

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 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 year ended December 31, 2019 is prepared as at April 29, 2020. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 and 2018 and the related notes thereto. The audited consolidated 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 year ended December 31, 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 year ended December 31, 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 corporate offices of VSBLTY Groupe Technologies, Corp are located at 5959 Howe Street, Suite 206, Vancouver, BC, V6C 2T5. The US 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 computer vision and artificial intelligence company with applications in both retail and security. The Company’s shares trade on the Canadian Securities Exchange under the symbol “VSBY” and the Frankfurt stock exchange under the symbol “5VS”.

These consolidated 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 December 31, 2019, the Company had not yet achieved profitable operations and has an accumulated deficit of \$14,173,281 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.

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 year ended December 31, 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 half of 2020.

Seneca

Seneca (a division of ARROW), is one of the worlds' 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 over a three-year period

The ENERGETIKA project is executing consistent with the planned roll-out schedule and expected to accelerate in 2020.

During the fourth quarter, the Company focused its efforts and resources on negotiating and securing additional licensing contracts that will be used to generate revenue through fiscal 2020. The Company also focused on growing partnerships in order to offer turnkey business solutions from concept through display design and engineering, manufacturing, deployment and maintenance, including a partnership with News America Marketing to jointly deliver advanced digital in-store media analytics to retailers and brand markers.

Through these efforts, as at the date of this MD&A, the Company has been able to secure \$1.1 million worth of revenue contracts subsequent to year-end.

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

The consolidated 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 December 31,

2019, the Company had not yet achieved profitable operations and has an accumulated deficit of \$14,173,281 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, 2019 and 2018. Critical accounting estimates are in Note 4 of the audited financial statements for the years ended December 31, 2019 and 2018.

Initial adoption of new accounting standards

Adoption of new accounting standards have been disclosed in Note 3 of the Company's consolidated financial statements for the year ended December 31, 2019 and 2018.

Future accounting standards issued but not yet in effect

Pronouncements that may have a significant impact to the Company have been disclosed in Note 3 of the Company's consolidated financial statements for the year ended December 31, 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 7.21228396 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 year ended December 31, 2019, the Company issued an aggregate of:

- 20,000,000 common shares on conversion of the Company's 2018 Debentures;
- 2,853,956 common shares for settlement of the Notes and related accrued interest;
- 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);
- 283,199 common shares granted to brokers as transaction costs for the Company's 2019 Debentures; and
- 2,500,000 common shares on conversion of the Company's 2019 Debentures.

Selected Annual Information

The following table sets forth selected financial information for the Company for the fiscal years ended December 31, 2019 and 2018 and should be read in conjunction with the Company's financial statements and related notes thereto for such periods.

The year-end financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are expressed in Canadian dollars.

December 31,	2019	2018	2017
Total assets	\$ 1,271,574	\$ 912,792	\$ 422,418
Non-current financial liabilities	2,539,053	1,365,930	446,847
Revenues	105,706	78,800	468,228
Net loss for the period	\$ (7,367,024)	\$ (2,449,382)	\$ (1,245,777)
Loss per share – basic and diluted	\$ (0.10)	\$ (0.07)	\$ (0.04)
Weighted average shares outstanding	72,972,476	37,093,625	33,728,157

2019 vs 2018

Total assets as at December 31, 2019 and 2018 were \$1,271,574 and \$912,792, respectively. The increase in total assets was primarily a result of an increase in prepaid expense of \$319,780, lease assets of \$229,085 and trade and other receivables of \$27,136. The increase in prepaid expense is due to a pre-payment for marketing services that the Company engaged during the year ended December 31, 2019. The increase in lease assets is due the recognition of a lease asset under adoption of IFRS 16 *Leases*, partially offset by depreciation in the period.

Total non-current financial liabilities as at December 31, 2019 and 2018 were \$2,539,053 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, September 19, 2019 and October 22, 2019 of \$1,000 principal amount 10% convertible unsecured debentures for total gross proceeds of CAD \$4,604,047. This was partially offset by settling notes payable outstanding at December 31, 2018 through the issuance of common shares. Lastly, the Company recognized in the balance sheet a lease asset liability due to the implementation of the new standard IFRS 16 for \$181,073 (2018 - \$nil)

During the year ended December 31, 2019, there was an increase in non-current financial liabilities of \$1,173,123. and an increase of \$2,357,980 in convertible notes that were issued through the closure of several private placements during the year ended December 31, 2019 (2018 - \$nil). The increase in non-current liabilities was off-set by the re-payment of the notes payable that were issued during the year ended December 31, 2018 for \$1,365,930 (2019 - \$nil).

During the years ended December 31, 2019 and 2018, the Company generated revenue of \$105,706 and \$78,800, 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.

Net loss incurred during the year end December 31, 2019 significantly increased by \$4,917,642. The increase included the listing expenses for \$491,568 incurred due to the reverse takeover completed in February 15, 2019 (2018 - \$nil). The increase is also attributable to share-based payments incurred for

\$1,396,955 (2018 - \$nil) and an increase in sales and marketing expenses for \$1,259,950 and an increase in general and administrative expenses for \$1,094,130 as a result of operating as a publicly traded company and management efforts to promote the Company.

Summary of Quarterly Results

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

	Three months ended							
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenue	\$ 2,122	\$ (2,499)	\$ 27,816	\$ 65,267	\$ 13,205	\$ 13,290	\$ 35,627	\$ 16,678
Net loss for the period	\$ (1,821,249)	\$ (1,444,018)	\$ (2,174,136)	\$ (1,927,621)	\$ (861,139)	\$ (870,927)	\$ (380,518)	\$ (342,661)
Basic and diluted loss per share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.24)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)

Summary of Results During Prior Eight Quarters

Net loss increased for the three months ended December 31, 2019, primarily due to an increase in share-based payments, general and administration expenses and sales and marketing expenses.

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.

Results of Operations – For the year ended December 31, 2019

The results of operations for the three and year ended December 31, 2019 and 2018 are summarized below:

	Notes	Year ended December 31,	
		2019	2018
Revenue			
License fees	\$	47,279	\$ 38,523
Connectivity		200	14,875
Professional services		21,890	6,459
Hardware and other		36,337	18,943
		105,706	78,800
Cost of sales		(41,299)	(77,056)
Gross profit		64,407	1,744
Sales and marketing expenses	13,14	(1,424,740)	(164,790)
General and administrative expenses	13,14	(2,828,227)	(1,734,097)
Research and development expenses	13,14	(1,181,997)	(440,974)
Share-based payments	12(c)	(1,396,955)	-
Gain on disposal of equipment	13	1,252	-
Operating loss		(6,766,260)	(2,338,117)
Listing expense	5	(491,568)	-
Finance costs	9,10,12	(241,932)	(140,567)
Change in fair value of derivative liability	9	60,162	(8,305)
Gain on settlement of debt	9,10	102,095	-
Interest income		5,186	-
Foreign exchange (loss) gain	9	(34,707)	37,607
Net loss		(7,367,024)	(2,449,382)
Foreign currency translation		(51,231)	-
Comprehensive loss	\$	(7,418,255)	\$ (2,449,382)
Loss per share – Basic and diluted	\$	(0.10)	\$ (0.07)
Weighted average shares outstanding – Basic and diluted		72,972,476	37,093,625

Revenue

During the years ended December 31, 2019 and 2018, the Company generated revenue of \$105,706 and \$78,800, 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 \$29,906 resulted from an increase in hardware sales of \$17,394, professional services \$15,431 and license fees of \$8,756. In 2018, the initiatives were proof of concept which resulted in less revenue earned during the period. The Company worked to generate contracts that would materialize in fiscal 2020 totaling \$1.1 million in bookings for SaaS and software development, refer to Liquidity and Capital Resources.

Cost of sales

During the years ended December 31, 2019 and 2018, cost of sales was \$41,299 and \$77,056, respectively. The decrease in cost of sales of \$35,757 was due to the increase in revenues for hardware and other revenue streams which 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.

Operating expenses

	Year ended	Year ended
	December 31, 2019	December 31, 2018
Marketing expenses	\$ 980,232	\$ 69,550
Meals and entertainment	70,199	28,767
Tradeshaw expenses	76,181	30,473
General and administrative expenses	215,375	133,249
Bad debt expense	-	5,446
Professional fees	404,016	399,840
Consulting fees	845,519	335,899
Management fees	530,188	304,375
Rent	17,314	26,281
Salaries and wages	794,977	857,702
Travel	231,786	104,384
Depreciation	20,909	11,070
Lease-related depreciation	25,773	-
Utilities	43,564	19,014
Investor relations	37,689	-
Transfer agent and filing fees	79,245	-
Research and development contract labor expense	1,061,997	13,811
Total sales and marketing, general and administrative expense, and research and development expenses	\$ 5,434,964	\$ 2,339,861

The above table provides a breakdown of the various expense categories, by nature, for the years ended December 31, 2019 and 2018. The increase in expenses of \$3,059,103 is primarily a result of an increase in research and development contract labor expense and marketing expenses of \$1,048,186 and \$910,682 respectively incurred to promote and further develop the Company's platform.

The increase is also related to an increase in consulting fees of \$509,620 and management fees of \$225,813 as a result of higher costs to operate as a publicly traded entity.

Share-based payments

Share-based payments for the years ended December 31, 2019 and 2018 were \$1,396,955 and \$nil, respectively. The increase in share-based payments was a result of granting 6,555,000 stock options to certain directors, officers, employees and consultants of the Company.

Listing expense

Non-cash listing expense of \$491,568 in the year ended December 31, 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 years ended December 31, 2019 and 2018 consisted primarily of a gain on change in fair value of derivative liability of \$60,162 and \$8,305 (expense), 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 year ended December 31, 2019 consisted on finance costs of \$241,932 (2018 – \$140,567) which includes contractual interest expense and accretion of debt discounts which increased due to several private placements of 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 and debt financings the Company intends to consummate in 2020. Subsequent to year-end, the Company closed two private placements of convertible debentures for gross proceeds of \$1.8 million. The final tranche is expected to close in May 2020 for gross proceeds of at least \$1.5 million.

The Company has secured the following contracts for services to be provided in early fiscal 2020:

- Contract with Energetika for \$100,000 SaaS
- Contract for \$52,000 for SaaS and content management services to be implemented in 50 stores
- Contract with a large technology company to provide \$950,000 of licensing, \$800,000 of which is to be provided in fiscal 2020

Based on the above, the Company anticipates operations and financing activities could result in net cash proceeds that will carry the Company until the end of the fiscal year with current expense volume.

During the year ended December 31, 2019, working capital increased to \$372,794 from a deficit of \$1,050,428 at December 31, 2018. The \$1,423,222 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. In addition to the increase in trade and other receivables and prepaid expense.

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 December 31, 2019, the Company had cash of \$499,435 (2018 - \$832,827). The decrease in cash and cash equivalents compared to the year ended December 31, 2018 was primarily due to cash used in operating activities, partially offset by cash and cash equivalents acquitted in the RTO and cash raised through the closing of several private placements for convertible debentures.

Net cash used in operating activities for the year ended December 31, 2019 was \$5,671,706 (2018 - \$1,731,158). 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 year ended December 31, 2019, the Company incurred 5,434,964 (2018 - \$2,339,861) of general and administrative, research and development and sales and marketing expenses. Cash used in operations 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 \$6,937,458 for the year ended December 31, 2019 (2018 - \$2,338,117).

Net cash provided by investing activities for the year ended December 31, 2019 was \$1,804,691 (2018 - \$1,548 used). The increase was primarily due to cash acquired in the RTO, partially offset by acquisition of equipment in the period.

Net cash provided by financing activities for the year ended December 31, 2019 was \$3,533,623 (2018 - \$2,231,230). The increase was primarily a result of an increase in proceeds from issuing convertible debentures and exercise of warrants, partially offset by convertible debt transaction costs.

Principal Debt Arrangements

2019 Debentures

During the year ended December 31, 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);
- 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; and
- October 22, 2019 unsecured convertible debentures for gross proceeds of \$836,927 (CAD\$1,095,598) of which \$342,227 (CAD\$448,000) was brokered and \$494,700 (CAD\$647,598) 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 December 31, 2019, the Company is exposed to foreign exchange risk through a portion of 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 December 31, 2019 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the United States dollar would result in a gain or loss of approximately \$26,870 in the Company's 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 and cash equivalents by placing these instruments with institutions of high credit worthiness. 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. 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 determined that no allowance is required as all amounts outstanding are considered collectible. During the year ended December 31, 2019, the Company incurred \$nil in bad debt expense (2018 - \$5,446).

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, at December 31, 2019, the Company is not exposed 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 by raising capital 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 year ended December 31, 2019, remuneration of the Company's key management¹ consisted of management fees in the amount of \$678,000 (2018 - \$304,375) and share-based payments of \$799,602 (2018 - \$nil). Management fees are included in general and administrative, sales and marketing and research and development expenses.

Other related party transactions

During the year ended December 31, 2019 and 2018, other related party transactions consisted of the following:

	December 31, 2019	December 31, 2018
Creative services paid to a related entity ² , included in cost of sales	\$ 15,043	\$ 2,919
Marketing expenses paid to a related entity ² , included in sales and marketing expenses	272,465	29,476
Accounting and administrative fees paid to related entities ^{2,3} , included in general and administrative expenses	134,846	298,988
Contract project development labor paid to a related entity ⁴ , included in research and development expenses	551,312	156,225
Bad debt expense	-	46
Interest expense for convertible debt ⁵ and notes payable ⁶ to related parties, excluding discount accretion	\$ 18,964	\$ 47,067

Related party balances

¹ 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.

²Traffic 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.

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

⁴ InterKnowledge, LLC, an entity controlled by Tim Huckaby, Chief Technology Officer of the Company.

⁵ Related parties holding 2019 convertible debentures include Guy Lombardo and Jay Hutton.

⁶ Related parties holding notes include Kate Talamo, Jay Hutton, Nicholas Potok, Guy Lombardo and Fred Potok.

At December 31, 2019, \$4,768 (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 December 31, 2019, \$53,030 (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 December 31, 2019, \$nil (2018 - \$1,412,500) in notes payable were due to related parties, excluding discounts.

At December 31, 2019, \$270,781 (2018 - \$nil) in convertible debentures 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 and 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 year ended December 31, 2019 and 2018, the Company incurred the following research and development and general and administrative expenses:

	Year ended December 31, 2019	Year ended December 31, 2018
General and administrative expenses	\$ 215,375	\$ 133,249
Bad debt expense	-	5,446
Professional fees	404,016	399,840
Consulting fees	845,519	335,899
Management fees	530,188	304,375
Rent	17,314	26,281
Salaries and wages	496,849	821,702
Travel	231,786	104,384
Depreciation	20,909	11,070
Lease-related depreciation	25,773	-
Utilities	43,564	19,014
Investor relations	37,689	-
Transfer agent and filing fees	79,245	-
Research and development materials	1,061,997	13,811
Total general and administrative expense, and research and development expenses	\$ 4,010,224	\$ 2,175,071

The Company does not anticipate paying dividends at this time.

Off-Balance Sheet Arrangements

None.

Proposed Transactions

None.

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 81,348,638, 2,747,956 and 6,305,000, respectively.

Subsequent Events

Subsequent to December 31, 2019, \$189,762 (CAD\$250,000) in principal of 2019 Debentures were converted into 714,282 common shares and 357,139 warrants of the Company.

On February 26, 2020, the Company closed a private placement of unsecured convertible debentures for gross proceeds of CAD\$1,630,380 of which CAD\$870,000 was brokered and CAD\$760,380 was non-brokered. The principal amount of the debentures may be converted, in whole or in part, at any time before the maturity date, into units of the Company at CAD\$0.30 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. The Company paid a cash commission to the agent of \$CAD \$69,600, a finance fee of 87,000 Shares and issued 232,000 non-transferable broker warrants. Each Broker Warrant entitles the Agent to purchase one Share at the price of \$0.30 per Share for a period of 24 months from the closing date.

On April 9, 2020, the Company closed the second tranche of its private placement of unsecured convertible debentures for gross proceeds of CAD\$230,000 of which CAD\$200,000 was brokered and CAD\$30,000 was non-brokered. The principal amount of the debentures may be converted, in whole or in part, at any time before the maturity date, into units of the Company at CAD\$0.30 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. The Company paid a cash commission to the agent of \$CAD \$16,000, a finance fee of 20,000 Shares and issued 53,333 non-transferable broker warrants. Each Broker Warrant entitles the Agent to purchase one Share at the price of \$0.30 per Share for a period of 24 months from the closing date.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve

and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.