MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2019

As used in this management's discussion and analysis ("MD&A"), unless the context indicates or requires otherwise, all references to the "Company", "Lightspeed", "we", "us" or "our" refer to Lightspeed POS Inc. together with our subsidiaries, on a consolidated basis as constituted on December 31, 2019.

This MD&A dated February 6, 2020, for the three and nine months ended December 31, 2019, should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three and nine months ended December 31, 2019, as well as with our audited annual consolidated financial statements and the notes related thereto for the year ended March 31, 2019. The financial information presented in this MD&A is derived from the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2019, which has been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). All amounts are in U.S. dollars except where otherwise indicated.

Forward-looking information

This MD&A contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking information") within the meaning of applicable securities laws. Forward looking information may relate to our financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved", the negative of these terms and similar terminology. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

This forward-looking information includes, among other things, statements relating to: expectations regarding industry trends; our growth rates and growth strategies; addressable markets for our solutions; the achievement of advances in and expansion of our platforms; expectations regarding our revenue and the revenue generation potential of our payment-related and other solutions; our business plans and strategies; and our competitive position in our industry.

This forward-looking information and other forward-looking information is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of our ability to build our market share and enter new markets and industry verticals; our ability to retain key personnel; our ability to maintain and expand geographic scope; our ability to execute on our expansion plans; our ability to continue investing in infrastructure to support our growth; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the factors described in the "Summary of Factors Affecting our Performance" section of this MD&A and in the "Risk Factors" section of our Annual Information Form dated May 30, 2019, which is available under our profile on SEDAR at www.sedar.com.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in “Summary of Factors Affecting our Performance” should be considered carefully by prospective investors.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. No forward-looking statement is a guarantee of future results. Accordingly, you should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of hereof (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

This MD&A includes certain trademarks, such as “Lightspeed”, “Flame Design”, “Show & Tell”, “Lightspeed Cloud” and “Lightspeed Pro”, which are protected under applicable intellectual property laws and are our property. Solely for convenience, our trademarks and trade names referred to in this MD&A may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.

Additional information relating to Lightspeed, including our most recently completed Annual Information Form, can be found on SEDAR at www.sedar.com.

Overview

Lightspeed provides easy-to-use, omni-channel commerce-enabling SaaS platforms. Our software platforms provide our customers with the critical functionality they need to engage with consumers, manage their operations, accept payments, and grow their business. We operate globally in over 100 countries, empowering single- and multi-location small and medium-sized businesses (“SMBs”) to compete successfully in an omni-channel market environment by engaging with consumers across online, mobile, social, and physical channels. We believe that our platforms are essential to our customers’ ability to run and grow their business. As a result, most of our revenue is recurring and we have a strong track-record of growing revenue per customer over time.

Our cloud platforms are designed around three interrelated elements: front-end consumer experience, back-end operations management to improve our customers’ efficiency and insight, and the facilitation of payments. Key functionalities of our platforms include omni-channel capabilities, point of sale (“POS”), product and menu management, inventory management, analytics and reporting, multi-location connectivity, loyalty and customer management. Our position at the point of commerce puts us in a privileged position for payments processing and allows us to collect transaction-related data insights. Lightspeed Payments, our payment processing solution, is currently available to our U.S. retail customers and we have commenced the initial rollout to Canadian customers as well as U.S. hospitality customers. We believe that the broader rollout of Lightspeed Payments will further align us with our customers’ success and represents a significant growth opportunity for our Company.

We sell our platforms primarily through our direct sales force in North America, Europe and Australia, supplemented by indirect channels in other countries around the world. Our platforms are well-suited for various types of SMBs, particularly single and multi-location retailers with complex operations, such as those with a high product count, diverse inventory needs or a service component, and restaurants ranging from quick service and festivals to hotels and fine dining establishments. On average, the customers we serve generate Gross Transaction Volume (as defined herein) in excess of $500,000 annually, which is reflective of the success of their businesses. Our customers generate monthly ARPU (as defined herein) of approximately $200 as of the month of December 2019 and collectively represented over 66,000 Customer Locations in over 100 countries as of December 31, 2019. The percent of eligible customers that contracted Lightspeed Payments in conjunction with purchasing the Lightspeed software exceeded 50% in the quarter. For the nine months ended December 31, 2019, our cloud-based SaaS platforms processed GTV of $16.2 billion, which represents growth of over 48% relative to GTV of $11.0 billion processed during the nine months ended December 31, 2018.

We generate revenue primarily from the sale of cloud-based software subscription licenses and other recurring revenue sources including payments solutions for both retailers and restaurants. We offer pricing plans designed to meet the needs of our current and prospective customers that enable Lightspeed solutions to scale with SMBs as they grow. Our subscription plans vary from monthly plans to one-year and multi-year terms, with the majority of our Customer Locations contracted for at least 12 months as of December 31, 2019. Our latest pricing plans, which rolled out in the quarter, are designed to encourage adoption of Lightspeed Payments. With this change we are more accommodating of monthly payment plans for our customers, and we expect to see this form of subscription plan grow in popularity as we look ahead. In addition, our software is integrated with certain third parties that enable electronic payment processing and as part of integrating with these payment processors, we have entered into revenue share agreements with each of them. We have now made Lightspeed Payments, our in-house payment processing solution, available to our U.S. retail customer base, and have commenced our initial rollout to our Canadian retail customers and our U.S. hospitality customers which provides our customers with full visibility into the final steps of their sale process. For the three and nine months ended December 31, 2019, software and payments revenue accounted for 88% and 89% of our total revenues respectively (89% and 89% for the three and nine months ended December 31, 2018).

In addition, we offer a variety of hardware and other services to provide value-added support to our merchants and supplement our software and payments revenue solutions. These revenues are generally one-time revenues associated with the sale of hardware with which our solutions integrate and the sale of professional services in support of the installation and implementation of our solutions and one-time fees earned from certain strategic partnerships. For the three and nine months ended December 31, 2019, this revenue accounted for 12% and 11% of our total revenues respectively (11% and 11% for the three and nine months ended December 31, 2018).

We believe we have a distinct leadership position in SMB commerce given our scale, breadth of capabilities, and diversity of customers. As a result, our business has grown significantly. Our total revenue has increased to $32.3 and $84.4 million, respectively, for the three and nine months ended December 31, 2019 from $20.1 and $56.2 million, respectively, for the three and nine months ended December 31, 2018, representing year-over-year growth of 61% and 50%. No customer represented more than 1% of our revenue for the nine months ended December 31, 2019 or 2018.

Our business is growing rapidly and we plan to continue making investments to drive future growth. We believe that our future success depends on a number of factors, including our ability to expand our customer base, increase revenue from existing customers, accelerate the adoption of Lightspeed Payments, add more solutions to our platforms, and selectively yet aggressively pursue and integrate acquisitions and enter new markets. We believe that our continued investments will increase our revenue base, improve the retention of this base and strengthen our ability to increase sales to our customers. After our most recent acquisition of Gastrofix GMBH ("Gastrofix") on January 7, 2020, our Customer Location count has increased to over 74,000 locations, which are almost evenly balanced between North America and the rest of world and representative of our global footprint in the SMB market. Additionally, these merchants are well balanced between retail and hospitality, representing approximately 55% and 45% of our total Customer Locations respectively. As at December 31, 2019, our Customer Location count was 66,000.

We have not been profitable to date, and if we are unable to successfully implement our growth strategies, we may not be able to achieve profitability. For the three and nine months ended December 31, 2019, we incurred an operating loss of $16.4 and $37.9 million respectively, compared to an operating loss of $5.7 and $14.4 million, respectively, for the three and nine months ended December 31, 2018. Our operating cash outflow for the nine months ended December 31, 2019 was $19.7 million compared to $7.3 for the nine months ended December 31, 2018.

Key Performance Indicators

We monitor the following key performance indicators to help us evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

Average Revenue Per User. "**Average Revenue Per User**" or "**ARPU**" represents the total software and payments revenue of the Company in the period divided by the number of unique customers of the Company in the period.

Customer Locations. "**Customer Location**" means a billing customer location for which the term of services have not ended, or with which we are negotiating a renewal contract. A single unique customer can have multiple Customer Locations including physical and eCommerce sites. We believe that our ability to increase the number of Customer Locations served by our platforms is an indicator of our success in terms of market penetration and growth of our business. We have successfully demonstrated a history of growing both the number of our Customer Locations and GTV per

Customer Location through the increased use of our platforms. As of December 31, 2019 and December 31, 2018, over 66,000 and approximately 47,000 Customer Locations, respectively, were utilizing our platforms. After our most recent acquisition of Gastrofix on January 7, 2020, our Customer Location count has increased to over 74,000 locations.

Gross Transaction Volume. "**Gross Transaction Volume**" or "**GTV**" means the total dollar value of transactions processed through our cloud-based SaaS platforms in the period, net of refunds, inclusive of shipping and handling, duty and value-added taxes. We believe GTV is an indicator of the success of our Customer Locations and the strength of our platforms. GTV does not represent revenue earned by us. For the nine months ended December 31, 2019 and 2018, GTV was $16.2 billion and $11.0 billion, respectively.

Non-IFRS Measures and Reconciliation of Non-IFRS Measures

The information presented within this MD&A includes certain financial measures such as "Adjusted EBITDA." Such financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation.

Adjusted EBITDA

Adjusted EBITDA is defined as net loss excluding interest, taxes, depreciation and amortization, or EBITDA, as adjusted for stock-based compensation and related expenses, fair value loss on Redeemable Preferred Shares, compensation expenses relating to acquisitions completed, foreign exchange gains and losses and transaction-related expenses. The following table reconciles net loss to Adjusted EBITDA for the periods indicated:

	Three months ended December 31,		Nine months ended December 31,	
(In thousands of US dollars)	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Net loss	(15,762)	(71,128)	(34,934)	(87,449)
Fair value loss on Redeemable Preferred Shares[(1)]	—	52,489	—	59,084
Stock-based compensation and related payroll taxes[(2)]	3,534	654	7,254	1,067
Depreciation and amortization[(3)]	3,188	1,022	7,836	3,473
Foreign exchange loss (gain)[(4)]	315	240	(95)	350
Interest income net of interest expense[(3)]	(283)	(9)	(1,992)	(100)
Acquisition-related compensation[(5)]	3,187	158	5,949	266
Transaction-related costs[(6)]	971	305	1,499	305
Income tax expense (recovery)	(403)	12,916	(999)	14,044
Adjusted EBITDA	(5,253)	(3,353)	(15,482)	(8,960)

(1) This loss is with respect to the change in valuation of our Redeemable Preferred Shares from period to period, which is a non-cash item. Prior to the completion of our Initial Public Offering, all of our Redeemable Preferred Shares were converted and the liability was reduced to $Nil with a corresponding increase in share capital. There will be no further impact on our results of operations from these shares.

(2) These expenses represent non-cash expenditures recognized in connection with issued stock options and other awards under our stock option plans to our employees and directors as well as related payroll taxes given that they are directly attributable to stock-based compensation, are estimates and therefore subject to change, and don't reflect a current cash outlay. We do expect future cash outlays with respect to the payroll tax component of stock-based compensation expense. For the three and nine months ended December 31, 2019, the stock based compensation expense was $2,334 and $4,810 respectively (December 2018 - $657 and $976) and the related payroll taxes were $1,200 and $2,444 respectively (December 2018 - recovery of $3 and expense of $91).

(3) In connection with the adoption of IFRS 16 - Leases, on a modified retrospective basis, with no restatement of comparatives, for the three months ended December 31, 2019, net loss includes depreciation of $648 related to amortization of right-of-use assets, interest expense of $212 on lease liabilities, and excludes an amount of $759 relating to rent expense ($1,671, $606, and $1,940 respectively for the nine months ended December 31, 2019). Refer to "Critical Accounting Policies and Estimates" below for more details on the adoption of IFRS 16.

(4) These non-cash losses (gains) relate to foreign exchange translation. Prior to March 31, 2019 we did not exclude foreign exchange gains and losses from Adjusted EBITDA.

(5) These costs represent a portion of the purchase price that is associated with the ongoing employment obligations for certain key employees of acquired businesses.

(6) These expenses relate to professional, legal, consulting and accounting fees relating to our initial public offering, our acquisitions as well as our secondary offering in August 2019 that would otherwise not have been incurred.

Outlook

A discussion of management's updated expectations as to the Company's outlook for Fiscal 2020 is contained in the Company's press release dated February 6, 2020 under the heading 'Financial Outlook'. The press release is available on www.sedar.com.

In our press release dated August 7, 2019, we updated the full year 2020 outlook with respect to cash flows used in operating activities. In light of the continuing success the Company has achieved with respect to its launch of Lightspeed Payments, Lightspeed has updated its marketing strategy to further encourage Payments adoption rates. The Company now expects more of its customers to opt for monthly payment plans within their contract period instead of annual payments. As a result, we are withdrawing the previous outlook that cash flows used in operating activities will be in the range of $9.5 to $11 million.

Summary of Factors Affecting Our Performance

We believe that the growth and future success of our business depends on many factors, including those described below. While each of these factors presents significant opportunities for our business, they also pose important challenges, some of which are discussed below and in the "Risk Factors" section of our most recent Annual Information Form, which can be found on SEDAR at www.sedar.com.

Market adoption of our platforms

We intend to continue to drive adoption of our commerce-enabling platforms by scaling our solutions to meet the needs of both new and existing customers of all types and sizes. We believe that there is significant potential to increase penetration of our total addressable market and attract new customers. We plan to do this by further developing our products and services as well as continuing to invest in marketing strategies tailored to attract new businesses to our platforms, both in our existing geographies and new markets around the world. We also intend to selectively evaluate opportunities to offer our solutions to businesses operating in industry verticals that we do not currently serve. We plan to continue to invest in our platforms to expand our customer base and drive market adoption and our operating cash flows may fluctuate as we make these investments.

Customer adoption of Lightspeed Payments

In January 2019, we released our payment processing solution, Lightspeed Payments, to our U.S. retail customers, and we believe that Lightspeed Payments will become an increasingly important part of our business as we make it available to our broader customer base and across multiple geographies. Lightspeed Payments is designed to be transparent and easy to understand, and we have priced our solution at market competitive rates based on a percentage of GTV electronically processed through our platforms. As an increasing proportion of our revenue is generated from Lightspeed Payments, we believe that while our total revenues may grow significantly, our gross margins will decrease over time due to the lower gross margin profile of our payments revenue stream relative to the higher gross margin profile of our software subscription revenue stream. Lightspeed Payments has now begun an initial rollout to the Company's Canadian retail customers and US hospitality customers.

Cross-selling and up-selling with existing customers

Our existing customers represent a significant opportunity to cross-sell and up-sell products and services with limited incremental sales and marketing expense. We use a "land and expand" approach, with many of our customers initially deploying one of our platforms for a specific use case. Once they realize the benefits and wide functionality of our platforms, they can expand the number of use cases including services such as Lightspeed Loyalty, Lightspeed Analytics and Lightspeed Payments. We plan to continually invest in product development, and in sales and marketing, to add more solutions to our platforms and to increase the usage and awareness of our solutions. Our future revenue growth and our ability to achieve and maintain profitability is dependent upon our ability to maintain existing customer relationships and to continue to expand our customers' use of our comprehensive suite of our solutions.

Scaling our sales and marketing team

Our ability to achieve significant growth in future revenue will largely depend upon the effectiveness of our sales and marketing efforts, both domestically and internationally. The majority of our sales and marketing efforts are accomplished in-house, and we believe the strength of our sales and marketing team is critical to our success. We have invested and intend to continue to invest meaningfully in terms of expanding our sales force, and consequently, we anticipate that our headcount will continue to increase as a result of these investments.

International sales

We believe that global demand for our platform will continue to increase as SMBs seek out end-to-end solutions with omni-channel capabilities to enable their businesses to thrive and succeed in an increasingly complex operating environment. Accordingly, we believe there is a significant opportunity to grow our international business. We have invested, and plan to continue to invest, ahead of this potential demand in personnel and marketing, and to make selective acquisitions outside of North America to support our international growth.

Seasonality

We believe our transaction-based revenues will begin to represent an increasing proportion of our overall revenue mix over time as a result of the recent introduction of Lightspeed Payments, and we expect seasonality of our quarterly results to increase. While rapid growth in our subscription base and upsells to existing customers has largely mitigated seasonal trends in our revenues to date, we expect our transaction-based revenues will become increasingly correlated with respect to the GTV processed by our customers through our platforms.

Foreign currency

Our presentation and functional currency is the U.S. dollar. We derive the largest portion of our revenues in U.S. dollars and a smaller proportion of our expenses in U.S. dollars. Our head office and a significant portion of our employees are located in Montréal, Canada, along with additional presence in Europe and Australia, and as such, a significant amount of our expenses are incurred in Canadian dollars and Euros with a smaller proportion of expenses incurred in Australian dollars, GBP, and Swiss Francs. As a result, our results of operations will be adversely impacted by a decrease in the value of the U.S. dollar relative to these currencies but primarily the Canadian dollar or the Euro. See the “Risk Factors” section of our most recent Annual Information Form, which can be found on SEDAR at www.sedar.com, for a discussion on exchange rate fluctuations.

Key Components of Results of Operations

Revenues

Software and payments revenues

We principally generate subscription-based revenues through the sale of subscription licenses to our retail and restaurant software solutions and transaction-based revenues. We offer pricing plans designed to meet the needs of our current and prospective customers that enable Lightspeed solutions to scale with SMBs as they grow. Our subscription plans are sold as monthly, one-year or multi-year plans, with more than half of our Customer Locations contracted for at least 12 months. Where customers elect to pay their full contract upfront, a deferred revenue balance is created on our balance sheet. Subscription plans for our cloud-based solutions include maintenance and support. Customers purchase subscription plans directly from us or through our channel partners.

We also generate transaction-based revenues by providing our customers with the functionality to accept payments from consumers. Such revenues come in the form of payment processing fees and transaction fees and represent a percentage of GTV processed by our customers through our offered solutions. We have two sources of transaction-based revenues: our recently launched proprietary payments processing solution, Lightspeed Payments, and revenue sharing agreements with our integrated payment partners.

Lightspeed Payments allows our customers to accept electronic payments in-store, through connected terminals and online. Given its availability thus far has been limited to only our base of U.S. retail customers, Lightspeed Payments represents only a nominal source of revenue to date. We believe it will become an increasingly important part of our business, as it is made available to our broader customer base. Offering a fully integrated payment functionality is highly complementary to the platforms we offer our customers today and will allow us to monetize a greater portion of the over $19.7 billion in GTV, which represents approximately 45% growth in total GTV over the past 12 months, processed on our cloud-based SaaS platforms over the last 12 months.

We also continue to support our legacy on-premise retail solution, which is downloaded by the customer and installed on the customer’s server. As we transition this small group of customers to our cloud platform, we expect revenue from our on-premise solution to decline.

In addition, we generate revenues through referral fees and revenue sharing agreements from our partners to whom we direct business or who sell their applications through our apps and themes marketplace. Pursuant to the terms of our agreements with these partners, these revenues can be recurring or non-recurring.

Hardware and other revenues

These revenues are generally one-time revenues associated with the sale of hardware with which our solutions integrate and the sale of professional services in support of the installation and implementation of our solutions. We generate revenues through the sale of POS peripheral hardware such as receipt printers, cash drawers, payment terminals, servers, stands, bar-code scanners, and an assortment of accessories, as well as our Lite Server product that enables certain hospitality customers to operate on our platform without requiring an active internet connection.

Although our software solutions are intended to be turnkey solutions that can be used by the customer as delivered, we provide professional services to our hospitality customers in some circumstances in the form of on site installations and implementations. These implementation services are typically delivered through our internal integrations team or through a network of certified partners. Additionally, from time to time we earn one-time fees for integration work performed pursuant to certain strategic partnerships.

Direct Cost of Revenues

Cost of software and payments revenue

Cost of software and payments revenue primarily includes employee expenses for the support team, direct costs related to our Lightspeed Payments business and costs associated with hosting infrastructure for our services. Significant expenses include data center capacity costs and other third party direct costs such as cloud infrastructure, including total salaries and benefits, stock-based compensation and related expenses, customer support and royalties. We expect that cost of software and payments revenue will increase on an absolute dollar basis and as a percentage of total revenues due to the lower gross margin profile of Lightspeed Payments relative to the higher gross margin profile of our software subscription revenue stream.

Cost of hardware and other revenue

Cost of these revenues primarily includes costs associated with our hardware solutions, such as the cost of acquiring the hardware inventory, including hardware purchase price, expenses associated with a third-party fulfillment company, shipping and handling and inventory adjustments.

Operating Expenses

General and administrative

General and administrative expenses comprise employee expenses, including stock-based compensation and related expenses, for finance, accounting, legal, administrative, human resources, information technology as well as payment operations. These costs also include other professional fees, transaction-related fees related to the Company's acquisitions, costs associated with internal systems and general corporate expenses. We expect that general and administrative expenses will increase on an absolute dollar basis as we incur the costs of compliance associated with being a public company, including increased accounting and legal expenses. In the longer term, however, we expect general and administrative expenses to decrease as a percentage of total revenues as we focus on processes, systems and controls to enable our internal support functions to scale with the growth of our business.

Research and development

Research and development expenses consist primarily of employee expenses, including stock-based compensation and related expenses, for product-related expenses including product management, core development, product design and development and other corporate overhead allocations. We continue to invest our research and development efforts on developing added features and solutions, as well as increasing the functionality and enhancing the ease of use of our platforms. Historically, these expenses have been reduced primarily by the Canadian Federal Scientific Research and Experimental Development Program and Tax Credit for the Development of e-business, or "SR&ED" and "e-business" tax credits respectively. As a public company, we are no longer eligible for federal refundable SR&ED tax credits, while e-business tax credits remain available. However, we remain eligible for non-refundable SR&ED credits under this program, which are eligible to reduce future income taxes payable. Given the Company's recent losses in Canada, these credits have not been recognized. Upon recognition, they will reduce research and development expenses. Although not immediately, given that we are still scaling our technology group in line with anticipated growth, we expect research and development expenses to decline in proportion to total revenue as we achieve additional economies of scale from our expansion.

Sales and marketing

Sales and marketing expenses consist primarily of selling and marketing costs and employee expenses, including stock-based compensation and related expenses, for sales and business development, marketing as well as a small portion of on-boarding for new customers. Other costs within sales and marketing include costs of acquisition of new customers, travel-related expenses and corporate overhead allocations. We plan to continue to expand sales and marketing efforts to attract new customers, retain existing customers and increase revenues from both new and existing customers. Over time, we expect sales and marketing expenses will decline as a percentage of total revenues as we achieve additional economies of scale from our expansion.

Acquisition-related compensation

Acquisition-related compensation expenses represent the portion of the purchase price from acquisitions which is payable contingent upon certain milestones as well as ongoing employment obligations of certain key employees of the acquired businesses. This cost is amortized over the required service period for those key employees.

Other Expenses

Fair value loss on Redeemable Preferred Shares

These costs include costs with respect to the change in valuation of the Redeemable Preferred Shares from period to period. Immediately prior to the completion of the Initial Public Offering of our shares on the Toronto Stock Exchange in March 2019, all of our Redeemable Preferred Shares were converted and the liability was reduced to $Nil with a corresponding increase in share capital. Following their conversion, the Redeemable Preferred Shares ceased to impact our results of operations.

Results of Operations

The following table outlines our consolidated statements of loss and comprehensive loss for the three and nine months ended December 31, 2019 and 2018:

	Three months ended December 31,		Nine months ended December 31,	
(In thousands of US dollars, except per share data)	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Revenues				
Software and payments	28,354	17,908	75,087	49,841
Hardware and other	3,921	2,189	9,279	6,325
	32,275	20,097	84,366	56,166
Direct cost of revenues				
Software and payments	9,135	4,046	22,014	11,148
Hardware and other	2,581	1,924	7,590	5,463
	11,716	5,970	29,604	16,611
Gross profit	20,559	14,127	54,762	39,555
Operating expenses				
General and administrative	7,198	3,443	17,136	8,997
Research and development	8,070	5,001	21,712	13,209
Sales and marketing	15,049	9,995	40,149	27,681
Depreciation of property and equipment	386	378	1,199	974
Depreciation of right-of-use assets	648	—	1,671	—
Foreign exchange loss (gain)	315	240	(95)	350
Acquisition-related compensation	3,187	158	5,949	266
Amortization of intangible assets	2,154	644	4,966	2,499
Total operating expenses	37,007	19,859	92,687	53,976
Operating loss	(16,448)	(5,732)	(37,925)	(14,421)
Fair value loss on Redeemable Preferred Shares	—	(52,489)	—	(59,084)
Interest income net of interest expense	283	9	1,992	100
Loss before income taxes	(16,165)	(58,212)	(35,933)	(73,405)
Income tax expense (recovery)				
Current	56	—	95	(5)
Deferred	(459)	12,916	(1,094)	14,049
Total income tax expense (recovery)	(403)	12,916	(999)	14,044
Net loss and comprehensive loss	(15,762)	(71,128)	(34,934)	(87,449)
Loss per share – basic and diluted	(0.18)	(2.37)	(0.41)	(2.94)

The following table outlines stock-based compensation and the related payroll taxes associated with these expenses included in the results of operations for the three and nine months ended December 31, 2019 and 2018:

	Three months ended December 31,		Nine months ended December 31,	
(In thousands of US dollars)	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Direct cost of revenues	273	58	561	109
General and administrative	1,214	222	2,590	383
Research and development	778	152	1,701	(105)
Sales and marketing	1,269	222	2,402	680
Total stock-based compensation	3,534	654	7,254	1,067

For the three and nine months ended December 31, 2019, the stock based compensation expense was $2,334 and $4,810 respectively (December 2018 - $657 and $976) and the related payroll taxes were $1,200 and $2,444 respectively (December 2018 - recovery of $3 and expense of $91).

Results of Operations for the Three and Nine Months Ended December 31, 2019 and 2018

Revenues

	Three months ended December 31,				Nine months ended December 31,			
(In thousands of US dollars, except percentages)	**2019**	**2018**	**Change**	**Change**	**2019**	**2018**	**Change**	**Change**
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Revenues								
Software and payments	28,354	17,908	10,446	58.3	75,087	49,841	25,246	50.7
Hardware and other	3,921	2,189	1,732	79.1	9,279	6,325	2,954	46.7
Total revenues	32,275	20,097	12,178	60.6	84,366	56,166	28,200	50.2
Percentage of total revenues								
Software and payments	87.9 %	89.1 %			89.0 %	88.7 %		
Hardware and other	12.1 %	10.9 %			11.0 %	11.3 %		
Total	100 %	100 %			100 %	100 %		

Software and Payments Revenue

Software and payments revenue for the three months ended December 31, 2019 increased by $10.4 million or 58% as compared to the three months ended December 31, 2018. The increase was primarily due to growth in our subscription customer base including customers from the acquisition of iKentoo S.A. ("iKentoo") as well as Kounta Holdings Pty Ltd ("Kounta") which combined accounted for $2.3 million of software and payments revenue in the quarter. Also contributing to the increase were higher payments revenue from continued adoption of Lightspeed Payments and payment referral fees earned through our partners. GTV processed through our platforms grew from $3.8 billion for the three months ended December 31, 2018 to $6.2 billion for the three months ended December 31, 2019, evidencing increased use of our platforms. Customers adopting additional modules of our platforms also contributed to the increase in subscription license revenue in the period.

Software and payments revenue for the nine months ended December 31, 2019 increased by $25.2 million or 50.7% as compared to the nine months ended December 31, 2018. The increase was primarily due to growth in our subscription customer base including customers from the acquisition of iKentoo as well as Kounta, which combined accounted for $3.3 million of software and payments revenue for the nine months ended December 31, 2019. Also contributing to the increase were higher payments revenue from continued adoption of Lightspeed Payments and payment referral fees earned through our partners. GTV processed through our platforms grew from $11.0 billion for the nine months ended December 31, 2018 to $16.2 billion for the nine months ended December 31, 2019.

Hardware & Other Revenue

Hardware and other revenue for the three months ended December 31, 2019 increased by $1.7 million or 79% as compared to the three months ended December 31, 2018 due to the revenue contributions of iKentoo and Kounta in the quarter, as well as the contribution of some one-time revenue from certain strategic partnerships.

Hardware and other revenue for the nine months ended December 31, 2019 increased by $3.0 million or 47% as compared to the nine months ended December 31, 2018 primarily due to the increase in sales of our hardware to new customers during the period, the revenue contribution of iKentoo as well as Kounta in the nine month period, as well as the contribution of some one-time revenue from certain strategic partnerships.

Direct Cost of Revenues

(In thousands of US dollars, except percentages)	Three months ended December 31,				Nine months ended December 31,			
	2019	2018	Change	Change	2019	2018	Change	Change
	$	$	$	%	$	$	$	%
Direct cost of revenues								
Software and payments	9,135	4,046	5,089	125.8	22,014	11,148	10,866	97.5
Hardware and other	2,581	1,924	657	34.1	7,590	5,463	2,127	38.9
Total costs of revenues	11,716	5,970	5,746	96.2	29,604	16,611	12,993	78.2
Percentage of revenue								
Software and payments	32.2 %	22.6 %			29.3 %	22.4 %		
Hardware and other	65.8 %	87.9 %			81.8 %	86.4 %		
Total	36.3 %	29.7 %			35.1 %	29.6 %		

Direct Cost of Software and Payments Revenue

Direct cost of software and payments revenue for the three months ended December 31, 2019 increased by $5.1 million or 126% as compared to the three months ended December 31, 2018. The increase was due to higher costs associated with supporting a greater number of Customer Locations utilizing our platforms, as well as an increase in our Payments customers which carry higher direct costs than our subscription business. Overall, direct cost of software and payments revenue as a percentage of revenue increased from 23% to 32% for the three months ended December 31, 2019 compared to the three months ended December 31, 2018.

Direct cost of software and payments revenue for the nine months ended December 31, 2019 increased by $10.9 million or 97% as compared to the nine months ended December 31, 2018. The increase was due to increased costs associated with supporting a greater number of Customer Locations utilizing our platforms, as well as an increase in our Payments customers which carry higher direct costs than our subscription business. Overall, direct cost of software and payments revenue as a percentage of revenue increased from 22% to 29% for the nine months ended December 31, 2019 compared to the nine months ended December 31, 2018.

Direct Cost of Hardware and Other Revenue

Direct cost of hardware and other revenue for the three months ended December 31, 2019 increased by $0.7 million or 34% as compared to the three months ended December 31, 2018. The increase was due to the increase in revenue for the period although the decrease as a percentage of revenue was a result of the contribution of some one-time revenue from certain strategic partnerships.

Direct cost of hardware and other revenue for the nine months ended December 31, 2019 increased by $2.1 million or 39% as compared to the nine months ended December 31, 2018. The increase was due to the increase in revenue for the period although the decrease as a percentage of revenue was a result of the contribution of some one-time revenue from certain strategic partnerships.

Gross Profit

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019	2018	Change	Change	Nine months ended December 31, 2019	2018	Change	Change
	$	$	$	%	$	$	$	%
Gross profit	20,559	14,127	6,432	45.5	54,762	39,555	15,207	38.4
Percentage of total revenues	63.7%	70.3%			64.9%	70.4%		

Gross profit for the three months ended December 31, 2019 increased by $6.4 million or 46% compared to the three months ended December 31, 2018. The increase was primarily due to growth in our software and payments revenue as a result of increased Customer Locations using our platforms and increased GTV processed through our platforms. Increased adoption of Lightspeed Payments reduced gross profit as a percentage of revenue.

Gross profit for the nine months ended December 31, 2019 increased by $15.2 million or 38% compared to the nine months ended December 31, 2018. The increase was primarily due to growth in our software and payments revenue as a result of increased Customer Locations using our platforms and increased GTV processed through our platforms. Increased adoption of Lightspeed Payments reduced gross profit as a percentage of revenue.

Operating Expenses

General and Administrative

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019	2018	Change	Change	Nine months ended December 31, 2019	2018	Change	Change
	$	$	$	%	$	$	$	%
General and administrative	7,198	3,443	3,755	109.1	17,136	8,997	8,139	90.5
Percentage of total revenues	22.3%	17.1%			20.3%	16.0%		

General and administrative expenses for the three months ended December 31, 2019 increased by $3.8 million compared to the three months ended December 31, 2018. Of this increase, $1.0 million was due to higher stock-based compensation and related expenses and $0.8 million was due to an increase in professional fees incurred as a result of acquisitions made in the quarter as compared to the prior year. Of the remaining increase, $1.2 million was due to higher salary and benefits costs as we continued to scale our back-office operations with additional headcount in our finance, human resources, information technology, internal systems and data departments, as well as certain professional costs related to being a public company . $1.1 million related to other headcount driven costs offset by an adjustment of $0.7 million related to the new lease standard implementation in this fiscal year. As a result of the above, our general and administrative expenses as a percentage of revenue increased to 22% from 17% between the three months ended December 31, 2019 and the three months ended December 31, 2018.

General and administrative expenses for the nine months ended December 31, 2019 increased by $8.1 million compared to the nine months ended December 31, 2018. Of this increase, $2.2 million was due to higher stock-based compensation and related payroll tax costs as compared to the prior year, and $2.2 million related to an increase in professional fees incurred as a result of acquisitions made in the nine month period as compared to the prior year, fees related to our secondary offering, as well as certain professional costs related to being a public company. The remainder of the increase of $4.0 million was due to higher salary costs and other employee related costs such as software licenses as we continued to scale our back-office operations with additional headcount in our finance, human resources, information technology, internal systems and data departments. As a result of the above, our general and administrative expenses as a percentage of revenue increased to 20% from 16% between the nine months ended December 31, 2019 and the nine months ended December 31, 2018.

Research and Development

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019	2018	Change	Change	Nine months ended December 31, 2019	2018	Change	Change
	$	$	$	%	$	$	$	%
Research and development	8,070	5,001	3,069	61.4	21,712	13,209	8,503	64.4
Percentage of total revenues	25.0%	24.9%			25.7%	23.5%		

Research and development expenses for the three months ended December 31, 2019 increased by $3.1 million or 61% compared to the three months ended December 31, 2018. This increase was due primarily to $2.2 million in additional salary and other employee costs (net of tax credits) resulting from increased headcount in our research and development teams, $1.2 million of which arose from salaries and benefits of employees of companies acquired in the fiscal year. In addition, there was a $0.6 million increase in stock-based compensation and related expenses as well as $0.1 million increase in infrastructure costs and other development costs in the quarter. Our research and development costs as a percentage of revenue remained at 25% from the three months ended December 31, 2018 to the three months ended December 31, 2019.

Research and development expenses for the nine months ended December 31, 2019 increased by $8.5 million or 64% compared to the nine months ended December 31, 2018. This increase was due primarily to additional salary and other employee costs resulting from increased headcount in our research and development teams including a $1.8 million increase in stock-based compensation and related payroll taxes as well as $2.5 million of incremental expenses assumed as part of our acquisition of Chronogolf, iKentoo, and Kounta. Our research and development costs as a percentage of revenue increased from 24% to 26% from the nine months ended December 31, 2018 to the nine months ended December 31, 2019.

Sales and Marketing

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019	2018	Change	Change	Nine months ended December 31, 2019	2018	Change	Change
	$	$	$	%	$	$	$	%
Sales and marketing	15,049	9,995	5,054	50.6	40,149	27,681	12,468	45.0
Percentage of total revenues	46.6%	49.7%			47.6%	49.3%		

Sales and marketing expenses for the three months ended December 31, 2019 increased by $5.1 million or 51% as compared to the three months ended December 31, 2018. Approximately $2.2 million of the additional expenses related to salaries and other employee costs including incremental employee costs pursuant to our recent acquisitions of Chronogolf, iKentoo, and Kounta. The increase for the quarter also includes $1.0 million related to stock-based compensation and related expenses as well as $1.7 million incurred for other growth focused investments in sales and marketing specifically in advertising, acquisition and growth spend including payments made to our distribution partners as reseller commissions. Given that revenue growth was 61%, sales and marketing costs as a percentage of revenue decreased from 50% to 47% from the three months ended December 31, 2018 to the three months ended December 31, 2019.

Sales and marketing expenses for the nine months ended December 31, 2019 increased by $12.5 million or 45% as compared to the nine months ended December 31, 2018. Approximately $6.7 million of the additional expenses related to salaries and other employee costs, $1.7 million of which related to stock-based compensation and related benefits as well as the $2.4 million in incremental employee expenses pursuant to our recent acquisitions of Chronogolf, iKentoo, and Kounta. An additional $5.5 million in costs was incurred for other growth focused investments in sales and marketing specifically in advertising, acquisition and growth spend including payments made to our distribution partners as reseller commissions. Given that revenue growth was 50% for the nine month period, sales and marketing costs as a percentage of revenue decreased from 49% to 48% from the nine months ended December 31, 2018 to the nine months ended December 31, 2019.

Depreciation

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019 $	2018 $	Change $	Change %	Nine months ended December 31, 2019 $	2018 $	Change $	Change %
Depreciation of property and equipment	386	378	8	2.1	1,199	974	225	23.1
Depreciation of right-of-use assets	648	—	648	100	1,671	—	1,671	100
	1,034	378	656	173.5	2,870	974	1,896	194.7
Percentage of total revenues	3.2%	1.9%			3.4%	1.7%		

Depreciation of property and equipment expenses for the three months ended December 31, 2019 increased by 2% as compared to the three months ended December 31, 2018. The increase in the depreciation expense results from additions to property and equipment made throughout the last 12 months. The depreciation of right-of-use assets represents the depreciation of leases that were capitalized as a result of the adoption of IFRS 16.

Depreciation of property and equipment expenses for the nine months ended December 31, 2019 increased by 23% as compared to the nine months ended December 31, 2018. The increase in the depreciation expense results from additions to property and equipment made throughout the prior fiscal year as well as in the nine months ended December 31, 2019. The depreciation of right-of-use assets represents the depreciation of leases that were capitalized as a result of the adoption of IFRS 16.

Foreign Exchange Loss (Gain)

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019 $	2018 $	Change $	Change %	Nine months ended December 31, 2019 $	2018 $	Change $	Change %
Foreign exchange loss (gain)	315	240	75	31.3	(95)	350	(445)	(127.1)
Percentage of total revenues	1.0%	1.2%			(0.1)%	0.6%		

Foreign exchange gain for the nine months ended December 31, 2019 increased to $0.1 million as compared to the foreign exchange loss of $0.4 million for the nine months ended December 31, 2018. This was due to the strengthening of the Canadian dollar given that subsequent to our initial public offering, a significant portion of the Company's cash was held in Canadian dollars. Items included in our results are measured in the functional currency (US dollars), and foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or when items are re-measured with resulting gains and losses subsequently recognized.

Acquisition-related Compensation

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019 $	2018 $	Change $	Change %	Nine months ended December 31, 2019 $	2018 $	Change $	Change %
Acquisition-related compensation	3,187	158	3,029	1,917.1	5,949	266	5,683	2,136.5
Percentage of total revenues	9.9%	0.8%			7.1%	0.5%		

Acquisition-related compensation expenses for the three months ended December 31, 2019 increased by $3.0 million compared to the three months ended December 31, 2018. The increase was due to acquisitions of ReUp Technologies Inc. ("ReUp") in July 2018, Chronogolf in May 2019, iKentoo in July 2019, and Kounta in November 2019. We issued contingent consideration, some of which was tied to ongoing employment obligations in connection with these acquisitions. The contingent consideration that was not included in the total purchase consideration was treated as an acquisition-related compensation expense for post-combination services.

Acquisition-related compensation expenses for the nine months ended December 31, 2019 increased by $5.7 million compared to the nine months ended December 31, 2018. The increase was due to our acquisitions of ReUp in July 2018, Chronogolf in May 2019, iKentoo in July 2019, and Kounta in November 2019. We issued contingent consideration tied to ongoing employment obligations in connection with these acquisitions. This contingent consideration was not included in the total purchase consideration, but rather was treated as an acquisition-related compensation expense for post-combination services.

Amortization of Intangible Assets

	Three months ended December 31,				Nine months ended December 31,			
(In thousands of US dollars, except percentages)	**2019**	**2018**	**Change**	**Change**	**2019**	**2018**	**Change**	**Change**
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Amortization of intangible assets	2,154	644	1,510	234.5	4,966	2,499	2,467	98.7
Percentage of total revenues	6.7%	3.2%			5.9%	4.4%		

Amortization of intangible assets for the three months ended December 31, 2019 increased by $1.5 million or 235% as compared to the three months ended December 31, 2018. The increase in amortization relates to intangibles acquired through the Chronogolf, iKentoo, and Kounta acquisitions of $2.0 million during Fiscal 2020 which was offset by a decrease in amortization from intangibles that were fully amortized during Fiscal 2019 of $0.5 million.

Amortization of intangible assets for the nine months ended December 31, 2019 increased by $2.5 million or 99% as compared to the nine months ended December 31, 2018. The increase in amortization relates to intangibles acquired through the Chronogolf, iKentoo, and Kounta acquisitions of $3.8 million during Fiscal 2020 which was offset by a decrease in amortization from intangibles that were fully amortized during Fiscal 2019 and Q1 of Fiscal 2020 of $1.4 million.

Other Income (Expenses)

	Three months ended December 31,				Nine months ended December 31,			
(In thousands of US dollars, except percentages)	**2019**	**2018**	**Change**	**Change**	**2019**	**2018**	**Change**	**Change**
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Fair value loss on Redeemable Preferred Shares	—	(52,489)	52,489	(100)	—	(59,084)	59,084	(100)
Percentage of total revenues	—	(261.2)%			—	(105.2)%		

Other income (expenses) refer to losses on the Redeemable Preferred Shares that are measured at fair value.

Fair value loss on Redeemable Preferred Shares for the three months ended December 31, 2019 decreased to $0 from $52.5 million in the three months ended December 31, 2018. Fair value loss on Redeemable Preferred Shares for the nine months ended December 31, 2019 decreased to $0 from $59.1 million in the nine months ended December 31, 2018. Upon the Company's initial public offering in March 2019, all the Redeemable Preferred Shares converted to Common Shares and as a result, there will be no further impact on our results of operations from these shares.

Income Taxes

(In thousands of US dollars, except percentages)	Three months ended December 31, 2019	2018	Change	Change	Nine months ended December 31, 2019	2018	Change	Change
	$	$	$	%	$	$	$	%
Income tax expense (recovery)								
Current	56	—	56	100	95	(5)	100	(2,000)
Deferred	(459)	12,916	(13,375)	(103.6)	(1,094)	14,049	(15,143)	(107.8)
Total income tax expense (recovery)	(403)	12,916	(13,319)	(103.1)	(999)	14,044	(15,043)	(107.1)
Percentage of total revenues								
Current	0.2 %	0.0%			0.1 %	0.0 %		
Deferred	(1.4)%	64.3%			(1.3)%	25.0 %		
Total costs of revenues	(1.2)%	64.3%			(1.2)%	25.0 %		

Deferred income tax expense (recovery) for the three months ended December 31, 2019 decreased by $13.4 million as compared to the three months ended December 31, 2018. Deferred income tax expense (recovery) for the nine months ended December 31, 2019 decreased by $15.1 million as compared to the nine months ended December 31, 2018. The decrease was primarily due to the reversal of the balance of the Part VI.I tax given the conversion of the Redeemable Preferred Shares upon the the Company's initial public offering.

Key Balance Sheet Information

(In thousands of US dollars)	December 31, 2019	March 31, 2019
	$	$
Cash and cash equivalents	126,662	207,703
Total assets	278,156	255,811
Total liabilities	85,706	59,145
Total long-term liabilities	21,188	10,510

See “Results of Operations” in this MD&A for a more detailed discussion of the year-over-year changes in revenues and net loss and comprehensive loss.

Total Assets

December 31, 2019 Compared to March 31, 2019

Total assets increased $22.3 million or 9% from March 31, 2019 to December 31, 2019. The main drivers of this increase were the $13.7 million lease asset resulting from the implementation of the new lease standard, an increase of $32.7 million in intangibles, an increase of $49.8 million in Goodwill resulting from the acquisition of Chronogolf, iKentoo, and Kounta, an increase of $2.0 million in Property Plant & Equipment net of accumulated depreciation, an increase of $4.6 million in several other current assets, offset by a decrease in cash of $81 million.

Total Liabilities

December 31, 2019 Compared to March 31, 2019

Total long-term liabilities increased by $10.7 million from March 31, 2019 to December 31, 2019. The main drivers of the increase were the creation of the long-term lease liability, offset by a reduction in lease incentives, of $11.1 million both arising from the implementation of the new lease standard. The long-term portion of payroll and deferred tax liabilities also increased by $0.8 million and other long term liabilities acquired through our recent acquisitions increased by $0.7 million. This was offset by a reduction in the long-term portion of deferred revenue of $2.1 million. The decrease of deferred revenue was due to the shorter durations of our contracts in general which increased the short-term portion of deferred revenue and decreased the long-term portion of deferred revenue versus Fiscal 2019.

Total current liabilities increased by $15.9 million from March 31, 2019 to December 31, 2019. The main drivers of the increase were the creation of the current lease liability of $3.2 million from the implementation of the new lease standard. Accounts payable and accrued liabilities increased by $8.5 million due to an increase in acquisition-related payables of $4.6 million and an increase in trade payables of $1.4 million. The current portion of deferred revenue increased by $4.2 million.

Quarterly Results of Operations

The following table sets forth selected unaudited quarterly statements of operations data for each of the eight quarters ended December 31, 2019 in accordance with IFRS. This data should be read in conjunction with our audited annual consolidated financial statements and the notes related thereto. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

	Three months ended							
(In thousands of US dollars, except per share data)	**Mar. 31, 2018**	**Jun. 30, 2018**	**Sep. 30, 2018**	**Dec. 31, 2018**	**Mar. 31, 2019**	**Jun. 30, 2019**	**Sept. 30, 2019**	**Dec. 31, 2019**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenues	15,688	17,471	18,598	20,097	21,285	24,065	28,026	32,275
Direct cost of revenues	4,842	5,390	5,251	5,970	6,962	8,366	9,522	11,716
Gross profit	10,846	12,081	13,347	14,127	14,323	15,699	18,504	20,559
Operating expenses								
General and administrative	2,523	2,644	2,910	3,443	4,793	4,411	5,527	7,198
Research and development	3,820	4,184	4,024	5,001	5,074	6,303	7,339	8,070
Sales and marketing	9,262	8,647	9,039	9,995	11,362	13,040	12,060	15,049
Depreciation of property and equipment	351	272	324	378	415	390	423	386
Depreciation of right-of-use assets	—	—	—	—	—	414	609	648
Foreign exchange loss (gain)	(31)	119	(9)	240	637	(330)	(80)	315
Acquisition-related compensation	—	—	108	158	188	707	2,055	3,187
Amortization of intangible assets	954	980	875	644	649	1,012	1,800	2,154
Total operating expenses	16,879	16,846	17,271	19,859	23,118	25,947	29,733	37,007
Operating loss	(6,033)	(4,765)	(3,924)	(5,732)	(8,795)	(10,248)	(11,229)	(16,448)
Fair value loss on Redeemable Preferred Shares	(4,644)	(2,952)	(3,643)	(52,489)	(132,135)	—	—	—
Interest income (expense)	(7)	58	33	9	81	1,019	690	283
Loss before income taxes	(10,684)	(7,659)	(7,534)	(58,212)	(140,849)	(9,229)	(10,539)	(16,165)
Income tax expense (recovery)								
Current	18	(5)	—	—	64	20	19	56
Deferred	986	471	662	12,916	(44,837)	(152)	(483)	(459)
Total income tax expense (recovery)	1,004	466	662	12,916	(44,773)	(132)	(464)	(403)
Net loss and comprehensive loss	(11,688)	(8,125)	(8,196)	(71,128)	(96,076)	(9,097)	(10,075)	(15,762)
Loss per share – Basic and diluted	(0.40)	(0.28)	(0.27)	(2.37)	(2.21)	(0.11)	(0.12)	(0.18)

Revenues

Our total quarterly revenue increased in all periods presented due primarily to increased sales to existing and new customers. The increase in total revenue was due to increases in subscription revenue, payments revenue, payment referral fees as well as additional hardware sales. The number of Customer Locations using our platforms and the GTV processed through our platforms have both increased over the cumulative period evidencing their increased usage and adoption of our platforms.

Direct Cost of Revenues

Our total quarterly costs of revenue increased successively for all periods presented except for the three months ended September 30, 2018. The aggregate increase was primarily due to increased costs associated with supporting a greater number of Customer Locations utilizing our platforms.

Gross Profit

Our total quarterly gross profit increased successively for all periods presented due primarily to increased sales to existing and new customers.

Operating Expenses

Total operating expenses generally increased successively for each period presented except for the three months ended June 30, 2018 compared to the prior quarter. The aggregate increase was primarily due to the additional resources such as headcount required to support our expanding base of Customer Locations, legal and accounting fees related to operating as a public company, sales and marketing costs to accelerate growth, and product related costs assumed through our acquisitions.

Liquidity and Capital Resources

Overview

The general objectives of our capital management strategy reside in the preservation of our capacity to continue operating, in providing benefits to our stakeholders and in providing an adequate return on investment to our shareholders by selling our services at a price commensurate with the level of operating risk assumed by us.

We thus determine the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets. We are not subject to any externally imposed capital requirements.

Working Capital

Our primary source of cash flow has been from raising capital totaling $286 million since the fiscal year ended March 31, 2016. Our approach to managing liquidity is to ensure, to the extent possible, that we always have sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flow and performing budget-to-actual analysis on a regular basis. In addition to the cash balances, since April 2019, we had a $55 million credit facility available to be drawn to meet ongoing working capital requirements. Our principal cash requirements are for working capital and acquisitions we may execute. Working capital surplus as at December 31, 2019 was $80.7 million. Given our existing cash and credit facilities, along with proceeds obtained from our initial public offering, we believe there is sufficient liquidity to meet our current and short-term growth requirements in addition to our long-term strategic objectives.

Cash Flows

The following table presents cash and cash equivalents as at December 31, 2019 and 2018, and cash flows from operating, investing, and financing activities for the nine months ended December 31, 2019 and 2018:

	Three months ended December 31,		Nine months ended December 31,	
(In thousands of US dollars)	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cash and cash equivalents	126,662	14,872	126,662	14,872
Net cash provided by (used in)				
Operating activities	(10,732)	(3,460)	(19,665)	(7,318)
Investing activities	(34,838)	(486)	(61,264)	(2,617)
Financing activities	238	169	(209)	296
Effect of foreign exchange on cash and cash equivalents	153	(78)	97	(140)
Net increase (decrease) in cash and cash equivalents	(45,179)	(3,855)	(81,041)	(9,779)

Cash Flows Used in Operating Activities

Cash flows used in operating activities for the three months ended December 31, 2019 were $10.7 million compared to $3.5 million for the three months ended December 31, 2018. Excluding transaction related costs of $1.9 million, and payroll taxes related to stock-based compensation of $1.0 million, payment of cash flows used in operating activities were $7.9 million for the three months ended December 31, 2019. Excluding these adjustments, cash flows used in operating activities were higher for the three months ended December 31, 2019 given our adoption of a new pricing plan this quarter with the primary goal of encouraging Lightspeed Payments adoption for new and existing customers. As part of that change, we now are more accommodating of monthly payment terms with our customers, provided they sign up for Lightspeed Payments. Approximately $2 million of cash flows used in operating activities were due to this new strategy. We believe this change will have a net positive impact on our revenue growth rates and that it positions the Company favorably against competitors.

Cash flows used in operating activities for the nine months ended December 31, 2019 were $19.7 million compared to $7.3 million for the nine months ended December 31, 2018. Excluding transaction related costs of $2.3 million, payroll taxes related to stock-based compensation of $1.0 million, as well as acquisition related compensation paid in the period of $0.2 million, cash flows used in operating activities were $16.2 million for the nine months ended December 31, 2019. Excluding these adjustments, cash flows used in operating activities were higher for the nine months ended December 31, 2019 due primarily to public company costs as well as growth-focused investments in sales and marketing as well as improvements to internal systems made in the period.

Cash Flows Used in Investing Activities

Cash flows used in investing activities for the three months ended December 31, 2019 were $34.8 million compared to $0.5 million for the three months ended December 31, 2018. The increase in cash outflows for investing activities was primarily due to the acquisition of Kounta in November 2019.

Cash flows used in investing activities for the nine months ended December 31, 2019 were $61.3 million compared to $2.6 million for the nine months ended December 31, 2018. The increase in cash outflows for investing activities was primarily due to the acquisitions of Chronogolf in May 2019, iKentoo in July 2019, and Kounta in November 2019 offset by $3.0 million of interest income.

Cash Flows from Financing Activities

Cash flows from financing activities for the three months ended December 31, 2019 increased $0.1 million compared to the three months ended December 31, 2018.

Cash flows from financing activities for the nine months ended December 31, 2019 decreased $0.5 million compared to the nine months ended December 31, 2018. The decrease in cash inflows from financing activities was due to $1.6 million in share issuance costs as well as a $1.9 million cash outflow from payments made on the Company's lease liability, offset by $3.0 million of proceeds from exercise of stock options under our stock option plans.

Recent Developments

On January 7, 2020, the Company acquired all of the outstanding shares of Gastrofix with approximately $60,428 being paid in cash (excluding cash acquired), $6,486 of which was transferred to a holdback account and $4,423 of which was to settle a liability assumed through the acquisition, and the issuance of 1,437,930 Common Shares, at a value of $30.99 per share, which is based on the quoted price of the Common Shares on the Toronto Stock Exchange on the closing date, subject to a post-closing working capital adjustment. An additional $2,407 in deferred cash consideration along with the issuance of 57,278 Common Shares, at a value of $30.99 per share, is payable through January 2022 contingent on certain milestones being achieved. An additional $1,604 along with the issuance of 38,186 Common Shares, at a value of $30.99 per share, is payable to certain key employees through January 2022 contingent on the continued employment of those employees, and will be accounted for as acquisition related-compensation expense. An additional $10,531 in deferred cash consideration along with the issuance of 250,598 Common Shares, at a value of $30.99 per share, subject to an adjustment for amounts payable to non-shareholders, is payable contingent on the over performance of agreed milestones in each of the next two years. The assessment of the purchase price and the accounting for this acquisition has not yet been finalized and certain IFRS 3 disclosures have not been included due to the timing of the acquisition.

We drew down $30,000 from its stand-by acquisition term loan with the Canadian Imperial Bank of Commerce on January 2, 2020 to fund part of the acquisition.

Off-Balance Sheet Arrangements

We have not entered into off-balance sheet financing arrangements. Except for operating leases that aren't capitalized in accordance with IFRS 16 and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Related Party Transactions

We have no related party transactions, other than those noted in our unaudited condensed interim consolidated financial statements.

Financial Instruments and Other Instruments

Credit and Concentration Risk

Generally, the carrying amount in our consolidated statement of financial position exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

Our credit risk is primarily attributable to our cash and cash equivalents and trade accounts receivable. We do not require guarantees from our customers. Credit risk with respect to cash and cash equivalents is managed by maintaining balances only with high credit quality financial institutions.

Due to our diverse customer base, there is no particular concentration of credit risk related to our trade accounts receivable. Moreover, balances for trade accounts receivable are managed and analyzed on an ongoing basis to ensure allowances for doubtful accounts, which are established and maintained at an appropriate amount.

We maintain a provision for impairment of a portion of trade receivables when collection becomes doubtful. We estimate anticipated losses from doubtful accounts based upon the expected recoverability of all accounts receivable, with the estimate taking into account the number of days past due, collection history, identification of specific customer exposure and current economic trends. An impairment loss on trade receivables is calculated as the difference between the carrying amount and the present value of the estimated future cash flow. Impairment losses are charged to general and administrative expense in the consolidated statements of loss and comprehensive loss. Receivables for which an impairment provision was recognized are written off against the corresponding provision when it is deemed uncollectible.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. We do not hold any collateral as security.

Foreign Currency Exchange Risk

Share price risk

Share price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the fair value of the Company's ordinary share price. The Company's exposure to this risk relates primarily to the outstanding options and other stock based awards and accrued related payroll taxes.

Other share price risk

Accrued payroll taxes on stock-based compensation are payroll taxes associated with share-based compensation that we are subject to in various countries in which we operate. Payroll taxes are accrued at each reporting period based on the number of vested stock options and awards outstanding, the exercise price, and the Company's share price. An increase in share price will increase the accrued expense for payroll taxes, and when the share price decreases, the accrued expense will become a reduction in payroll tax expense, all other things being equal, including the number of vested stock options and exercise price remaining constant.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We review these estimates on an ongoing basis based on management's best knowledge of current events and actions that we may undertake in the future. Actual results could differ from these estimates. Areas requiring the most significant estimates and judgments are outlined below. Management has determined that we operate in a single operating and reportable segment.

IFRS 16 - Leases

In January 2016, the IASB released IFRS 16. The new standard, which represents a major revision of the way in which companies account for leases, sets out the principles that both parties to a contract, i.e. the customer (lessee) and the supplier (lessor), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognize assets and liabilities arising from a lease, following a single model, where previously leases were classified as either finance leases or operating leases.

On April 1, 2019, we adopted IFRS 16, and all related amendments, using the modified retrospective transition method, under which the cumulative effect of initial application, if any, is recognized in accumulated deficit at April 1, 2019. The new standard requires the recognition of right-of-use assets and lease liabilities on our balance sheet for operating leases, along with the net impact on transition recorded to accumulated deficit. There was no impact on our accumulated deficit upon adoption. We are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Our interim consolidated balance sheet as at December 31, 2019 reflects an increase in lease assets of $13.7 million and an increase in lease liabilities of $15.5 million as compared to our consolidated balance sheet as at March 31, 2019 as a result of adopting this standard. Our statement of operations for the three and nine months ended December 31, 2019 reflects a reduction in rent expense of $759 and $1,940, an additional depreciation expense due to the right-of use assets of $648 and $1,671, and an increase in finance costs for effective interest expense on its lease liabilities of $212 and $606 respectively.

There is no impact to the overall changes in cash flows. However, operating cash flows is positively impacted, while financing cash flows is negatively impacted due primarily to the classification of principal payments on lease liabilities.

The comparative information for the prior period has not been restated and continues to be reported under IAS 17, Leases, and related interpretations. The primary change in accounting policies as a result of the application of IFRS 16 is explained below. Such a change is made in accordance with the transitional provisions of IFRS 16.

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, we assess whether:

– The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.

– We have the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and

– We have the right to direct the use of the asset. We have this right when we have the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, we allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

We recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at of before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received prior to the commencement date. Any costs related to the removal and restoration of leasehold improvements, which meet the definition of fixed assets under IAS 16 Property Plant and Equipment are assessed under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and are not within the scope of IFRS 16.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, which is considered the appropriate useful life of these assets. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, to the extent necessary.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using an incremental borrowing rate if the rate implicit in the lease arrangement is not readily determinable.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

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 arising from a change in an index or rate, lease term, or if we change our assessment of whether we will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Lease incentives receivable are included in the initial measurement of the lease liability and right-of-use asset.

Short-term leases and leases of low-value assets

We elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. We recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

On the statement of cash flows, lease payments related to short-term leases, low value assets and variable lease payments not included in lease liabilities are classified as cash outflows from operating activities on the cash flow statement whereas the remaining lease payments are classified as cash flows from financing activities.

Recoverability of Deferred Tax Assets and Current and Deferred Income Taxes and Tax Credits

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. We establish provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Share-Based Payments

We measure the cost of equity-settled transactions with employees by reference to the fair value of the related instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which depends on the terms and conditions of the grant. This also requires making assumptions and determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield.

Business Combinations and Impairment of Non-financial Assets

Business combinations are accounted for in accordance with the acquisition method. The consideration transferred and the acquiree's identifiable assets, liabilities and contingent liabilities are measured at their fair value. We develop the fair value by using appropriate valuation techniques, which are generally based on a forecast of the total expected future net discounted cash flows. These evaluations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate. Contingent consideration is measured at fair value using a discounted cash flow model.

Our impairment test for goodwill is based on internal estimates of fair value less costs of disposal calculations and uses valuation models such as the discounted cash flows model. Key assumptions on which management has based its determination of fair value less costs of disposal include estimated growth rates, discount rates and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment.

Whenever property and equipment and intangible assets are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

Provisions

We have recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

Recently Issued Accounting Standards Not Yet Adopted

From time to time, new accounting pronouncements are issued by the International Accounting Standards Board ("IASB") or other standards-setting bodies, and are adopted as of the specified effective date.

Outstanding Share Information

Lightspeed is a publicly traded company listed on the Toronto Stock Exchange (TSX: LSPD). Our authorized share capital consists of (i) an unlimited number of subordinate voting shares, (ii) an unlimited number of multiple voting shares and (iii) an unlimited number of preferred shares, issuable in series, of which 72,771,017 subordinate voting shares, 14,667,922 multiple voting shares and no preferred shares were issued and outstanding as of February 4, 2020.

As of February 4, 2020, there were 3,829,528 options outstanding under the Company's amended and restated 2012 stock option plan (of which 1,439,473 were vested as of such date), 162,516 options outstanding under the Company's amended and restated 2016 stock option plan (of which 155,746 were vested as of such date), and 2,422,888 options outstanding under the Company's omnibus incentive plan (of which 12,627 were vested as of such date). Each such option is or will become exercisable for one subordinate voting share.

As of February 4, 2020, there were no warrants outstanding.

As of February 4, 2020, there were 7,109 DSUs outstanding under the Company's omnibus incentive plan. Each such DSU will, upon the holder thereof ceasing to be a director, executive officer, employee or consultant of the Company in accordance with the omnibus incentive plan, be settled at the discretion of the board through (a) the delivery of shares issued from treasury or purchased on the open market, (b) cash, or (c) a combination of cash and shares.

As of February 4, 2020, there were 68,125 RSUs outstanding under the Company's omnibus incentive plan. Each such RSU will, upon vesting, be settled at the discretion of the board through (a) the delivery of shares issued from treasury or purchased on the open market, (b) cash, or (c) a combination of cash and shares.

Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer in a timely manner.

In addition, the Chief Executive Officer and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The Chief Executive Officer and Chief Financial Officer have been advised that the control framework the Chief Executive Officer and the Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

As a result of the adoption of IFRS 16, new internal controls were designed and implemented, including new processes to meet the disclosure requirements under the new standard.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

Limitation on scope of design

The scope of design of internal control over financial reporting and disclosure controls and procedures excluded the controls, policies, and procedures of Kounta which was acquired on November 1, 2019. Kounta's contribution to our Condensed Interim Consolidated Statements of Loss and Comprehensive Loss for the three months ended December 31, 2019 was under 5% of total revenues and under 2% of total net loss and comprehensive loss. Additionally, as at December 31, 2019, Kounta's current assets and current liabilities were under 1% and 2% of consolidated current assets and current liabilities, and its non-current assets and non-current liabilities were under 1% and 8% of consolidated non-current assets and non-current liabilities, respectively. The amounts recognized for the assets acquired and liabilities assumed at the date of acquisition are described in Note 4 of the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2019.