

## **Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended September 30, 2019**

### **Background**

This management discussion and analysis (“**MD&A**”) of the financial position of VSBLTY Groupe Technologies Corp. (“**VSBLTY**”, the “**Company**” and “**us,**” “**our**” or “**we**”) and results of its operations for the nine months ended September 30, 2019 is prepared as at November XX, 2019. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2019 and 2018 and the related notes thereto. Those unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). All currency amounts are expressed in United States dollars, unless otherwise noted.

### **Forward-Looking Information**

This discussion contains “forward-looking statements” that involve risks and uncertainties including statements under the heading “Developments during the Nine Months ended September 30, 2019” relating to timing of revenue. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. This MD&A may contain forward-looking statements that reflect the Company’s current expectations and projections about its future results. When used in this MD&A, words such as “estimate”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company’s future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Such statements reflect our management’s current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and known or unknown risks and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. Please see the risk factors discussed under the heading “Risk Factors” in this Prospectus.

This presentation includes financial outlook about the Company’s anticipated revenue under its contract with ENERGETIKA, as described under the heading “Developments during the Nine Months ended September 30, 2019,” which is subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. Such revenue estimates contained in this MD&A were made by management as of the date of this presentation and are provided for the purpose of describing the ENERGETIKA contract and the Company’s plans for creating revenue, and are not an estimate of profitability or any other measure of financial performance. Readers are cautioned that the financial outlook contained in this document should not be used for purposes other than for which it is disclosed herein.

## **Company Overview**

The “Company” was incorporated under the Business Corporations Act (British Columbia) on August 1, 2018. The Company’s head office is located at 417 North 8th Street, Suite 300, Philadelphia, Pennsylvania 19123 and its registered office is located at The Corporation Trust Center, 1201 Orange Street, City of Wilmington, New Castle County, DE 19801. The Company is a retail technology and marketing company with a variety of applications to drive brand engagement and puts insights in motion to drive sales. The Company’s shares trade on the Canadian Securities Exchange under the symbol “VSBY” and the Frankfurt stock exchange under the symbol “5VS”.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As at September 30, 2019, the Company had not yet achieved profitable operations and has an accumulated deficit of \$24,637,200 since its inception. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from. This indicates the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs with capital market equity financings. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

## **Reverse takeover**

On December 12, 2018, the Company, VSBLTY, Inc. and VSBLTY Merger Co., a wholly-owned subsidiary of the Company incorporated in Delaware, U.S. entered into a Merger Agreement (the “Agreement”) pursuant to which the Company acquired all of the issued and outstanding common shares of VSBLTY, Inc. (the “Acquisition” or the “RTO”) for 7.21228396 common shares the Company and VSBLTY, Inc. became a wholly-owned subsidiary of the Company. The Acquisition closed on February 15, 2019.

As a result of the Acquisition, VSBLTY, Inc. is deemed as the acquirer for accounting purposes, and therefore its assets, liabilities and operations are included in the consolidated financial statements at their historical carrying value. VSBLTY, Inc.’s operations were considered to be a continuance of the business and operations of VSBLTY, Inc. The Company’s results of operations are those of VSBLTY, Inc., with the Company’s operations being included from February 15, 2019, the closing date of the Acquisition, onwards. Refer to note 5 for more details.

## **Overall Performance**

As a participant in retail solutions, the Company assists retailers in defining a digital growth and marketing strategy. While the Company brings specific solutions that help retailers take advantage of digital trends in retail often the team is called upon to provide comprehensive expertise and consulting to educate its customers on how to take advantage of The Company solutions. This can position the Company as a trusted resource, but also slows the selling process and lengthens the selling cycle. Over time, management of the Company believes that the pace of deployment will increase, and sales cycles will shorten as retailers develop an understanding of the technology. However, this creates uncertainty for the management of the business and with respect to accurate projections and forecasting, the Company’s goal is to establish a brand that is trusted by retailers and brands alike to guide them through the digital revolution in retail. The Company will focus its resources on leveraging this trust to generate revenue and continue to build its brand.

The digital-out-of-home (“**DOOH**”) market refers to digital advertising that is targeted to consumers

outside their homes. Management of the Company believes that as advertisers continue to look for alternative markets, they will continue to seek media and channels that can deliver the same kind of measurability that the Internet can offer. DOOH is expected to grow to the extent that it can provide this measurability to major brands. Brands will pay for impressions delivered that have attribution, accountability and addressability. To date, DOOH has not been able to deliver this to the same extent as the Internet. The Company provides a platform and capability that is intended to deliver this measurability.

In the security category, the Company has a similar issue. Most camera and sensor systems have a human dependency. The guiding philosophy of machine vision with machine learning is that computers and software can be leveraged to interpret live video. Dissecting, understanding and contextualizing live video is an important capability of the Company. One of the goals of the Company, and others pioneering the category, is to augment human operators interpreting video and flagging security operators to anomalous or extraordinary activity.

Since inception, the Company has delivered software solutions that rely heavily upon cloud computing. However, there are many applications, particularly in DOOH and security, which will perform better and more reliably with edge processing. The consumption of algorithms in cloud computing is subject to licensing but the Company believes that it has developed technology that runs with equal reliability on the edge. This model also consumes less third-party licensed algorithms. This migration from cloud to edge will allow the Company to provide solutions in both categories. The Company will support both consumption models and will have different pricing models for each. The Company expects that edge-based solutions will have an enormous impact within the next 12 months as this market further defines itself.

Management views past company performance of net operating losses and negative cash flow as a stage in the process of developing the product lines and obtaining market share for the various business segments. Field trials of products at little to no cost are necessary to develop products. The Company has conducted several field trials of the various product lines and in the coming 12 months will market those products to clients at retail pricing models.

### **Developments during the Nine Months ended September 30, 2019**

In recent months the Company strategy has pivoted from discrete selling opportunities to a channel based selling modality. Management expects that such a transition can take up to a year to directly impact revenue because any new channel will have to learn the product, the selling proposition, and develop a pipeline. Management understood the potential short-term impact of this decision but the only way to grow the Company and scale is to make that transition.

The first two of the channels strategically identified were announced in the third quarter:

#### Sensormatic

Sensormatic is the retail division of JCI – Johnson Controls Inc. This organizations boasts a robust footprint in retail global with over 85% of the largest retailers in the world as customers. The nature of the contract with JCI (Sensormatic) is a strategic global reseller and OEM relationship for all of the software product developed by VSBLTY. Subsequent to the signing of the contract in September both organizations have been investing resources to train both technical and salespeople with product, installation and support knowledge.

Management expects that Sensormatic will begin to generate revenue for the company in the first quarter of 2020.

## Seneca

Seneca (a division of ARROW), is one of the worlds' in Saas largest distributors of computing platforms used in IOT (Internet of Things), security and digital signage. After a lengthy analysis Seneca invited VSBLTY to join the Maestro program. Maestro is a new initiative meant to provide solution level products to the market. The primary objective is to ensure that media players and processors procured through the Seneca supply chain are pre-installed with VSBLTY software so that the end client merely has to enable to software to procure the license.

Seneca is one of the largest providers of the hardware that enables both digital signage and security. Maestro will be made commercially available in the fourth quarter of 2020 and VSBLTY expects that it could have a material impact on our revenues going forward.

For several months VSBLTY had been working with Mexico City based ENERGETIKA to design, test, and pilot an integrated "security kit" for residential, neighborhood and law enforcement applications in the various communities around and within Mexico City. The testing involved the development of a proprietary and patent-able innovation meant to address the unique architectural demands of a scaled security camera network.

In September, ENERGETIKA and VSBLTY announced a definitive contract for VSBLTY to provide DataCaptor (video analytics, crowd measurement) and VECTOR (Facial Recognition and weapons detection) to ENERGETIKA to satisfy the needs of the various municipal and law enforcement contracts that they were securing. Based upon the roll out plans of ENERGETIKA and its varied customer base, the Company estimates that the contract will generate \$10M USD in Saas revenue.

The ENERGETIKA project is executing consistent with the planned roll out schedule and expected to accelerate in 2020. VSBLTY expects meaningful revenue from this customer in the fourth quarter of 2019.

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

None.

### **Proposed Transactions**

None.

### **Critical Accounting Policies**

The preparation of financial statements is in conformity with **IFRS** as issued by the **IASB** and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**").

The condensed consolidated interim financial statements have been prepared on a historical cost basis, modified where applicable. In addition, the condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. The condensed consolidated interim financial statements are presented in United States dollars, unless otherwise noted.

The condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As at September 30, 2019, the Company had not yet achieved profitable operations and has an accumulated deficit of \$24,637,200 since its inception. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from.

This indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs with capital market equity financings. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

The significant accounting policies applied in the preparation of the financial statements are in Note 3 of the audited financial statements for the years ended December 31, 2018 and 2017.

### ***Initial adoption of new accounting standards***

Adoption of new accounting standards have been disclosed in Note 3 of the Company's condensed consolidated interim financial statements for the nine months ended September 30, 2019 and 2018.

### ***Future accounting standards issued but not yet in effect***

Pronouncements that may have a significant impact to the Company have been included in the Company's condensed consolidated interim financial statements for the nine months ended September 30, 2019 and 2018.

### **Share Capital**

Authorized share capital of the Company consists of an unlimited number of common shares with no par value.

On February 15, 2019, the Company completed the Acquisition, pursuant to which the Company acquired all of the issued and outstanding common shares of VSBLTY, Inc. for 7,212,283,96 common shares the Company in a reverse takeover transaction. Immediately following the Acquisition, there were 61,853,959 common shares of the Company issued and outstanding. As the financial statements are considered a continuance of the operations of VSBLTY, Inc., due to the reverse takeover, all of the share numbers, share prices, and exercise prices in these financial statements have been adjusted, on a retroactive basis, to reflect this exchange.

During the nine months ended September 30, 2019, the Company issued an aggregate of:

- 21,500,000 common shares on conversion of the Company's Debentures (see note 8);
- 2,853,956 common shares for settlement of the Notes and related accrued interest (see note 9);
- 1,692,925 common shares for no proceeds, pursuant to the exercise of warrants;
- 14,600,000 common shares, pursuant to the automatic conversion of special warrants to one share and one-half share purchase warrant upon receipt of a final prospectus qualifying the distribution of the shares and warrants;
- 900,917 common shares for cash proceeds of \$270,306 (CAD\$361,297), pursuant to the exercise of warrants;
- 174,996 common shares granted to a non-employee in exchange for services with a fair value of \$76,715 (CAD\$101,500); and
- 244,799 common shares granted to the broker that facilitated the closing of two brokered private placement as part of the finance fees incurred (see note 8).

## Summary of Quarterly Results

The following table provides selected quarterly unaudited financial data for the eight most recently completed interim quarters:

	Three months ended							
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Revenue	(2,499)	27,816	65,267	13,205	13,290	35,627	16,678	168,464
Net loss for the period	(1,444,018)	(2,174,136)	(14,212,789)	(861,139)	(870,927)	(380,518)	(342,661)	(303,110)
Basic and diluted loss per share	(0.02)	(0.03)	(0.24)	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)

### *Summary of Results During Prior Eight Quarters*

Net loss decreased for the three months ended September 30, 2019, primarily due to a decrease in sales and marketing expenses, general and administration, research and development and share-based payments.

Net loss decreased for the three months ended June 30, 2019, primarily due to a decrease in sales and marketing expenses, general and administration and share-based payments.

Net loss increased for the three months ended March 31, 2019, primarily due to increases in listing expense, share-based payments sales and marketing expense and research and development expense. This was partially offset by increases in revenue.

Net loss for the three months ended December 31, 2018, was consistent with the prior period. Increases in sales and marketing expense and research and development expenses were offset by decreases in general and administrative expenses.

Net loss decreased for the three months ended September 30, 2018, primarily due to an increase in general and administrative expenses related to preparing a prospectus.

Net loss increased for the three months ended June 30, 2018, primarily due to an increase in general and administrative expenses.

Net loss increased for the three months ended March 31, 2018, primarily due to a decrease in gross profit as a result lower revenue, partially offset by decrease in sales and marketing expenses.

Net loss decreased for the three months ended December 31, 2017, primarily due to an increase in gross profit as a result of greater revenue, partially offset by an increase in sales and marketing expenses.

Net loss increased for the three months ended September 30, 2017, primarily due to a decrease in gross profit as a result of lower revenue.

## Results of Operations – For the three and nine months ended September 30, 2019

The results of operations for the three and nine months ended September 30, 2019 and 2018 are summarized below:

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Revenue					
License fees	\$	12,070	\$ 6,740	\$ 40,370	\$ 34,963
Connectivity		(6,800)	-	200	5,355
Professional services		-	-	13,450	6,459
Hardware and other		(7,769)	6,550	36,564	18,818
		(2,499)	13,290	90,584	65,595
Cost of sales	13	(9,215)	(29,684)	(24,166)	(53,647)
Gross profit		(11,714)	(16,394)	66,418	11,948
Sales and marketing expenses	12, 13	(401,168)	(44,073)	(916,418)	(116,874)
General and administrative expenses	12, 13	(639,359)	(624,818)	(2,126,557)	(1,118,057)
Research and development expenses	12, 13	(299,997)	(130,333)	(852,071)	(267,504)
Share-based payments	11(c)	(42,794)	-	(1,175,634)	-
<b>Operating loss</b>		(1,395,032)	(804,391)	(5,004,262)	(1,490,487)
Listing expense	5	-	-	(12,776,736)	-
Finance costs	8, 9, 15	(49,666)	(39,888)	(77,930)	(82,335)
Change in fair value of derivative liability	8	-	(15,421)	60,162	(15,421)
Loss on settlement of debt	8, 9	-	-	(12,063)	-
Interest income		711	-	5,170	-
Foreign exchange loss	8	(31)	-	(25,284)	-
<b>Net loss for the period</b>		(1,444,018)	(870,927)	(17,830,943)	(1,588,243)
Foreign currency translation		(4,177)	-	(21,109)	-
<b>Comprehensive loss for the period</b>	\$	(1,448,195)	\$ (870,927)	\$ (17,852,052)	\$ (1,588,243)
Loss per share – Basic and diluted	\$	(0.02)	\$ (0.02)	\$ (0.25)	\$ (0.04)
Weighted average shares outstanding – Basic and diluted		77,746,381	37,534,694	70,577,152	36,921,914

Total assets as at September 30, 2019 and December 31, 2018 were \$1,737,312 and \$912,792, respectively. The increase in total assets was primarily a result of cash acquitted in the RTO, cash raised through the closing of several private placements for convertible debentures and the recognition of a lease asset under

adoption of IFRS 16 Leases, offset by expenditures in the period.

Total non-current financial liabilities as at September 30, 2019 and December 31, 2018 were \$1,827,693 and \$1,365,930 respectively. The increase in total non-current financial liabilities was primarily a result of the closing of private placements on July 18, 2019, August 29, 2019 and September 19, 2019 of \$1,000 principal amount 10% convertible unsecured debentures for gross proceeds of CAD CAD\$1,165,000 and CAD\$1,857,120, respectively. This was partially offset by settling outstanding notes payable with issuance of common shares.

### ***Revenue***

During the nine months ended September 30, 2019 and 2018, the Company generated revenue of \$90,584 and \$65,595, respectively. Revenue for these periods was generated from clients involved in trials of products and proof of concept efforts who paid lower than market value for the products to participate in the testing. The increase in revenue of \$24,989 resulted from an increase in hardware sales of \$17,746, license fees of \$5,407 and of professional fees of \$6,991 net offset by a decrease in connectivity sales of \$5,155. In 2018, the initiatives were proof of concept which resulted in little to no revenue.

During the three months ended September 30, 2019 the Company's revenue decreased by \$15,789 in comparison to the three months ended September 30, 2018. Revenue for these periods was generated from clients involved in trials of products and proof of concept efforts who paid lower than market value for the products to participate in the testing. The decrease in revenue is mostly related to a decrease of \$6,800 in connectivity and \$14,319 in hardware and other revenue offset by an increase of \$5,330 in license fees.

### ***Cost of sales***

Cost of sales for the nine months ended September 30, 2019 and 2018 of \$24,166 and \$53,647, respectively. The decrease in cost of sales of \$29,481 was due to the increase in revenues for hardware and other stream which is a revenue stream that does not have a significant impact in cost of sales as well as a decrease in connectivity charges which resulted from more cost effective software solutions.

Cost of sales for the three months ended September 30, 2019 and 2018 of \$9,215 and \$29,683, respectively. The decrease in cost of sales of \$20,469 was due to the decrease in revenue that was generated.

### ***Operating expenses***

	<b>Nine months ended September 30, 2019</b>	<b>Nine months ended September 30, 2018</b>
Marketing expenses	\$ 612,147	\$ 44,139
Meals and entertainment	43,544	20,284
Tradeshaw expenses	63,849	25,451
General and administrative expenses	132,019	88,255
Professional fees	298,107	204,010
Consulting fees	695,106	316,697
Management fees	368,188	180,000
Rent	17,315	19,115
Salaries and wages	561,556	231,636
Travel	172,938	84,755
Depreciation	15,466	8,251
Lease-related depreciation	15,654	-
Utilities	32,555	12,338



Investor relations	28,219	-
Transfer agent and filing fees	76,312	-
Research and development contract labor expense	762,071	267,504
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Total sales and marketing, general and administrative expense, and research and development expenses	\$ 3,895,046	\$ 1,502,435
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The above table provides a breakdown of the various expense categories, by nature, for the nine months ended September 30, 2019 and 2018. The increase in expenses of \$2,392,611 is primarily a result of an increase in marketing expenses and research and development contract labor expense of \$568,008 and \$494,567 respectively incurred to promote and further develop the Company's platform.

The increase is also related to an increase in consulting fees of \$378,409, salaries and wages of \$329,920 and management fees of \$188,188 as a result of higher costs to operate as a publicly traded entity.

	<b>Three months ended September 30, 2019</b>	<b>Three months ended September 30, 2018</b>
Marketing expenses	\$ 296,055	\$ 20,999
Meals and entertainment	12,289	3,624
Tradeshaw expenses	10,321	10,450
General and administrative expenses	36,464	26,561
Professional fees	31,432	88,690
Consulting fees	207,231	316,697
Management fees	134,188	65,000
Rent	4,000	9,860
Salaries and wages	210,158	85,783
Travel	38,958	34,030
Depreciation	5,871	2,816
Lease-related depreciation	5,218	-
Utilities	13,825	4,381
Investor relations	10,181	-
Transfer agent and filing fees	54,336	-
Research and development contract labor expense	269,997	130,333
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Total sales and marketing, general and administrative expense, and research and development expenses	\$ 1,340,524	\$ 799,224
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The above table provides a breakdown of the various expense categories, by nature, for the three months ended September 30, 2019 and 2018. The increase in expenses of \$541,300 is primarily a result of an increase in marketing expenses and research and development contract labor expense of \$275,056 and \$139,664 respectively incurred to promote and further develop the Company's platform.

The increase is also related to an increase in salaries and wages of \$124,375 as a result of higher costs to operate as a publicly traded entity.

#### ***Share-based payments***

Share-based payments for the nine months ended September 30, 2019 and 2018 were \$1,175,634 and \$nil,

respectively. The increase in share-based payments was a result of granting 6,330,000 stock options to certain directors, officers, consultants of the Company.

Share-based payments for the three months ended September 30, 2019 and 2018 were \$42,794 and \$nil, respectively. The increase in share-based payments was a result of granting 375,000 stock to certain directors, officers, consultants of the Company.

### ***Listing expense***

Non-cash listing expense of \$12,776,736 in the three and nine months ended September 30, 2019 relates to the RTO whereby the former shareholders of VSBLTY, Inc. acquired control of the Company, thereby constituting a reverse takeover of the Company. The listing expense was determined based on the difference between the consideration paid for the acquisition, less the fair value of net assets of the Company acquired.

### ***Other income and expenses***

Other income for the nine months ended September 30, 2019 and 2018 consisted primarily of a gain on change in fair value of derivative liability of \$60,162 and \$15,421 respectively. The gain resulted from conversion of the Company's convertible debentures in the period, resulting in extinguishment of the derivative liability.

Other expense for the nine months ended September 30, 2019 consisted on interest expense of \$44,101 (2018 – \$82,335) and accretion expense of \$33,289 (2018 - \$nil) as a result of closing several private placements for convertible debentures during the period. Other expense for the three months ended September 30, 2019 consisted on interest expense of \$44,101 (2018 – \$51,116) and accretion expense of \$33,289 (2018 - \$nil) as a result of closing several private placements for convertible debentures during the period.

### **Liquidity and Capital Resources**

The accompanying financial statements have been prepared on a basis that contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company anticipates that it will have sufficient resources to meet the working capital requirements of the Company for at least the next 12 months. This assessment is based on the Company's current cash, as well as the net proceeds of the capital market equity financings the Company intends to consummate in fiscal 2019 and 2020. The first of those financings is being finalized and could result in net cash proceeds that will carry the Company until the end of the fiscal year with current expense volume.

During the nine months ended September 30, 2019, working capital increased to \$1,188,751 from a deficit of \$1,050,428 at December 31, 2018. The \$2,239,179 increase in working capital was primarily due to cash and cash equivalents acquired in the RTO, cash raised through the closing of private placements for convertible debentures and settling the Company's current liabilities. This was partially offset by cash used in operating activities.

### ***Cash Flows***

Historically and prospectively, our primary sources of liquidity and capital resources have been and will continue to be proceeds from the issuance of debt and common shares. Based on our current level of operations and our expected results of operations over the next 12 months, we believe that cash generated from operations and cash on hand and anticipated future capital raises, will be adequate to meet our anticipated liquidity requirements, capital expenditures and working capital needs for the next 12 months.

However, we cannot be certain that our business will generate sufficient cash flow from operations, that our anticipated earnings from operations will be realized, or that future borrowings will be available or otherwise to enable us to service our indebtedness or to make anticipated capital expenditures. Our future operating performance and our ability to service our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. See “Financial Risk Management” of this MD&A for a discussion of the risks related to our liquidity and capital structure.

As at September 30, 2019, the Company had cash and cash equivalents of \$1,415,343 (December 31, 2018 - \$832,827). The increase in cash and cash equivalents compared to the year ended December 31, 2018 was primarily due to cash and cash equivalents acquitted in the RTO, and cash raised through the closing of several private placements for convertible debentures partially offset by cash used in operating activities.

Net cash used in operating activities for the nine months ended September 30, 2019 was \$3,961,315 (2018 - \$1,406,753). We continue to generate net losses and negative cash flows from operating activities due to the expenses we are incurring related to development as well as general and administrative expenses. During the nine months ended September 30, 2019, the Company incurred 3,895,046 (2018 - \$1,502,435) of general and administrative, research and development and sales and marketing expenses. Operating activity for the current period was significantly affected by increases in these expense categories. The company has had continuing net losses and negative cash flow from operating activities, including a loss from operations of \$17,830,943 for the nine months ended September 30, 2019 (2018 - \$1,588,243).

Net cash provided by investing activities for the nine months ended September 30, 2019 was \$1,813,286 (2018 - \$6,212 used). The increase was primarily due to cash acquired in the RTO, partially offset by an additional acquisition of equipment in the period.

Net cash provided by financing activities for the nine months ended September 30, 2019 was \$2,730,545 (2018 - \$1,576,650). The increase was primarily a result of an increase in proceeds from exercise of warrants and the closing of several private placements on convertible debentures, partially offset by convertible debt transaction costs.

### ***Principal Debt Arrangements***

#### 2019 Debentures

During the nine months ended September 30, 2019, the Company closed the following private placement offerings of convertible debentures:

- July 18, 2019 unsecured convertible debentures for gross proceeds of \$570,956 (CAD\$745,500)
- August 29, 2019 unsecured, brokered convertible debentures for \$875,952 (CAD\$1,165,000); and
- September 19, 2019 unsecured convertible debentures for gross proceeds of \$1,398,777 (CAD\$1,857,120) of which \$1,273,656 (CAD\$1,691,000) was brokered and \$125,121 (CAD\$166,120) was non-brokered.

The 2019 Debentures are denominated in Canadian dollars, bear interest at a rate of 10% per annum, payable semi-annually and will mature two years from the date of issuance. The principal amount of the 2019 Debentures may be converted, in whole or in part, at any time before the maturity date, into units of the Company at CAD\$0.35 per unit, except for the July 18, 2019 Debentures which can be converted at CAD\$0.45 per unit, if converted at any time before one year from the closing date, or otherwise convertible at CAD\$0.60 per unit if converted after one year from the closing date but before the maturity date. Each unit issued upon conversion consists of one common share in the capital of the Company and one-half of a share purchase warrant. Each whole warrant will be exercisable into one Share at a price of CAD\$0.60 per

warrant share for a period of 24 months from the closing date, subject to certain acceleration rights of the Company.

### ***Other Factors Affecting Liquidity***

The Company may also raise additional equity or debt capital or enter into arrangements to secure necessary financing to fund the completion of development projects, to meet obligations or for the general corporate purposes of the Company. Such arrangements may take the form of loans, strategic agreements, joint ventures or other agreements. The sale of additional equity could result in additional dilution to the Company's existing stockholders, and financing arrangements may not be available to us, or may not be available in sufficient amounts or on acceptable terms.

From time to time, we may pursue various strategic business opportunities. These opportunities may include proposed development and/or management of, investment in or ownership of additional businesses through direct investments, acquisitions, joint venture arrangements and other transactions. We are not currently exploring such opportunities. We can provide no assurance that we will successfully identify such opportunities or that, if we identify and pursue any of these opportunities, any of them will be consummated.

### ***Financial Risk Management***

The Company is exposed to varying degrees to a variety of financial instrument related risks:

#### ***Foreign exchange risk***

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange risks are closely monitored, and attempts are made to match foreign cash inflows and outflows. As at September 30, 2019, the Company is primarily exposed to foreign exchange risk through its cash and cash equivalents denominated in Canadian dollars. The Company mitigates foreign exchange risk by monitoring foreign exchange rate trends and evaluating reinvestment opportunities when possible. The Company does not currently hedge its foreign exchange risk. Based on current exposures as at September 30, 2019 and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the United States dollar would result in a gain or loss of approximately \$21,500 in the Company's condensed consolidated statements of loss and comprehensive loss.

#### ***Credit risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash, cash equivalents and trade and other receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and mitigate its credit risk on receivables by actively managing and monitoring its receivables. Trade and other receivables also include refundable goods and services tax which bears minimal credit risk as it is receivable from the Canadian government. The Company has been determined that no allowance is required, as all amounts outstanding are considered collectible. During the nine months ended September 30, 2019, the Company incurred \$nil in bad debt expense (2018 - \$nil). The Company mitigates credit risk by evaluating the creditworthiness of customers prior to conducting business with them and monitoring its exposure for credit losses with existing customers.

#### ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate

because of changes in market interest rates. The Company's outstanding convertible debt bears interest at fixed rates. As a result, as at September 30, 2019, the Company is not exposed to significant interest rate risk.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the issuance of debt and equity. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

## **Related Party Transactions**

### *Key management compensation*

During the nine months ended September 30, 2019, remuneration of the Company's key management<sup>1</sup> consisted of management fees of \$508,500 (2018 - \$240,000) and share-based payments of \$510,354 (2018 - \$nil). These fees are included in general and administrative expenses and sales and marketing expense.

### *Other related party transactions*

During the nine months ended September 30, 2019 and 2018, other related party transactions consisted of the following:

	<b>Nine months ended September 30, 2019</b>	<b>Nine months ended September 30, 2018</b>
Creative services paid to a related entity <sup>2</sup> , included in cost of sales	\$ 10,093	\$ 2,919
Marketing expenses paid to a related entity <sup>2</sup> , included in sales and marketing expenses	178,658	10,565
Accounting and administrative fees paid to related entities <sup>2,3</sup> , included in general and administrative expenses	132,849	227,438
Contract project development labor paid to a related entity <sup>4</sup> , included in research and development expenses	456,462	-
Interest expense for convertible debt <sup>5</sup> and notes payable <sup>6</sup> to related parties, excluding discount accretion	\$ 14,029	\$ 47,067

<sup>1</sup> Key management personnel include Jay Hutton, Chief Executive Officer; Laurette Pitts, Chief Financial Officer; Fred Potok, Chief Sales Officer; Jan Talamo, Chief Creative Officer; Linda Rosanio, Chief Operating Officer; and Tim Huckaby, Chief Technology Officer.

<sup>2</sup> Traffic Marketing LLC (dba Think-Traffic LLC), a shareholder and entity controlled by Kate Talamo who is a close family member of Jan Talamo, Chief Creative Officer and Linda Rosanio, Chief Operating Officer of the Company.

<sup>3</sup> Quantum Advisory Partners LLP, an entity controlled by Alnesh Mohan, Director of the Company.

<sup>4</sup> InterKnowlogy, LLC, an entity controlled by Tim Huckaby, Chief Technology Officer of the Company.

<sup>5</sup> Related parties holding convertible debentures include Guy Lombardo and Jay Hutton.

<sup>6</sup> Related parties holding convertible notes include Kate Talamo, Jay Hutton, Nicholas Potok, Guy Lombardo and Fred Potok.

### *Related party balances*

At September 30, 2019, \$169 (December 31, 2018 - \$4,807) was due from related parties and is included in trade and other receivables. The amounts were non-interest bearing and due on demand.

At September 30, 2019, \$77,259 (December 31, 2018 - \$142,938) was due to related parties and is included in accounts payable and accrued liabilities. The amounts were non-interest bearing and due on demand.

At September 30, 2019, \$nil (December 31, 2018 - \$1,412,500) in notes payable were due to related parties, excluding discounts.

VSBLTY, Inc. is party to a contract with Think-Traffic, LLC and InterKnowlogy, LCC and for the provision marketing and support services and project development contract labor respectively. VSBLTY, Inc. can terminate these contracts at any time. VSBLTY, Inc. expects to continue making payments to Interknowlogy, Think-Traffic, LLC in the normal course of business.

Except as disclosed above, VSBLTY, Inc. does not have any ongoing contractual or other commitments resulting from transactions with related parties.

### **Additional Disclosure for IPO Venture Issuers Without Significant Revenue**

During the nine months ended September 30, 2019 and 2018, the Company incurred the following research and development and general and administrative expenses:

	<b>Nine months ended September 30, 2019</b>	<b>Nine months ended September 30, 2018</b>
General and administrative expenses	132,019	88,255
Professional fees	298,107	204,010
Consulting fees	695,106	316,697
Management fees	368,188	180,000
Rent	17,315	19,115
Salaries and wages	364,678	204,636
Travel	172,938	84,755
Depreciation	15,466	8,251
Lease-related depreciation	15,654	-
Utilities	32,555	12,338
Investor relations	28,219	-
Transfer agent and filing fees	76,312	-
Research and development contract labor	762,071	267,504
Total general and administrative expense, and research and development expenses	<b>\$ 2,978,628</b>	<b>1,385,561</b>

Following the Company's listing on the Canadian Securities Exchange, management plans to raise funds to provide the cash infusion necessary to continue operations through year end 2019. Management anticipates products to be complete with research and development which allows the Company to sell the products on the open market worldwide resulting in cash revenue to fund anticipated operating expenses.

Management anticipates operating expenses for the year ending December 31, 2019 to be approximately \$2,900,000.

The Company does not anticipate paying dividends during this time period.

**Disclosure of Outstanding Share Data**

The total number of outstanding common shares warrants and stock options as of the date of this MD&A are 79,313,071; 8,657,855 and 5,830,000, respectively.