	177,075	-	-	177,075
As of June 30, 2018		37,983,051	37,737,186	3,443,578	(32,564,293)	133,046	8,749,517
Net income for the period		-	-	-	(2,881,551)	-	(2,881,551)
Other comprehensive loss for the period		-	-	-	-	(13,557)	(13,557)
Exercise of options		100,000	174,262	(48,512)	-	-	125,750
Share based payments		-	-	181,280	-	-	181,280
As of September 30, 2018		38,083,051	37,911,448	3,576,346	(35,445,844)	119,489	6,161,439
As of December 31, 2018		43,340,851	46,063,483	3,692,872	(39,237,120)	178,164	10,697,399
IFRS 16 net opening adjustment	3	-	-	-	225,300		225,300
As at January 1, 2019		43,340,851	46,063,483	3,692,872	(39,011,820)	178,164	10,922,699
Net loss for the period		-	-	-	(2,870,431)	-	(2,870,431)
Other comprehensive loss for the period		-	-	-	-	(19,701)	(19,701)
Exercise of options		-	-	-	-	-	-
Share based payments		-	-	110,637	-	-	110,637
As of March 31, 2019		43,340,851	46,063,483	3,803,509	(41,882,251)	158,463	8,143,204
Net loss for the period		-	-	-	(3,398,229)	-	(3,398,229)
Other comprehensive loss for the period		-	-	-	-	(55,024)	(55,024)
Exercise of options		600,000	989,626	(294,626)	-	-	695,000
Share based payments		-	-	59,559	-	-	59,559
As of June 30, 2019		43,940,851	47,053,109	3,568,442	(45,280,480)	103,439	5,444,510
Net income for the period					(2,564,551)		(2,564,551)
Other comprehensive loss for the period						33,910	33,910
Exercise of options							-
Share based payments				(5,587)			(5,587)
As of September 30, 2019		43,940,851	47,053,109	3,562,855	(47,845,031)	137,349	2,908,282

* The Company has applied IFRS 16 using the cumulative effect method as of January 1, 2019. Under this method, the comparative information is not restated. See note 3.

See accompanying notes to the condensed interim consolidated financial statements.

(Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018 *	2019	2018 *
	$	$	$	$
		(Recast - Note 2)		(Recast - Note 2)
Cash flows from operating activities				
Net loss from continuing operations	(2,564,551)	(2,881,551)	(8,833,211)	(9,144,246)
Adjustments to operating cash:				
Amortization of lease incentive allowance	-	(12,098)	-	(22,587)
Amortization	373,494	46,835	1,087,226	108,892
Deferred rent	-	1,995	-	11,516
Finance expense - lease liabilities	166,470	-	479,850	-
Interest income on lease receivable	(16,024)	-	(50,148)	-
Share based payments	(5,587)	181,280	164,609	514,924
Cash-settled share-based compensation mark-to-market	229,516	(107,820)	692,058	286,525
	(1,816,682)	(2,771,359)	(6,459,616)	(8,244,976)
Change in non-cash working capital items				
Trade receivables	(540,481)	(250,379)	(882,904)	(808,279)
Other receivable	37,544	-	(190,457)	-
Accrued Interest	-	20,290	-	(15,997)
Unbilled revenue	33,550	(37,873)	(71,423)	(84,946)
Prepaid expenses and other	25,019	(177,666)	(68,304)	(516,901)
Contract asset	(93,176)	(138,802)	(163,829)	(305,233)
Accounts payable and accrued liabilities	156,724	252,471	(497,946)	409,112
Unearned revenue	787,481	79,436	1,939,376	679,056
Cash used in operating activities	**(1,410,021)**	**(3,023,882)**	**(6,395,103)**	**(8,888,164)**
Cash flows from investing activities				
Restricted cash	-	-	-	475,000
Acquisition of property and equipment	-	(782,361)	(32,372)	(1,450,175)
Cash used in investing activities	**-**	**(782,361)**	**(32,372)**	**(975,175)**
Cash flows from financing activities				
Excercise of stock options	-	125,750	695,000	343,076
Proceeds from lease incentive allowance	-	-	411,240	-
Payment of lease liability	(424,752)	(3,559)	(1,036,967)	(11,724)
Proceeds from lease receivable	65,027	-	185,403	-
Cash provided by and used in financing activities	**(359,725)**	**122,191**	**254,676**	**331,352**
Net decrease in cash and cash equivalents from continuing operations	**(1,769,746)**	**(3,684,052)**	**(6,172,799)**	**(9,531,987)**
Net decrease in cash and cash equivalents from previously-owned segment	-	(90,000)	(90,000)	(90,000)
Cash and cash equivalents, beginning of period	6,552,188	9,982,909	11,119,966	15,830,487
Exchange (loss) gain on cash and cash equivalents	33,910	(13,557)	(40,815)	(13,200)
Cash and cash equivalents, end of period	**4,816,352**	**6,195,300**	**4,816,352**	**6,195,300**

Cash and cash equivalents consist of the following:

	As at September 30	
	2019	2018 *
	$	$
Cash at bank and in hand	4,124,627	3,065,975
Demand deposits	691,725	3,129,325
	4,816,352	6,195,300

* The Company has applied IFRS 16 using the cumulative effect method as of January 1, 2019. Under this method, the comparative information is not restated. See note 3.

See accompanying notes to the condensed interim 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 PayPort™ (previously known as Electronic Money Transfer, or "EMT").

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

2. Basis of preparation

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standard ("IAS") 34, Interim Financial Reporting and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies as described in the Company's December 31, 2018 consolidated financial statements except as disclosed herein. The Board of Directors approved the condensed interim consolidated financial statements on November 25, 2019. These condensed interim consolidated financial statements should be read in conjunction with the Company's 2018 annual consolidated financial statements.

These condensed interim 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.

Changes to significant accounting policies are described in note 3.

(b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis. Other measurement bases used are described in applicable notes.

(c) Functional and presentation of currency

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

(d) Use of estimates and judgements

The preparation of the condensed interim 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.

(e) Comparative information

Certain comparative figures have been adjusted (recast) for the three and nine months ended September 30, 2018 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.

3. Changes in accounting policies

Except for the adoption of IFRS 16 - Leases, the significant accounting policies used in preparing these condensed interim consolidated financial statements are unchanged from those disclosed in the Company's 2018 annual consolidated financial statements and have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

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) have not been restated.

The Company elected to use the following practical expedients available under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease and non-lease components as a single lease component for lease liabilities related to property leases;
- Exclude the initial direct costs for the measurement of right-of-use assets at the date of initial application;
- Not to recognize right-of-use assets and lease liabilities for (1) short-term leases, that have a lease term of 12 months or less, as well as for (2) leases of low value assets - $5,000. The payments for such contracts would be accounted for as an expense in the period.

A. 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. Payments from sub-leases that are determined to be operating leases are recorded as cost recovery under general and administrative expenses in the period the payment is due.

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-lease.

B. Explanation of adoption of IFRS 16 Leases

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease receivables and/or lease liabilities. Lease receivables and liabilities have been measured by discounting future lease payments at the incremental borrowing rate at January 1, 2019. The incremental borrowing rate applied was 6.0% per annum and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment.

(Canadian dollars)

The following table summarizes the impacts of adopting IFRS 16 at January 1, 2019:

As at	January 1, 2019 after adoption of IFRS 16	Adjustments	January 1, 2019 prior to the adoption of IFRS 16
	$	$	$
Assets			
Current portion of lease receivable	250,430	250,430	-
Prepaid expenses and other	776,636	(142,670)	919,306
Current assets	**30,575,826**	**107,760**	**30,468,066**
Lease receivable	942,028	942,028	-
Property and equipment	1,771,123	(138,429)	1,909,552
Right-of-use asset	4,785,599	4,785,599	-
Non-current assets	7,978,024	5,589,198	2,388,826
Total assets	**38,553,850**	**5,696,958**	**32,856,892**
Liabilities			
Accounts payable and accrued liabilities	2,470,348	(23,759)	2,494,107
Current portion of lease liabilities	956,229	912,696	43,533
Current liabilities	**22,286,133**	**888,937**	**21,397,196**
Lease incentive allowance	-	(509,474)	509,474
Deferred rent	-	(157,944)	157,944
Lease liabilities	5,345,018	5,250,139	94,879
Non-current liabilities	5,345,018	4,582,721	762,297
Total liabilities	**27,631,151**	**5,471,658**	**22,159,493**
Equity			
Accumulated deficit	(39,011,820)	225,300	(39,237,120)
Total equity	**10,922,699**	**225,300**	**10,697,399**
Total liabilities and equity	**38,553,850**	**5,696,958**	**32,856,892**

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. The Company derecognized right- of-use asset relating to the head lease that it transferred to sub lessee (for the sublease of a property lease) and recognized lease receivable (current and long term) from the sublease and recognized $225,300 gain adjusted to the opening accumulated deficit.

In the condensed interim statements of financial position, lease liabilities relating to leases were previously classified as finance leases under IAS 17. There has been no change in the liabilities recognized.

(Canadian dollars)

The following tables summarize the impacts of adopting IFRS 16 on the Company's condensed interim financial statements for the three and nine months ended September 30, 2019:

	Three months ended September 30, 2019 As reported, for the period ended $	**Adjustments**	**Three months ended September 30, 2019 without adoption of IFRS 16 $**
General and administrative expenses	1,741,961	(84,308)	1,826,269
Finance income	(36,594)	(16,024)	(20,570)
Finance expense - Lease liabilities	166,470	166,470	-

	Nine months ended September 30, 2019 As reported, for the period ended $	**Adjustments**	**Nine months ended September 30, 2019 without adoption of IFRS 16 $**
General and administrative expenses	6,084,363	72,538	6,011,825
Finance income	(122,248)	(50,148)	(72,100)
Finance expense - Lease liabilities	479,850	479,850	-

As a result of applying IFRS 16, the Company has recognized depreciation, interest expenses and interest income, instead of rent expense. During the three and nine months ended September 30, 2019, the Company recognized depreciation expense of $275,419 and $771,597, respectively, interest expense of $166,470 and $479,850, respectively and interest income of $16,024 and $50,148, respectively (net interest expense of $150,446 and $429,702, respectively) from these leases.

(Canadian dollars)

As at	September 30, 2019 after adoption of IFRS 16	Adjustments	September 30, 2019 prior to the adoption of IFRS 16
	$	$	$
Assets			
Current portion of lease receivable	250,430	250,430	-
Prepaid expenses and other	844,940	(282,334)	1,127,274
Current assets	16,787,171	(31,904)	16,819,075
Lease receivable	806,773	806,773	-
Property and equipment	1,495,831	(131,623)	1,627,454
Right-of-use asset	9,325,250	9,325,250	-
Non-current assets	12,270,957	10,000,400	2,270,557
Total assets	**29,058,128**	**9,968,496**	**19,089,632**
Liabilities			
Accounts payable and accrued liabilities	1,972,402	(23,759)	1,996,161
Current portion of lease liabilities	1,706,949	1,663,415	43,534
Current liabilities	**16,793,452**	**1,639,656**	**15,153,796**
Lease incentive allowance	-	(509,474)	509,474
Deferred rent	-	(157,944)	157,944
Lease liabilities	9,356,394	9,273,197	83,197
Non-current liabilities	9,356,394	8,605,779	750,615
Total liabilities	**26,149,846**	**10,245,435**	**15,904,411**
Equity			
Accumulated deficit	(47,845,031)	(276,939)	(47,568,092)
Total equity	**2,908,282**	**(276,939)**	**3,185,221**
Total liabilities and equity	**29,058,128**	**9,968,496**	**19,089,632**

4. 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.

(Canadian dollars)

5. Earnings (loss) per share

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

Basic and diluted earnings (loss) per share computation	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Numerator				
Net (loss) for the period	(2,564,551)	(2,881,551)	(8,833,211)	(9,144,246)
Denominator		-		
Weighted average number of common shares (basic)	43,940,851	38,035,275	43,609,969	37,961,462
Basic and diluted earnings (loss) attributable to equity holders of the Company ($ per share)	**(0.06)**	**(0.08)**	**(0.20)**	**(0.24)**

6. Financial instruments

Fair value hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method.

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

In the table below, the Company has segregated all financial assets and 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 September 30, 2019 and December 31, 2018 in the condensed consolidated interim 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.

	September 30, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Demand deposits (in cash and cash equivalents)	691,725	-	-	691,725	7,119,624	-	-	7,119,624
Total fair value	691,725	-	-	691,725	7,119,624	-	-	7,119,624

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended September 30, 2019 and December 31, 2018.

(Canadian dollars)

Fair values versus carrying amounts

The table below sets out the Company's financial assets and financial liabilities measured at amortized cost – the carrying amount, together with the fair value, as at September 30, 2019 and December 31, 2018. The carrying values of cash and cash equivalents, receivables (trade, lease and other), funds held for merchants, accounts payments and accrued liabilities, lease liabilities and funds due to customers approximate their fair values due to the nature of these financial instruments.

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	$	$	$	$
Financial assets at amortized cost:				
Cash and cash equivalents	4,816,352	4,816,352	11,119,966	11,119,966
Restricted cash	37,158	37,158	37,158	37,158
Trade and other receivables				
Funds held for merchants	8,338,080	8,338,080	16,624,969	16,624,969
Trade receivables	2,129,362	2,129,362	1,246,458	1,246,458
Lease receivables	1,057,203	1,057,203	-	-
Other receivable	243,918	243,918	464,701	464,701
Trade and other receivables	**16,622,073**	**16,622,073**	**29,493,252**	**29,493,252**
Financial liabilities measured at amortized cost :				
Accounts payable and accrued liabilities				
Regular operations	1,972,402	1,972,402	2,494,107	2,494,107
Associated with previously-owned segment	704,299	704,299	794,299	794,299
Funds due to merchants	8,338,080	8,338,080	16,624,969	16,624,969
Lease liabilities	11,063,343	11,063,343	-	-
Trade payables and accrued liabilities	**22,078,124**	**22,078,124**	**19,913,375**	**19,913,375**

(a) Credit risk

The Company has credit risk as a result of its trade accounts receivable. The concentration of credit risk is limited due to the fact that the client base is large. As such, the Company does not anticipate any significant credit losses.

The maximum exposure to credit risk in terms of trade receivables as at September 30, 2019 and December 31, 2018 was:

	September 30, 2019	December 31, 2018
	$	$
Trade receivable - gross balance	2,273,160	1,265,175
Allowance for doubtful accounts	(143,798)	(18,717)
Trade receivable, net	**2,129,362**	**1,246,458**

The aging of the accounts receivable as at September 30, 2019 and December 31, 2018 was:

	September 30, 2019	December 31, 2018
	$	$
Current	1,027,264	442,879
Past due 1-30 days	348,707	128,933
Past due 31-60 days	176,576	295,292
Past due more than 61 days	576,815	379,354
Accounts receivable - net balance	**2,129,362**	**1,246,458**

Of the accounts receivable at September 30, 2019, 39% 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. Approximately 63% and 57% of revenue is transacted in U.S. dollars for the three and nine months ended September 30, 2019 (35% and 32% for the three and nine months ended September 30, 2018) 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, for the three and nine months ended September 30, 2019, would increase by approximately $0.1 million and $0.4 million, respectively and the Company’s net income, for the three and nine months ended September 30, 2019, would increase by $0.2 million and $0.5 million, respectively.

(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.

(Canadian dollars)

7. Contingencies

In the normal course of operations, the Company is subject to litigation and claims from time to time. The Company may also be subject to lawsuits, investigations and other claims, including environmental, labour, income and sales tax, product, customer disputes and other matters. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

8. Revenue

The following table provides a breakdown of revenues by type for the three months and nine months ended September 30 2019 and 2018.

	Three months ended September 30		Nine months ended September 30	
	2019	2018 *	2019	2018 *
	$	$ (Recast - Note 2)	$	$ (Recast - Note 2)
ARC Subscriptions	1,483,615	583,639	3,944,709	1,572,394
Payport	386,205	467,245	1,367,367	1,472,938
ARC Professional Services	317,721	121,764	972,729	311,499
ARC Other	40,378	-	70,287	-
Total Revenue	2,227,919	1,172,648	6,355,092	3,356,831

9. Subsequent Events

On October 31, 2019, the Company obtained a $4.0 million revolving line of credit from a Canadian financial institution. There were no borrowings against this credit facility as at November 25, 2019. The line of credit bears interest at Canadian Prime Rate plus 2% per annum and is a committed facility for an 18 month term and is not a demand facility, extendable thereafter. The Facility is secured by the Company's assets, which primarily consists of intellectual property and accounts receivable. Under the terms of the line of credit, the Company is required to raise no less than $5,000,000 in cash prior to February 28, 2020.